

NEW ISSUE: Book-Entry Only

**RATING: Standard & Poor's: AA
Moody's: Aa3
(See "Description of Ratings" herein)**

In the opinion of Bond Counsel, assuming compliance by the Agency and the Providers with their respective covenants to comply with the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), interest on the Series 2006A Bonds is not included in gross income for federal income tax purposes under existing statutes, regulations and court decisions. Interest on the Series 2006A Bonds will not constitute a specific preference item for the purposes of computation of the alternative minimum tax imposed on individuals and corporations, although interest on the Series 2006A Bonds will be taken into account in computing the alternative minimum tax imposed on corporations. The Act provides that the 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 "TAX EXEMPTION".

VERMONT EDUCATIONAL AND HEALTH BUILDINGS FINANCING AGENCY

\$13,310,000

REVENUE BONDS

(DEVELOPMENTAL AND MENTAL HEALTH SERVICES ACQUISITION POOL)

SERIES 2006A

AND

\$315,000

TAXABLE REVENUE BONDS

(DEVELOPMENTAL AND MENTAL HEALTH SERVICES ACQUISITION POOL)

SERIES 2006B

Dated: August 1, 2006

Due: as shown on the inside cover

A single bond for each maturity of each series of the bonds described above (the "Bonds") will be issued in the aggregate principal amount of such maturity and, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Purchases of the Series 2006A Bonds will be made in book-entry form in denominations of \$5,000 or any integral multiple thereof, and purchases of the Series 2006B Bonds will be made in book-entry form in denominations of \$1,000 and any integral multiple thereof. Purchasers will not receive certificates representing their interest in Bonds purchased. So long as Cede & Co. is the Bondholder, as nominee of DTC, references herein to Bondholders, Holders or registered owners shall mean Cede & Co., and shall not mean the Beneficial Owners (as defined herein) of the Bonds. See "Appendix H – BOOK-ENTRY ONLY SYSTEM".

The principal of the Bonds is payable on August 15 in the years and the amounts set forth on the inside cover. Interest on the Bonds will be payable on February 15, 2007 and semiannually thereafter on August 15 and February 15 (the "Interest Payment Dates") to the Holders as of the record date, which is the first day of the month in which the applicable Interest Payment Date occurs (the "Record Date"). Interest will accrue on the Bonds from their date. Principal and interest on the Bonds will be paid by Chittenden Trust Company, as trustee (the "Trustee"), to the registered owners of the Bonds as shown in the bond register kept by the Trustee (the "Holders" or "Bondholders"). The Trustee shall, upon written request of any Holder of \$1,000,000 or more in aggregate principal amount of the Bonds, make payments of principal of or interest on such Bonds by wire transfer in immediately available funds to the account of such holder designated to the Trustee in writing at least five days before the Record Date (defined herein). So long as DTC or its nominee, Cede & Co. is the Bondholder, such payments will be made directly to DTC. Disbursement of such payments to the DTC Participants is the responsibility of DTC, and disbursements of such payments to the Beneficial Owners is the responsibility of the DTC Participants, all as more fully described herein. See "Appendix H – BOOK-ENTRY ONLY SYSTEM".

Payment of principal of and interest on the Bonds will be insured in accordance with the terms of a financial guaranty insurance policy to be issued simultaneously with the delivery of the Bonds by Radian Asset Assurance Inc.

Radian Asset Assurance Inc. **RADIAN**

The Bonds are subject to redemption prior to maturity, as described herein under "THE BONDS – Redemption Provisions".

The Bonds will be issued pursuant to a Trust Agreement dated as of August 1, 2006 (the "Indenture") between the Vermont Educational and Health Buildings Financing Agency (the "Agency") and the Trustee. The Agency will loan the proceeds of the Bonds to certain community service providers identified herein (the "Providers"). The Bonds are payable solely from and secured by: (i) payments to be made to the Trustee for the account of the Agency by each Provider pursuant to a separate Loan Agreement dated as of August 1, 2006 (each a "Loan Agreement") between the Agency and such Provider (which Loan Agreements are substantially similar); (ii) upon an Event of Default under a Loan Agreement, amounts realized pursuant to (a) a security interest in the Gross Revenues of the applicable Provider, (b) a mortgage on any land and improvements one or more of the acquisition, construction or renovating of which was financed or refinanced by the proceeds of the Bonds loaned to the applicable Provider and a security interest in all equipment pertaining thereto or otherwise used in the operation thereof, (c) a security interest in any equipment financed or refinanced by the proceeds of the Bonds loaned to the applicable Provider and (d) with respect to an Event of Default by the Provider NFI Vermont, Inc. under its Loan Agreement, amounts received pursuant to the Guaranty (defined herein); (iii) certain funds and accounts established under the Indenture (other than the Rebate Fund) and investment income thereon; and (iv) in certain instances from the proceeds of insurance and condemnation awards. Such mortgages and security interests may be subject to Permitted Encumbrances (as defined herein). The loan evidenced by each Provider's Loan Agreement is a general obligation of such Provider. See "SECURITY AND SOURCES OF PAYMENT". Payments by NFI Vermont, Inc. on its Loan Agreement are guaranteed by a related entity pursuant to the Guaranty. See "SECURITY AND SOURCES OF PAYMENT – The Guaranty of NFI Vermont, Inc.'s Payment Obligations Under its Loan Agreement." The Agency's right to receive payments under the Loan Agreements, mortgages and security agreements securing the obligation of each Provider under its Loan Agreement (except for payments to the Agency for its own account as more fully described herein) will be pledged to the Trustee to secure the payment of the Bonds.

THE BONDS ARE NOT A GENERAL OBLIGATION OR A PLEDGE OF THE FAITH AND CREDIT OF THE AGENCY OR A DEBT OR PLEDGE OF THE FAITH AND CREDIT OF THE STATE OF VERMONT (THE "STATE") OR ANY SUBDIVISION THEREOF. THE PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON THE BONDS ARE PAYABLE SOLELY FROM THE FUNDS PLEDGED FOR THEIR PAYMENT UNDER AND PURSUANT TO THE INDENTURE. THE AGENCY HAS NO TAXING POWER AND NEITHER THE TAXING POWER OF THE STATE NOR THE TAXING POWER OF ANY SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS.

AN INVESTMENT IN THE BONDS INVOLVES A HIGH DEGREE OF RISK. POTENTIAL INVESTORS IN THE BONDS ARE ADVISED TO READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING THE APPENDICES HERETO, WHICH ARE A PART OF THIS OFFICIAL STATEMENT. SPECIAL REFERENCE IS MADE TO THE SECTIONS "SECURITY AND SOURCES OF PAYMENT" AND "CERTAIN BONDHOLDERS' RISKS" HEREIN FOR A DISCUSSION OF CERTAIN RISK FACTORS WHICH SHOULD BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE BONDS. THIS COVER PAGE CONTAINS INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

The Bonds will be offered when, as and if issued and accepted by the Underwriter, subject to prior sale, withdrawal or modification of the offer without notice, and the approval of legality by Sidley Austin LLP, New York, New York, Bond Counsel to the Agency. Certain legal matters will be passed upon for the Agency by its counsel, Deppman & Foley, P.C., Middlebury, Vermont. Certain legal matters will be passed upon for each Provider by McKee, Giuliani & Cleveland, P.C., Montpelier, Vermont. Certain legal matters will be passed upon for the Underwriter by McCarter & English, LLP, Boston, Massachusetts. The Bonds are expected to be available for delivery through DTC in New York, New York on or about September 13, 2006.

BOND MATURITY SCHEDULE: See Schedule on the Inside Cover

MUNICIPAL CAPITAL MARKETS GROUP, INC.

Dated August 31, 2006

VERMONT EDUCATIONAL AND HEALTH BUILDINGS FINANCING AGENCY
\$13,310,000
REVENUE BONDS
(DEVELOPMENTAL AND MENTAL HEALTH SERVICES ACQUISITION POOL)
SERIES 2006A

\$2,200,000 Serial Bonds

| Due | | Interest | | |
|------------------|---------------|-----------------|--------------|--------------------------|
| August 15 | Amount | Rate | Yield | CUSIP¹ |
| 2007 | \$ 30,000 | 3.75% | 3.75% | 9241608C1 |
| 2008 | 85,000 | 3.80 | 3.80 | 9241608D9 |
| 2009 | 100,000 | 3.85 | 3.85 | 9241608K3 |
| 2010 | 130,000 | 3.90 | 3.90 | 9241608L1 |
| 2011 | 270,000 | 4.00 | 4.00 | 9241608M9 |
| 2012 | 275,000 | 4.05 | 4.05 | 9241608N7 |
| 2013 | 355,000 | 4.10 | 4.10 | 9241608P2 |
| 2014 | 250,000 | 4.15 | 4.15 | 9241608Q0 |
| 2015 | 345,000 | 4.15 | 4.20 | 9241608R8 |
| 2016 | 360,000 | 4.20 | 4.25 | 9241608S6 |

\$2,225,000 4.375% Term Bonds due August 15, 2021, Priced to Yield: 4.57% CUSIP 9241608E7¹
\$2,750,000 4.70% Term Bonds due August 15, 2026, Priced to Yield: 4.67% CUSIP 9241608F4¹
\$2,320,000 4.70% Term Bonds due August 15, 2031, Priced to Yield: 4.65% CUSIP 9241608G2¹
\$3,815,000 4.75% Term Bonds due August 15, 2036, Priced to Yield: 4.70% CUSIP 9241608H0¹

(Accrued interest to be added)

\$315,000
TAXABLE REVENUE BONDS
(DEVELOPMENTAL AND MENTAL HEALTH SERVICES ACQUISITION POOL)
SERIES 2006B

\$315,000 5.80% Term Bonds due August 15, 2010, Priced to Yield 5.80% CUSIP 9241608J6¹

(Accrued interest to be added)

¹ The CUSIP (Committee on Uniform Securities Identification Procedures) numbers on the inside cover of this Official Statement have been assigned by an organization not affiliated with the Issuer, the Providers, the Underwriter or the Trustee, and such parties are not responsible for the selection or use of the CUSIP numbers. The CUSIP numbers are included solely for the convenience of Bondholders and no representation is made as to the correctness of the CUSIP numbers printed on the inside cover hereof. CUSIP numbers assigned to securities may be changed during the term of such securities based on a number of factors including but not limited to the refunding or defeasance of such issue or the use of secondary market financial products. None of the Issuer, the Providers, the Underwriter or the Trustee has agreed to, nor is there any duty or obligation to, update this Official Statement to reflect any change or correction in the CUSIP numbers printed on the inside cover hereof.

NOTICE TO NEW HAMPSHIRE INVESTORS: In making an investment decision investors must rely on their own examination of the Agency and the terms of the offering, including the merits and risks involved. These securities have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense.

No dealer, broker, salesman or other person has been authorized by the Agency, the State of Vermont (the “State”), the Providers or the Underwriter to give any information or to make any representations other than those contained in this Official Statement, which includes the appendices hereto, and, if given or made, such information or representations must not be relied upon as having been authorized by the Agency, the State, the Providers or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any state or other jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein in Appendix C (“The Vermont Educational and Health Buildings Financing Agency”) and under the caption “Litigation” relating to the Agency has been obtained from the Agency, and all other information has been obtained from the public funding sources, discussed herein, the Providers, the Guarantor, as defined herein, and other sources that are believed to be reliable, but it is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Agency or the Underwriter. No representation or warranty is made as to the accuracy or completeness of such information by the Agency (other than that appearing in Appendix C and under the caption “Litigation” relating to the Agency), the State, any Provider (other than information pertaining to such Provider), the Guarantor (other than information pertaining to the Guarantor) or the Underwriter. The information concerning DTC has been obtained from DTC. The information, assumptions and expressions of opinion set forth 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 Agency, the Providers, the Guarantor, or the State since the date hereof.

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 BONDS OFFERED HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE, NOR HAS THE INDENTURE BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. ANY REGISTRATION OR QUALIFICATION OF THE BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAWS OF THE STATES IN WHICH THE BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THE LEVEL THAT MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME WITHOUT NOTICE. THE PRICES AND OTHER TERMS RESPECTING THE OFFERING AND SALE OF THE BONDS MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER AFTER THE BONDS ARE RELEASED FOR SALE, AND THE BONDS MAY BE OFFERED AND SOLD AT PRICES OTHER THAN THE INITIAL OFFERING PRICES, INCLUDING SALES TO DEALERS WHO MAY SELL THE BONDS INTO INVESTMENT ACCOUNTS.

No secondary market is expected to exist for the Bonds, and no person or entity, including the Underwriter, has any obligation to create or maintain a secondary market for the Bonds.

IT IS ANTICIPATED THAT POTENTIAL INVESTORS IN THE BONDS WILL CONDUCT INDEPENDENT INVESTIGATIONS OF THE LEGAL AND FINANCIAL ASPECTS OF THE BONDS AND THE OPERATIONS OF THE PROVIDERS AND THE GUARANTOR TO DETERMINE IF AN INVESTMENT IN THE BONDS IS CONSISTENT WITH THE INVESTMENT OBJECTIVES OF SUCH INVESTORS AND TO ASSESS THE CREDITWORTHINESS AND FINANCIAL CONDITION OF THE PROVIDERS AND, WITH RESPECT TO ITS GUARANTY OF NFI VERMONT, INC.’S PAYMENT OBLIGATIONS UNDER ITS LOAN AGREEMENT, THE GUARANTOR, AND THE STATUS OF COMPLIANCE WITH STATE AND FEDERAL STANDARDS OF THE OPERATIONS OF THE

PROVIDERS AND THE GUARANTOR, PARTICULARLY AS SUCH COMPLIANCE MAY AFFECT THE CONTINUED RECEIPT BY THE PROVIDERS AND THE GUARANTOR OF PAYMENTS OF STATE AND FEDERAL FUNDS, THE FINANCIAL CONDITION OF THE STATE AND THE ABILITY OF THE STATE TO CONTINUE APPROPRIATIONS TO FUND PORTIONS OF THE PROVIDERS' AND THE GUARANTOR'S OPERATIONS. THE UNDERWRITER AND THE PROVIDERS AND THE GUARANTOR WILL RESPOND TO INQUIRIES AND PROVIDE ADDITIONAL INFORMATION TO POTENTIAL INVESTORS UPON REQUEST TO THE UNDERWRITER.

This Official Statement contains a general description of the Bonds, the Agency, the Providers, the Guarantor, The Vermont Agency of Human Services of the State and the plan of financing and sets forth certain provisions of the Indenture, the Loan Agreements, and the related Mortgages. The description and summaries herein do not purport to be complete or definitive. All descriptions and summaries herein of the Loan Agreements, the related Mortgages, the Indenture and other agreements are qualified in their entirety by reference to such documents and agreements, and all summaries herein of the Bonds are qualified in their entirety by reference to the form thereof included in the Indenture, and the provisions with respect thereto included in the aforementioned documents and agreements. Persons interested in purchasing the Bonds should review carefully the appendices hereto, as well as copies of such documents, which are held by the Trustee at its principal office. All such documents, summaries and descriptions are further qualified in their entirety by reference to bankruptcy laws and laws relating to or affecting generally the enforcement of creditor's rights.

OTHER THAN WITH RESPECT TO INFORMATION CONCERNING RADIAN ASSET ASSURANCE INC. ("RADIAN ASSET ASSURANCE") CONTAINED UNDER THE CAPTION "THE FINANCIAL GUARANTY INSURANCE POLICY AND THE BOND INSURER" HEREIN AND IN APPENDIX J HERETO, NONE OF THE INFORMATION IN THIS OFFICIAL STATEMENT HAS BEEN SUPPLIED OR VERIFIED BY RADIAN ASSET ASSURANCE, AND RADIAN ASSET ASSURANCE MAKES NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO: (i) THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION; (ii) THE VALIDITY OF THE BONDS; OR (iii) THE TAX STATUS OF THE INTEREST ON THE BONDS.

All summaries of the provisions of the state constitution, statutes, and federal statutes herein set forth are subject to all the detailed provisions thereof, to which reference is hereby made for further information, and such summaries do not purport to be complete statements of any or all of such provisions. The description of the departments and legislative processes of the State and federal and state funding contained herein do not purport to be complete, and reference is made to the statutes, regulations, manuals, formal and informal policies and other material relating thereto for a complete description thereof.

This Official Statement contains, in part, estimates, assumptions and matters of opinion, none of which is intended as statements of fact, and no representation whatsoever is made as to the correctness of such estimates, assumptions or matters of opinion, or as to the likelihood that they will be realized. So far as any statements herein involve any matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact.

This Official Statement contains forward-looking statements. Any statements contained herein that are not statements of historical fact may be forward-looking statements. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects" and similar expressions are intended to identify forward-looking statements. There are a number of important factors that could cause the actual results of the Providers or the Guarantor to differ materially from those contemplated by such forward-looking statements. These factors include, without limitation, those set forth below under the caption "Certain Bondholders' Risks."

This Official Statement has not been reviewed, approved or disapproved by the securities agency of any state or the Securities and Exchange Commission, and no government authority that regulates securities has reviewed or passed on or endorsed the merits, accuracy or adequacy of this Official Statement. Any representation to the contrary is unlawful.

This Official Statement shall not constitute a contract between or among any one or more of the Agency, the Underwriter, the Providers, the Guarantor, or the State and the purchasers or holders of any of the Bonds.

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

TABLE OF CONTENTS

| | <u>Page</u> |
|--|-------------|
| SUMMARY | vi |
| INTRODUCTORY STATEMENT | 1 |
| Purpose of Official Statement | 1 |
| The Providers | 2 |
| Application of Bond Proceeds | 2 |
| Bondholders' Risks | 3 |
| THE PROVIDERS | 4 |
| Description | 4 |
| The Projects | 4 |
| Tax Compliance | 5 |
| Other Information | 5 |
| SOURCES OF PROVIDER FUNDING | 5 |
| STATE FUNDS AND REVENUES | 5 |
| Overview - The State of Vermont | 5 |
| VERMONT AGENCY OF HUMAN SERVICES | 6 |
| Department of Aging and Independent Living | 6 |
| The Department of Health - Division of Mental Health | 6 |
| Sources of Provider Funding | 6 |
| Agency of Human Services Budget for Services Delivered Through Designated Community Based Service Providers | 7 |
| Appropriations for Division of Mental Health and Division of Developmental Services Contracts with Designated Community Based Service Providers | 8 |
| THE POOL | 8 |
| General | 8 |
| The Loans | 8 |
| ADDITIONAL INDEBTEDNESS | 9 |
| ESTIMATED SOURCES AND USES OF PROCEEDS | 10 |
| Sources of Funds | 10 |
| Uses of Funds | 10 |
| CERTAIN BONDHOLDERS' RISKS | 11 |
| General | 11 |
| Realization of Insufficient Moneys Upon Exercise of Remedies | 12 |
| Insufficiency of Bond Proceeds; Failure to Execute and Deliver Mortgage | 12 |
| Non-Appropriation of Funding for Service Contracts | 12 |
| Uncertainty of Revenues; Dependence of Providers Upon Government Funding | 13 |
| Creditworthiness of the Insurer | 13 |
| Delay in Enforceability or Unavailability of Remedies | 13 |
| Construction/Completion Risk | 13 |
| Revenue Pledge - Bankruptcy or Partial Impairment of Revenue | 14 |
| Insufficiency of Mortgage Foreclosure Proceeds; Environmental Impairment of Property | 14 |
| Preexisting and Additional Indebtedness | 15 |
| Early Redemption Without Premium or Penalty | 16 |
| Effect of Changes in Tax Exempt Status; Continued Legal Requirements of Tax Exempt Status | 16 |
| THE BONDS | 17 |
| Description of the Bonds | 17 |
| Redemption Provisions | 17 |
| Transfer and Exchange of Bonds | 21 |
| Replacement Bonds | 21 |
| Book-Entry Only System | 21 |
| ESTIMATED ANNUAL DEBT SERVICE REQUIREMENTS | 22 |
| SECURITY AND SOURCES OF PAYMENT | 26 |
| Funds Under the Indenture | 26 |
| Pledge Under the Indenture | 26 |
| Sources of Payment - General | 27 |

| | |
|---|----|
| Payments Under the Loan Agreements | 28 |
| Acceleration..... | 28 |
| The Mortgages..... | 28 |
| Investment of Moneys in Funds and Accounts..... | 29 |
| The Guaranty of NFI Vermont, Inc.'s Payment Obligations under its Loan Agreement | 29 |
| Special Arrangements Regarding the Short-Term Indebtedness of NFI Vermont, Inc. and the Security Therefor; Intercreditor Agreement | 31 |
| Special Arrangements Regarding the Short-Term Indebtedness of Clara Martin Center, Health Care and Rehabilitation Services of Southeastern Vermont, Inc. and Washington County Mental Health Services, Inc., and the Security Therefor; Intercreditor Agreements..... | 32 |
| Circumstances Under Which Partial Releases of Moneys in Reserve Accounts Can Occur..... | 33 |
| THE FINANCIAL GUARANTY INSURANCE POLICY AND THE BOND INSURER | 33 |
| TAX EXEMPTION | 35 |
| Opinion of Bond Counsel | 35 |
| Original Issue Discount..... | 36 |
| Alternative Minimum Tax..... | 36 |
| Other Tax Consequences..... | 36 |
| Series 2005B Bonds | 36 |
| LEGALITY OF THE BONDS FOR INVESTMENT | 37 |
| STATE NOT LIABLE ON THE BONDS..... | 37 |
| COVENANT BY THE STATE..... | 37 |
| LEGAL MATTERS | 37 |
| LITIGATION..... | 37 |
| CONTINUING DISCLOSURE..... | 37 |
| DESCRIPTION OF RATINGS..... | 38 |
| OTHER AVAILABLE INFORMATION..... | 38 |
| UNDERWRITING..... | 39 |
| MISCELLANEOUS | 39 |

| |
|--|
| Appendix A -- Description of the Providers and the Guarantor |
| Appendix B -- Financial Statements of the Providers and the Guarantor |
| Appendix C -- The Vermont Educational and Health Buildings Financing Agency |
| Appendix D -- Definition of Certain Terms |
| Appendix E -- Summary of Certain Provisions of the Loan Agreements |
| Appendix F -- Summary of Certain Provisions of the Indenture |
| Appendix G -- Proposed Form of Opinion of Bond Counsel |
| Appendix H -- Book-Entry Only System |
| Appendix I -- Allocation of Loan Proceeds and Reserve Account Amounts by Provider and Property and Term of Portion of Loan Allocable to Each Property |
| Appendix J -- Form of Financial Guaranty Insurance Policy |

SUMMARY

The following material is presented herein solely to furnish limited introductory information regarding the Bonds. The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document for the complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each document, the detailed information and financial statements appearing elsewhere in this Official Statement, which includes the Appendices hereto.

DATED: The Bonds are dated August 1, 2006.

RATING: The Bonds are rated “AA” by Standard & Poor’s and “Aa3” by Moody’s. See “DESCRIPTION OF RATING”.

ISSUER: The issuer is the Vermont Educational and Health Buildings Financing Agency (the “Agency” or the “Issuer”), a body corporate and politic constituting a public instrumentality of The State of Vermont (the “State”), duly established by and validly existing under Chapter 131, Title 16, Sections 3851-3862, Vermont Statutes Annotated, as amended, or any successor statute. See “Appendix C, THE VERMONT EDUCATIONAL AND HEALTH BUILDINGS FINANCING AGENCY”.

**BORROWERS/
PROVIDERS:** Each of the human service providers described herein (individually, a “Provider” and, collectively, the “Providers”) is a not-for-profit corporation and is an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the “Code”), or predecessor Internal Revenue Codes. The Providers provide developmental and mental health services, among other services, and each of the Providers has been licensed and authorized pursuant to State statutes to provide such services. See “Appendix A, DESCRIPTION OF THE PROVIDERS AND THE GUARANTOR,” for a description of the services and programs, the financial condition and the results of operations of each of the Providers, and “Appendix B, FINANCIAL STATEMENTS OF THE PROVIDERS AND THE GUARANTOR” for copies of certain recent financial statements of each of the Providers.

**FINANCING
STRUCTURE:** Prior to the delivery of the Bonds, each Provider will execute a Loan Agreement (each a “Loan Agreement” and, collectively, the “Loan Agreements”), pursuant to which a portion of the Bond proceeds will be loaned (the “Loan”) to that Provider. The Loan will be a general obligation of the Provider under its Loan Agreement. The principal amount of the Bonds will equal the aggregate amount of the Loans to be made to the Providers under their respective Loan Agreements. A given Provider has no obligations (including without limitation any payment obligations) with respect to a Loan made to any other Provider. Each Provider will sign one or more Mortgage Deed and Security Agreements (each a “Mortgage”) pursuant to which a mortgage will be granted to the Trustee in any land and improvements being financed or refinanced with Bond proceeds, and a security interest will be granted to the Trustee in all equipment pertaining to or otherwise used in the operation of such land or improvements and any equipment being financed or refinanced with Bonds proceeds to secure repayment of the obligations of the Provider under its Loan Agreement. Such mortgages and security interests may be subject to Permitted Encumbrances (as defined herein). Property mortgaged or in which a security interest is granted by a given Provider will not secure the

obligations of any other Provider. See “SECURITY AND SOURCES OF PAYMENT – Sources of Payment – General”. The payment obligations on one of the Providers, NFI Vermont, Inc., under its Loan Agreement will be guaranteed by the Guarantor (as defined herein), pursuant to the terms of the Guaranty (as defined herein). See “SECURITY AND SOURCES OF PAYMENT- The Guaranty of NFI Vermont, Inc., Under its Loan Agreement.” The Guaranty guarantees only the payments of NFI Vermont, Inc. under its Loan Agreement and does not guarantee payment by any of the other Providers under their Loan Agreements.

Each Provider will also grant to the Issuer and the Trustee a security interest (subject to Permitted Encumbrances) in its Gross Revenues (as defined herein), including the “accounts”, the “general intangibles” and the “proceeds” (each as defined in the Uniform Commercial Code (as defined herein)) of such “accounts” and “general intangibles”.

The Agency will assign and pledge the Loan Agreements and the Guaranty (except for rights of the Agency under such Loan Agreements and Guaranty to receive and enforce payments for its own account and to receive and enforce the giving of notices under the Loan Agreements and the Guaranty) and the Mortgages to the Trustee as a part of the trust estate under the Indenture to secure repayment of the Bonds. See “SECURITY AND SOURCES OF PAYMENT – Pledge Under the Indenture”.

The portion of the proceeds of the Bonds loaned to each Provider (excluding any accrued interest, costs of issuance, capitalized interest, and the Reserve Amount) will be placed into a separate escrow account for the applicable Provider with the Trustee (an “Acquisition Fund”) and applied to the payment of costs of the Provider’s project(s). Monies will not be disbursed from an Acquisition Fund until certain conditions under a Provider’s Loan Agreement have been satisfied. See “INTRODUCTORY STATEMENT – Application of Bond Proceeds” and “Appendix E, SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENTS”.

PURPOSE:

The proceeds of the Bonds will be used:

- (i) to finance or refinance the cost of one or more of the acquisition, construction and improvement (including renovation) of land and improvements, and the purchase of equipment for each Provider,
- (ii) to fund a separate Reserve Account for each Provider,
- (iii) to fund capitalized interest, if any, and
- (iv) to pay a portion of the costs of issuance of the Bonds.

The Bonds will be issued in connection with a financing pool (the “Pool”) in which the Providers are participating. See “THE PROVIDERS – The Projects,” “THE POOL” and “Appendix A, DESCRIPTION OF THE PROVIDERS AND THE GUARANTOR”.

THE BONDS:

The Series 2006A Bonds consist of bonds maturing on August 15 in the year or years shown on the inside front cover of this Official Statement, with mandatory sinking fund redemption as set forth in this Official Statement. The Series 2006B Bonds consist of bonds maturing on August 15 in the year or years shown on the

inside front cover of this Official Statement, with mandatory sinking fund redemption as set forth in this Official Statement. See “THE BONDS – Redemption Provisions”.

**OPTIONAL AND
MANDATORY
REDEMPTION:**

The Series 2006A Bonds are subject to optional redemption, and the Bonds are subject to mandatory redemption, without premium, under certain circumstances. See “THE BONDS – Redemption Provisions”.

**PROVIDERS’
SOURCE OF
REVENUE:**

The primary source of revenue for each Provider is payments received pursuant to Medicaid and contracts with the Vermont Agency of Human Services under which the Providers are paid or reimbursed by the State for providing human services. See “THE PROVIDERS”, “SOURCES OF PROVIDER FUNDING” and “Appendix A, DESCRIPTION OF THE PROVIDERS AND THE GUARANTOR”.

SECURITY:

Each Loan is a full recourse, general obligation of the applicable Provider. In addition:

1. Lien and Mortgage on Real Property and Security Interest in Related Equipment. Pursuant to each Mortgage, each Provider will grant to the Trustee a first mortgage (as more fully described herein under “THE POOL – The Loans” and “SECURITY AND SOURCES OF PAYMENT – The Mortgage”) on all land and improvements, if any, the acquisition, construction or renovation of which is financed or refinanced with proceeds of the Bonds and a first security interest, which may be subject to Permitted Encumbrances, in all equipment pertaining to or otherwise used in the operation of such land and improvements and any equipment financed or refinanced with the proceeds of the Bonds. Such mortgages and security interests may be subject to Permitted Encumbrances. See “THE PROVIDERS – The Projects” and “SECURITY AND SOURCES OF PAYMENT”.
2. Lien on Revenues and on Certain Funds and Accounts. Except as described below, each Provider’s Gross Revenues and all rights to receive the same, as well as moneys on deposit from time in certain Funds and Accounts (as provided in the Loan Agreements and the Indenture), will be pledged pursuant to each Loan Agreement to the Agency and the Trustee to secure each Provider’s obligations under its Loan Agreement, which pledge is subject to Permitted Encumbrances. A lien may be created by each Provider with respect to its Gross Revenues that is senior to or on a parity with the lien under its Loan Agreement. See “SECURITY AND SOURCES OF PAYMENT”, “Appendix D, DEFINITION OF CERTAIN TERMS” and “Appendix E, SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENTS”.

Two of the Providers (Health Care and Rehabilitation Services of Southeastern Vermont, Inc. and Washington County Mental Health Services, Inc.) have pre-existing indebtedness under Loan Agreements entered into in connection with the 1999 Bonds (defined herein), which indebtedness is secured by a lien on the Gross Revenues of such Providers on a parity with the lien on Gross Revenues of such Provider pledged as security for the Bonds, as described herein. See “SECURITY AND SOURCES OF PAYMENT – Sources of Payment - General”. Each of the Providers has pre-existing indebtedness under Loan Agreements entered into in connection with the 2002 Bonds (defined herein), which indebtedness is secured

by a lien on Gross Revenues of such Providers pledged as security for the Bonds, as described herein. See “SECURITY AND SOURCES OF PAYMENT – Sources of Payment – General.”

One of the Providers, NFI Vermont, Inc., has pledged its Gross Revenues and personal property to secure a line of credit with TD Banknorth, N.A. NFI Vermont, Inc.’s pledge of such Gross Revenues as described herein and its grant of a security interest in certain personal property in its Mortgage to secure its obligation under its Loan Agreement are subject to NFI Vermont, Inc.’s intercreditor agreement with TD Banknorth, N.A., the entering into of which is a condition of NFI Vermont, Inc.’s participation in the Pool and the issuance of the portion of the Bonds allocable to NFI Vermont, Inc. See “SECURITY AND SOURCES OF PAYMENT – Special Arrangements Regarding Short-Term Indebtedness of NFI Vermont, Inc. and the Security Therefor; Intercreditor Agreement”. Certain other Providers have pledged certain revenues and properties to secure lines of credit with certain banks. Those Providers’ respective pledges of Gross Revenues as described herein and their respective grants of a security interest in certain personal property in their respective Mortgages to secure their obligations under their Loan Agreements are subject to their respective intercreditor agreements with their respective line of credit banks, the entering into of which is a condition of the respective Provider’s participation in the Pool and the issuance of the portion of the Bonds allocable to that Provider. See “SECURITY AND SOURCES OF PAYMENT – “Special Arrangements Regarding the Short-Term Indebtedness of Clara Martin Center, Health Care and Rehabilitation Services of Southeastern Vermont, Inc. and Washington County Mental Health Services, Inc. and the Security Therefor; Intercreditor Agreements.”

3. Pledge by Agency to Trustee. The Agency will pledge and assign to the Trustee all of its rights under the Loan Agreements and the Guaranty (except for rights of the Agency to receive and enforce payments for its own account and to receive and enforce the giving of notices under the Loan Agreements and the Guaranty), the Mortgages and all money and investments from time to time held by the Trustee under the terms of the Indenture (other than money and investments in the Rebate Fund) and any other property rights and interests from time to time given as additional security by the Providers or any other person on their behalf as security for repayment of the Bonds. See “SECURITY AND SOURCES OF PAYMENT – Pledge Under the Indenture”.
4. Negative Covenants by Each Provider. Each Loan Agreement contains certain covenants pertaining to the applicable Provider. In its Loan Agreement, each Provider, among other things, will covenant not to create any lien or other encumbrance, other than Permitted Encumbrances, on its property pledged pursuant to such Loan Agreement or subject to the mortgages and security interests created by each Providers’ Mortgage. See “Appendix E, SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENTS”.
5. Each Provider’s Reserve Account. A separate Reserve Account for each Provider will be established in the Reserve Fund held by the Trustee under the Indenture and will be initially funded with proceeds from the Bonds in an amount equal to:

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|--|-----------|
| Clara Martin Center | \$ 95,000 |
| NFI Vermont, Inc. | \$ 95,000 |
| Health Care and Rehabilitation Services of Southeastern Vermont, Inc. | \$670,000 |
| Washington County Mental Health | \$ 50,000 |

Money on deposit in a Provider's Reserve Account is to be used to pay any deficiency with respect to the Finance Payments (defined herein) due from the Provider if and to the extent moneys are not available in its Finance Payment Fund at the time each such Finance Payment is due and payable (but shall not be applied to payments relating to optional redemption). See "SECURITY AND SOURCES OF PAYMENT – Funds Under the Indenture". Under certain circumstances, portions of the amount in a Provider's Reserve Account may be released by the Trustee to the Provider. See "SECURITY AND SOURCES OF PAYMENT – Circumstances Under Which Partial Releases of Moneys in Reserve Accounts Can Occur."

6. Guaranty of NFI Vermont, Inc.'s Payment Obligations Under its Loan Agreement. The obligations of one of the Providers, NFI Vermont, Inc., under its Loan Agreement will be guaranteed by the Guarantor (as defined herein), pursuant to the terms of the Guaranty. See "SECURITY AND SOURCES OF PAYMENT – The Guaranty of NFI Vermont, Inc.'s Payment Obligations Under its Loan Agreement". See "Appendix A, DESCRIPTION OF THE PROVIDERS AND THE GUARANTOR," for a description of the services and programs, the financial condition and the results of operations of the Guarantor, and "Appendix B, FINANCIAL STATEMENTS OF THE PROVIDERS AND THE GUARANTOR" for copies of certain recent unaudited financial statements of the Guarantor. The Guaranty only guarantees the payments of NFI Vermont, Inc. under its Loan Agreement and does not guaranty payment by any of the other Providers under their respective Loan Agreements.
7. Financial Guaranty Insurance Policy. The regularly scheduled payments of principal of and interest on the Bonds are insured by a financial guaranty insurance policy issued by Radian Asst Assurance Inc.

**BONDHOLDERS'
RISKS:**

The Bonds involve a high degree of investment risk. A Bondholder is advised to read the entirety of this Official Statement, particularly the sections captioned "SOURCES OF PROVIDER FUNDING," "SECURITY AND SOURCES OF PAYMENT" and "CERTAIN BONDHOLDERS' RISKS". Certain of the investment risks involved include, without limitation,

- (i) that the Bonds are special obligations of the Agency, payable solely from the payments to be received by the Agency (other than payments to the Agency for its own account) from the Providers under their respective Loan Agreements (and, with respect to NFI Vermont, Inc.'s payment obligations under its Loan Agreement, the Guaranty), certain money and securities held by the Trustee under the Indenture (other than money and securities in the Rebate Fund) and the investment income thereon, and a pledge of certain property under the respective Loan Agreements and the Mortgages;
- (ii) that the liability of a Provider for payments under or a default under its Loan Agreement is limited solely to that Provider (except for NFI Vermont, Inc., whose payments under its Loan Agreement are guaranteed by the Guarantor pursuant to the Guaranty);
- (iii) that a substantial portion of the revenues of each Provider is funded through Service Contracts (as defined herein) with one or more public funding sources and direct and indirect

grants from State and federal agencies that are subject to annual appropriations, and there is no assurance that (a) such Service Contracts will be renewed or that (b) sufficient or timely appropriations will be made from time to time to enable a Provider to repay the principal of and interest on its Loan and thus enable the principal and interest on the Bonds to be repaid in full and on a timely basis;

(iv) that, if a Provider shall breach any of its obligations under a Service Contract, that such Service Contract may be subject to termination;

(v) that upon default of a Provider, there is no assurance that the proceeds received by the Trustee in the event of a foreclosure, sale or other disposition of the property or collateral pledged to secure the obligations of such Provider under its Loan Agreement will be sufficient to pay such Provider's allocable share of principal of or interest on the Bonds;

(vi) that the Bonds are subject to early redemption, without premium, as set forth herein; and

(vii) that federal and State legislation, regulation and other actions might adversely affect a Provider's ability to repay its Loan. Because of the inability to predict future economic and other conditions, including demand for services and changes in State and federal funding and the effect of such conditions on the levels of public funding and programmatic expenses, with reasonable certainty, no assurance can be given that revenues will continue to be realized by the Providers in amounts sufficient to enable the Providers' respective obligations under their respective Loan Agreements, and consequently, the principal of, premium, if any, and interest on the Bonds, to be paid timely and in full.

See "CERTAIN BONDHOLDERS' RISKS". No assurance can be given that future legislation, if enacted, will not materially adversely affect the Providers. Each Provider must comply with Medicaid, State Contract and other governmental requirements as a condition for continued State and federal funding. Continued receipt of State and federal funding will have a substantial impact upon continuing operations of each Provider, and thus, each Provider's ability to repay its Loan which secures the Bonds. See "CERTAIN BONDHOLDERS' RISKS".

OFFICIAL STATEMENT

VERMONT EDUCATIONAL AND HEALTH BUILDINGS FINANCING AGENCY

\$13,310,000

REVENUE BONDS

(DEVELOPMENTAL AND MENTAL HEALTH SERVICES ACQUISITION POOL)

SERIES 2006A

AND

\$315,000

TAXABLE REVENUE BONDS

(DEVELOPMENTAL AND MENTAL HEALTH SERVICES ACQUISITION POOL)

SERIES 2006B

INTRODUCTORY STATEMENT

Purpose of Official Statement

This Official Statement, which includes the cover pages and appendices hereto, is furnished in connection with the issuance and sale of \$13,310,000 aggregate principal amount of Vermont Educational and Health Buildings Financing Agency Revenue Bonds (Developmental and Mental Health Services Acquisition Pool) Series 2006A (the “Series 2006A Bonds”) and \$315,000 aggregate principal amount of Vermont Educational and Health Buildings Financing Agency Taxable Revenue Bonds (Developmental and Mental Health Services Acquisition Pool) Series 2006B (the “Series 2006B Bonds,” and collectively, with the Series 2006A Bonds, the “Bonds”), the proceeds of which will be loaned to the Providers described in Appendix A. The Bonds are being issued by the Vermont Educational and Health Buildings Financing Agency (the “Agency” or the “Issuer”), a body corporate and politic constituting a public instrumentality of The State of Vermont (the “State”), pursuant to a Trust Agreement dated as of August 1, 2006 (the “Indenture”) between the Agency and Chittenden Trust Company, as Trustee (the “Trustee”) and in accordance with the provisions of Chapter 131, Title 16, Sections 3851-3862, Vermont Statutes Annotated, as amended, or any successor statute, as amended (collectively, the “Act”).

Capitalized terms used herein, unless otherwise defined herein, have the meanings set forth in Appendix D. Summaries of certain provisions of the Loan Agreements (defined herein) and the Indenture are contained in Appendices E and F, respectively. Certain information describing the Providers (and the Guarantor (defined herein) of NFI Vermont, Inc.’s payment obligations under its Loan Agreement), including their results of operation and the Projects (as defined herein), is set forth in Appendix A. Certain Financial Statements of the Providers and the Guarantor are contained in Appendix B. All such summaries and descriptions herein are qualified in their entirety by reference to such documents, and the enforceability of the Loan Agreements, the Indenture and the Mortgages is subject to bankruptcy laws, laws relating to or affecting generally the enforcement of creditors rights and principles of equity.

The Bonds are being issued to provide funds (i) to finance or refinance for the respective Providers the cost of one or more of the acquisition, construction and improvement (including renovation) of land and improvements and the purchase of equipment; (ii) to fund a separate reserve account (the “Reserve Account”) for each Provider; (iii) to fund capitalized interest, if any; and (iv) to pay a portion of the costs of issuance of the Bonds. A portion of the principal amount of the Bonds will be loaned to each Provider pursuant to a separate Loan Agreement (the “Loan Agreement”) dated as of August 1, 2006, between the Issuer and the Provider signing same. Each Loan Agreement is substantially similar to the Loan Agreements between the Issuer and the other Providers (collectively, the “Loan Agreements”). (See, however, “SECURITY AND SOURCES OF PAYMENT – Special Arrangements Regarding Short-Term Indebtedness of NFI Vermont, Inc. and the Security Therefor; Intercreditor Agreement” and “SECURITY AND SOURCES OF PAYMENT -- Special Arrangements Regarding the Short-Term Indebtedness of Clara Martin Center, Health Care and Rehabilitation Services of Southeastern Vermont, Inc. and Washington County Mental Health Services, Inc. and the Security Therefor; Intercreditor Agreements.” The aggregate principal amount of the Loans will equal the aggregate principal amount of the Bonds. Each Provider agrees in its Loan Agreement to make payments of principal of and interest on its Loan sufficient to pay when due the debt service on the principal amount of the Bonds loaned to the Provider. The aggregate of the payment required of the Providers under their respective Loan Agreements will be sufficient to pay the principal of, premium, if any, and interest on the Bonds when due.

Payment of principal and interest on the Bonds will be insured by a financial guaranty insurance policy (the "Policy") issued by Radian Asset Assurance Inc. (the "Insurer"). See "THE FINANCIAL GUARANTY INSURANCE POLICY AND THE BOND INSURER" herein. The Policy only insures the Bonds and does not insure the 1999 Bonds or the 2002 Bonds.

The obligation of each Provider to make payments under its Loan Agreement is a general obligation of such Provider. The Agency is obligated to pay the principal of, premium, if any, and interest on the Bonds solely from the funds pledged therefor as provided in the Indenture. No assets, properties or obligations of the Agency (other than the trust estate as described under the Indenture (the "Trust Estate")) have been pledged by the Agency for the payment of the Bonds.

THE BONDS ARE NOT A GENERAL OBLIGATION OR A PLEDGE OF THE FAITH AND CREDIT OF THE AGENCY OR A DEBT OR PLEDGE OF THE FAITH AND CREDIT OF THE STATE OF VERMONT (THE "STATE") OR ANY SUBDIVISION THEREOF. THE PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON THE BONDS ARE PAYABLE SOLELY FROM THE FUNDS PLEDGED FOR THEIR PAYMENT UNDER AND PURSUANT TO THE INDENTURE. THE AGENCY HAS NO TAXING POWER AND NEITHER THE TAXING POWER OF THE STATE NOR THE TAXING POWER OF ANY SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS.

The Providers

Each of the Providers is a not-for-profit corporation, formed under the laws of the State to provide human services programs in the State consisting of one or more of educational, vocational, intervention, and residential human services for individuals in need of mental health and rehabilitation services, educational services, substance abuse services, and residential services. See Appendices A and B for a summary of each Provider, its properties, its programs, its results of operations and certain financial statements. The audited financial statements of the Providers and the Guarantor provided in Appendix B contain significant accounting policies and notes with respect to the financial statements.

THE OBLIGATIONS OF EACH PROVIDER UNDER ITS LOAN AGREEMENT ARE LIMITED TO PAYMENT OF THE AMOUNTS SPECIFIED IN ITS LOAN AGREEMENT. NO PROVIDER HAS ANY OBLIGATION TO MAKE ANY PAYMENT ON BEHALF OF ANY OTHER PROVIDER AND IS NOT LIABLE FOR ANY DEFAULT OF ANY OTHER PROVIDER. NO PROPERTY MORTGAGED OR PLEDGED OR IN WHICH A SECURITY INTEREST IS GRANTED BY A GIVEN PROVIDER SECURES THE OBLIGATIONS OF ANY OTHER PROVIDER.

Application of Bond Proceeds

A portion of the proceeds of the Bonds will be loaned by the Agency to each Provider pursuant to a Loan Agreement (singularly, a "Loan" and collectively, the "Loans"), the principal amount of such Loans being, when aggregated, equal to the aggregate principal amount of the Bonds. The proceeds of the Bonds, together with other funds of the Providers, will be used for the purposes described above. On the date of delivery of the Bonds, the principal amount to be deposited pursuant to each Provider's Loan Agreement, and any accrued interest received from the sale of the Bonds that is allocable to the applicable Loan Agreement will be deposited in the following order:

(1) An amount equal to the amount, if any, shown as a deposit to the Finance Payment Fund in Part 1 of Exhibit B of the applicable Loan Agreement (as adjusted pursuant to such Loan Agreement, if applicable) and any accrued interest received from the sale of the Bonds that is allocable to such Loan Agreement shall be deposited in the Finance Payment Fund of the applicable Provider;

(2) An amount equal to the Reserve Amount allocable to each Provider is to be deposited in the Reserve Account of the applicable Provider;

(3) An amount equal to the amount, if any, to be deposited in the Delivery Costs Fund as set forth in Part 1 of Exhibit B of the applicable Loan Agreement (as adjusted pursuant to such Loan Agreement, if applicable) shall be deposited in the Delivery Costs Fund; and

(4) The remainder (if any) allocable to each Provider is to be deposited in the applicable Provider's Acquisition Fund.

For a more complete discussion of Funds and Accounts under the Loan Agreements and the Indenture, see “Appendix E, SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENTS” and “Appendix F, SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE”.

Upon sale of the Bonds, a separate Reserve Account for each Provider will be funded (as provided above) in the following amounts:

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|--|-----------|
| Clara Martin Center | \$ 95,000 |
| NFI Vermont, Inc. | \$ 95,000 |
| Health Care and Rehabilitation Services of Southeastern Vermont, Inc. | \$670,000 |
| Washington County Mental Health | \$ 50,000 |

Under certain circumstances, portions of the amount in a Provider’s Reserve Account may be released by the Trustee to the Provider. See “SECURITY AND SOURCES OF PAYMENT – Circumstances Under Which Partial Releases of Moneys in Reserve Accounts Can Occur.”

Upon the sale of the Bonds, the proceeds loaned to a Provider (except for the Reserve Amount, Delivery Costs allocable to the Provider funded from Bond proceeds and capitalized interest, if any) will be placed in a separate escrow account, called an Acquisition Fund, held by the Trustee for the benefit of such Provider and will be disbursed as provided in the applicable Loan Agreement and the Indenture (including disbursements for the payment of existing debt with respect to property being refinanced by such Providers). Each Provider who has an acquisition, construction and/or remodeling Project(s) will submit requisitions to the Trustee for payment of costs thereof from the applicable Acquisition Fund. Approval of such requisitions by the Trustee (after receipt of a properly completed Acquisition Certificate) is required before payment may be made. Certain Special Conditions must also be satisfied in connection with disbursements from the Acquisition Fund, including, among others, obtaining title insurance (with respect to disbursements pertaining to financing or refinancing the acquisition or improvement of real property) and liability insurance, all as required by the Loan Agreements. See “Appendix E, SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENTS”.

Following completion of a Provider’s Project(s), including the purchase of any real property and/or equipment (or if any Projects of such Provider are not completed by the date specified in the applicable Loan Agreement), any excess moneys remaining in such Provider’s Acquisition Fund will be transferred to such Provider’s Finance Payment Fund and applied to the payment or prepayment of such Provider’s Principal Installments, as provided in such Provider’s Loan Agreement. Any Principal Installments so prepaid will be applied by the Trustee to the payment of principal for the extraordinary redemption of Bonds pursuant to the terms of the Indenture.

Each Provider is required to make monthly payments pursuant to its Loan Agreement in respect of the principal due at maturity or by sinking fund redemption and interest becoming due on the Bonds. Such payments will be deposited to each Provider’s Finance Payment Fund and transferred to the Bond Fund and used on each Interest Payment Date to pay the interest and principal, respectively, then due on the Bonds.

Bondholders’ Risks

The attention of each prospective purchaser of the Bonds is directed to the discussion appearing in this Official Statement under the caption “CERTAIN BONDHOLDERS’ RISKS” for a discussion of significant risks associated with an investment in the Bonds.

THE PROVIDERS

Description

A description of the Providers and the Guarantor and of the Projects of the Providers to be financed with the proceeds of the Bonds is set forth in Appendix A hereto. Appendix B contains the most recent audited financial statements of the Providers and the Guarantor as of the date hereof. Each prospective purchaser should carefully review Appendices A and B.

Each Provider is a not-for-profit corporation, formed under the laws of the State. Each Provider has been determined by the Internal Revenue Service to be an organization described in Section 501(c)(3) of the Code or predecessor Internal Revenue Codes. Each Provider owns and operates facilities in the State that provide human services. Each Provider has been authorized pursuant to statutes of the State to provide such services. Each Provider has been designated by the Vermont Agency of Human Services as a provider of mental health services and/or developmental services in specific areas of the State (with the exception of NFI Vermont, Inc., which operates throughout the State). Each Provider currently has one or more contracts with one or more Departments under the Agency of Human Services of the State under which such Provider is paid or reimbursed by the State to provide human services (the "Service Contracts"). Each Service Contract is subject to audit by the governmental agency contracting for such services. No independent investigation or verification has been made in connection with the preparation of this Official Statement of the status of compliance with State or federal agency standards of operations of the Providers in order to continue to receive payments of State and/or federal funds under the Service Contracts. See "VERMONT AGENCY OF HUMAN SERVICES" herein for a description thereof. The Service Contracts provide a substantial portion of the total revenues of the Providers. A CAREFUL REVIEW OF APPENDIX A AND APPENDIX B REGARDING THE PROVIDERS AND THEIR FINANCIAL STATEMENTS SHOULD BE MADE TO DETERMINE THE CREDITWORTHINESS OF THE PROVIDERS. See Appendix A for a discussion of the Providers and a discussion of their current financial condition and results of operations and Appendix B for their most recent financial statements.

The Projects

The proposed uses of the Loan proceeds by each Provider are summarized in Appendix A.

Estimates of the cost of new Projects have been used in order to determine the "new Project portion" of the amount of the Loan for each Provider that has a new Project. Upon the initial delivery of the Bonds, the proceeds thereof to be loaned to each Provider (exclusive of accrued interest, amounts to be deposited in the Finance Payment Fund for each Provider, the Reserve Amount for each Provider, and amounts to be deposited in the Delivery Costs Fund) will be placed into a separate Acquisition Fund established for the respective Provider and held by the Trustee. See "INTRODUCTORY STATEMENT – Application of Bond Proceeds". In order to withdraw moneys from its Acquisition Fund, each Provider must meet the applicable Special Conditions (described in Appendix E hereto) of its Loan Agreement prior to any withdrawal. On the Final Acquisition Date applicable to a Provider, any money remaining in such Provider's Acquisition Fund will be transferred to the Finance Payment Fund and applied to the payment or prepayment of Principal Installments as provided in its Loan Agreement. Any such prepayment of Principal Installments shall be in an amount equal to \$5,000 or any integral multiple thereof and shall be applied to the extraordinary mandatory redemption of Bonds as provided in the Indenture. See "THE BONDS – Redemption Provisions".

Under each Loan Agreement, a Provider is allowed to make changes or substitutions of any part of the Property comprising its Project or any component of its Projects whenever the Provider deems such changes or substitutions to be necessary and appropriate to comply with the covenants contained in its Loan Agreement or if it is necessary to do so in order to satisfy any Special Conditions under its Loan Agreement; provided that the Provider delivers to the Issuer and the Trustee an opinion of Bond Counsel addressed to the Trustee and the Issuer to the effect that such change or substitution will not adversely affect the validity of the Bonds or the exclusion of interest on the Series 2006A Bonds from gross income for federal income tax purposes, and, in the case of the change or substitution of land or other real property, an appraisal by a licensed real estate appraiser approved by the Trustee showing that the nature of the Property after such change or substitution will constitute property of equal or greater value than its value without such change or substitution.

Tax Compliance

Each Provider makes certain representations and certifications with respect to certain material facts relating to the application of the proceeds of the Bonds loaned to such Provider and its Project(s) financed or refinanced with Bond proceeds. Bond Counsel will rely upon such representations and certifications in rendering its opinion (described below). Failure of a Provider to comply with its covenants under its Tax Certificate will be an event of default under its Loan Agreement and will result in a corresponding default under the Indenture. Any such default, among other things, could cause interest on the Series 2006A Bonds to be included in the gross income of the owners thereof for federal income tax purposes from the date of issuance of the Series 2006A Bonds.

Other Information

Each Provider has agreed to supply such additional materials and information reasonably obtainable, with respect to its Project(s) and operations as may be reasonably requested by a potential purchaser of the Bonds (provided the Underwriter shall not have determined that such potential purchaser will be ineligible to subscribe for the Bonds). All such requests for such additional materials and information are to be made to Municipal Capital Markets Group, Inc., 7887 East Belleview Avenue, 11th Floor, Denver, CO 80111, telephone number (303) 779-4900 or (888) 779-4900, fax number (303) 228-2263, attention: James M. Anderson.

SOURCES OF PROVIDER FUNDING

For a description of the sources of funding of the Providers, see “VERMONT AGENCY OF HUMAN SERVICES – Sources of Provider Funding.”

STATE FUNDS AND REVENUES

Overview - The State of Vermont

Governmental Organization

The Constitution of Vermont provides for three traditional branches of Government – the Legislative, the Executive and the Judicial. The elected officers of the State are the Governor, Lieutenant Governor, Treasurer, Secretary of State, Auditor of Accounts and the Attorney General. All are elected at general elections for a term of two years, and each may succeed himself or herself in office.

The Legislative Branch: The bicameral General Assembly of Vermont convenes biennially with an adjourned session in the biennium. The House of Representatives has 150 members and the Senate has 30 senators. Members of the House of Representatives and Senate are elected for two-year terms in each general election. Bills for the raising of revenues must originate in the House of Representatives but may be amended or rejected by the Senate.

The Executive Branch: All constitutional officers of the State reside in the Executive Branch. The Governor is responsible for the faithful execution of all laws enacted by the Legislature and the management of the major departments and agencies of the Executive Branch.

The Judicial Branch: The Judicial Branch of the State is composed of a Supreme Court, and Superior, District, Family, Environmental Law, and Probate Courts.

Budget Process

The head of every State department, board, or commission, and any officer or individual in charge of any activity for which funds are appropriated by the General Assembly, is required to file with the Commissioner of Finance and Management statements showing in detail the amount appropriated and expended for the current and next preceding fiscal years and the amount estimated to be necessary for such activity for the ensuing fiscal year. The Governor submits to the General Assembly, not later than the third Tuesday of every regular and adjourned session, a recommended budget for appropriations of other authorizations for expenditures from the State Treasury for the next succeeding fiscal year. The General Assembly then enacts into law an appropriation act which must be approved by the Governor before expenditures may be made.

Internal Control System

The State of Vermont operates on a July 1 to June 30 fiscal year. The Department of Finance and Management is responsible for the accounting system of the State and for approving the issuance of disbursements by the State Treasurer. No money, other than money to be used for the payment of principal of, and interest on the State's outstanding general obligation bonds that may become due before appropriation for the payment thereof has been made, can be withdrawn from the Treasury without a warrant approved by the Commissioner of Finance and Management. The amount necessary each year to pay the maturing principal of, and interest on, the State's outstanding general obligation bonds is required to be included in and made a part of the annual appropriation bill for the expense of State Government.

Appropriations for the Funds to Pay the Providers' Service Contract.

Each year the Legislature, which has the responsibility of appropriating and allocating State resources, has the right, in its sole discretion, either (i) to appropriate sufficient funds to pay the service contracts to which the Vermont Agency of Human Services is a party, (ii) to appropriate insufficient funds to make such payments or (iii) not to appropriate any funds to make such payments. In addition, the Governor of the State may veto any appropriation made by the Legislature.

VERMONT AGENCY OF HUMAN SERVICES

The Vermont Agency of Human Services ("AHS") is statutorily mandated to provide services to children and adults who have developmental disabilities, a severe and persistent mental illness, and/or a severe emotional disturbance. AHS intends to have these services, to the extent possible, delivered within the context of the individual's family, home and community. AHS makes every effort to ensure that all services are delivered in a cost-efficient, effective, and timely fashion. The goal of AHS is to empower people to live as independently and productively as possible.

Department of Aging and Independent Living

The Department of Aging and Independent Living, through the Providers and other designated human service providers, provides or arranges for the provision of services and supports to approximately 2400 individuals with developmental disabilities (as defined in the Vermont Developmental Disabilities Act of 1996) such as mental retardation. Individuals are served because of a variety of circumstances.

The Department of Health - Division of Mental Health

The Department of Health - Division of Mental Health, through the Providers and other designated human service providers, provides services to adults with severe mental illness, adults with other emotional or behavioral problems, children and adolescents experiencing a serious emotional disturbance and their families, and anyone who is experiencing an acute mental-health crisis. The State also operates the Vermont State Hospital, which includes a mental health hospital that provides forensic evaluations for clients with extreme mental health conditions. Inpatient services at Vermont State Hospital are provided for involuntary emergency examinations and commitments in which adults have become dangerous to themselves or others, or for psychiatric evaluations of competency to stand trial in criminal cases. The Vermont State Hospital is Vermont's only public psychiatric inpatient facility. Approximately 25,700 residents currently receive mental-health services from the Providers and other human service providers, supported by state and federal funds.

Sources of Provider Funding

Each Provider currently has one or more Service Contracts with the Vermont Agency of Human Services to provide developmental and mental health services to residents of the State. Service Contracts pertain to human and social services provided by a contractor. The Providers are reimbursed at least monthly for services provided under the contract. The State's obligation to reimburse the Providers is subject to annual appropriation of funds by the Vermont State Legislature. The State has elected to provide these services within the various community service areas exclusively through the Providers and/or other human service providers. Under its Service Contracts with the Providers, the State assigns a specific service area to each of the Providers to provide the services such Provider provides, with the exception of NFI Vermont, Inc. and certain other human service providers (which are not the Providers described herein) which operate specified programs throughout the State. Service areas normally include one or more counties. Currently there are ten (10) such service areas within the State. Persons seeking

State-paid mental health or development services must apply to the Provider holding the contract for the service area in which that person resides. The Providers are responsible for providing mental health and developmental services to State residents seeking such services within their service area. If the Provider in the service area where a person resides does not provide the service that that person needs, the State will direct that person to another provider. Other sources of revenue of the Providers include fees from clients, support from local governments, payments from private insurers, federal grants and other contracts with the State. The State's Fiscal Year 2007 budget for AHS is \$2,318,028,000. Approximately \$216,000,000 of the total budget has been allocated for services provided through mental health providers holding contracts with the State, such as the Providers. The programs provided by the Providers and other human service providers and the State's estimated budget for each program category are as set forth below.

The federal funds received by the mental health agencies are managed and accounted for as special revenue funds and are not available to the State for discretionary purposes. These special revenue funds take the following forms: federal Medicaid funds to match the State's share of Medicaid-approved services provided to Medicaid-enrolled individuals; federal Mental Health Block Grant funds designated for specific purposes by the federal Center for Mental Health Services; and various federal grants targeted to specific populations or clinical interventions and limited to specific timeframes. The uses of these federal funds are strictly dictated by the federal funding source and purpose, and their use is not in any way at the discretion of the State or its contracted providers. If the funds are not used for their specified purpose, they are either not made available at all (i.e., Medicaid funds) or are withdrawn.

Accounting for this differentiation of the special revenue funds, the current percentage of State funds of the total community mental health agencies' budgets across Vermont is approximately 37 percent.

Agency of Human Services Budget for Services Delivered Through Designated Community Based Service Providers

| <u>Program</u> | <u>FY 2006 Budget</u> | <u>FY 2005 Actual</u> | <u>FY 2004 Actual</u> |
|------------------------------|------------------------------|------------------------------|------------------------------|
| Child Mental Health Services | \$ 66,798,141 | \$65,664,288 | \$59,931,396 |
| Adult Mental Health Services | 4,284,884 | 4,163,214 | 3,555,764 |
| Substance Abuse | 6,894,312 | 6,031,991 | 5,479,936 |
| Community Rehab & Treatment | 32,532,703 | 30,649,322 | 29,358,326 |
| Emergency Services | 2,335,038 | 1,580,449 | 1,431,326 |
| Developmental Services | 104,924,617 | 98,448,816 | 89,265,448 |
| Other Services | <u>985,472</u> | <u>1,034,556</u> | <u>1,305,406</u> |
| TOTAL | \$218,755,167 | \$207,572,636 | \$190,327,602 |

The Providers make available developmental services and mental health services on an outpatient basis. Community rehabilitation and treatment services include limited substance abuse services and are also provided on an outpatient basis.

The State oversees services provided by each Provider and reviews the Provider's financial position on a monthly basis. As the Providers are the only means the State has to provide these required services in the area designated for each Provider (except for NFI Vermont, Inc., which operates throughout the State), the State may assist a Provider should it experience financial or other problems, or can look to other providers to assist with service provision if necessary on an interim basis. Since the issuance of the 2002 Bonds (defined below), there have been changes in the State's administration of grants and contracts to the mental health agencies that clarify the independent status of designated agencies and the consequences of performance problems. New state rules with the force of law and contract language now clearly indicate the process that is triggered if there are significant performance problems. The State's remedy is termination of service contracts and the purchase of services from other eligible community providers. Neither State law nor these now fully implemented rules contemplate a State takeover of a Provider's business. The Service Contract with each Provider is subject to annual renewal by the State. The State has not terminated a contract with a Provider since the program began in 1985. State law requires that the Provider's board of directors reflect its service area and includes persons who have received services themselves or have a direct relation to a person who is receiving or has received services.

THE OBLIGATIONS OF EACH PROVIDER UNDER ITS LOAN AGREEMENT ARE NOT A DEBT OF THE STATE OF VERMONT. WITHOUT LIMITING THE GENERALITY OF THE FOREGOING SENTENCE, THE OBLIGATIONS OF THE STATE OF VERMONT TO MAKE PAYMENTS UNDER ITS SERVICE CONTRACTS WITH THE PROVIDERS OR ANY OTHER PAYMENT TO ANY PROVIDER DO NOT OBLIGATE THE STATE OF VERMONT

TO PAY THE OBLIGATIONS OF ANY PROVIDER UNDER ITS LOAN AGREEMENT OR ANY AMOUNT DUE ON THE BONDS.

Appropriations for Division of Mental Health and Division of Developmental Services Contracts with Designated Community Based Service Providers

The following table sets forth the annual appropriations for Division of Mental Health and Division of Developmental Services Contracts with designated community based service providers for the fiscal years 2004 through 2006. Should tax revenues be less than the amount anticipated in the budget for a fiscal year, the Governor may, pursuant to statutory authority, prevent any expenditure under any appropriation.

Appropriations For the Fiscal Year Ended June 30,

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|---------------------------------------|---------------|---------------|---------------|
| <i>Budgetary Direct Appropriation</i> | \$209,315,383 | \$188,886,013 | \$174,094,110 |

Expenditures

As used herein, the phrase “actual expenditures” designates that fiscal year’s net disbursements plus the amount obligated for payment in a subsequent fiscal year (such disbursements and amounts for Fiscal Year 2006 being projections). The following table sets forth the actual expenditures for fiscal years 2004 through 2006 for AHS designated community based service providers.

Expenditures ⁽¹⁾ For the Fiscal Year Ended June 30,

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|-----------------------|---------------|---------------|---------------|
| <i>Total Spending</i> | \$207,095,264 | \$187,352,118 | \$172,336,701 |

⁽¹⁾Actual expenditures including budgetary direct appropriation, budgetary retained revenue, intergovernmental transfers, federal grant spending, and trust spending.

THE POOL

General

The Developmental and Mental Health Services Acquisition Pool (the “Pool”) has been established in accordance with the Act which authorizes the Agency to issue bonds for the purpose of assisting certain health care and educational institutions in the acquisition, construction, financings and refinancings of their related projects. Pursuant to such authority, the Agency has established the Pool, pursuant to which the Bonds will be issued, and the proceeds thereof will be loaned to the Providers to be applied to the purposes described in Appendix A and elsewhere herein.

The Agency has issued \$7,125,000 Revenue Bonds (Vermont Council of Developmental and Mental Health Services Acquisition Program) Series 1999A and \$385,000 Taxable Revenue Bonds (Vermont Council of Developmental and Mental Health Services Acquisition Program) Series 1999B (collectively, the “1999 Bonds”) under the Pool. The Agency has also issued \$10,280,000 Revenue Bonds (Development and Mental Health Services Acquisition Pool) Series 2002A and \$345,000 Taxable Revenue Bonds (Development and Mental Health Services Acquisition Pool) Series 2002B (collectively, the “2002 Bonds”) under the Pool. Other than the 1999 Bonds and the 2002 Bonds, the Agency has not previously issued bonds under the Pool or programs similar to the Pool.

The Loans

Proceeds from the sale of the Bonds will be loaned by the Agency to the Providers, and the Loans will be evidenced by their respective Loan Agreements. Under its Loan Agreement, each Provider is required to make monthly payments of principal of and interest on its Loan. Such monthly payments and investment earnings thereon are to be used by the Trustee to make payments of principal and interest on the Bonds.

For a description of the security for each Provider's obligations under its Loan Agreement, see "SECURITY AND SOURCES OF PAYMENT" and "Appendix E, SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENTS".

Each Provider may prepay its Loan in whole or in part on any Interest Payment Date that the Bonds are subject to optional redemption, subject to the conditions set forth in its Loan Agreement. Each Provider is required to prepay its Loan, together with interest accrued and to accrue to the redemption date, upon the occurrence of any one of the following events: (i) to the extent of any moneys remaining in the Provider's Acquisition Fund on the Final Acquisition Date required by the applicable Loan Agreement to be applied to the prepayment of the Loan and (ii) to the extent the net proceeds of any insurance or condemnation award which are not applied to restore, replace or reconstruct the Project pursuant to the terms of the Loan Agreement and are required by the applicable Loan Agreement to be applied to the prepayment of the Loan. See "THE BONDS – Redemption Provisions" and "Appendix E, SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENTS".

ADDITIONAL INDEBTEDNESS

A Provider may incur additional Indebtedness. However, a Provider may not create or suffer or permit any lien (other than a Permitted Encumbrance) upon any of the collateral on which a lien and in which a security interest is granted pursuant to the Loan Agreement or upon any Property that is subject to the lien of a Mortgage.

Under its Loan Agreement, each Provider will covenant and agree that it will not incur any additional Indebtedness if, (i) an Event of Default under the Loan Agreement has occurred and is continuing and (ii) after giving effect to all other Indebtedness incurred by such Provider, such Indebtedness could not be incurred pursuant to the terms of the applicable Loan Agreement as described in subsections (A) to (G), inclusive, below. In addition, any additional Long-Term Indebtedness secured by a Provider's Gross Revenues shall have the same semi-annual principal and interest payment dates as the Bonds. No Provider shall guarantee the payment of any other entity's Indebtedness without the prior written consent of the Insurer. The Loan Agreement provides that any Indebtedness may be incurred only in the manner and pursuant to the terms set forth therein, and described in the subsections below:

(A) Long-Term Indebtedness may be incurred by a Provider to finance capital additions or renovations if prior to incurrence of the Long-Term Indebtedness there is delivered to the Trustee:

(i) a certificate of the Provider to the effect that for the most recently ended fiscal year of the Provider for which audited financial statements of the Provider are then available the Debt Service Coverage Ratio would not be less than 1.25 for all outstanding Long-Term Indebtedness and the Long-Term Indebtedness then proposed to be incurred; and

(ii) a report or opinion of an independent certified public accountant acceptable to the Trustee to the effect that the estimated annual Debt Service Coverage Ratio for the first two full fiscal years of the Provider following the estimated completion of the acquisition, construction, renovation or replacement being paid for with the proceeds of such additional Long-Term Indebtedness, or following the incurrence of Long-Term Indebtedness for other purposes, will be not less than 1.35 (or a certificate of an Authorized Officer forecasting coverage of at least 1.60 for the same periods) after giving effect to the incurrence of such Long-Term Indebtedness and the application of the proceeds thereof.

(B) Long-Term Indebtedness may be incurred by a Provider 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 Trustee a certificate of an Authorized Officer to the effect that Maximum Annual Debt Service has not increased as a result of such incurrence.

(C) Short-Term Indebtedness may be incurred by a Provider subject to the limitation that the aggregate principal amount of its Short-Term Indebtedness shall not at any time exceed ten percent (10%) of the Revenues of such Provider as reflected in its financial statements for the most recent period of twelve consecutive months for which audited financial statements are available, provided, however, that there shall be a period of at least fifteen (15) consecutive calendar days in each Fiscal Year of such Provider during which no Short-Term Indebtedness shall be outstanding.

(D) Non-Recourse Indebtedness may be incurred subject to the limitation that the aggregate principal amount of all Non-Recourse Indebtedness shall not any time exceed five percent (5%) of the Revenues as reflected in the Financial Statements for the most recent period of twelve consecutive months for which audited financial statements are available.

(E) Subordinated Indebtedness may be incurred without limit.

(F) Long-Term Indebtedness incurred to finance costs associated with a capital project that was financed through the issuance of other Long-Term Indebtedness (“Completion Indebtedness”) may be incurred without limit subject to an independent architect’s certification of sufficiency of debt proceeds to complete the applicable capital project and provided that the Completion Indebtedness is issued in respect of financing costs within the scope of the original capital project and in no case exceeding ten percent (10%) of the principal amount of the Long-Term Indebtedness originally issued for the capital project.

(G) Long-Term Indebtedness may be incurred to finance the acquisition of property acquired after the Delivery Date provided that the aggregate principal amount of all such Long-Term Indebtedness does not exceed \$1,000,000.

See “Appendix E, SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENTS” and “Appendix A, DESCRIPTION OF THE PROVIDERS AND THE GUARANTOR”.

An intercreditor agreement to be entered into among NFI Vermont, Inc, the Trustee and TD Banknorth, N.A. affects how (and in what amounts) NFI Vermont, Inc. can incur Short-Term Indebtedness and the security therefor. See “SECURITY AND SOURCES OF PAYMENT – Special Arrangements Regarding the Short-Term Indebtedness of NFI Vermont, Inc. and the Security Therefor; Intercreditor Agreement”. An intercreditor agreement to be entered into among the other Providers banks, from which they have obtained lines of credit, and the Trustee affects how such Providers, respectively, can incur Short-Term Indebtedness. See “SECURITY AND SOURCES OF PAYMENT – Special Arrangements Regarding the Short-Term Indebtedness of Clara Martin Center, Health Care and Rehabilitation Services of Southeastern Vermont, Inc. and Washington County Mental Health Services, Inc., and the Security Therefor; Intercreditor Agreements.”

ESTIMATED SOURCES AND USES OF PROCEEDS

The following is an estimate of the sources and uses of funds (exclusive of accrued interest) in connection with the issuance of the Bonds:

Sources of Funds

| | |
|--|----------------------|
| Principal Amount of the Series 2006A Bonds | \$ 13,310,000 |
| Principal Amount of the Series 2006B Bonds | 315,000 |
| Net Original Issue Premium | 8,347 |
| Accrued Interest | <u>72,881</u> |
| Total Sources of Funds | <u>\$ 13,706,228</u> |

Uses of Funds

| | |
|--|------------|
| Acquisition Funds: ⁽¹⁾ | |
| Clara Martin Center | \$ 914,214 |
| NFI Vermont, Inc. | 855,230 |
| Health Care and Rehabilitation Services of Southeastern Vermont, Inc. | 8,899,493 |
| Washington County Mental Health Services, Inc. | 613,950 |
| Reserve Funds | |
| Clara Martin Center | \$ 95,000 |
| NFI Vermont, Inc. | 95,000 |
| Health Care and Rehabilitation Services of Southeastern Vermont, Inc. | 670,000 |
| Washington County Mental Health Services, Inc. | 50,000 |
| Finance Payment Funds | |

| | |
|--|---------------------|
| Clara Martin Center | \$ 30,688 |
| NFI Vermont, Inc. | 5,348 |
| Health Care and Rehabilitation Services of Southeastern Vermont, Inc. | 488,600 |
| Washington County Mental Health Services, Inc. | 3,716 |
| Costs of Issuance ⁽²⁾ | <u>\$ 984,989</u> |
| Total Uses of Funds | <u>\$13,706,228</u> |

⁽¹⁾ See Appendix A for a summary of the Projects of the Providers.

⁽²⁾ Includes underwriter's discount, premium for financial guaranty insurance policy, and other costs.

CERTAIN BONDHOLDERS' RISKS

Prospective investors in the Bonds should review all of the information in this Official Statement carefully prior to purchasing any of the Bonds. This Official Statement contains summaries of the Indenture, the Loan Agreements, and related documents. Reference is made to each such document and the summaries thereof included in Appendices E and F, as well as to the Definition of Certain Terms contained in Appendix D, for a more complete description of each such document. Prospective investors are urged to read such documents in their entirety prior to investing in the Bonds. Copies of such documents may be obtained from the Underwriter prior to the issuance of the Bonds. See "OTHER AVAILABLE INFORMATION" herein. In addition, prospective investors should carefully review Appendices A and B for a discussion of the financial condition and results of operations of the Providers and, with respect to the Guaranty of NFI Vermont, Inc.'s payment obligations under its Loan Agreement, the Guarantor. Representatives of the Providers are available to answer inquiries and to provide copies of records, data or other material reasonably necessary for a prospective investor to make an informed investment decision relating to the creditworthiness or financial condition of the Providers. Set forth below are certain risk factors, among others, that could adversely affect a Provider's operation and revenues and expenses of its facilities to an extent which cannot be determined at this time. Such risk factors should be considered before any investment in the Bonds is made. The following list and discussion of risks factors should not be considered definitive or exhaustive.

General

The Bonds are special, limited obligations of the Agency, payable solely from the payments received by the Agency (other than payments to the Agency for its own account), including payments to the Trustee for the account of the Agency from the Providers under their respective Loan Agreements and, with respect to the Guaranty of NFI Vermont, Inc.'s payment obligations under its Loan Agreement, the Guarantor, from Funds established under the Indenture (other than the Rebate Fund) and the investment income thereon, and from proceedings of foreclosure on the real and personal property securing the obligations of a Provider under its Loan Agreement if an Event of Default exists thereunder. Under certain circumstances the Bonds may be payable from proceeds of casualty insurance or condemnation awards. Future revenues of certain Providers are dependent upon, among other things, timely completion and/or rehabilitation of their Projects, legislative appropriations, State human services policy, workshop revenues and other conditions that are unpredictable, some of which are discussed below. Risks, among others, that could impair a Provider's revenues are failure of:

- (i) the legislature of the State to approve sufficient appropriations for the relevant agencies of the State to purchase of services from Providers pursuant to Service Contracts;
- (ii) the contracting agencies of the State to make timely payments to a Provider of appropriated amounts;
- (iii) a Provider to fulfill its obligations under the Service Contracts which entitle it to receive payments thereunder;
- (iv) a Provider to receive the appropriate certifications from the required licensing or certifying entity(ies) to provide services as required under the Service Contracts; or

(v) a Provider to obtain the renewal of its Service Contract(s).

In addition, there could be changes to or deficiencies in federal appropriations. Also, a Provider's authorization and/or certification to provide its various programs could be revoked for failure to continue to comply with standards of operation applicable to the Provider that are necessary to receive funding under Service Contracts.

Realization of Insufficient Moneys Upon Exercise of Remedies

If an the Event of Default under a Loan Agreement occurs, the Issuer or Trustee may declare the Loan of a defaulting Provider to be immediately due and payable or exercise any other remedies provided for in the Loan Agreement (and, only with respect to NFI Vermont Inc.'s obligations under its Loan Agreement, the Trustee may exercise certain remedies provided in the Guaranty). Certain other remedies are also available to the Trustee in the case of an Event of Default under the Indenture. Other remedies might also be available to the Issuer or the Trustee under a Mortgage. However, there is no assurance that any of the remedies undertaken will result in moneys sufficient to pay the then outstanding principal and interest (or other amounts due) with respect to the Bonds.

Insufficiency of Bond Proceeds; Failure to Execute and Deliver Mortgage

The execution and delivery of the Mortgages are not conditions for the issuance of the Bonds or disbursement of the proceeds of the Bonds to pay costs of issuance. One or more of the Mortgages may not be executed and delivered, and in such event the obligations of each of the Providers who did not deliver a Mortgage to repay its Loan would not be secured by a Mortgage. Proceeds of the Bonds for payment of costs of issuance will be disbursed prior to the execution and delivery of one or more (or all) of the Mortgages. The proceeds of the Bonds held for the account of each Provider after payment of costs of issuance, plus investment earnings thereon, will not be sufficient to pay the obligations of the applicable Provider under its Loan Agreement.

Non-Appropriation of Funding for Service Contracts

The Bonds are payable from Gross Revenues of the Providers, which depend in large measure upon the appropriations of the legislature of the State for the funds to pay the Providers' Service Contracts. THE OBLIGATION OF THE VERMONT AGENCY OF HUMAN SERVICES TO RENEW SERVICE CONTRACTS IS SUBJECT TO REEVALUATION BY THE AGENCY OF HUMAN SERVICES AS PART OF ITS BUDGET APPROPRIATION PROCESS. EACH YEAR THE LEGISLATURE, WHICH HAS THE RESPONSIBILITY OF APPROPRIATING AND ALLOCATING STATE RESOURCES, HAS THE RIGHT, IN ITS SOLE DISCRETION, EITHER (i) TO APPROPRIATE SUFFICIENT FUNDS TO PAY THE SERVICE CONTRACTS TO WHICH AHS IS A PARTY, (ii) TO APPROPRIATE INSUFFICIENT FUNDS TO MAKE SUCH PAYMENTS OR (iii) NOT TO APPROPRIATE ANY FUNDS TO MAKE SUCH PAYMENTS. In addition, the Governor of the State may veto any appropriation made by the Legislature. AHS has not agreed to cause the fees to be paid to the Providers under the Service Contracts to be included in their proposed budgets during the term of the Bonds. If the legislature fails to appropriate sufficient funds from year to year to pay in whole or in part the Service Contracts for any fiscal year, such failure will materially adversely affect the ability of the Providers to make the payments required under the Loan Agreements to pay the debt service on the Bonds.

In particular, the ability to disburse Medicaid reimbursements and to disburse mental health payments to a Provider is limited in part by the amount of revenues collected, as well as the amount of appropriations authorized, by the State for such fiscal year. Failure of the State to receive sufficient revenues to fund appropriations for a fiscal year and/or the failure of the Providers to generate sufficient revenues from other sources (or have access to sufficient fund balances) to make the scheduled payments under their respective Loan Agreements that are to be used to repay the Bonds will materially adversely affect the Providers' ability to repay in full their respective Loans and, consequently, the Bonds. If the State fails to receive sufficient revenues to pay in whole or in part the appropriations to fund the payments due to a Provider under the Service Contracts for such fiscal year, such failure will materially adversely affect the timely payment of principal of, premium, if any, and interest on the Bonds.

Neither the Agency, the Trustee, nor the Underwriter makes any representations or assurances concerning (i) the legislature's ability or willingness to appropriate from year to year sufficient revenues to fund the Service Contracts, (ii) the continued ability or willingness of AHS to execute new or renew from time to time various Service Contracts with the Providers,

or (iii) the availability of, or the ability of the Providers to maintain, Service Contracts or obtain other sources of revenues from which to satisfy their respective debt service obligations under the respective Loan Agreements.

Uncertainty of Revenues; Dependence of Providers Upon Government Funding

As noted herein, the Bonds will be payable solely from amounts paid by the Providers pursuant to their Loan Agreements (any, only, with respect to NFI Vermont, Inc., payments made under the Guaranty) and any amounts received from exercise of remedies by the Trustee with respect to the security granted to the Trustee by a defaulting Provider. The ability of a Provider to make payments under its Loan Agreement is dependent upon the generation by the Provider of revenues in the amounts necessary for the Provider to pay such amounts, as well as other operating and capital expenses. Similarly, the ability of the Guarantor to make payments with respect to NFI Vermont, Inc.'s payment obligations under its Loan Agreement may be subject to similar factors. The realization of future revenues and control of expenses is subject to, among other things, the capabilities of the management of the Provider, government regulation, future State and federal funding of services furnished by the Provider, demographic factors and future economic and other conditions that are unpredictable and that may adversely affect revenues and payments of its Loan under its Loan Agreement and, consequently, the payment of principal of, premium, if any, and interest on the Bonds. Each Provider must comply with certain requirements to receive State and federal funding. A Provider's operating revenues currently depend principally on funding received from State and federal programs. This funding is subject to annual appropriation and evaluation based on a number of factors pertaining to the respective programs to which such funds pertain and the maintenance of appropriate State licenses to perform certain services. Failure of a Provider to receive federal or State funding will have a substantial impact upon continuing operations of that Provider. No representation or assurance can be made that revenues will be realized by a Provider in amounts sufficient to make the required payments under its Loan Agreement.

Creditworthiness of the Insurer

The Insurer's obligation under the Policy issued by it is a general obligation of the Insurer. Default by the Insurer may result in insufficient funds being available to pay the principal of and interest on the Bonds. In such event, the remedies available to the Trustee may be limited by, among other things, certain risks related to bankruptcy proceedings, and may also have been altered prior to a default by the Insurer, which has the right acting with the Issuer and the Providers, without Bondholder consent, to amend the provisions of the Indenture and the Loan Agreement, including those provisions governing defaults and remedies.

Delay in Enforceability or Unavailability of Remedies

The remedies available to the Trustee or the Bondholders upon an Event of Default under the Indenture, a Loan Agreement or a Mortgage (or, with respect to payment of NFI Vermont, Inc.'s obligations under its Loan Agreement, the Guaranty) are in many respects dependent upon judicial actions that are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically the United States Bankruptcy Code, the remedies permitted by the Indenture, the Loan Agreements (and with respect to payment of NFI Vermont, Inc.'s obligations under its Loan Agreement, the Guaranty) and the Mortgages may not be readily available or may be limited. The various legal opinions delivered concurrently with the delivery of the Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by principles of equity and by bankruptcy, reorganization, insolvency, moratorium or other similar laws affecting the rights of creditors generally.

Construction/Completion Risk

Construction or rehabilitation of a Project is subject to the usual risks associated with construction projects, including but not limited to delays in issuance of required building permits or other necessary approvals or permits, strikes, shortages of materials and adverse weather conditions. Such events could delay use of a Project for its intended purpose and thus adversely impact the revenues of a Provider. It is anticipated that the proceeds of the Bonds, together with anticipated investment earnings thereon, will be sufficient to pay construction or rehabilitation costs of the Projects based upon representations by the respective Providers. However, there can be no assurance that a Project's construction or rehabilitation will be completed, or that such rehabilitation can be completed for the cost and within the time estimated by a Provider. Failure to complete the construction or rehabilitation of a Project on time and for the cost estimated by such Provider, could materially adversely affect the financial position of the Provider and the ability of the Provider to pay debt service on its Loan.

Revenue Pledge - Bankruptcy or Partial Impairment of Revenue

The security interest in Gross Revenues granted by each Provider under its Loan Agreement and the mortgage and security interests in any other collateral granted pursuant to its Mortgage may be adversely affected by various matters, including (i) federal bankruptcy laws which could, among other things, preclude enforceability of the security interest as to Gross Revenues or any other security interest or any mortgage securing a Provider's obligations under its Loan Agreement, (ii) rights of third parties in cash, securities and instruments not in possession of the Trustee, including accounts and general intangibles converted to cash, (iii) rights arising in favor of the United States of America or any agency thereof, (iv) present or future prohibitions against assignment in any federal or state statutes or regulations, (v) constructive trusts, equitable liens or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction and rights of donors of property, (vi) claims that might obtain priority if continuation statements or other documents are not filed in accordance with applicable laws, (vii) the rights of holders of prior perfected security interests in equipment and other goods owned by such Provider and in the proceeds of sale of such property, (viii) statutory liens and other liens arising as a matter of law, and (ix) the rights of parties secured by other liens permitted by any Loan Agreement or any Mortgage. If an Event of Default occurs, it is uncertain that the Trustee could successfully obtain an adequate remedy at law or in equity on behalf of the Bondholders.

The security interest in the Gross Revenues granted by two of the Providers (Health Care and Rehabilitation Services of Southeastern Vermont, Inc and Washington County Mental Health Services, Inc.) could be diluted by the security interest in the Gross Revenues of such Providers securing the 1999 Debt (defined below), which security interest is on parity with the security interest in Gross Revenues securing the obligations of the respective Provider under its Loan Agreement as described herein. The security interest in the Gross Revenue granted by each of the Providers could also be diluted by the security interest in Gross Revenues of such providers securing the 2002 Debt (defined below), which security interest is on a parity with the security interest in Gross Revenues securing the obligations of the perspective provider under its Loan Agreement as described herein. See "CERTAIN BONDHOLDERS RISKS – Preexisting and Additional Indebtedness". The security interest in the Gross Revenues granted by any Provider could be diluted by debt from time to time in the future which may be issued in accordance with its Loan Agreement, either senior to or on a parity with the lien created thereby or subordinate thereto. In addition, one of the Providers, NFI Vermont, Inc., has pledged its Gross Revenues to secure a line of credit with TD Banknorth, N.A., and NFI Vermont Inc.'s pledge of its Gross Revenues described herein is subject to NFI Vermont, Inc.'s intercreditor arrangement with TD Banknorth, N.A.. See "SECURITY AND SOURCES OF PAYMENT – Special Arrangements Regarding the Short-Term Indebtedness of NFI Vermont, Inc. and the Security Therefor; Intercreditor Agreement". Certain other Providers have pledged their Gross Revenues to secure lines of credit from certain banks, and their respective pledges of their Gross Revenues described herein are subject to their respective intercreditor agreements with their line of credit banks. See "SECURITY AND SOURCES OF PAYMENT -- Special Arrangements Regarding the Short-Term Indebtedness of Clara Martin Center, Health Care and Rehabilitation Services of Southeastern Vermont, Inc. and Washington County Mental Health Services, Inc., and the Security Therefor; Intercreditor Agreements."

Security pledged by a Provider secures only the obligations of that Provider and does not secure obligations of any other Provider.

In view of the foregoing, investors should rely on their own examination of the creditworthiness and financial condition of the Providers and, with respect to the Guaranty of NFI Vermont, Inc.'s payment obligations under its Loan Agreement, the Guarantor, and the State and the terms of this offering, including the merits and risks involved and the uncertainties associated with the Gross Revenues pledged under each Loan Agreement, in making a decision to invest in the Bonds.

Insufficiency of Mortgage Foreclosure Proceeds; Environmental Impairment of Property

One of the Trustee's options under a Provider's Loan Agreement, and one of the Trustee's options under the Indenture if an Event of a Default occurs under a Loan Agreement, a Mortgage or the Indenture, is to institute proceedings to enforce its lien against and sell the applicable pledged collateral or mortgaged Property. **However, due to the limited uses for which the mortgaged Property may be utilized, the ability of a Provider to finance up to one hundred percent (100%) of the costs of its Projects(s) and other factors that may limit the value of the Mortgaged Property, neither the Agency, the Trustee, each Provider, nor the Underwriter gives any assurances or makes any representations that the Trustee will be able to sell a Provider's mortgaged Property or, if such mortgaged Property is sold, that the proceeds received upon a foreclosure or other sale, along with all moneys on deposit in the various funds of the Provider established under the Indenture or its Loan Agreement, would be sufficient to pay timely and in full the amounts required to be paid under**

such Provider's Loan Agreement. Any such deficiency may cause a default in payment of principal, premium, if any, and interest due on the Bonds.

Under each Loan Agreement, the Trustee may institute foreclosure proceedings to sell the mortgaged Property of the applicable Provider if an Event of a Default occurs under such Loan Agreement. In such event, the payment of amounts due on the Loan of such Provider will be dependent upon the Trustee's ability to (i) apply monies on deposit in the various funds under the Indenture therefor, and/or (ii) obtain sufficient proceeds from a foreclosure or sale of the mortgaged Property securing the obligations of such Provider. No assurances can be given that the Trustee will be able to sell the mortgaged Property of a Provider to any other person or entity or for a sufficient sum to pay in full such Provider's obligations under its Loan Agreement.

In exercising the right of foreclosure under a Mortgage, the Trustee, in accordance with current commercial lending practices in the State, would comply with the State and federal statutes, regulations and/or policies governing exemption from potential liability for environmental matters, to the extent provided by law, with respect to the Mortgaged Property. Consequently, the existence of Hazardous Materials with respect to any mortgaged Property could severely impact any determination, due to the economic liability associated with removal of such materials, to foreclose on such property and/or severely limit the ability to obtain the value for such property that would otherwise have been available absent the existence of such Hazardous Materials.

A Phase I environmental assessment has been carried out for each of the real properties that will be subject to a Mortgage and nothing material has been discovered that requires remediation or abatement. The environmental assessments can be obtained from the Underwriter. See "OTHER AVAILABLE INFORMATION" herein.

Preexisting and Additional Indebtedness

Subject to the satisfaction of the applicable tests in the Loan Agreement, a Provider may incur additional Indebtedness on a parity with or superior to its obligations under its Loan Agreement. The incurrence of any such parity indebtedness will result in the dilution of the revenues pledged in support of its Loan under its Loan Agreement. See "ADDITIONAL INDEBTEDNESS", "Appendix D, DEFINITION OF CERTAIN TERMS" and "Appendix E, SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENTS".

Two of the Providers (Health Care and Rehabilitation Services of Southeastern Vermont, Inc. and Washington County Mental Health Services, Inc.), have pre-existing indebtedness under loan agreements entered into in connection with the 1999 Bonds, which indebtedness is secured by a lien on the gross revenues of such Providers that is on a parity with the lien on the Gross Revenues of such Providers pledged as security for the Bonds, as described herein. As of the date hereof, the outstanding principal balance on the loan to Health Care and Rehabilitation Services of Southeastern Vermont, Inc. made with the proceeds of the 1999 Bonds was \$570,000 and the outstanding principal balance on the loan to Washington County Mental Health Services, Inc. made with the proceeds of the 1999 Bonds was \$875,000 (such debt, together with interest due thereon, shall collectively be referred to as the “1999 Debt”). Each of the Providers has preexisting indebtedness under loan agreements entered into in connection with the 2002 Bonds, which indebtedness is secured by a lien on the gross revenues of such Providers that is on a parity with the lien on the Gross Revenues of such Providers pledged as security for the Bonds, as described herein. As of the date hereof, the outstanding principal balance on the respective loans to such Providers made with the proceeds of the 2002 Bonds was: Health Care and Rehabilitation Services of Southeastern Vermont, Inc.: \$510,000; Clara Martin Center: \$850,000; NFI Vermont, Inc.: \$830,000; and Washington County Mental Health Services, Inc. \$1,440,000 (such debt, together with interest due thereon, shall collectively be referred to as the “2002 Debt”).

In addition, one of the Providers, NFI Vermont, Inc., has pledged its gross revenues to secure a line of credit with TD Banknorth, N.A., and NFI Vermont, Inc.’s pledge of its Gross Revenues described herein is subject to NFI Vermont, Inc.’s intercreditor arrangement with TD Banknorth, N.A.. See “SECURITY AND SOURCES OF PAYMENT – Special Arrangements Regarding the Short-Term Indebtedness of NFI Vermont, Inc. and the Security Therefor; Intercreditor Agreement”. Certain other Providers have pledged their Gross Revenues to secure lines of credit from certain banks, and their respective pledges of their Gross Revenues described herein are subject to their respective intercreditor agreements with their line of credit banks. See “SECURITY AND SOURCES OF PAYMENT -- Special Arrangements Regarding the Short-Term Indebtedness of Clara Martin Center, Health Care and Rehabilitation Services of Southeastern Vermont, Inc. and Washington County Mental Health Services, Inc., and the Security Therefor; Intercreditor Agreements.”

Early Redemption Without Premium or Penalty

Each Loan Agreement provides various conditions for disbursement of funds to a Provider. The conditions generally relate to delivery to the Trustee of appropriate instruments to create a mortgage or security interest in favor of the Trustee. In the event that the required liens cannot be created, or other conditions are not satisfied in accordance with the terms of a Loan Agreement, the funds available for one or more Projects of such Provider may be used instead to prepay in whole or in part, the Principal Installments due under such Loan Agreement, and such prepayment will be applied to redeem a corresponding principal amount of Bonds at a redemption price equal to the principal amount of Bonds redeemed, without premium, plus interest accrued to the date of redemption. In addition, the Bonds are subject to certain other mandatory redemption provisions, all of which are at a redemption price equal to one hundred percent of the principal amount of Bonds redeemed, without premium, plus interest accrued to the date of redemption, and certain optional redemption provisions. Also, the Series 2006A Bonds are subject to optional redemption, as provided in, and pursuant to the terms of the Indenture. See “Appendix E, SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENTS” and “THE BONDS – Redemption Provisions”.

Effect of Changes in Tax Exempt Status; Continued Legal Requirements of Tax Exempt Status

As an entity qualified under Section 501(c)(3) of the Code or predecessor Internal Revenue Codes, each Provider is subject to various requirements affecting its operation. The failure of a Provider to maintain its tax exempt status may affect the Provider’s ability to receive funds from State and federal sources, which could adversely affect its ability to pay its Loan. Further, a loss of a Provider’s status as a Section 501(c)(3) organization, failure of a Provider to comply with certain legal requirements of the Code, or adoption of amendments to the Code applicable to such Provider that restrict the use of tax exempt bonds for facilities such as one or more of its Projects, could cause interest on the Bonds to be included in the gross income of the Bondholders or former Bondholders for federal income tax purposes, and such inclusion could be retroactive to the date of issuance of the Bonds. The opinion of Bond Counsel and the description of the tax law contained in the Official Statement are based on statutes, judicial decisions, regulations, rulings, and other official interpretations of law in existence on the date the Bonds are issued. No assurance can be given that such laws or the interpretation thereof will not change or that new provisions of law will not be enacted or promulgated at any time while the Bonds are outstanding in a manner that would adversely affect the value or the tax treatment of ownership of the Bonds. See “TAX EXEMPTION”. The Bonds are not subject to redemption, nor will the interest rate on the Bonds be changed, if interest on the Bonds is included in the gross income of the Bondholders or former Bondholders.

THE BONDS

Description of the Bonds

The following is a summary of certain provisions of the Bonds. Reference is made to the Indenture and to the summary of certain provisions of the Indenture included in Appendix F hereto for a more complete description of the Bonds. The discussion herein is qualified by such references.

The Bonds of each series are being issued in the aggregate principal amount, will mature on the dates and will bear interest at the rates per annum, all as set forth on the cover page and inside front cover of this Official Statement. The Series 2006A Bonds will be issuable in fully registered form, without coupons, in denominations of \$5,000 and any integral multiple thereof. The Series 2006B Bonds of each maturity in fully registered form, without coupons, in denominations of \$1000 and any integral multiple thereof. The Bonds initially issued under the Indenture and each Bond issued subsequent thereto and prior to the first Interest Payment Date shall be dated August 1, 2006. Each other Bond shall be dated the Interest Payment Date next preceding the date of its authentication, unless such Bond is authenticated on an Interest Payment Date, in which case it shall be dated such Interest Payment Date, or unless the payment of interest on such Bond is in default, in which case it shall be dated the date to which interest has been paid in full or, if no interest has been paid, the date of the Bonds initially issued. The Bonds shall bear interest from their dates. Interest on the Bonds is payable on February 15, 2007, and semiannually on each August 15 and February 15 thereafter (each an "Interest Payment Date") until the principal thereof is paid or duly provided for at the respective stated maturities of the Bonds or upon earlier redemption and shall be calculated on the basis of a 360-day year of twelve 30-day months. Interest on the Bonds payable on an Interest Payment Date shall be paid to the registered owners as of the record date, which is the first day of the month in which the applicable Interest Payment Date occurs. With respect to interest on the Bonds payable other than on an interest payment date, the Trustee may establish a special record date, which shall be not more than fifteen (15) days nor fewer than ten (10) days before the date set for payment. The Trustee will mail notice of a special record date to the registered owners at least twenty (20) days before the special record date.

The principal of, and premium, if any, and interest on the Bonds shall be payable in lawful money of the United States of America. Interest on the Bonds shall be paid by check mailed to each person entitled thereto at the address as it appears on the bond registration books, as the bond registrar. The principal of and premium, if any, on the Bonds shall be payable upon presentation thereof at the principal corporate trust office of the Trustee as the same shall become due and payable. The Trustee shall, upon the written request of any Holder of \$1,000,000 or more in aggregate principal amount of the Bonds, make payments of principal of or interest on such Bonds by wire transfer in immediately available funds (indicating the CUSIP number of the Bonds with to which such payment is being made) to the account of the Holder designated by such Holder to the Trustee in writing at least five days before the record date or special record date, as applicable, for such payment.

No obligations other than the Bonds are permitted to be issued under the Indenture.

Redemption Provisions

Optional Redemption. The Series 2006A Bonds are subject to optional redemption in whole or in part on any Interest Payment Date on or after August 15, 2014 at the Redemption Price of 101% of the principal amount of the Series 2006A Bonds to be redeemed, plus interest accrued to the date fixed for redemption of the Series 2006A Bonds to be redeemed, if moneys are available to be applied to the redemption of the Series 2006A Bonds as determined in the Indenture on account of the optional prepayment by a Provider of all or a portion of its unpaid Principal Installments in accordance with the provisions of its Loan Agreement regarding optional prepayment of Principal Installments, the principal amount of the Bonds to be redeemed (and the principal amount of each stated maturity of the Series 2006A Bonds to be redeemed) as a result of such optional prepayment to be determined as provided in the Indenture and the date of such redemption to be the earliest practicable Interest Payment Date after receipt by the Trustee of such optional prepayment for which notice of redemption can be timely given.

The Series 2006B Bonds are not subject to optional redemption.

Extraordinary Mandatory Redemption. The Bonds are subject to extraordinary mandatory redemption in whole or in part, at a redemption price equal to the principal amount of the Bonds to be redeemed, without premium, plus accrued interest to the date fixed for redemption on the Bonds to be redeemed,

(a) if moneys transferred to a Finance Payment Fund from an Acquisition Fund on the Final Acquisition Date applicable to such Acquisition Fund are applied to the prepayment of Principal Installments as set forth in the applicable Loan Agreement, (i) the principal amount of the Bonds redeemed to be equal to the amount of the Principal Installments so prepaid (and a series of Bonds to be redeemed, if Principal Installments relating to such series are so prepaid, in the principal amount equal to the amount of such Principal Installments so prepaid) and (ii) the date of such redemption to be the earliest date after the applicable Final Acquisition Date for which notice of redemption can practicably be given;

(b) if proceeds of casualty insurance or a condemnation award with respect to any mortgaged Property of a Provider are transferred to a Provider's Finance Payment Fund pursuant to the applicable Loan Agreement and applied to prepayment of Principal Installments as set forth in the Loan Agreement, (i) the principal amount of the Bonds redeemed to equal the amount of the Principal Installments so prepaid (and a series of Bonds to be redeemed, if Principal Installments relating to such series are so prepaid, in the principal amount equal to the amount of such Principal Installments so prepaid) and (ii) the date of such redemption to be the earliest practicable date after such transfer for which notice of redemption can practicably be given; and

(c) if Principal Installments due under a Loan Agreement are accelerated as the result of an Event of Default under such Loan Agreement and the Trustee at any time holds any such Accelerated Principal Installment Money which is applied as provided in the Indenture to the prepayment of Principal Installments due under such Loan Agreement solely upon the direction of the Insurer, (i) the principal amount of Bonds to be redeemed to be equal to the amount of the Principal Installments so prepaid (and a series of Bonds to be redeemed, if the Principal Installments relating to such series are so prepaid, in the principal amount equal to the amount of such Principal Installments so prepaid) and (ii) the date of such redemption to be the earliest date after the Trustee holds such accelerated Principal Installments so applied for which notice of redemption can practicably be given.

If less than all of the Outstanding Bonds of a series are to be redeemed as described in this subsection "Extraordinary Mandatory Redemption," the one or more stated maturities of such Bonds to be redeemed and the principal amount of each such stated maturity to be redeemed shall "correspond" (as such term is defined in Appendix D hereto) to each Stated Maturity and the principal amount thereof of the Principal Installments prepaid by the prepayment that occasioned the applicable redemption.

Mandatory Sinking Fund Redemption.

SERIES 2006A BONDS

The Series 2006A Bonds stated to mature on August 15, 2021 are subject to mandatory sinking fund redemption, at a redemption price equal to the principal amount of the Bonds redeemed, without premium, plus interest accrued to the date fixed for redemption of such Series 2006A Bonds, on August 15 of each of the following years in the principal amount set forth opposite the applicable year:

| <u>Year</u> | <u>Principal Amount due</u> |
|-------------|-----------------------------|
| 2017 | \$410,000 |
| 2018 | 425,000 |
| 2019 | 440,000 |
| 2020 | 465,000 |
| 2021* | 485,000 |

* Final maturity

The Series 2006A Bonds stated to mature on August 15, 2026 are subject to mandatory sinking fund redemption, at a redemption price equal to the principal amount of the Bonds redeemed, without premium, plus interest accrued to the date fixed for redemption of such Series 2006A Bonds, on August 15 of each of the following years in the principal amount set forth opposite the applicable year:

| <u>Year</u> | <u>Principal Amount due</u> |
|-------------|-----------------------------|
| 2022 | \$505,000 |
| 2023 | 530,000 |
| 2024 | 640,000 |
| 2025 | 475,000 |
| 2026* | 600,000 |

* Final maturity

The Series 2006A Bonds stated to mature on August 15, 2031 are subject to mandatory sinking fund redemption, at a redemption price equal to the principal amount of the Bonds redeemed, without premium, plus interest accrued to the date fixed for redemption of such Series 2006A Bonds, on August 15 of each of the following years in the principal amount set forth opposite the applicable year:

| <u>Year</u> | <u>Principal Amount due</u> |
|-------------|-----------------------------|
| 2027 | \$420,000 |
| 2028 | 440,000 |
| 2029 | 465,000 |
| 2030 | 485,000 |
| 2031* | 510,000 |

* Final maturity

The Series 2006A Bonds stated to mature on August 15, 2036 are subject to mandatory sinking fund redemption, at a redemption price equal to the principal amount of the Bonds redeemed, without premium, plus interest accrued to the date fixed for redemption of such Series 2006A Bonds, on August 15 of each of the following years in the principal amount set forth opposite the applicable year:

| <u>Year</u> | <u>Principal Amount due</u> |
|-------------|-----------------------------|
| 2032 | \$ 570,000 |
| 2033 | 600,000 |
| 2034 | 630,000 |
| 2035 | 655,000 |
| 2036* | 1,360,000 |

* Final maturity

SERIES 2006B BONDS

The Series 2006B bonds shall be subject to mandatory sinking fund redemption, at a redemption price equal to the principal amount of the Series 2006B Bonds redeemed, without premium, plus interest accrued to the date fixed for redemption of the 2006B Bonds redeemed on August 15 of each of the following years in the principal amounts set forth opposite the applicable year.

| <u>Year</u> | <u>Principal Amount due</u> |
|-------------|-----------------------------|
| 2007 | \$ 55,000 |
| 2008 | 10,000 |
| 2009 | 125,000 |
| 2010* | 125,000 |

* Final maturity

If Bonds are redeemed in part under any provision of the Indenture other than the Mandatory Sinking Fund provisions, each of the above principal amounts payable on a date corresponding to the stated maturity of a Principal Installment prepaid by the prepayment that occasioned the applicable redemption shall be reduced by the amount of the prepayment of the corresponding Principal Installment.

Redemption Procedures – General. If less than all of the Outstanding Bonds of a stated maturity are to be redeemed, the Trustee shall select the Bonds to be redeemed from Outstanding Bonds not previously called for redemption of such stated maturity and of the series to which such stated maturity pertains by such method as the Trustee shall deem appropriate, in increments of \$5,000 with respect to the Series 2006A Bonds and in increments of \$1,000 with respect to the Series 2006B Bonds.

In the event of any redemption of Bonds, the Trustee shall give notice in the name of the Issuer of such redemption. Such notice shall (a) identify the Bonds to be redeemed by the name and date of the series, CUSIP number (if any), maturity dates and interest rates, the letters, numbers or other distinguishing marks of each Bond to be redeemed and, if less than all of the Bonds of a series are to be redeemed, the aggregate principal amount of each Bond of such series to be redeemed; provided, however, that notice of an optional redemption of the Bonds (as described under “Optional Redemption” above) shall also state that (i) notwithstanding the Bonds or portions thereof to be redeemed identified in the notice, if the moneys held by the Trustee on the applicable Interest Payment Date to be applied to such redemption are less than the principal amount of Bonds specified in the notice, plus premium, if any, due thereon, Bonds will be redeemed pursuant to such redemption in a principal amount that will most nearly exhaust such moneys (or, if the Trustee holds no such moneys, no Bonds will be redeemed), (ii) if the principal amount of Bonds to be redeemed pursuant to such redemption is reduced from the principal amount of Bonds specified in the notice of redemption, the Trustee will on such Interest Payment Date select, as provided in the Indenture, from the Bonds already selected for redemption, the Bonds which will be redeemed pursuant to such redemption, (iii) on such Interest Payment Date the Trustee will, by the means provided in the Indenture for giving notice of redemption of Bonds, give notice to each Holder whose Bonds will not be redeemed in the principal amount specified in the original notice of redemption specifying the Bonds (or portions thereof) that will be redeemed, and (iv) will promptly return to each Holder any Bonds or portions thereof delivered to the Trustee that will not be redeemed; (b) specify the date for redemption, the name of the redemption agent, a person at the redemption agent who may be contacted with respect to such redemption and the telephone number of such person and the place or places (including the address of such place or places) where amounts due upon such redemption will be paid; and (c) state that (i) on the date fixed for redemption that shall become due and payable upon each Bond to be redeemed the redemption price thereof, or the redemption price of the specified portion of the principal thereof in the case of a Bond to be redeemed in part only, together with interest accrued to the date fixed for redemption, (ii) from and after such date interest thereon shall cease to accrue and be payable, and (iii) the redemption price so due and payable on any Bond to be redeemed in whole or in part shall be paid only upon presentation, at a place specified in such notice, of such Bond together with, in the case of any Bond to be redeemed in part only, a written instrument of exchange duly executed by the owner of such Bond or his duly authorized attorney.

Such notice shall be mailed by first class mail (postage prepaid) not less than thirty (30) calendar days nor more than sixty (60) calendar days prior to the date fixed for redemption to the Holders of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registration books kept by the Trustee as bond registrar and shall be sent to certain other entities, as provided in the Indenture. Any notice of redemption required to be given under the Indenture which is given in accordance with the procedures set forth in the Indenture shall be conclusively presumed to have been duly given whether or not such notice is received, and failure to mail any notice of redemption to Bondholders as required under the Indenture or any defect in any such notice shall not affect the validity of the proceedings for the redemption of any Bond as to which no such failure or defect has occurred.

With respect to any notice of optional redemption of Bonds, such notice shall state that such redemption shall be conditional upon the receipt by the Trustee, on or prior to the date fixed for such redemption, of funds sufficient to pay the Redemption Price of and accrued interest on such Bonds to be redeemed, and that if such funds shall not have been so received, said notice shall be of no force and effect and the Issuer shall not be required to redeem such Bonds. In the event that such funds are not so received, the redemption shall not be made and the Trustee shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such funds were not so received.

Transfer and Exchange of Bonds

A Bond shall be transferable only upon presentation thereof at the principal corporate trust office of the Trustee duly endorsed for transfer and accompanied by an assignment duly executed by the registered owner or his duly authorized representative in the form set forth in the Bond or otherwise acceptable by the Trustee.

A Bond shall be exchangeable upon the presentation and surrender thereof at the principal corporate trust office of the Trustee for a Bond or Bonds of the same series, maturity and interest rate and in any authorized denomination, in an aggregate principal amount equal to the unpaid principal amount of the Bond presented for exchange. The Trustee is authorized to authenticate, deliver and exchange Bonds in accordance with the provisions of the Indenture.

The Agency or the Trustee may require the owner of any Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the transfer of such Bond.

The Trustee is not required to transfer or exchange any Bond after such Bond or any portion thereof has been selected for redemption.

Replacement Bonds

To the extent permitted by law, upon receipt by the Agency and the Trustee of evidence satisfactory to them of the loss, theft, destruction or mutilation of any Bond and of indemnity, if required by the Agency or the Trustee, reasonably satisfactory to the Agency and the Trustee, respectively, and upon surrender and cancellation of such Bond, if mutilated, the Agency shall prepare or cause to be prepared, and shall execute as provided in the Indenture (and the Secretary of the Issuer or other authorized official of the Issuer may seal as provided in the Indenture), and the Trustee shall authenticate and deliver, a new Bond of the same series and maturity and of like tenor and bearing a different number, in lieu of such lost, stolen, destroyed or mutilated Bond. Such new Bond may bear such endorsement or distinguishing mark as may be agreed upon by the Trustee and the Agency. Each of the Agency and the Trustee may impose a charge payable by the Holder for the issuance of a new Bond under the Indenture and require from such Holder the payment of a sum sufficient to reimburse the respective entity for all reasonable expenses (including reasonable fees and disbursements of counsel) incurred by it in connection with the issuance of such a Bond, and any such charge shall be paid before the new Bond is delivered.

In the event that any such mutilated, lost, apparently destroyed or wrongfully taken Bond has become or is about to become due and payable, the Trustee in its discretion may, instead of issuing a replacement Bond, pay such Bond.

Book-Entry Only System

DTC will act a securities depository for the Bonds. Certain information regarding the DTC and the book-entry only system is set forth in "Appendix H, BOOK-ENTRY ONLY SYSTEM". The information contained in Appendix H is based upon information furnished by DTC. None of the Agency, the Trustee, the Underwriter or the Providers makes any representation as to the completeness or the accuracy of such information or as to the absence of a material change in such information subsequent to the date hereof.

ESTIMATED ANNUAL DEBT SERVICE REQUIREMENTS

The following table sets forth, for each year and for each Provider, the amount required for the payment of principal of the Bonds at maturity, or earlier mandatory sinking fund redemption, and the payment of interest on the Bonds, taking into consideration estimated earnings:

Health Care and Rehabilitation Services of Southeastern Vermont, Inc.

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | Estimated Earnings and Releases of Portions of Reserve <u>Account</u> ¹ | <u>Net Payment</u> |
|-------------|------------------|-----------------|---|--------------------|
| 2007 | - | \$ 520,303 | \$ (32,361) | \$ 487,942 |
| 2008 | - | 499,491 | (32,361) | 467,130 |
| 2009 | \$ 120,000 | 499,491 | (32,361) | 587,130 |
| 2010 | 125,000 | 492,531 | (32,361) | 585,170 |
| 2011 | 135,000 | 485,566 | (32,361) | 588,205 |
| 2012 | 140,000 | 480,166 | (32,361) | 587,805 |
| 2013 | 150,000 | 474,496 | (32,361) | 592,135 |
| 2014 | 155,000 | 468,346 | (32,361) | 590,985 |
| 2015 | 245,000 | 461,914 | (32,361) | 674,553 |
| 2016 | 260,000 | 451,746 | (32,361) | 679,385 |
| 2017 | 270,000 | 440,826 | (32,361) | 678,465 |
| 2018 | 280,000 | 429,014 | (32,361) | 676,653 |
| 2019 | 290,000 | 416,764 | (32,361) | 674,403 |
| 2020 | 305,000 | 404,076 | (32,361) | 676,715 |
| 2021 | 320,000 | 390,733 | (32,361) | 678,372 |
| 2022 | 335,000 | 376,733 | (32,361) | 679,372 |
| 2023 | 350,000 | 360,988 | (32,361) | 678,627 |
| 2024 | 365,000 | 344,538 | (32,361) | 677,177 |
| 2025 | 385,000 | 327,383 | (32,361) | 680,022 |
| 2026 | 405,000 | 309,288 | (32,361) | 681,927 |
| 2027 | 420,000 | 290,253 | (32,361) | 677,892 |
| 2028 | 440,000 | 270,513 | (32,361) | 678,152 |
| 2029 | 465,000 | 249,833 | (32,361) | 682,472 |
| 2030 | 485,000 | 227,978 | (32,361) | 680,617 |
| 2031 | 510,000 | 205,183 | (32,361) | 682,822 |
| 2032 | 570,000 | 181,213 | (32,361) | 718,852 |
| 2033 | 600,000 | 154,138 | (32,361) | 721,777 |
| 2034 | 630,000 | 125,638 | (32,361) | 723,277 |
| 2035 | 655,000 | 95,713 | (32,361) | 718,352 |
| 2036 | 1,360,000 | 64,600 | (702,361) | 722,239 |

¹ Based on currently estimated 4.83% earnings on the Reserve Accounts. Actual earnings may differ from this estimate over the term of the Bond issue. For a discussion of releases of portions of the Reserve Funds, see “SECURITY AND SOURCES OF PAYMENT – Circumstances Under Which Partial Releases of Moneys in Reserve Accounts Can Occur” and “Appendix I, Allocation of Loan Proceeds and Reserve Account Amounts by Provider and Property and Term of Portion of Loan Allocable to Each Property.”

Clara Martin Center

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | Estimated Earnings and Releases of Portions of Reserve | <u>Net Payment</u> |
|-------------|------------------|-----------------|--|--------------------|
| | | | <u>Account¹</u> | |
| 2007 | \$ 62,000 | \$ 49,488 | \$ (4,589) | \$ 106,900 |
| 2008 | 70,000 | 44,528 | (4,589) | 109,939 |
| 2009 | 75,000 | 41,868 | (4,589) | 112,279 |
| 2010 | 75,000 | 38,980 | (4,589) | 109,392 |
| 2011 | 80,000 | 36,055 | (4,589) | 111,467 |
| 2012 | 80,000 | 32,855 | (4,589) | 108,267 |
| 2013 | 135,000 | 29,615 | (54,589) | 110,027 |
| 2014 | 30,000 | 24,080 | (2,174) | 51,907 |
| 2015 | 30,000 | 22,835 | (2,174) | 50,662 |
| 2016 | 30,000 | 21,590 | (2,174) | 49,417 |
| 2017 | 35,000 | 20,330 | (2,174) | 53,157 |
| 2018 | 35,000 | 18,799 | (2,174) | 51,625 |
| 2019 | 35,000 | 17,268 | (2,174) | 50,094 |
| 2020 | 35,000 | 15,736 | (2,174) | 48,563 |
| 2021 | 40,000 | 14,205 | (2,174) | 52,032 |
| 2022 | 40,000 | 12,455 | (2,174) | 50,282 |
| 2023 | 40,000 | 10,575 | (2,174) | 48,402 |
| 2024 | 45,000 | 8,695 | (2,174) | 51,522 |
| 2025 | 45,000 | 6,580 | (2,174) | 49,407 |
| 2026 | 95,000 | 4,465 | (47,174) | 52,292 |

¹ Based on currently estimated 4.83% earnings on the Reserve Accounts. Actual earnings may differ from this estimate over the term of the Bond issue. For a discussion of releases of portions of the Reserve Funds, see “SECURITY AND SOURCES OF PAYMENT – Circumstances Under Which Partial Releases of Moneys in Reserve Accounts Can Occur” and “Appendix I, Allocation of Loan Proceeds and Reserve Account Amounts by Provider and Property and Term of Portion of Loan Allocable to Each Property.”

NFI Vermont, Inc.

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | Estimated Earnings and Releases of Portions of Reserve <u>Account</u> ¹ | <u>Net Payment</u> |
|-------------|------------------|-----------------|---|--------------------|
| 2007 | \$ 5,000 | \$ 47,754 | \$ (4,589) | \$ 48,165 |
| 2008 | 5,000 | 45,554 | (4,589) | 45,965 |
| 2009 | 5,000 | 45,264 | (4,589) | 45,675 |
| 2010 | 30,000 | 44,974 | (4,589) | 70,385 |
| 2011 | 30,000 | 43,519 | (4,589) | 68,930 |
| 2012 | 30,000 | 42,319 | (4,589) | 67,730 |
| 2013 | 40,000 | 41,104 | (14,589) | 66,515 |
| 2014 | 35,000 | 39,464 | (4,106) | 70,358 |
| 2015 | 40,000 | 38,011 | (4,106) | 73,906 |
| 2016 | 40,000 | 36,351 | (4,106) | 72,246 |
| 2017 | 70,000 | 34,671 | (4,106) | 100,566 |
| 2018 | 75,000 | 31,609 | (4,106) | 102,503 |
| 2019 | 80,000 | 28,328 | (4,106) | 104,222 |
| 2020 | 85,000 | 24,828 | (4,106) | 105,722 |
| 2021 | 85,000 | 21,109 | (4,106) | 102,003 |
| 2022 | 90,000 | 17,390 | (4,106) | 103,285 |
| 2023 | 95,000 | 13,160 | (4,106) | 104,055 |
| 2024 | 185,000 | 8,695 | (89,106) | 104,590 |

¹ Based on currently estimated 4.83% earnings on the Reserve Accounts. Actual earnings may differ from this estimate over the term of the Bond issue. For a discussion of releases of portions of the Reserve Funds, see “SECURITY AND SOURCES OF PAYMENT – Circumstances Under Which Partial Releases of Moneys in Reserve Accounts Can Occur” and “Appendix I, Allocation of Loan Proceeds and Reserve Account Amounts by Provider and Property and Term of Portion of Loan Allocable to Each Property.”

Washington County Mental Health Services, Inc.

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | Estimated Earnings and Releases of Portions of Reserve <u>Account¹</u> | <u>Net Payment</u> |
|-------------|------------------|-----------------|--|--------------------|
| 2007 | \$ 18,000 | \$ 33,180 | \$ (2,415) | \$ 48,765 |
| 2008 | 20,000 | 30,809 | (2,415) | 48,394 |
| 2009 | 25,000 | 29,949 | (2,415) | 52,534 |
| 2010 | 25,000 | 28,986 | (2,415) | 51,571 |
| 2011 | 25,000 | 28,011 | (2,415) | 50,596 |
| 2012 | 25,000 | 27,011 | (2,415) | 49,596 |
| 2013 | 30,000 | 25,999 | (2,415) | 53,584 |
| 2014 | 30,000 | 24,769 | (2,415) | 52,354 |
| 2015 | 30,000 | 23,524 | (2,415) | 51,109 |
| 2016 | 30,000 | 22,279 | (2,415) | 49,864 |
| 2017 | 35,000 | 21,019 | (2,415) | 53,604 |
| 2018 | 35,000 | 19,488 | (2,415) | 52,073 |
| 2019 | 35,000 | 17,956 | (2,415) | 50,541 |
| 2020 | 40,000 | 16,425 | (2,415) | 54,010 |
| 2021 | 40,000 | 14,675 | (2,415) | 52,260 |
| 2022 | 40,000 | 12,925 | (2,415) | 50,510 |
| 2023 | 45,000 | 11,045 | (2,415) | 53,630 |
| 2024 | 45,000 | 8,930 | (2,415) | 51,515 |
| 2025 | 45,000 | 6,815 | (2,415) | 49,400 |
| 2026 | 100,000 | 4,700 | (52,415) | 52,285 |

¹ Based on currently estimated 4.83% earnings on the Reserve Accounts. Actual earnings may differ from this estimate over the term of the Bond issue. For a discussion of releases of portions of the Reserve Funds, see “SECURITY AND SOURCES OF PAYMENT – Circumstances Under Which Partial Releases of Moneys in Reserve Accounts Can Occur” and “Appendix I, Allocation of Loan Proceeds and Reserve Account Amounts by Provider and Property and Term of Portion of Loan Allocable to Each Property.”

SECURITY AND SOURCES OF PAYMENT

The following contains summaries of certain provisions of the Indenture, the Loan Agreements and the form of Mortgage. Reference is made to the form of the Indenture, the Loan Agreements and the Mortgage and to the summary of the Loan Agreements and the Indenture included in Appendices E and F, respectively, hereto for a more complete description of such documents. The discussion herein is qualified by such references.

Funds Under the Indenture

The Indenture creates the following funds to be held by the Trustee pursuant to the terms of the Indenture:

- (a) an Acquisition Fund for each Provider;
- (b) a Bond Fund, money in which shall be used to pay the principal of, premium, if any, and interest on the Bonds;
- (c) a Finance Payment Fund for each Provider;
- (d) a Delivery Costs Fund;
- (e) a Reserve Fund, and within the Reserve Fund a Reserve Account for each Provider; and
- (f) a Rebate Fund, and within the Rebate Fund a Rebate Account for each Provider.

For a more complete discussion of funds and accounts, see “Appendix D, DEFINITION OF CERTAIN TERMS”, and “Appendix F, SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

Pledge Under the Indenture

Pursuant to the Indenture, the Agency has assigned to the Trustee as security for the Bonds all right, title and interest of the Agency in and to:

(a) the Pledged Receipts, including (a) the Contract Payments received or receivable pursuant to each of the Loan Agreements, (b) all other receipts, revenues or other amounts received or receivable by the Agency or the Trustee in respect of (i) the loan of the proceeds of the Bonds to each of the Providers, except for Issuer Expenses and any other payments to the Agency for its own account and any payments to the Trustee for its own account, (ii) any condemnation award relating to any of the Property and (iii) casualty insurance or other insurance relating to any of the Property, except for payments to the Agency as an additional insured under any policy of liability insurance relating to any of the Property or any of the Facilities, (c) all other moneys received or receivable by the Trustee for deposit in any fund established under the Indenture and (d) moneys deposited in said funds and any investments in which moneys in said funds are invested and the interest, profits and other income or proceeds derived therefrom (provided, however, that moneys and investments held in the Rebate Fund and the interest, profits and other income or proceeds derived from such investments are held for the benefit of the United States of America and not for the benefit of the Bondholders and do not secure the Bonds).

(b) each of the Loan Agreements, including without limitation the general obligation of the applicable Provider, all rights and remedies to enforce each of the Loan Agreements and the making of payments thereunder, and the Guaranty, which guarantees NFI Vermont, Inc.’s payment obligations under its Loan Agreement.

(c) each of the Mortgages, including without limitation all rights and remedies to enforce each of the Mortgages and the making of payments thereunder.

(d) every other document, instrument and other security instrument executed by any of the Providers to secure the obligations of the applicable Provider under its Loan Agreement or any of its other obligations with respect to the Loan to such Provider of a portion of the proceeds of the Bonds, including without limitation all rights and remedies to enforce each of such security instruments and the making of payments thereunder.

(e) all other security before or after the execution of the Indenture granted or held for payment of amounts owing under any of the Loan Agreements or otherwise owing with respect to any of the loans made with the proceeds of the Bonds.

(f) any and all property that may, from time to time, by delivery or by writing of any kind, be subjected to the lien and security interest of the Indenture by the Agency or by anyone on its behalf, which subjection to the lien and security interest of the Indenture of any such property may be subject to any reservations, limitations, or conditions that shall be set forth in a written instrument executed by the Issuer or anyone so acting on its behalf or by the Trustee respecting the use and disposition of such property or the proceeds thereof.

Notwithstanding anything in the foregoing sentence to the contrary, the Agency has not assigned to the Trustee the Unassigned Issuer Rights, the Ordinary Expenses and the Extraordinary Expenses of the Trustee or any other payments due to the Trustee under the Indenture, under any of the Loan Agreements, the Guaranty or under any of the Mortgages for its own account.

Sources of Payment - General

The Bonds are payable solely from the payments received from each Provider under its Loan Agreement, and with respect to NFI Vermont, Inc.'s payment obligations under its Loan Agreement, the Guaranty, from the Funds established under the Indenture (other than the Rebate Fund) and the investment income thereon (other than investment income on the Rebate Fund) and, if an Event of Default exists under a Loan Agreement, from amounts received upon exercise of remedies with respect to such Event of Default, including amounts received from foreclosure on any property securing the obligations of the Provider under such Loan Agreement. As security for its obligations under its Loan Agreement, each Provider will grant, transfer and assign to the Agency and the Trustee pursuant to its Loan Agreement, a lien on and security interest in its Gross Revenues and all moneys and investments on deposit from time to time in such Provider's Acquisition Fund, Finance Payment Fund and Reserve Account. The Agency's rights with respect to such lien will be assigned to the Trustee as part of the assignment of the rights of the Agency to the Trustee pursuant to the Indenture described above under "Pledge Under the Indenture". The obligations of each Provider under its Loan Agreement for which real property is being financed or refinanced by the proceeds of the Bonds will be further secured by a mortgage on the real property so financed or refinanced and a security interest in all equipment pertaining to or otherwise used in the operation of such real property (as described therein), and the obligations of each Provider under its Loan Agreement for which equipment is being financed or refinanced with the proceeds of the Bonds will be further secured by a security interest in such equipment. See "THE PROVIDERS", "SOURCES OF PROVIDER FUNDING" and "VERMONT AGENCY OF HUMAN SERVICES" for a discussion of some of the sources of each Provider's State funding. See also "CERTAIN BONDHOLDERS' RISKS" and "Appendix E, SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENTS".

All property in which a mortgage or security interest is granted to secure the obligations of a Provider under its Loan Agreement may be subject to Permitted Encumbrances. See "Appendix D, DEFINITION OF CERTAIN TERMS" and "Appendix E, SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENTS". Without limiting the generality of the foregoing sentence, two of the Providers (Health Care and Rehabilitation Services of Southeastern Vermont, Inc. and Washington County Mental Health Services, Inc.) have pre-existing indebtedness under loan agreements entered into in connection with the 1999 Bonds, which indebtedness is secured by a lien on the gross revenues of such Providers that is on a parity with the security interest in the Gross Revenues of such Providers pledged as security for the Bonds, as described herein. As of the date hereof, the outstanding principal balance on the loans to Health Care and Rehabilitation Services of Southeastern Vermont, Inc. funded from proceeds of the 1999 Bonds was \$570,000 and the outstanding principal balance on the loans to Washington County Mental Health Services, Inc. funded from proceeds of the 1999 Bonds was \$875,000. Each of the Providers has pre-existing indebtedness under loan agreements entered into in connection with the 2002 Bonds, which indebtedness is secured by a lien on the gross revenues of such Providers that is on a parity with the lien on the Gross Revenues of such Providers pledged as security for the Bonds, as described herein. As of the date hereof, the outstanding principal balance on the respective loans to such Providers made with the proceeds of the 2002 Bonds was: Health Care and Rehabilitation Services of Southeastern Vermont, Inc.: \$510,000; Clara Martin Center: \$850,000; NFI Vermont, Inc.: \$83,000; and Washington County Mental Health Services, Inc.: \$1,440,000.

In its Loan Agreement, each Provider agrees to make monthly payments of principal and interest on its Loan, and the aggregate of such payments to be made by the Providers will be sufficient to pay the principal of, premium if any, and interest

on the Bonds when due. The obligations of a Provider under its Loan Agreement may not be prepaid except in connection with the redemption of a similar amount of the Bonds.

If on the Business Day next preceding any Finance Payment Date, or on any date of redemption of Bonds pursuant to the Indenture, there are insufficient funds in a Provider's Finance Payment Fund to make the transfers to the Bond Fund then required, the Trustee shall transfer from such Provider's Reserve Account to the Bond Fund amounts necessary to make such payments from the Bond Fund on the date such payments are due (or the entirety of the amount in any such Reserve Account if such amount is less than the amount by which the applicable Provider is in default). If funds are transferred from a Provider's Reserve Account for such purposes, the Trustee shall notify the Provider, and the Provider shall replenish the deficiency in its Reserve Account as soon as possible, and in twelve (12) equal monthly installments. See "Appendix F, SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE".

Payments Under the Loan Agreements

The payments under each Loan Agreement are to be remitted directly to the Trustee for the account of the Agency for deposit in the Finance Payment Fund of the applicable Provider. Pursuant to their respective Loan Agreements, the Providers are each obligated to pay on a monthly basis to the Trustee, for deposit to their respective Finance Payment Funds, amounts required thereunder in order to accumulate therein by each February 1 and August 1 an aggregate amount necessary to pay interest and principal amount of the Bonds maturing or subject to Sinking Fund Redemption on the next Interest Payment Date.

The Gross Revenues of each Provider include revenues received from the performance of services by the applicable Provider pursuant to its Service Contract(s). Neither the State nor AHS is obligated under the Service Contracts to make payments to the Providers, except to the extent that the legislature of the State has appropriated sufficient funds for such contracts and the contracting Provider is otherwise in compliance with the terms of such contracts. See "THE PROVIDERS," "VERMONT AGENCY OF HUMAN SERVICES" and "CERTAIN BONDHOLDERS' RISKS".

Acceleration

If an Event of Default occurs and is continuing under a Loan Agreement, the Agency or the Trustee may, with the consent of the Insurer, declare all Principal Installments of the applicable Loan (but not any other Loan) and certain other amounts payable under such Loan Agreement to be immediately due and payable. Any Principal Installments of the Loan collected while the Loan is accelerated that, after payment of any rebate allocable to such Provider due to the United States, the unpaid fees and expenses of the Trustee and the Agency allocable to such Provider and certain other amounts specified in the Indenture, equal or exceed the smallest Authorized Denomination of such Principal Installments, shall be applied to the prepayment of such Principal Installments as provided in the applicable Loan Agreement and the Indenture. In addition to or in lieu of acceleration of the payment of a Loan, the Trustee may, with the consent of the Insurer, take other remedial steps, including enforcing, through foreclosure proceedings or otherwise, the liens, pledges and security granted or created under or in the applicable Loan Agreement and Mortgage. See "THE BONDS – Redemption Provisions – Extraordinary Mandatory Redemption," "Appendix E, SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENTS" and "Appendix F, SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."

The Mortgages

In order to secure its obligations under its Loan Agreement, each Provider for which one or more of the acquisition, construction or renovation of land and improvements is financed or refinanced with the proceeds of the Bonds will grant to the Trustee pursuant to its Mortgage a mortgage on such land and improvements and a security interest in all equipment pertaining to or otherwise used in the operation of such real property, and each Provider for which equipment is financed or refinanced with the proceeds of the Bonds will grant to the Trustee a security interest in such equipment. Pursuant to the Indenture, the Agency will assign to the Trustee all of its right, title and interest in and to each Mortgage and, with certain exceptions described above under "Pledge Under the Indenture," all of its right, title and interest to each Loan Agreement and the collateral in which a security interest is granted under each Loan Agreement. Each Provider that is financing or refinancing real property will deliver to the Trustee a mortgagee title insurance policy in a face amount equal to the aggregate principal amount of its Loan related to such real property.

The liens and security interests granted by a Mortgage or a Loan Agreement may be subject to Permitted Encumbrances. See “Appendix E, SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENTS”. Such liens and security interests may also be limited by certain factors. See “CERTAIN BONDHOLDERS’ RISKS.”

Each Loan Agreement provides a schedule of Property-Specific Principal Installments, which are, with respect to a particular Property, that portion of the Principal Installments specifically allocated to such Property. The sum of the Property-Specific Principal Installments for all Properties will equal the aggregate Principal Installments. When all Finance Payment related to the Property-Specific Principal Installments for a particular property have been paid in full, then such Property will, upon the request of the Borrower, be released from the mortgage thereon or the security interest therein. Any shortfall in any monthly increment of the Principal Installments due from a Provider on any date will be allocated ratably among the Property-Specific Principal Installments due on such date.

Financial Guaranty Insurance Policy

Payment of principal of and interest on the Bonds will be insured in accordance with the terms of a financial guaranty insurance policy to be issued simultaneously with the delivery of the Bonds by Radian Asset Assurance Inc. (the “Insurer”).

Rights of the Bond Insurer

So long no Insurer Default has occurred and has not been waived or cured, upon the occurrence and continuance of an Event of Default, the Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Bondholders or the Trustee for the benefit of Bondholders under the Indenture, including, without limitation, acceleration of the principal of the Bonds and the right to annul any declaration of acceleration, and the Insurer shall also be entitled to approve all waivers of Events of Default.

Investment of Moneys in Funds and Accounts

Moneys held in a Provider’s Acquisition Fund, Reserve Account and Finance Payment Fund shall be invested or reinvested by the Trustee, in accordance with written directions, or oral directions confirmed in writing, of such Provider, and only in Authorized Investments. Moneys held in the Bond Fund, Delivery Costs Fund and Rebate Fund shall, as nearly as may be practicable, be invested and reinvested in Authorized Investments by the Trustee. The interest accruing on and any profit realized from investments held in any Fund or Account pertaining to a particular Provider shall be credited to the Reserve Account of such Provider if and to the extent the amount in such Reserve Account is less than the applicable Reserve Amount. If and when the amount in such Reserve Account equals or exceeds such Reserve Amount shall be credited to the Fund or Account of which such investments are a part, and any loss resulting from such investments shall be charged to such Fund or Account; provided, however, that earnings on investments in the Acquisition Fund of each Provider shall be credited to the Finance Payment Fund of the applicable Provider, and provided, further, that if at any time the amount on deposit in Provider’s Reserve Account exceeds the Reserve Amount applicable to such Reserve Account, the Trustee shall transfer the excess to the Finance Payment Fund of the applicable Provider. The interest accruing on and any profit realized from investments held in any Fund or Account not established for a particular Provider shall be credited to the Fund or Account of which such investment is a part, and any loss resulting from such investment shall be charged to such Fund or Account. Deposits to be made to its Finance Payment Fund by a Provider may be reduced to take into account money already on deposit therein as earnings from investments and transfers of earnings in the Acquisition Fund, as well as transfers of earnings from the Provider’s Reserve Account.

The Guaranty of NFI Vermont, Inc.’s Payment Obligations under its Loan Agreement

North American Family Institute, Inc. (the “Guarantor”) will, as a condition to NFI Vermont, Inc.’s participation in the Pool and the issuance of the portion of the Bonds allocable to NFI Vermont, Inc., execute a guaranty (the “Guaranty”) guaranteeing NFI Vermont, Inc.’s payment obligations under its Loan Agreement. For a description of the Guarantor, see “Appendix A, DESCRIPTION OF THE PROVIDERS AND GUARANTOR”. For the Guarantor’s unaudited financial statements for the fiscal year ending June 30, 2005, see “Appendix B, FINANCIAL STATEMENTS OF PROVIDERS AND GUARANTOR”. (The audited financial statements of the Guarantor show the Guarantor’s financial information as consolidated with certain affiliates of NAFI who are not parties to the Guaranty, and do not reflect the Guarantor’s financial position on a stand-alone basis. Audited financial statements for the Guarantor on a stand-alone basis are not available. Accordingly, the

Guarantor's unaudited financial statements, which do present financial information for the Guarantor on a stand-alone basis, have been included in Appendix B.)

Under the Guaranty, the Guarantor will guarantee (as a primary obligor and not merely as a surety) to the Agency, its successors and assigns, including the Trustee (a) the full and prompt payment of all obligations of NFI Vermont, Inc. under its Loan Agreement as and when the same becomes due and payable; (b) the full and prompt payment of all fees, sums, and amounts payable to the Agency and the Trustee pursuant to or under NFI Vermont, Inc.'s Loan Agreement; and (c) the prompt and complete payment and performance by NFI Vermont, Inc. of every obligation, indemnity and covenant of NFI Vermont, Inc. under its Loan Agreement and its Mortgage; provided further, that (d) if any payment made by NFI Vermont, Inc. under its Loan Agreement is recovered from the Agency, the Trustee or the holders of the Bonds by a trustee of NFI Vermont, Inc. in a bankruptcy proceeding as a preferential payment, Guarantor agrees to reimburse the Agency, the Trustee or the holders of the Bonds, as the case may be, for such amount. The obligations described in clauses (a), (b), (c) and (d) above shall be referred to collectively herein as the "Indebtedness Obligations." Under the Guaranty, time will be deemed to be of the essence for the repayment of any of the Indebtedness Obligations guaranteed thereby. The Guarantor will not be entitled to any abatement, deduction, deferment, suspension, reduction, set-off, defense or counterclaim in respect of any amount the payment of which is guaranteed in the Guaranty. The Guarantor will also pay and be responsible for any and all attorneys' fees, costs, late charges and expenses of collection incurred by the Agency and the Trustee in connection with the enforcement of the Guaranty. The obligations of the Guarantor under the Guaranty will not be reduced or discharged by any modifications in the Indenture, NFI Vermont, Inc.'s Loan Agreement or its Mortgage or any security agreement given to secure same including, without limitation, changes in the terms of disbursement or repayment thereof, modifications, extensions, substitutions or renewals or payment dates, releases of security in whole or in part, changes in interest rate, or the advancement of additional funds by the Agency in its sole and absolute discretion.

The Guaranty will provide a continuing, absolute, and unconditional guaranty and will remain in full force and effect without reference to future changes in conditions, including, to the extent permitted by applicable law, changes in law, until NFI Vermont, Inc.'s Loan Agreement is discharged pursuant to the terms thereof and all Indebtedness Obligations are indefeasibly paid in full, and such sums are not subject to rescission or repayment upon any bankruptcy, insolvency, arrangement, reorganization, moratorium, receivership or similar proceeding affecting NFI Vermont, Inc. or the Agency. The obligations of the Guarantor under the Guaranty will arise absolutely and unconditionally when and as the Bonds are issued, sold and delivered by the Agency.

In the Guaranty, the Guarantor will agree that the Guaranty may be enforced by the Agency without the necessity at any time of resorting to or exhausting any other security or collateral and without the necessity at any time of having recourse to the Bonds, the Indenture, NFI Vermont, Inc. Loan Agreement, or any collateral as of the date of the Guaranty or thereafter securing the Indebtedness Obligations or otherwise, and the Guarantor will waive the right to require the Agency to proceed against NFI Vermont, Inc. or any other person (including a co-guarantor) or to require the Agency to pursue any other remedy or enforce any other right. In the Guaranty, the Guarantor will also agree that it will not have any right of subrogation, reimbursement or indemnity whatsoever, nor any right of recourse to security for the debts and obligations of NFI Vermont, Inc. to the Agency, unless and until all of the debts and obligations of NFI Vermont, Inc. to the Agency have been paid in full. The Guarantor further agrees that nothing contained in the Guaranty shall prevent the Agency from suing on NFI Vermont, Inc.'s Loan Agreement, the Bonds or the Indenture or foreclosing its security interest in or lien on any collateral as of the date of the Guaranty or thereafter securing the Indebtedness Obligations or from exercising any other rights available to them under the Bonds, NFI Vermont, Inc.'s Loan Agreement, the Indenture or any other document or instrument executed in connection with the Indebtedness Obligations if neither NFI Vermont, Inc. nor the Guarantor timely performs the obligations of NFI Vermont, Inc. thereunder, and the exercise of any of the aforesaid rights and the completion of any foreclosure proceedings will not constitute a discharge of any of the Guarantor's obligations thereunder; it being the purpose and intent of the Guarantor that the Guarantor's obligations thereunder shall be absolute, independent and unconditional under any and all circumstances. Neither the Guarantor's obligations under the Guaranty nor any remedy for the enforcement thereof will be impaired, modified, changed or released in any manner whatsoever by an impairment, modification, change, release or limitation of the liability of NFI Vermont, Inc. or by reason of NFI Vermont, Inc.'s bankruptcy or insolvency.

In the Guaranty, the Guarantor will agree, for the benefit of the Beneficial Owners of the Bonds, to comply with certain continuing disclosure obligations. Specifically, the Guarantor will agree to provide:

(a) by not later than 180 days after the end of each fiscal year of the Guarantor, commencing with the fiscal year ended June 30, 2006, to each nationally recognized municipal securities information repository ("NRMSIR") and to any state

information depository for the State of Vermont (“SID”), if any, (i) the financial statements of the Guarantor for such fiscal year prepared in the same format as provided in Appendix B to this Official Statement) and (ii) material historical quantitative data concerning the Guarantor of the type generally found in Appendix A to this Official Statement; and

(b) in a timely manner, to each NRMSIR or to the Municipal Securities Rulemaking Board (the “MSRB”), and to the SID, if any, notice of a failure of the Guarantor to provide any required information described in (a) above on or before the date specified.

The continuing disclosure obligations of the Guarantor provided for in the Guaranty will cease to be of further effect upon the termination of the Guaranty pursuant to the terms thereof, provided that the Guarantor agrees to provide in a timely manner to each NRMSIR or to the MSRB, and to the SID, if any, notice of such termination.

The enforceability of the Guaranty will be subject to bankruptcy laws, laws relating to or affecting generally the enforcement of creditor’s rights and principles of equity.

THE GUARANTY ONLY GUARANTEES NFI VERMONT, INC.’S PAYMENT OBLIGATIONS UNDER ITS LOAN AGREEMENT AND DOES NOT GUARANTY THE OBLIGATIONS OF ANY OTHER PROVIDER UNDER ITS LOAN AGREEMENT. THE GUARANTOR’S EXECUTION OF THE GUARANTY IS A CONDITION TO NFI VERMONT INC.’S PARTICIPATION IN THE POOL AND THE ISSUANCE OF THE PORTION OF THE BONDS ALLOCABLE TO NFI VERMONT, INC.

Special Arrangements Regarding the Short-Term Indebtedness of NFI Vermont, Inc. and the Security Therefor; Intercreditor Agreement

Notwithstanding the provisions described above regarding Permitted Encumbrances with respect to the Mortgages and pledges of Gross Revenues by the Providers, NFI Vermont, Inc. has previously granted a security interest in its Gross Revenues and certain personal property to secure an existing line of credit in an amount of \$4,000,000 from TD Banknorth, N.A.”) (the “Banknorth Line of Credit”) available to NFI Vermont, Inc. and its affiliated companies, which are the Guarantor, NFI North, Inc., NFI Massachusetts, Inc. and NAFI Connecticut, Inc. (collectively with NFI Vermont, Inc., the “NAFI Group”). NFI Vermont, Inc. and the other members of the NAFI Group are jointly and severally liable for repayment of all amounts due under the Banknorth Line of Credit.

NFI Vermont, Inc., the Trustee and each other member of the NAFI Group will, as a condition of NFI Vermont Inc.’s participation in the Pool and the issuance of the portion of the Bonds allocable to NFI Vermont, Inc., enter into an intercreditor agreement with TD Banknorth, N.A. (the “Banknorth Intercreditor Agreement”) prior to the issuance of the Bonds. Under the Banknorth Intercreditor Agreement, NFI Vermont, Inc. may either:

1. incur Short-Term Indebtedness from TD Banknorth, N.A. and any other lender in an amount that is in the aggregate not more than 10 percent of its Revenues as reflected in its audited financial statements for the most recent period of twelve consecutive months for which audited financial statements are available; provided, however, that no Short-Term Indebtedness shall be outstanding for at least 15 consecutive calendar days in each Fiscal Year of NFI Vermont, Inc.; or
2. participate in and be jointly and severally liable for Short-Term Indebtedness of the NAFI Group to TD Banknorth, N.A. in an amount that is not more than 10 percent of the aggregate Revenues of the NAFI Group as reflected in the audited financial statements of each member of the NAFI Group for the most recent period of twelve consecutive months for which audited financial statements are available; provided, however, that no Short-Term Indebtedness shall be outstanding for at least 15 consecutive calendar days in each Fiscal Year of each member of the NAFI Group.

NFI Vermont, Inc. may from time to time switch from one of these options to the other, but it may not participate in both options at the same time. Short-Term Indebtedness incurred under either of the above options will be hereafter called the “Allowed Debt.” The security interest in NFI Vermont, Inc.’s Gross Revenues granted to TD Banknorth, N.A. to secure the Allowed Debt will be senior to the security interest in NFI Vermont, Inc.’s Gross Revenues that secures its obligations under its Loan Agreement, as described herein. Any security interest in NFI Vermont’s Gross Revenues securing Allowed Debt (or other debt) to any other lender and any security interest in NFI Vermont, Inc.’s Gross Revenues granted to TD Banknorth, N.A. to secure

payment of any debt to TD Banknorth, N.A. other than the Allowed Debt will be subordinate to the security interest in NFI Vermont, Inc.'s Gross Revenues that secures its obligations under its Loan Agreement, as described herein. In addition, the security interest in its personal property granted by NFI Vermont, Inc. in its Mortgage to secure its obligations under its Loan Agreement will be senior to the security interest in such personal property granted by NFI Vermont, Inc. to TD Banknorth, N.A. The Banknorth Intercreditor Agreement will also provide that if NFI Vermont, Inc. ceases to be an obligor under the Banknorth Line of Credit and TD Banknorth, N.A. certifies in writing that NFI Vermont, Inc. has satisfied all of its obligations under the Banknorth Line of Credit and is no longer directly or contingently liable thereunder, and all steps have been taken to terminate the security interest of TD Banknorth, N.A. in any property of NFI Vermont, Inc. (including without limitation the filing of appropriate termination statements under the Uniform Commercial Code), the parties to the Banknorth Intercreditor Agreement may terminate the Banknorth Intercreditor Agreement. NFI Vermont, Inc. will be prohibited under its Loan Agreement from being liable for any Indebtedness of any other member of the NAFI Group other than Short-Term Indebtedness constituting Allowed Debt incurred under the Banknorth Line of Credit, unless such liability constitutes Indebtedness permitted by such Loan Agreement.

Failure of TD Banknorth, N.A. , NFI Vermont, Inc. and each member of the NAFI Group to enter into the Banknorth Intercreditor Agreement as described herein will disqualify NFI Vermont, Inc. from participating in the Pool and, accordingly, the portion of the Bonds allocable to NFI Vermont, Inc. will not be issued.

Special Arrangements Regarding the Short-Term Indebtedness of Clara Martin Center, Rehabilitation Services of Southeastern Vermont, Inc. and Washington County Mental Health Services, Inc., and the Security Therefor; Intercreditor Agreements

Notwithstanding the provisions described above regarding Permitted Encumbrances with respect to the Mortgages and pledges of Gross Revenues by the Providers, each of Clara Martin Center, Health Care and Rehabilitation Services of Southeastern Vermont, Inc. and Washington County Mental Health Services, Inc. has previously granted a security interest in certain of its revenues and personal property to secure existing lines of credit from Chittenden Trust Company. The line of credit in favor of Clara Martin Center is in the maximum amount of \$150,000 and as of the date hereof no amounts are outstanding under such line of credit. The line of credit in favor of Health Care and Rehabilitation Services of Southeastern Vermont, Inc. is in the amount of \$1,000,000 and as of the date hereof no amounts are outstanding under such line of credit. The line of credit in favor of Washington County Mental Health Services, Inc. is in the amount of \$1,800,000 and as of the date hereof no amounts are outstanding under such line of credit. Chittenden Trust Company shall hereafter be referred to as the "Line of Credit Bank").

Each of the respective Providers described in this paragraph and the Trustee will, as a condition of such Provider's participation in the Pool and the issuance of the portion of the Bonds allocable to such Provider, enter into an intercreditor agreement with the Line of Credit Bank (the "Intercreditor Agreements") prior to the issuance of the Bonds. Under the respective Intercreditor Agreements, the applicable Provider may incur Short-Term Indebtedness from its Line of Credit Bank and any other lender in an amount that is in the aggregate not more than 10 percent of its Revenues as reflected in its audited financial statements for the most recent period of twelve consecutive months for which audited financial statements are available; provided, however, that no Short-Term Indebtedness shall be outstanding for at least 15 consecutive calendar days in each Fiscal Year of the applicable Provider. Short-Term Indebtedness allowed under the respective Intercreditor Agreements will be hereafter called the "Allowed Debt." The security interest in the respective Provider's Gross Revenues granted to the Line of Credit Bank to secure Allowed Debt will be senior to the security interest in the respective Provider's Gross Revenues that secures its obligations under its Loan Agreement, as described herein. Any security interest in the respective Provider's Gross Revenues securing Allowed Debt of such Provider (or other debt of such Provider) to any other lender and any security interest in the respective Provider's Gross Revenues granted to the Line of Credit Bank to secure payment of any debt to the Line of Credit Bank other than the Allowed Debt will be subordinate to the security interest in the respective Provider's Gross Revenues that secures its obligations under its Loan Agreement, as described herein. In addition, the security interest in personal property granted by the Mortgages of the respective Providers described in this paragraph to secure their respective obligations under their respective Loan Agreements will be senior to the respective security interests (if any) in such personal property granted by the respective Providers to the Line of Credit Bank. The foregoing arrangements do not permit a Provider to incur Indebtedness other than Indebtedness permitted under its Loan Agreement.

Failure of the Line of Credit Bank, the respective Provider as described in the preceding paragraph and the Trustee to enter into an Intercreditor Agreement as described herein will disqualify such Provider from participating in the Pool and, accordingly, the Portion of the Bonds allocable to such Provider will not be issued.

Circumstances Under Which Partial Releases of Moneys in Reserve Accounts Can Occur.

Portions of each Provider's Reserve Account have been allocated to specific portions of such Provider's Property. When all Finance Payments related to the Property-Specific Principal Installments allocable to a Property have been paid in full (or deemed paid in full, pursuant to the terms of the applicable Loan Agreement), then the portion of the Reserve Account allocated to such Property will be released by the Trustee to the Provider. For the terms of the respective portions of Loans allocable to each Property, see "Appendix I, Allocation of Loan Proceeds and Reserve Account Amounts by Provider and Property and Term of Portion of Loan Allocable to Each Property."

THE FINANCIAL GUARANTY INSURANCE POLICY AND THE BOND INSURER

The Financial Guaranty Insurance Policy

A financial guaranty insurance policy (the "Policy") will be issued by Radian Asset Assurance Inc. (the "Insurer") simultaneously with the issuance and delivery of the Bonds. The Policy is noncancelable during its term and provides for the prompt payment of principal of and interest on the Bonds to the extent that Chittenden Trust Company, as trustee (the "Trustee"), has not received sufficient funds from a Provider for payment of the Bonds on the "due date." The Insurer is obligated to make the required payment on the later of the due date or the first business day after which the Insurer has received notice from The Bank of New York, as Insurance Trustee (the "Insurance Trustee"), that a Provider has failed to pay amounts due on the Bonds. Under the Policy, the "due date" of the Bonds, when referring to the payment of principal, means the stated maturity date thereof or the date on which payment of principal is due by reason of mandatory sinking fund payments and does not mean any earlier date on which payment is due by reason of any call for redemption, acceleration, or other advancement of maturity, other than in the discretion of the Insurer. With respect to interest on the Bonds, the "due date" means the stated date for payment of interest. The Policy guarantees reimbursement of any recovery of any such payment from a Bondholder or the Trustee pursuant to a final judgment by any court of competent jurisdiction holding that such payment constituted a voidable preference within the meaning of any applicable bankruptcy law.

Upon the occurrence and continuance of an Event of Default, the Insurer, may, in its discretion, direct the acceleration of the Bonds at a price equal to the principal amount thereof plus accrued interest, or the Insurer may elect to continue to pay principal and interest on the originally scheduled due dates of the Bonds. For specific information on the coverage provided, reference should be made to the Policy that has been reproduced in specimen form in Appendix J hereto. The Policy does not insure against nonpayment of principal or interest on the Bonds due to the insolvency, misconduct or negligence of the Trustee. The Policy does not insure the payment of any redemption premium.

Radian Asset Assurance Inc.

The Insurer is a monoline financial guaranty insurance company, regulated by the Insurance Department of the State of New York and licensed to do business in all 50 states, the District of Columbia, Guam and the United States Virgin Islands. As of June 30, 2006, the Insurer had total shareholders' equity of approximately \$1,491,666,000 and total assets of approximately \$2,475,580,000.

The financial information relating to the Insurer presented in this Official Statement was prepared internally by the Insurer, based on accounting principles generally accepted in the United States of America ("GAAP"), and has not been audited by independent auditors. The address of the Insurer's administrative office is 335 Madison Avenue, New York, New York 10017, and its telephone number is 212-983-5859.

On March 2, 2006, the Insurer entered into a settlement agreement with respect to two financial guaranty contracts insured by the Insurer on a direct basis. Under this agreement, the Insurer paid \$68.0 million to its counterparty in consideration for its counterparty's terminating one of these transactions, a synthetic collateralized debt obligation representing \$247.5 million in exposure, and amending the other transaction to add certain structural changes that the Insurer believes will improve its overall risk profile. Additional information regarding this settlement may be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Financial Guaranty—Year Ended December 31, 2005 Compared to Year Ended December 31, 2004—Provision for Losses" in Item 7 of Part II of the Annual Report on Form 10-K filed by the Insurer's ultimate corporate parent, Radian Group Inc. ("Radian") with the Securities and Exchange Commission.

The Insurer has filed the information contained in (i) – (iii) below with entities designated as Nationally Recognized Municipal Securities Information Repositories (“NRMSIRs”) pursuant to Rule 15c2-12 of the Securities Exchange Act of 1934, and such financial information is available through such NRMSIRs:

- (i) The Insurer’s audited consolidated financial statements as of December 31, 2005 and 2004, and for each of the three years in the period ended December 31, 2005, prepared in accordance with GAAP, together with the accompanying report of the Insurer’s independent registered public accounting firm, which expresses an unqualified opinion (the “Radian Financial Statements”).
- (ii) The Insurer’s quarterly unaudited consolidated balance sheet as of March 31, 2006 and unaudited consolidated statement of operations for the three-month period then ended, prepared in accordance with GAAP.
- (iii) The Insurer’s quarterly unaudited consolidated balance sheet as of June 30, 2006 and unaudited consolidated statement of operations for the six-month period then ended, prepared in accordance with GAAP.

Additional information regarding the Insurer can be found in the following documents filed by Radian with the Securities and Exchange Commission: (a) Annual Report on Form 10-K for the year ended December 31, 2005 and the Quarterly Reports on Form 10-Q for the periods ended March 31, 2006 and June 30, 2006, under the headings: (i) “Safe Harbor Statement” (but only insofar as it relates to the financial guaranty insurance businesses); (ii) 10-K only, Item 1. Business: “Financial Guaranty Business,” “Defaults and Claims – Financial Guaranty,” “Loss Mitigation – Financial Guaranty,” “Reserve for Losses – Financial Guaranty,” “Risk Management – Financial Guaranty,” “Risk in Force – Financial Guaranty Business,” “Customers – Financial Guaranty Business,” “Sales and Marketing – Financial Guaranty Business,” “Competition – Financial Guaranty Business,” “Ratings” (but only insofar as it relates to the Insurer or Radian Reinsurance Inc.), and “Regulation - Direct Regulation” (but only insofar as it relates to the financial guaranty business); (iii) 10-K only, “Item 1A – Risk Factors” “– Risks Affecting Our Company” (but only insofar as it relates to the Insurer) and “– Risks Particular to our Financial Guaranty Business”; (iv) 10-K Only “Item 6 - Selected Financial Data,” “Selected Ratios - Financial Guaranty” and “Other Data - Financial Guaranty”; (v) 10-K only, Item 7 Managements’ Discussion and Analysis of Financial Condition and Results of Operations “Financial Guaranty Results of Operations” and “Liquidity and Capital Resources” (but only to the extent it relates to the Insurer or Radian Reinsurance Inc.), and “Critical Accounting Policies” (but only to the extent it relates to “Financial Guaranty”; and (vi) 10-Q only, Item 2 – Managements’ Discussion and Analysis of Financial Condition and Results of Operations, “Overview,” “Business Summary – *Financial Guaranty*,” “Results of Operations – Financial Guaranty,” “Liquidity and Capital Resources” (but only to the extent it relates to the Insurer) and “Critical Accounting Policies” (but only to the extent it relates to “Financial Guaranty”) and (b) the Reports on Form 8-K dated January 19, 2006, February 13, 2006, March 15, 2006, April 20, 2006, May 12, 2006, June 30, 2006, July 20, 2006 and July 26, 2006.

A complete copy of the Radian Financial Statements is available from the Insurer upon written request. Prior year amounts included in the Radian Financial Statements have been restated to reflect the combined balances and results of operations of the Insurer and Radian Reinsurance Inc.

The Insurer is an indirect, wholly owned subsidiary of Radian, a publicly owned corporation with its shares listed on the New York Stock Exchange (symbol “RDN”). Radian is a leading credit enhancement provider to the global financial and capital markets, headquartered in Philadelphia, Pennsylvania. Radian’s subsidiaries provide products and services through three business lines: financial guaranty, mortgage insurance and financial services. None of Radian, Radian’s other subsidiaries or any of Radian’s investors is obligated to pay the debts of or claims against the Insurer.

On June 29, 2006, Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc. (“S&P”) affirmed the Insurer’s “AA” financial strength rating and revised upward its outlook on the Insurer from “negative” to “stable.” The Insurer also has an insurance financial strength rating of “Aa3” (outlook: stable) from Moody’s Investors Service, Inc. (“Moody’s”) and a claims paying ability rating of “AA” (outlook: negative) from Fitch Ratings Services (“Fitch”). The ratings of S&P, Moody’s and Fitch reflect only the views of the applicable rating agency, respectively, do not constitute a recommendation to buy, sell or hold securities and are subject to revision or withdrawal at any time by such rating agencies. Any further explanation of any rating may be obtained only from the applicable rating agency. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds. The Insurer does not guarantee the market price or investment value of the Bonds nor does it guarantee that the ratings on the Bonds will not be revised or withdrawn.

The Insurer is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York, its state of domicile. In addition, Radian and its insurance subsidiaries are subject to regulation by insurance laws of the various other jurisdictions in which they are licensed to do business. As a financial guaranty insurance corporation licensed to do business in the State of New York, the Insurer is subject to Article 69 of the New York Insurance Law which, among other things, limits the business of each financial guaranty insurer to financial guaranty insurance and related business lines, requires that each financial guaranty insurer maintain a minimum surplus to policyholders, establishes contingency, loss and unearned premium reserve requirements for each financial guaranty insurer, and limits the size of individual transactions and the volume of transactions that may be underwritten by each financial guaranty insurer. Other provisions of the New York Insurance Law, applicable to non-life insurance companies such as the Insurer regulate, among other things, permitted investments, payment of dividends, transactions with affiliates, mergers, consolidations, acquisitions or sales of assets and incurrence of liability for borrowings.

Neither the Insurer nor any of its affiliates accepts any responsibility for the accuracy or completeness of, nor have they participated in the preparation of, this Official Statement or any information or disclosure that is provided to potential purchasers of the Bonds, or omitted from such disclosure, other than with respect to the accuracy of information presented under the heading "THE FINANCIAL GUARANTY INSURANCE POLICY AND THE BOND INSURER" herein and as set forth in Appendix J of this Official Statement. The Insurer's role is limited to providing the coverage set forth in the Policy. In addition, the Insurer makes no representation regarding the Bonds or the advisability of purchasing the Bonds.

TAX EXEMPTION

Opinion of Bond Counsel

In the opinion of Sidley Austin LLP, New York, New York, Bond Counsel, based on existing statutes, regulations and court decisions and assuming compliance by the Providers and the Agency with certain requirements of the Code and covenants of the Indenture and the Loan Agreements regarding the use, expenditure and investment of proceeds of the Series 2006A Bonds and the timely payment of certain investment earnings to the U.S. Treasury, interest on the Series 2006A Bonds is not includable in the gross income of the owners of the Series 2006A Bonds for purposes of federal income taxation. The form of the opinion to be delivered by Bond Counsel is set forth in Appendix G to this Official Statement. Failure by the Providers or the Agency to comply with their respective covenants to comply with the provisions of the Code regarding the use, expenditure and investment of proceeds of the Series 2006A Bonds and the timely payment of certain investment earnings to the Treasury of the United States may cause interest on the Series 2006A Bonds to become included in gross income for federal income tax purposes retroactive to their date of issuance. Furthermore, certain actions taken after the date of issuance of the Series 2006A Bonds that may cause the \$150 million limitation imposed by Section 145(b) of the Code on outstanding tax-exempt nonhospital bonds to be exceeded may cause interest on the Series 2006A Bonds to become included 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 Providers. Bond Counsel will express no opinion as to the exclusion from gross income of the interest on the Series 2006A Bonds for federal income tax purposes to the extent that the exclusion from gross income of the interest on the Series 2006A Bonds for federal income tax purposes is adversely affected as a result of the taking of any action upon the approval of counsel other than Bond Counsel.

Bond Counsel's opinion relies on certain representations made by the Providers with respect to certain material facts within the knowledge of the Providers which Bond Counsel has not independently verified and upon the accompanying opinions of McKee, Giuliani & Cleveland, P.C., counsel to the Providers, that each Provider is an organization described in Section 501(c)(3) of the Code or corresponding provisions of prior law and not a "private foundation" as defined in Section 509(a) of the Code and that, to the best of such counsel's knowledge, such Provider has not done anything to impair such status or received notice or communication of any kind from the Internal Revenue Service questioning directly or indirectly such Provider's status under Section 501(c)(3) of the Code or indicating that it is being or will be audited with respect to such status. The tax exemption of interest on the Series 2006A Bonds is dependent upon, among other things, the status of each Provider as a "Section 501(c)(3) organization" and therefore the conclusion of Bond Counsel that such interest is excludable from gross income for federal income tax purposes is dependent, in part, upon the opinions of McKee, Giuliani & Cleveland, P.C.

Original Issue Discount

The excess, if any of the amount payable at maturity of any maturity of the 2006A 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 2006A Bonds with original issue discount (a “Discount Bond”) will be excluded from gross income for federal income tax purposes to the same extent as interest on the 2006A Bonds. In general, the issue price of a maturity of the 2006A Bonds is the first price at which a substantial amount of 2006A Bonds of that maturity was sold (excluding sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwrites, placement agents, or wholesales) 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 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 Discount Bond for federal income tax purposes. A portion of the original issue discount that accrues in each year to an owner of a 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 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 Discount Bond should be aware that the accrual of initial 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 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 Discount Bond that is not purchased in the initial offering at the first price at which a substantial amount of such Discount Bonds is sold to the public may be determined according to rules that differ from those described above. An owner of a 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 Discount Bond and with respect to State of Vermont and local tax consequences of owning and disposing of such Discount Bond.

Alternative Minimum Tax

Interest on the Series 2006A Bonds will not be treated as a preference item in calculating the alternative minimum taxable income of individuals and corporations; however, interest on the Series 2006A Bonds will be included in the calculation of the alternative minimum tax liabilities of corporations.

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 and 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 credit. Prospective purchasers of the Series 2006A Bonds should consult their tax advisors as to the applicability of any such collateral consequences.

From time to time proposed legislation is considered by the United States Congress that, if enacted, would affect the tax consequences of owning obligations such as the 2006A Bonds. Thus, prospective purchasers of the 2006A Bonds should be aware that future legislation may have an adverse effect on the tax consequences of owning the Series 2006A Bonds. Legislation or regulatory actions and proposals may also affect the economic value of tax exemption or the market price of the Series 2006A bonds.

The Act provides that the 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.

Series 2006B Bonds

Interest on the Series 2006B Bonds is included in gross income for federal income tax purposes.

LEGALITY OF THE BONDS FOR INVESTMENT

The Act provides that the bonds of the Agency are securities in which all public officers and bodies of the State of Vermont 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 of Vermont may properly and legally invest funds in their control.

STATE NOT LIABLE ON THE BONDS

The State of Vermont is not liable for the payment of the principal of, premium, if any, or interest on the 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 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 Bonds directly or indirectly or contingently 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.

COVENANT BY THE STATE

Under the Act, the State of Vermont pledges to and agrees with the holders of the Bonds that the State will not limit or alter the rights vested in the Agency until the 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

All legal matters incidental to the authorization and issuance of the Bonds by the Agency are subject to the approval of Sidley Austin LLP, New York, New York, Bond Counsel, whose opinion approving the validity of the Bonds and the tax exempt status of the Series 2006A Bonds will be delivered with the Bonds. A copy of the proposed form of the opinion of Bond Counsel is attached hereto as Appendix G. Certain legal matters will be passed on for the Agency by Deppman & Foley, P.C. Middlebury, Vermont. Certain legal matters will be passed on for the Providers by their counsel, McKee, Giuliani & Cleveland P.C., Montpelier, Vermont. Certain legal matters will be passed upon for the Underwriter by its counsel, McCarter & English, LLP, Boston, Massachusetts.

LITIGATION

There is not now pending any litigation against the Agency restraining or enjoining the issuance or delivery of the Bonds or questioning or affecting the validity of the Bonds or the proceedings and authority under which they are to be issued. Neither the creation, organization or existence, 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 against the Agency which in any manner questions the right of the Agency to make the loan to the Providers contemplated by the Loan Agreements. For a description of litigation affecting each of the Providers and the Guarantor see the caption "Contingencies; Pending or Potential Litigation" in the portion of Appendix A hereto applicable to each Provider and the Guarantor.

CONTINUING DISCLOSURE

In order to assist the Underwriter in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12"), each Provider has undertaken in its Loan Agreement, and the Guarantor has undertaken in the Guaranty, for the benefit of the holders of the Bonds, to provide to the Trustee certain annual information and notices required to be provided by Rule 15c2-12. The proposed form of the undertaking is summarized in Appendix E hereto under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENTS – Secondary Market Disclosure". The undertaking to provide continuing disclosure information may be amended or modified without Bondholder consent under the following circumstances, as set forth in the Loan Agreements:

(1) if the amendment 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 Provider, or type of business conducted; the

undertaking, as amended, would have complied with the requirements of Rule 15c2-12 of the Securities and Exchange Commission (the “SEC”) at the time of issuance of the Bonds, after taking into account any amendments or interpretations of Rule 15c2-12, as well as any change in circumstances; and the amendment does not materially impair the interest of beneficial owners, as determined by parties unaffiliated with the Provider or the Issuer; or

(2) if all or any part of Rule 15c2-12, as interpreted by the staff of the SEC, ceases to be in effect for any reason, and the Provider elects that the undertaking shall be deemed amended accordingly.

Pursuant to the applicable Loan Agreement, each Provider is to furnish each year to each nationally recognized municipal securities information repository and to each (if any) Vermont state information repository, core financial information for the prior fiscal year, including (A) (i) such Provider’s audited financial statements, prepared in accordance with generally accepted accounting principles in effect from time to time, and (ii) material historical quantitative data concerning such Provider of the type generally found in Appendix A to this Official Statement; and (B) notice of the occurrence of certain material events of the nature currently provided in paragraph (b)(5)(i)(C) of Rule 15c2-12. Copies of the Loan Agreements will be on file at the principal office of the Trustee. The Agency has not committed to provide any continuing disclosure to the owners of the Bonds or to any other person.

The Guarantor’s continuing disclosure obligations are summarized herein under “SECURITY AND SOURCES OF PAYMENT – The Guaranty of NFI Vermont, Inc.’s Payment Obligations under its Loan Agreement.”

DESCRIPTION OF RATINGS

Standard & Poor’s, A Division of the McGraw-Hill Companies, Inc. (“S&P”), has assigned a rating of “AA” to the Bonds. Moody’s Investor Services (“Moody’s”) has assigned a rating of “Aa3” to the Bonds. Such ratings are conditioned upon the issuance of the Policy by the Insurer. The ratings reflect only the views of S&P and Moody’s at the time the rating was issued and an explanation of the significance of such ratings may be obtained from S&P or Moody’s, as applicable. The ratings are not a recommendation to buy, sell or hold the Bonds. There is no assurance that either of the ratings will continue for any given period of time or that either rating will not be revised downward or withdrawn entirely by such rating agency if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of such rating can be expected to have an adverse effect on the market price of the Bonds.

OTHER AVAILABLE INFORMATION

The Underwriter will supply such additional materials and information reasonably obtainable, with respect to the Providers and the Guarantor and any affiliate thereof as may be reasonably requested by a potential purchaser of the Bonds (provided that the Underwriter shall not have determined that such potential purchaser will be ineligible to subscribe for the Bonds). In addition, representatives of the Underwriter will be available by telephone to answer such questions as such potential purchasers may have regarding the Bonds, and will endeavor to arrange for representatives of the Providers or any affiliate thereof to be available to answer any such questions as well. All such requests for such additional materials and information are to be made to Municipal Capital Markets Group, Inc., care of Mr. James M. Anderson, 7887 East Belleview Avenue, 11th Floor, Denver, CO 80111, telephone number (303) 779-4900; fax number (303) 228-2263.

UNDERWRITING

The Series 2006A Bonds are being purchased by the Underwriter who has agreed, subject to certain conditions, to purchase all of the Series 2006A Bonds at an Underwriter's discount of \$262,967.70. The Series 2006B Bonds are being purchased by the Underwriter, who has agreed, subject to certain conditions, to purchase all of the Series 2006B Bonds at an Underwriter's discount of \$40,263.30. The Underwriter may offer and sell Bonds to certain dealers depositing Bonds into unit investment trusts and others at prices lower than the public offering prices stated on the cover page hereof. The initial offering prices may be changed from time to time by the Underwriter without notice.

MISCELLANEOUS

The descriptions of the Bonds, the Loan Agreements, the Indenture, the Guaranty and any other documents or agreements contained in this Official Statement and its appendices are brief outlines of certain provisions thereof and do not purport to be complete descriptions of such documents or agreements. For full and complete statements of such provisions, reference is made to the Bonds, the Loan Agreements, the Indenture, the Guaranty and such other documents and agreements. So far as any statements made in this document or appendices hereto involve budgeted amounts or other estimates or projections, they should not be considered statements of fact or representations that the budgeted amount, estimate, or projection will approximate actual results.

The distribution of this Official Statement has been authorized by the Agency. However, the Agency makes no representation or warranty as to the accuracy or completeness of any information in this Official Statement except for the information in "Appendix C, THE VERMONT EDUCATIONAL AND HEALTH BUILDINGS FINANCING AGENCY" and under the heading "LITIGATION" pertaining to the Agency. The execution and delivery of this Official Statement has been authorized and approved by the Providers.

Appendix A to this Official Statement contains information relating to each Provider and the Guarantor, and such information with respect to each Provider and the Guarantor was furnished by such Provider and the Guarantor. With respect to Appendix A, while the information contained therein is believed to be reliable, the Underwriter makes no representations or warranties whatsoever with respect to such information.

Appendix B to this Official Statement contains certain audited financial statements and certain other financial information of each of the Providers and the Guarantor. With respect to Appendix B, while the information contained therein is believed to be reliable, the Underwriter makes no representations or warranties whatsoever with respect to such information.

The Appendices are incorporated herein as an integral part of this Official Statement.

Each Provider has reviewed the portions of this Official Statement pertaining to such Provider in "SUMMARY", "INTRODUCTORY STATEMENT," "THE PROVIDERS," "SOURCES OF PROVIDER FUNDING," "THE POOL" (other than under the caption "General"), "VERMONT AGENCY OF HUMAN SERVICES," "ESTIMATED SOURCES AND USES OF PROCEEDS," "CERTAIN BONDHOLDERS' RISKS," "LITIGATION" and Appendix B, has furnished the portion of Appendix A to this Official Statement pertaining to such Provider, and has approved all information in each of the foregoing portions for use in this Official Statement. At the closing, each Provider will certify that such portions of this Official Statement do not contain an untrue statement of material fact or omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they are made, not misleading. The Guarantor has reviewed the portions of this Official Statement pertaining to such Guarantor in "SUMMARY", "SECURITY AND SOURCES OF PAYMENT" and Appendix B, has furnished the portion of Appendix A to this Official Statement pertaining to the Guarantor, and has approved all information in each of the foregoing portions for use in this Official Statement. At the closing, the Guarantor will certify that such portions of this Official Statement do not contain an untrue statement of material fact or omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they are made, not misleading.

The execution and delivery of this Official Statement by its Executive Director have been duly authorized by the Agency and the approval of this Official Statement has been duly authorized by each Provider .

VERMONT EDUCATIONAL AND HEALTH
BUILDINGS FINANCING AGENCY

By: /s/ Robert Giroux
Name: Robert Giroux
Title: Executive Director

APPROVED:

CLARA MARTIN CENTER

By /s/ Alexander J. Horvath
Name: Alexander J. Horvath
Title: Chief Financial Officer

HEALTH CARE & REHABILITATION SERVICES OF SOUTHEASTERN VERMONT, INC.

By /s/ Judith Hayward
Name: Judith Hayward
Title: Chief Executive Officer

NFI VERMONT, INC.

By /s/ Kathy Pettengill
Name: Kathy Pettengill
Title: Chief Financial Officer

WASHINGTON COUNTY MENTAL HEALTH SERVICES, INC.

By /s/ Janice Guyette
Name: Janice Guyette
Title: Chief Financial Officer

APPENDIX A

INDEX OF PARTICIPATING PROVIDERS AND GUARANTOR

| | |
|----------------|---|
| APPENDIX A-I | CLARA MARTIN CENTER |
| APPENDIX A-II | HEALTHCARE AND REHABILITATION SERVICES OF SOUTHEASTERN VERMONT, INC. |
| APPENDIX A-III | NFI VERMONT, INC. |
| APPENDIX A-IV | WASHINGTON COUNTY MENTAL HEALTH SERVICES, INC. |
| APPENDIX A-V | NORTH AMERICAN FAMILY INSTITUTE, INC. (GUARANTOR) |

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APPENDIX A-I

CLARA MARTIN CENTER

General Operations The Clara Martin Center (“CMC”) is a Vermont 501(c)(3) not-for-profit public benefit corporation founded in 1966 to provide mental health services to the greater Orange County area. The current operating budget is approximately \$6,000,000. Sources of CMC’s revenue include:

| | |
|---------------|-----|
| Medicaid | 69% |
| Patient fees | 7% |
| Contracts | 10% |
| Grants | 9% |
| Local Support | 5% |

Description of the Project CMC has applied for project funds in the amount of \$1,112,000 to be utilized as follows:

- Approximately \$240,000 will be used to refinance an existing mortgage secured by real property owned at 39 Fogg Farm Road, Wilder, VT. CMC anticipates that through this refinancing CMC will generate cash flow savings, as well as lock in long term interest rates and occupancy costs.
- Approximately \$240,000 will be utilized to renovate CMC’s existing property at 24 South Main Street, Randolph, VT. This renovation will allow CMC to move certain programs currently located at 11 Main Street, Randolph, VT which is currently overcrowded. CMC believes utilizing existing space more efficiently will increase capacity, reduce current overcrowding and allow for a more effective delivery of services.
- Approximately \$100,000 will be utilized to renovate CMC’s property at 11 Main Street, Randolph, VT. Upon completion of these renovations, CMC will be able to consolidate certain operations by floor. These renovations are expected to: generate better patient flow, create operating efficiencies, comply with HIPPA requirements, and provide a better environment where CMC can deliver a higher level of care.
- Approximately \$335,000 will be utilized for the acquisition of a phone system, a record keeping system, and computer technology which will enhance the existing network capabilities of CMC. It is anticipated that these enhancements will generate operating efficiencies and will enable CMC to comply with State mandated record keeping requirements.
- The funds will also be used to pay certain costs of issuance, fund a debt service reserve fund and fund capitalized interest during construction.

Financials The audited Financial Statements for CMC’s fiscal year ended June 30, 2005, are attached as Appendix B-I. Audited Financial Statements for CMC’s fiscal years ended June 30, 2004, 2003, and 2002 and unaudited financial statements through April 2006 will be made available upon request to the Underwriter. Reference is made to the audited Financial

Statements and the notes contained therein for information in addition to that set forth in this Appendix A-1 about CMC's financial condition and results of operations, as well as a description of its significant accounting policies. CMC's Fiscal Year ended June 30, 2005 financials have been audited, and are summarized below.

Summary of Financial Information and Results of Operations

Summary of Results of Operations for the Year Ended June 30, 2005

The following is a summary of financial information about CMC for the year ended June 30, 2005 and is derived from the audited balance sheet and income statement furnished by CMC. For the year ended June 30, 2005, CMC received total revenues of \$5,987,387 from operations and had total expenses of \$5,742,017 resulting in a net gain of \$245,370. The largest portion of CMC's revenue from its primary source, Medicaid, is received weekly. Expense is incurred daily over the year.

Summary of Results of Operations for Fiscal Years 2002 through April 2006

The following is a summary of the financial information for CMC for its fiscal years 2002 through April 2006 and is derived from the audited financial statements of CMC for fiscal years 2002 through 2005 and the unaudited financial statements of CMC through April for fiscal year 2006.

Summary of Financial Information for Fiscal Years 2002 Through 2006

| <u>Fiscal Year Ending June 30:</u> | <u>April 2006 UNAUDITED 10 Months Year To Date</u> | <u>2005</u> | <u>2004</u> | <u>2003</u> | <u>2002</u> |
|---|---|--------------------|--------------------|--------------------|--------------------|
| Revenues: | | | | | |
| Client Fees | \$4,066,150 | \$4,334,345 | \$4,173,782 | \$4,028,298 | \$3,822,600 |
| State Contract (Div. Of. M.H.) | 180,613 | 149,164 | 196,528 | 145,737 | 265,245 |
| State Grant (Div. Of M.H.) | 164,729 | 208,948 | 146,977 | 236,793 | 138,722 |
| Other State Contracts & Grants | 301,484 | 444,458 | 257,682 | 303,613 | 273,777 |
| Local Revenue | 264,327 | 425,759 | 405,329 | 420,022 | 270,175 |
| Other Revenue | 494,556 | 424,713 | 401,799 | 341,721 | 146,418 |
| Gross Revenues | \$5,471,859 | \$5,987,387 | \$5,582,097 | \$5,476,184 | \$4,916,937 |
| Expenses: | | | | | |
| Salaries & Benefits | \$3,619,324 | \$3,921,057 | \$3,778,873 | \$3,614,947 | \$3,611,905 |
| Contracted Services | 721,725 | 891,510 | 740,247 | 826,578 | 482,393 |
| Operating and Programming | 637,294 | 585,078 | 534,052 | 561,863 | 603,125 |
| Transportation Expenses | 109,892 | 107,519 | 92,753 | 113,028 | 107,154 |
| Building Expenses | 225,719 | 236,853 | 235,344 | 250,838 | 245,833 |
| Total Expenses | \$5,313,954 | \$5,742,017 | \$5,381,269 | \$5,367,254 | \$5,050,410 |
| Surplus (Deficit) | \$157,905 | \$245,370 | \$200,828 | \$108,930 | (\$133,473) |

Statement Of Financial Position

| | <u>April 30, 2006</u> (Unaudited) | <u>June 30, 2005</u> (Audited) |
|--------------------------------------|--------------------------------------|-----------------------------------|
| CURRENT ASSETS | | |
| Cash | \$ 1,123,512 | \$ 762,041 |
| Accounts receivable, net | 222,687 | 220,920 |
| Prepaid expenses | 57,256 | 76,826 |
| Other receivables | 95,989 | 230,468 |
| TOTAL CURRENT ASSETS | \$ 1,499,444 | \$ 1,290,255 |
| PROPERTY & EQUIPMENT | 2,460,620 | 1,924,794 |
| Less: Accumulated depreciation | (932,953) | (880,788) |
| NET PROPERTY & EQUIPMENT | \$ 1,527,667 | \$ 1,044,006 |
| OTHER ASSETS | | |
| Bond Trust Funds | 242,446 | 179,627 |
| Unamortized Bond Issue Cost | 45,349 | 48,733 |
| TOTAL ASSETS | \$ 3,314,906 | \$ 2,562,621 |
| CURRENT LIABILITIES | | |
| Current portion of long-term debt | \$ 60,237 | \$ 55,000 |
| Accounts Payable | 351,740 | 260,083 |
| Short-Term Note Payable | 65,502 | - |
| Accrued Expenses | 107,336 | 81,151 |
| Payee Accounts | 16,876 | 8,253 |
| Accrued compensated absence | 71,087 | 61,237 |
| Due to CVSAS | 105,903 | - |
| Deferred revenue | 149,845 | 104,973 |
| TOTAL CURRENT LIABILITIES | 928,526 | 570,697 |
| LONG-TERM DEBT, less current portion | 1,085,517 | 848,965 |
| NET FUND BALANCE | 1,300,863 | 1,142,959 |
| TOTAL LIABILITIES & FUND BALANCE | \$ 3,314,906 | \$ 2,562,621 |

Liquidity and Capital Resources As of June 30, 2005, CMC had \$762,041 in cash and cash equivalents, and \$220,920 in net accounts receivable. CMC presently maintains sufficient cash reserves to satisfy its liquidity needs. CMC has established a \$150,000 line of credit with The Chittenden Bank which is secured by certain property and revenues of CMC. There is currently no balance outstanding under the line of credit. No minimum amount of liquidity is currently required by the Board of Directors.

Properties

CMC owns the following properties:

| <u>Location</u> | <u>Use</u> | <u>Mortgage Holder</u> |
|------------------------------------|---------------------|-------------------------------|
| 24 South Main Street, Randolph, VT | CRT Services | Trustee for Series 2002 Bonds |
| 28 South Main Street, Randolph, VT | Vacant | None |
| Route 14 S, East Randolph, VT | East Valley Academy | Trustee for Series 2002 Bonds |
| Route 5, Bradford, VT | Clinical Services | Trustee for Series 2002 Bonds |

| <u>Location</u> | <u>Use</u> | <u>Mortgage Holder</u> |
|---------------------------------|----------------------------|-------------------------------|
| 4 Highland Avenue, Randolph, VT | Safe Haven | None |
| 11 Main Street, Randolph, VT | Admin and Clinical Offices | Trustee for Series 2002 Bonds |
| 39 Fogg Farm Road, Wilder, VT | Substance Abuse Services | Trustee for Series 2002 Bonds |

CMC leases the following properties:

| <u>Location</u> | <u>Use</u> |
|------------------------------------|---|
| Chelsea Health Center, Chelsea, VT | Clinical Offices |
| 61 Depot Street, Wilder, VT | Clinical Offices – Lease ends in June of 2006 |

Impact of Inflation In the opinion of management, the operations of CMC could be adversely affected by a high rate of inflation. A high rate of inflation could result in increased costs and expenses.

Client Care Services CMC provides community mental health services to the greater Orange County area in three major locations, Randolph, Bradford and Wilder, as well as in area schools. Services are provided through five major programs, all of which are accredited by CARF (“Committee on Accreditation of Rehabilitation Facilities”). The major programs are Adult Outpatient, Children & Family, Emergency and Walk-in, Community Support, and Alcohol and Drug services. Psychiatric services span and support all of these programs. In addition to the above mentioned programs, the Clara Martin Center is involved in several collaborations with other community service providers. Through contracts with area schools, the Child & Family and the Alcohol and Drug Abuse programs, CMC places mental health professionals in area schools to provide increased access to services for children, adolescents, and their families through home-school coordination and student assistance programs. We collaborate with the Hartford Area Regional Collaborative to provide mental health services at the Regional Alternative Program, a non-residential alternative school placement in Wilder, VT. Central Vermont Substance Abuse Services located in Berlin, VT is a collaborative effort between the Clara Martin Center, Washington County Mental Health, and the Howard Center for Human Services to provide substance abuse services with Washington County. Safe Haven, a homeless shelter for people diagnosed with a mental illness, is a collaborative effort between the Clara Martin Center and the Vermont Psychiatric Survivors or Orange County.

Government Regulations and Oversight CMC is subject to regulations and rate formulas established by the State of Vermont and certain of its agencies, including, among others, the following: CMC is audited on an annual basis by the Vermont Department of Rate Setting and is subject to review of its financial audits on an annual basis by the Vermont Department of Health. CMC also provides unaudited monthly financial information to the Vermont Department of Health – Division of Mental Health. In addition, in connection with the receipt of certain federal grants, CMC is subject to requirements and review by certain federal departments and agencies, and must provide an annual audit showing compliance with requirements on funded programs, in accordance with OMB Circular A-133. CMC is also subject to review of financial statements on an annual basis by the Vermont Department of Health (Alcohol and Drug Abuse Division).

Competitive Conditions CMC provides services to residents primarily in Windsor, Washington and Orange Counties located in central Vermont. Management estimates that there are many individual or group practices, which compete with CMC in its service area. Management believes that the presence of these competitors reduces the amount of state funds available to CMC.

Description of Employees For the fiscal year ended June 30, 2005, CMC employed 103 full-time equivalents. This includes employees in the following categories:

- 1 Technical Support
- 1 Skilled Labor
- 12 Clerical
- 7 Administrative
- 82 Professional

Contingencies; Pending or Potential Litigation Management is unaware of any contingent obligations. As of the date hereof, there is no litigation pending, or, to the knowledge of CMC, threatened against CMC, wherein an unfavorable decision would adversely affect the present or future financial condition of CMC.

Governance

A Board of Trustees is comprised of 8 voting members.

| <u>Name</u> | <u>Position</u> | <u>CMC Board Tenure</u> | <u>Experience</u> |
|-----------------------|------------------------|--------------------------------|--|
| Arnold Spahn | President | 30 | Retired photography business owner |
| Dennis Brown | Vice President | 5 | Owner of By-Sel Real Estate |
| Frank Roderick | Secretary | 18 | Chemist for Luminescent Systems |
| John Larson | Treasurer | 8 | Retired President and CEO of Connecticut Energy Corp. |
| Thomas Gerlack | Board Member | 12 | Retired Executive Vice President of a national building company |
| Brewster Martin, M.D. | Board Member | 26 | Retired physician who founded the Clara Martin Center with his wife. |
| June Phillips | Board Member | 11 | Retired postal worker current serving as an active member of NAMI. |
| Ronald Schoolcraft | Board Member | 1 | Retired school teacher |

Management

Executive and Administrative Officers

Linda Chambers is the Executive Director of CMC and is responsible to the Board of Trustees for the administration of CMC and the general oversight of CMC's operations. In addition to the Executive Director, CMC employs a Director of Quality and System Improvement, Chief Financial Officer, Medical Director, Corporate Compliance Officer and Clinical Director.

| <u>Name</u> | <u>Position</u> | <u>CMC Tenure</u> | <u>Credentials & Experience</u> |
|----------------------|---|--|--|
| Linda Chambers | Executive Director | 22 Years and 12 year as the Executive Director | MA Ed. – University of Vermont, LADC |
| Melanie Gidney | Director of Quality and Systems Improvement | 14 | BA Psychology, University of Vermont |
| Alexander J. Horvath | Chief Financial Officer | 6 | BA – Managerial Economics, Union College |
| Kevin Buchanan, MD | Medical Director | 4 | MD, PhD. – Loma Linda University |
| Jena Trombly | Compliance Officer | 14 | MA – Lesley University |
| Dawn Littlepage | Clinical Director | 6 | MA – Norwich University, LCMHC |

APPENDIX A-II

HEALTH CARE & REHABILITATION SERVICES OF SOUTHEASTERN VERMONT, INC.

General Operations Health Care & Rehabilitation Services of Southeastern Vermont, Inc. ("HCRS"), established in 1967, is a Vermont 501(c)(3) not-for-profit public benefit corporation which provides mental health services. The service area for HCRS consists of Windham County and Windsor County (excluding the towns of Bethel, Rochester, Royalton, Sharon and Stockbridge), both located in the State of Vermont. HCRS has a current budget of approximately \$24,500,000. Medicaid fees are the predominant source of its revenues. Sources of revenue for HCRS include:

| | |
|---------------------------------|-----|
| Medicaid Fees | 87% |
| State Funds | 8% |
| Insurance Fees | 2% |
| Local Sources and Other Sources | 2% |
| Patient Fees | 1% |

Description of the Project HCRS has applied for project funds in the approximate amount of \$10,770,000 to be utilized as follows:

- Approximately \$8,000,000 of loan proceeds will be used in part (a) to pay-off a \$350,000 mortgage loan made by Chittenden Bank to acquire the real property located at 388 River Street, Springfield, Vermont and (b) to finance the construction costs of a new 30,000 square foot facility in Springfield in an effort to consolidate six leased offices into one consolidated facility. HCRS believes this undertaking will increase operational and fiscal efficiencies, will allow for the building up of equity rather than the incurrence of rent expense, and will allow HCRS to have space more suited to meet its needs so that it can deliver the proper level of care to its clients.
- Approximately \$315,000 will be used to refinance the remaining balance of the mortgage loan made by Chittenden Bank, which was used to acquire a building located in Hartford, Vermont, where HCRS plans to relocate its White River Junction leased offices. HCRS renovated the new building significantly in 2006 (see below). The existing loan has a variable rate of interest based on a weekly rate reset, and as of June 30, 2005, the rate was 6.25%. HCRS expects refinancing of this loan will result in interest savings and will allow HCRS to lock in a long term interest rate.
- Approximately \$750,000 will be used to refinance a loan made by Chittenden Bank to finance the cost of renovations to the building located in Hartford, Vermont which replaced leased offices in White River Junction in May 2006.
- The balance of the loan proceeds will be used to fund a debt service reserve fund, bond issuing costs, and capitalized interest during the construction period.

Financials Audited Financial Statements for HCRS's fiscal years ended June 30, 2005, are included in Appendix B-II. Audited Financial Statements for HCRS's fiscal years ended

June 30, 2004, 2003, and 2002 and unaudited financial statements through March 2006 will be made available upon request to the Underwriter. Reference is made to the audited Financial Statements and the notes contained therein for information in addition to that set forth in the Appendix about HCRS's financial position as of June 30, 2005 and results of operations for the fiscal year then ended, as well as a description of its significant accounting policies.

Summary of Financial Information and Results of Operations

Summary of Results of Operations for the Year Ended June 30, 2005

The following is a summary of financial information about HCRS for the year ended June 30, 2005 and is derived from the audited statements of financial position and activities furnished by HCRS. For the year ended June 30, 2005, HCRS had received total revenues of \$23,759,226 and had expenses of \$23,206,848, resulting in an increase of unrestricted net assets of \$552,378. The largest portion of HCRS's revenue is received periodically, on a weekly basis. Expense is incurred daily over the year.

Summary of Results of Operations for Fiscal Years 2002 through 2006

The following is a summary of the financial information for HCRS for its fiscal years 2002 through March 2006 and is derived from the audited financial statements of HCRS for fiscal years 2002 through 2005 and the unaudited financial statements of HCRS through March for fiscal year 2006.

| <u>Fiscal Year Ending June 30:</u> | <u>March 2006 UNAUDITED 9 Months Year To Date</u> | <u>2005</u> | <u>2004</u> | <u>2003</u> | <u>2002 (Restated)</u> |
|---|--|--------------------|--------------------|--------------------|-----------------------------------|
| Revenues | | | | | |
| Client fees | \$ 15,707,946 | \$ 21,284,470 | \$ 20,302,701 | \$ 17,666,098 | \$ 16,014,071 |
| State Contract (Div. Of. M.H.) | 11,304 | 17,501 | 170,899 | 206,337 | 235,302 |
| State Grant (Div. Of. M.H.) | 580,063 | 565,911 | 488,280 | 252,126 | 496,721 |
| Other State Contracts & Grants | 894,215 | 1,319,936 | 1,203,937 | 877,583 | 860,957 |
| Local Revenue | 88,116 | 158,366 | 319,069 | 256,284 | 161,109 |
| Other Revenue | 160,017 | 413,042 | 237,084 | 241,699 | 226,227 |
| Gross Revenues | \$ 17,441,661 | \$ 23,759,226 | \$ 22,721,970 | \$ 19,500,127 | \$ 17,994,387 |
| Expenses | | | | | |
| Salaries & Benefits | 11,060,505 | 14,465,883 | 13,857,207 | 12,288,281 | 10,135,461 |
| Other Personnel Costs | 1,554,319 | 2,462,633 | 2,295,683 | 2,175,596 | 2,308,740 |
| Operating Expenses | 3,109,109 | 4,373,468 | 4,050,165 | 3,326,233 | 3,512,283 |
| Program Expenses | 243,649 | 368,024 | 373,183 | 335,879 | 356,768 |
| Other Expenses | 1,111,915 | 1,358,860 | 1,314,533 | 1,315,326 | 1,014,848 |
| Depreciation | 148,549 | 177,980 | 171,223 | 212,641 | 171,687 |
| Total Expenses | \$ 17,228,046 | \$ 23,206,848 | \$ 22,061,994 | \$ 19,653,956 | \$ 17,499,787 |
| Surplus (Deficit) | \$ 213,615 | \$ 552,378 | \$ 659,976 | \$ (153,829) | \$ 494,600 |

Statement of Financial Position

| | March 31, 2006 (Unaudited) | JUNE 30, 2005 (Audited) |
|---|-------------------------------|----------------------------|
| CURRENT ASSETS | | |
| Cash & Equivalents | \$ 44,417 | \$ 238,911 |
| Accounts receivable, net | 2,603,974 | 2,565,007 |
| Prepaid expenses & Other Current Assets | 256,380 | 186,206 |
| Debt Service Reserve - Current | 42,071 | 42,071 |
| TOTAL CURRENT ASSETS | 2,946,842 | 3,032,195 |
| NET PROPERTY & EQUIPMENT | 3,770,264 | 2,359,571 |
| OTHER ASSETS | | |
| Security Deposits | 27,633 | 21,814 |
| Deferred Finance Costs, Net of Amortization | 59,280 | 62,685 |
| Debt Service Reserve, Net of Current | 175,345 | 122,528 |
| Unrestricted - Cash and Pledges Receivable | 378,431 | 427,126 |
| Restricted - Cash and Pledges Receivable | 10,049 | 8,597 |
| TOTAL ASSETS | \$ 7,367,844 | \$ 6,034,516 |
| CURRENT LIABILITIES | | |
| Accounts Payable | \$ 1,475,883 | \$ 839,928 |
| Line of Credit Payable | 415,000 | 0 |
| Deferred Revenue | 351,413 | 236,116 |
| Accrued Health Insurance | 250,000 | 215,000 |
| Accrued Expenses | 371,046 | 416,972 |
| Accrued Vacation | 200,000 | 215,000 |
| Current Portion of Long Term Debt | 142,780 | 142,780 |
| TOTAL CURRENT LIABILITIES | 3,206,122 | 2,065,796 |
| LONG-TERM DEBT, less current portion | 1,750,942 | 1,771,554 |
| NET FUND BALANCE - Unrestricted | 2,371,449 | 2,153,954 |
| NET FUND BALANCE - Restricted | 39,331 | 43,212 |
| TOTAL LIABILITIES & FUND BALANCE | \$ 7,367,844 | \$ 6,034,516 |

Liquidity and Capital Resources

As of June 30, 2005 HCRS had \$538,912 in cash and cash equivalents, and \$2,565,007 in net accounts receivable. HCRS presently maintains sufficient cash reserves to satisfy liquidity needs. HCRS has established a \$750,000 line of credit with Chittenden Bank which is secured by certain revenues of HCRS. HCRS as of June 30, 2005 had no outstanding balance on this line of credit. No minimum amount of liquidity is required by the Board of Directors.

Properties HCRS owns the following properties:

| <u>Location</u> | <u>Use</u> | <u>Mortgage Holder</u> |
|-------------------------------------|-------------------|-----------------------------------|
| 29 Elm Street, Brattleboro, VT | Outpatient care | Trustee for the Series 1999 Bonds |
| 51 Fairview Street, Brattleboro, VT | Outpatient care | Trustee for the Series 2002 Bonds |
| 10 Lincoln Street, Springfield, VT | Outpatient care | Trustee for the Series 1999 Bonds |
| 14-16 River Street, Windsor, VT | Outpatient care | HCRS owned |

| <u>Location</u> | <u>Use</u> | <u>Mortgage Holder</u> |
|--------------------------------------|--|------------------------|
| 38 Griswold Drive, Bellows Falls, VT | Residential | HCRS owned |
| 476 Woodstock Road, Woodstock, VT | Residential | HCRS owned |
| 49 School Street, Hartford, VT | Outpatient Care | Chittenden Bank |
| 386 River Street, Springfield, VT | Land Held for expansion and facility consolidation | Chittenden Bank |

HCRS leases the following properties:

| <u>Location</u> | <u>Use</u> | <u>Lease Term</u> |
|---------------------------------------|------------------------------------|-------------------|
| 12 Church Street, Bellows Falls, VT | Outpatient care | Dec. 1, 2006 |
| One Hospital Court, Bellows Falls, VT | Outpatient care and admin. Offices | Sept. 30, 2006 |
| 107 Park Street, Springfield, VT | Outpatient care | At Will |
| 109 Park Street, Springfield, VT | Outpatient care | At Will |
| 118 Park Street, Springfield, VT | Outpatient care | June 30, 2007 |
| 112 Hardwood Way, Brattleboro | Outpatient care | Nov.30, 2007 |
| 197 Union Street, Springfield, VT | Outpatient care | At Will |
| 32 Pleasant Street, Woodstock, VT | Outpatient care | At Will |
| Beekman House, Proctorsville, VT | Residential | At Will |

Impact of Inflation In the opinion of management, the operations of HCRS could be adversely affected by a high rate of inflation which could result in increased costs and expenses.

Client Care Programs and Services HCRS is a community-based human services agency specializing in the delivery of services related to mental health, substance abuse and developmental disabilities. The agency served 4,706 people in fiscal year 2004 and 4,666 people in fiscal year 2005. A summary of the programs and services of HCRS is as follows: The Children's program includes therapeutic adventure-based programs, short-term residential crisis stabilization, psychological and psychiatric evaluations, outpatient therapy, respite and emergency respite, a 24/7 crisis support hotline, school-based therapy and a behavioral interventionists program. The Adult Mental Health program includes a walk-in clinic, outpatient therapy, medication management, and a 24/7 crisis support hotline. The Community Rehabilitation Treatment (for adults with mental illness so serious that it interferes with the person's ability to function in the community) includes psychiatric services, individual or group therapy, case management, residential programs, vocational services, and peer and family support. The Developmental Services Division provides services to families cope with developmental disabilities through developmental home placements, supervised apartments, in-home support, vocational, personal care, as well as psychiatric and therapeutic services. HCRS's Alcohol & Drug program includes community education and consultation, outpatient and intensive outpatient services, adolescent treatment, pharmacotherapy, and CRASH, a program for DUI offenders.

Governmental Regulation and Oversight HCRS is subject to regulations and rate formulas established by the State of Vermont and certain of its agencies, including, among others, the following: HCRS is audited on an annual basis by the Vermont Department of Rate Setting, which includes an administrative and operational review. On an annual basis HCRS is subject to

review of its financial audits by the Department of Mental Health Services (“DMH”), the Department of Children and Families, Vermont Department of Health (Alcohol and Drug Abuse Division) and the Department of Aging and Independent Living. HCRS must satisfy the statutory requirements of “Agency Designation” established by the Vermont Legislature and administered by DMH and must provide unaudited monthly financial information to DMH. In connection with the receipt of certain federal grants, HCRS is subject to requirements and review by certain federal departments and agencies, and must provide an annual audit showing compliance with requirements on funded programs, in accordance with OMB Circular A-133.

Competitive Conditions HCRS serves Windsor and Windham Counties in southern Vermont as one of 17 State of Vermont Designated Community Mental Health Providers. Management is aware of numerous individuals, group practices and other smaller non-profit corporations which may provide some of the same services as HCRS and compete with HCRS. While none of these entities can provide nearly the breadth of services nor compete in overall size they do reduce the amount of State funds made available to HCRS as these competitors may provide some State funded services to their clients.

Description of Employees For the fiscal year ended June 30, 2005, HCRS employed 398 people, including, administrative (16); secretarial (24); technical/miscellaneous (2); and professional (356). Of these professional employees a group of approximately 65 will be subject to a collective bargaining unit or labor union agreement. The Agency is currently negotiating this initial agreement.

Contingencies; Pending or Potential Litigation Management is unaware of any contingent obligations. As of the date hereof, there is no litigation pending, or, to the knowledge of HCRS, threatened against HCRS, wherein an unfavorable decision would adversely affect the present or future financial condition of HCRS.

Governance

Directors and Officers. HCRS is governed by a Board of Directors comprised of up to 12 individuals. Each director is elected for a term of three years. The Board of Directors elects from among its members a Board President, Board First Vice President, Board Treasurer and Board Secretary.

| Name | Position | Date Joined Board | Current Occupation |
|--------------------------|----------------------|-------------------|---------------------------|
| Greg Kennedy | President | May 2000 | Vice Pres. – Banking |
| David Mulholland | First Vice-President | April 2002 | Assistant Professor |
| Allen Dougherty | Treasurer | Jan. 2003 | Attorney |
| Anne-Marie Hestes-Harris | Secretary | Dec. 2004 | College Instructor |
| Carlotta Gladding | Board Member | May 2000 | Teacher Aide |
| Edgar Greason | Board Member | Nov. 2000 | Residential Care Operator |
| Nancy Hagstrom | Board Member | March 2005 | Interior Designer |
| Tina Hamel-Paquin | Board Member | Nov. 2003 | Recovery Community Rep. |
| Harold Johnson | Board Member | May 2000 | Retired Managing Director |

Management

Executive and Administrative Officers. Judith Hayward is the Chief Executive Officer of HCRS. She is responsible to the Board of Directors for the administration of HCRS, the effective development of communication and the utilization of resources in the pursuit of HCRS's goals and objectives. In addition to the Chief Executive Officer, other members of management include a Chief Financial Officer, Human Resources Director, Director of Adult Outpatient, Emergency Services and Alcohol and Drug Treatment, Director of Children's Services, Director of Developmental Services and CRT Program Director.

| <u>Name</u> | <u>Position</u> | <u>HCRS Tenure</u> | <u>Credentials & Experience</u> |
|--------------------|-------------------------|---|--|
| Judith Hayward | Executive Director | 10 Years and Last 8 Years as Executive Director | MA Special Ed – Tufts MA – Clinical Psychology – Kennedy University |
| George Karabakakis | Chief Operating Officer | 14 Years | PHD – Clinical Psychology – Wright Institute-Berkley |
| Edmund H. Moore IV | Chief Financial Officer | 2 Years | BA – Economics – Rutgers University CPA – New Hampshire |

APPENDIX A-III

NFI VERMONT, INC.

General Operations NFI Vermont, Inc. (“NFI”) is a Vermont 501(c)(3) not-for-profit public benefit corporation organized in 1984 to provide mental health services to children and adolescents and their families. These services are provided in most of the communities across the state of Vermont. The current annual budget is \$10,828,000. Medicaid fees are the primary source of revenue with additional revenue from contracts with The Vermont Department of Children and Families and from contracts with local educational authorities. NFI is affiliated with North American Family Institute Inc. (“NAFI”) of Danvers, MA. Sources of revenue for NFI include:

| | |
|-------------------------------------|-----|
| Waiver and other Medicaid Fees | 27% |
| Other State Grants and Contracts | 27% |
| Education Contracts | 30% |
| Patient Fees -Third Party Insurance | 4% |
| Other | 12% |

Description of the Project NFI has applied for project funds in the approximate amount of \$1,025,000 to be utilized as follows:

- Approximately \$795,000 will be used to purchase and renovate a 8,800 square foot office building which NFI currently leases at 30 Airport Road, S. Burlington, Vermont. NFI has occupied the 30 Airport Road property since May 15, 2004 and finds that it meets NFI’s needs and that this facility is integral to for NFI’s operations, as this location currently houses a variety of essential administrative functions and program services. NFI intends to occupy the facility on a long term basis and believes that purchasing the building makes economic sense for the following reasons:
 - By acquiring the property, NFI will be able to build up an equity position rather than incurring rent expense.
 - By owning the facility, NFI will be able to administer expansion rather than relying on the landlord to expand the facility as NFI grows.
 - By locking in long term financing, NFI will lock in its occupancy costs rather than being subject to rent escalations over time.
 - It is anticipated that this acquisition will create a positive cash flow savings for NFI, as the debt burden allocable to this facility will be less than rent expense of approximately \$132,000/year under the current lease arrangement.
- Approximately \$30,000 will be used to renovate NFI’s property at 125 School Street, including replacement of the roof and painting.
- Approximately \$22,000 will be utilized to purchase equipment to be used at various locations.

- The balance of the funds will be used to pay certain costs of issuance and to fund a debt service reserve fund.

Financials The audited Financial Statements for NFI's fiscal year ended June 30, 2005, are included in Appendix B-III. Audited Financial Statements for NFI's fiscal years ended June 30, 2004, 2003, and 2002 and unaudited financial statements through April 2006 will be made available upon request to the Underwriter. Reference is made to the audited Financial Statements and the notes contained therein for information in addition to that set forth in this Appendix A-III about NFI's financial position as of June 30, 2005 and results of operations for the fiscal year then ended, as well as a description of its significant accounting policies.

KPMG, LLP, NFI's independent auditor, has not been engaged to perform and has not performed, since the date of its report included in Appendix B-III, any procedures on the financial statements addressed in that report. KPMG LLP also has not performed any procedures relating to this Official Statement.

Summary of Financial Information and Results of Operations

Summary of Results of Operations for the Year Ended June 30, 2005

The following is a summary of financial information about NFI for the year ended June 30, 2005 and is derived from the audited statements of financial position and activities furnished by NFI. For the year ended June 30, 2005, NFI had received total revenues of \$10,108,576 and had expenses of \$10,062,235, resulting in an increase of unrestricted net assets of \$46,341.

Summary of Financial Information for Fiscal Years 2002 through 2006

The following is a summary of the financial information for NFI for its fiscal years 2002 through April 2006 and is derived from the audited financial statements of NFI for fiscal years 2002 through 2005 and the unaudited financial statements of NFI through April for fiscal year 2006.

| <u>Fiscal Year Ending June 30:</u> | <u>April 2006 UNAUDITED 10 Months Year To Date</u> | <u>2005</u> | <u>2004</u> | <u>2003</u> | <u>2002</u> |
|---|---|--------------------|--------------------|--------------------|--------------------|
| Revenues: | | | | | |
| Total Grants and Contracts | \$ 8,410,746 | \$10,071,558 | \$ 8,909,684 | \$ 8,824,968 | \$ 8,274,137 |
| Other Revenue | 5,239 | 37,018 | 24,574 | 47,149 | 58,932 |
| Gross Revenues | \$ 8,415,985 | \$10,108,576 | \$ 8,934,258 | \$ 8,872,117 | \$ 8,333,069 |
| Expenses: | | | | | |
| Salaries & Benefits | \$ 5,353,931 | \$ 6,398,969 | \$ 5,716,523 | \$ 5,368,344 | \$ 4,893,895 |
| Operating Expenses | 817,001 | 919,443 | 734,287 | 730,873 | 653,494 |
| Program Expenses | 181,612 | 210,457 | 196,029 | 189,435 | 177,490 |
| Other Contractual Services | 1,591,106 | 1,863,435 | 1,739,190 | 2,010,322 | 1,889,199 |
| Other Direct Expenses | 353,696 | 557,005 | 241,359 | 257,262 | 231,704 |
| Depreciation | 101,220 | 112,926 | 98,737 | 71,066 | 46,731 |
| Total Expenses | \$ 8,398,566 | \$10,062,235 | \$ 8,726,125 | \$ 8,627,302 | \$ 7,892,513 |
| Surplus (Deficit) | \$ 17,419 | \$ 46,341 | \$ 208,133 | \$ 244,815 | \$ 440,556 |

Summary of Financial Position

| | June 30, 2006 (Unaudited) | June 30, 2005 (Audited) |
|---|------------------------------|----------------------------|
| Current Assets: | | |
| Cash and Cash Equivalents | \$ 27,187 | \$ 27,006 |
| Restricted Cash | 93,849 | 93,178 |
| Accounts Receivable, Net | 1,061,167 | 1,322,553 |
| Prepaid Expenses and Other Current Assets | 64,479 | 58,966 |
| Total Current Assets | 1,246,682 | 1,501,703 |
| Property and Equipment, Net | 1,129,504 | 1,114,475 |
| Other Assets | 94,099 | 96,863 |
| Total Assets | \$ 2,470,285 | 2,713,041 |
| Current Liabilities: | | |
| Accounts and Notes Payable | \$ 23,436 | 67,622 |
| Accrued Payroll and Related Liabilities | 386,714 | 390,589 |
| Current Portion of Long Term Debt | 70,532 | 65,682 |
| Line of Credit | 0 | 169,000 |
| Other Accrued Expenses | 58,107 | 6,046 |
| Due to Affiliates, Short Term | 4,043 | 120,066 |
| Total Current Liabilities | 542,832 | 819,005 |
| Long-Term Debt, net of current portion | 856,336 | 919,247 |
| Due to Affiliated, Long-Term | 104,251 | 54,250 |
| Net Assets | 966,866 | 920,539 |
| Total Liabilities and Net Assets | \$ 2,470,285 | \$ 2,713,041 |

Liquidity and Capital Resources As of June 30, 2005, NFI had \$27,006 in cash and \$1,322,553 in net accounts receivable. NFI and its affiliates, including NAFI, NFI Massachusetts, Inc., NAFI Connecticut, Inc. and NFI North, Inc., have a \$4,000,000 line of credit from TD Banknorth. Borrowings under the line are jointly and severally guaranteed by all affiliates and are collateralized by substantially all of their assets. Borrowings under the line of credit are due upon demand, and the line is subject to annual renewal. As of June 30, 2005, NFI had a \$169,000 outstanding balance on the line of credit and there were no outstanding balances from its affiliates. As of June 30, 2006 there were no borrowings on the line of credit.

Properties NFI owns the following properties:

| <u>Location</u> | <u>Use</u> | <u>Mortgage Holder</u> |
|--|--------------------|--------------------------------------|
| 510 Portland Street St. Johnsbury, VT | Alternative School | Trustee for the Series 2002 Bonds |
| 405 South Willard Street Burlington, VT | Group Home | Trustee for the Series 2002 Bonds |
| 215 Glenn Road Newport, VT | Alternative School | Trustee for the Series 2002 Bonds |
| 125 School Street St. Johnsbury, VT | Alternative School | TD Banknorth, Inc. |

NFI leases the following properties:

| <u>Location</u> | <u>Use</u> |
|---|---|
| 72 Black Mountain Road, Brattleboro, VT | Offices |
| 30 Airport Road, S. Burlington, VT | Administrative/ Program Offices |
| 81 W. Canal Street, Winooski, VT | Alternative School |
| 486 Main Street , Winooski, VT | Short-term Intensive treatment Facility |
| 771 Essex Road, Williston, VT | Residential Home |
| 14 Clinton St. Ste 3, Springfield, VT | Offices |
| 35 Catherine Street, St. Albans, VT | Offices |
| 252 Western Ave, Brattleboro, VT | Staffed Residential Home |
| 188 High Street, Brattleboro, VT | Staffed Residential Home |
| 4 South Main Street, Hardwick, VT | Alternative School |
| 357 Main Street, Barton, VT | Alternative School |

Impact of Inflation In the opinion of management, the operations of NFI could be adversely affected by a high rate of inflation. A high rate of inflation could result in increased costs and expenses.

Client Care Programs and Services NFI provides community based mental health services to children and adolescents and their families. Current service models include three primary types of services. Services provided to consumers who stay overnight in settings include a group home and a group home to divert inpatient hospitalization. Some programs provide intensive case management and wrap around services. Often these services are provided in conjunction with therapeutic foster homes. The third type of program is an alternative educational program. There are six programs to date. The services provided by NFI Vermont are offered to all the residents of Vermont with program locations in 8 communities across the state.

Governmental Regulation and Oversight NFI is subject to regulations and rate formulas established by the State of Vermont and certain of its agencies including but not limited to the following: NFI Vermont is audited annually by the Vermont Department of Rate Setting and is subject to review of its financial audits annually by the Department of Developmental and Mental Health Services, and the Vermont Department of Children and Families. In addition, in connection with the receipt of certain federal grants, NFI is subject to requirements and review by certain federal departments and agencies, and must provide an annual audit showing compliance with requirements on funded programs, in accordance with OMB Circular A-133. NFI also provides unaudited financials to DMH monthly.

Competitive Conditions NFI serves most counties of the state of Vermont. Other mental health centers both private and public also operate in these areas. Also the presence of individual and

small group practices represents some degree of competition with the services provided by NFI. NFI maintains a contractual relationship with the Department of Developmental and Mental Health Services and the Department of Children and Families.

Description of Employees NFI Vermont currently has 225 employees. There is currently no active union involvement and none is anticipated.

Contingencies; Pending of Potential Litigation Management is unaware of any contingent obligations. As of the date hereof, there is no litigation pending, or, to the knowledge of NFI, threatened against NFI, wherein an unfavorable decision would adversely affect the present or future financial condition of NFI.

Governance

Directors and Officers. A Board of Directors comprised of six (6) individuals governs NFI. NFI is an affiliate of North American Family Institute, Inc. The following individuals currently serve as members of the Board:

| <u>Name</u> | <u>Position</u> | <u>Current Occupation</u> |
|-----------------------|------------------------|--|
| Nancy Grossman, Ph.D. | Board President | Consultant |
| Janine Carranza | Secretary | Registered Nurse |
| Danial Nakamoto | Treasurer | NAFI, Executive Director of Admin Services |
| Sheila Gorski | Board Member | Graduate Student |
| Doreen Allison | Board Member | IBM Manager |
| Lois Farnham | Board Member | School Nurse |

Management

Executive and Administrative Officers. **Charles R. Myers, Ph.D., Executive Director** is a Licensed Psychologist Doctorate, Listed in The National Register of Health Service Providers in Psychology with over 25 years experience providing mental health services in a broad range of settings. As Executive Director, responsibilities include management, clinical, administrative, and fiscal functioning. Over the 6 plus years since his becoming Executive Director, the quality of clinical services remains high and the financial health of NFI has improved. Gross revenues have increased from \$6.2 million in 2000 to \$10.8 million in 2006. After several previous years of deficits, there have been net surpluses each of the last five years.

Kathy Pettengill, NFI Director of Operations, has 17 years of experience in non-profit financial management. Prior to joining NFI served in various positions at PPNNE a large multi-state non-profit women's health organization. Over the last 5 years has moved from Business Manager to Director of Operations for NFI Vermont. Current responsibilities are the administrative oversight including fiscal management. A primary focus has been implementing business procedures and processes to ensure effective and efficient financial and administrative systems.

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APPENDIX A-IV

WASHINGTON COUNTY MENTAL HEALTH SERVICES, INC.

General Operations Washington County Mental Health Services, Inc. (“WCMHS”), is a Vermont 501(c)(3) not-for-profit public benefit corporation organized in 1963 to provide mental health and development disability services. The service area for WCMHS consists of Washington County and three towns in Orange County, Vermont. WCMHS has a current budget of approximately \$34,800,000. Medicaid fees are the predominant source of its revenues. Sources of revenue for WCMHS include:

| | |
|--|-----|
| Waiver and other Medicaid Fees | 55% |
| Patient Fees – Medicaid | 28% |
| Non-Medicaid Fees | 4% |
| Other State Grant and Contracts | 1% |
| Department of Developmental and Mental Health Services – Grants and Contracts | 8% |
| Patient Fees – Other Insurance and Self Pay | 1% |
| Local and Other | 3% |

Description of the Project WCMHS has applied for project funds in the approximate amount of \$718,000 to be utilized as follows:

- Approximately \$350,000 will be used to renovate a property owned by WCMHS at 174 Hospital Loop, Berlin, VT. The capital improvements will include replacing the electric heat system, re-insulating the facility, including building new exterior walls, and replacing of the roof.
- Approximately \$213,600 will be used to refinance existing indebtedness (currently at 9.25%) secured by the property at 7 St. Paul St., Montpelier, VT. It is expected that this refinancing will create cash flow savings.
- Approximately \$50,000 will be used to make capital improvements to the property at 7 St. Paul, Montpelier, VT, in an effort to create operational efficiencies, improve patient flow, and improve the environment for the delivery of care.
- The balance of the funds will be used for bond issuance costs and to fund the debt service reserve fund.

Financials The audited Financial Statements for WCMHS’s fiscal year ended June 30, 2005 are attached as Appendix B-IV. Audited Financial Statements for WCMHS’s fiscal years ended June 30, 2004, 2003 and 2002 and unaudited financial statements through April 2006 will be made available upon request to the Underwriter. Reference is made to the audited Financial Statements and the notes contained therein for information in addition to that set forth in this Appendix about WCMHS’s financial position and results of operations, as well as a description of its significant accounting policies

Summary of Financial Information and Results of Operations

Summary of Results of Operations for the Year Ended June 20, 2005

The following is a summary of financial information about WCMHS for the year ended June 30, 2005 and is derived from the audited balance sheet and income statement furnished by WCMHS. For the year ended June 30, 2005, WCMHS received total revenues of \$32,862,933 from operations and had total expenses of \$32,486,716, resulting in a net surplus of \$376,217. The largest portion of WCMHS's revenue from its primary sources, Waiver and Medicaid, is received weekly for Medicaid and semi-monthly for Waiver. Expenses are incurred daily over the year.

Summary of Financial Information for Fiscal Years 2002 Through 2006

The following is a summary of the financial information for WCMHS for its fiscal years 2002 through 2006 and is derived from the audited financial statements of WCMHS for fiscal years 2002 through 2005 and the unaudited financial statements of WCMHS through April for fiscal year 2006.

| Fiscal Year Ending June 30: | April 2006 UNAUDITED 10 Months Year To Date | <u>2005</u> | <u>2004</u> | <u>2003</u> | <u>2002</u> |
|------------------------------------|--|--------------------|--------------------|--------------------|--------------------|
| Revenues: | | | | | |
| Client Fees | \$ 26,428,756 | \$28,874,704 | \$ 26,346,289 | \$ 24,488,655 | \$23,582,557 |
| State Contract (Div. Of. M.H.) | 42,644 | 43,155 | 273,681 | 403,658 | 362,221 |
| State Grant (Div. Of M.H.) | 215,238 | 389,139 | 0 | 13,171 | 34,967 |
| Other State Contracts & Grants | 2,243,806 | 2,674,963 | 2,284,325 | 1,946,205 | 1,605,272 |
| Local Revenue | 228,036 | 248,206 | 136,429 | 11,484 | 86,422 |
| Other Revenue | 507,289 | 632,766 | 496,083 | 493,854 | 671,248 |
| Gross Revenues | \$ 29,665,769 | \$32,862,933 | \$ 29,536,807 | \$ 27,357,027 | \$26,342,687 |
| Expenses: | | | | | |
| Salaries & Benefits | 21,662,089 | \$21,222,319 | \$ 18,662,373 | \$ 17,732,825 | \$16,961,199 |
| Other Personnel Costs | 4,124,656 | 7,720,855 | 6,870,244 | 6,648,460 | 6,140,055 |
| Operating Expenses | 920,822 | 1,161,673 | 1,133,758 | 1,045,735 | 1,099,742 |
| Program Expenses | 615,423 | 721,573 | 711,447 | 494,201 | 552,146 |
| Other Expenses | 1,385,306 | 1,335,615 | 1,249,095 | 1,232,274 | 1,315,768 |
| Depreciation | 268,789 | 324,681 | 300,473 | 290,118 | 265,310 |
| Total Expenses | \$ 28,977,085 | \$32,486,716 | \$ 28,927,390 | \$ 27,443,613 | \$26,334,220 |
| Surplus (Deficit) | \$ 688,684 | \$ 376,217 | \$ 609,417 | \$ (86,586) | \$ 8,467 |

Summary of Financial Position

| | April 30, 2006 (Unaudited) | June 30, 2005 (Audited) |
|---|-------------------------------|----------------------------|
| Current Assets: | | |
| Cash & Cash Equivalents | \$ 3,713,399 | \$ 1,912,380 |
| Accounts Receivable | 2,298,965 | 1,812,653 |
| Other Current Assets | 348,539 | 403,941 |
| Total Current Assets | \$ 6,360,903 | \$ 4,128,974 |
| Fixed Assets | 6,824,908 | 6,556,006 |
| Less Accumulated Depreciation | (3,311,979) | (3,055,141) |
| Net Fixed Assets | \$ 3,512,929 | \$ 3,500,865 |
| Other Non Current Assets | 122,563 | 582,436 |
| TOTAL ASSETS | \$ 9,996,395 | \$ 8,212,275 |
| Liabilities | | |
| Accounts Payable | \$ 3,442,998 | \$ 2,425,445 |
| Deferred Revenue | 428,349 | 293,307 |
| Debt and Capital Leases | 2,860,017 | 2,917,174 |
| Total Liabilities | 6,731,364 | 5,635,926 |
| Net Assets | 3,265,031 | 2,576,349 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 9,996,395 | \$ 8,212,275 |

Liquidity and Capital Resources As of June 30, 2005, WCMHS had \$ 1,912,380 in cash and cash equivalents, and \$1,812,653 in net accounts receivable. WCMHS presently maintains sufficient cash reserves to satisfy its liquidity needs. WCMHS has established a \$1,850,000 line of credit with Chittenden Bank which is secured by certain revenues of WCMHS. There is currently no balance outstanding under the line of credit. No minimum amount of liquidity is currently required by the Board of Directors.

Properties

WCMHS owns the following properties:

| Location | Use | Mortgage Holder |
|--|---|----------------------------|
| 174 Hospital Loop, Fisher Road, Berlin, VT | Administration and Emergency Services | Trustee for the 2002 Bonds |
| 13 Kynoch Ave., Barre, VT | Short-term intensive treatment facility | None |
| 15 Arioli Ave., Barre, VT | Residential Program | Trustee for the 2002 Bonds |
| 2 Moody Court, Waterbury, VT | Offices | Trustee for the 2002 Bonds |
| 7 St. Paul St., Montpelier, VT | Group Home | HUD Loan |
| 201 Hill Street, Barre, VT | Residential Program | Trustee for the 1999 Bonds |
| 285 S. Main St., Barre, VT | Group Home | Trustee for the 2002 Bonds |

| Location | Use | Mortgage Holder |
|----------------------------------|---------------------------------------|----------------------------|
| 50 Grandview Dr., Barre, VT | Offices | Trustee for the 1999 Bonds |
| 90 Barre St., Montpelier, VT | Apartments | None |
| 260 Beckley Hill Rd., Barre, VT | Family Services | Trustee for the 2002 Bonds |
| 128 Bailey Street, Barre, VT | Residence | None |
| 7 Baldwin St., Montpelier, VT | Day Treatment | Trustee for the 2002 Bonds |
| 157 Barre St., Montpelier, VT | Day Treatment | Trustee for the 2002 Bonds |
| 23 Jones Brothers Way, Barre, VT | Outpatient Treatment | Trustee for the 2002 Bonds |
| 62 Barre St., Montpelier, VT | Group Home | Trustee for the 1999 Bonds |
| 23 Summer St., Barre, VT | Offices and Day Treatment | Trustee for the 1999 Bonds |
| 9 Heaton St., Montpelier, VT | CRT | Trustee for the 1999 Bonds |
| Heaton Street Lot | | Trustee for the 2002 Bonds |
| Foote Brook Rd., Johnson, VT | Leased to Laraway | Trustee for the 1999 Bonds |
| 225 Route 14, E. Montpelier, VT | Residential Program | Trustee for the 2002 Bonds |
| 286 Hospital Loop, Berlin, VT | Administration and Emergency Services | Chittenden Bank |

WCMHS leases the following properties:

| Location | Use |
|--|----------------------------------|
| *22 West St., Barre, VT | Outpatient counseling |
| *56 State Street, Montpelier, VT | Office space |
| *39 Evergreen Dr., Barre, VT | Residence for up to 4 consumers. |
| *4210 VT Rte. 12, Apt. #12, Berlin, VT | Residence for up to 3 consumers. |
| *62 Main St., Waterbury, VT | Residence for up to 2 consumers. |
| *2045 VT Rte 14 South, E. Montpelier, VT | Residence for up to 3 consumers. |
| *1101 Partridge Rd., Barre, VT | Residence for up to 2 consumers. |
| *103 South Main St., Barre, VT | Offices |
| *196 South Main St., Barre, VT | Residence for up to 2 consumers. |
| *50 Wellington, Barre, VT | Residence for up to 2 consumers. |
| *112 Summer St., Barre, VT | Residence for up to 2 consumers. |
| *207 Railroad St., Williamstown, VT | Residence for up to 2 consumers. |

Impact of Inflation In the opinion of management, the operations of WCMHS could be adversely affected by an unusually high rate of inflation. Program and service adjustments would have to be made to stay within the budgetary limitations.

Client Care Programs and Services WCMHS's services include the following major programs:

Center for Counseling and Psychological Services

- Outpatient services, which are clinic-based and include individual psychotherapy, family therapy, psychiatry and play therapy.
- Trauma treatment
- Elder Care Services

Children, Youth and Family Services

- Outpatient services, which are clinic-based and include individual psychotherapy, family therapy, psychiatry and play therapy.
- Programs for children with autism spectrum disorders
- School based Success Beyond Six services
- Intensive family based services and transition programs for youth preparing for independent living.

Community Rehabilitation and Treatment Program

- Comprehensive Case Management and counseling Services to consumers with long term, serious mental illness through day treatment, vocational, rehabilitative and residential programs.

Community Developmental Services

- Provides services to individuals with developmental disabilities, autism and children with pervasive developmental disorders.

Intensive Care Services

- 24-hour, 7 day-a-week crises intervention and assessment programs covering the WCMHS catchment area.
- Residential hospitalization diversion program for children and adults with on-site psychiatric, nursing and mental health services is provided through the Home Intervention Program

Substance Abuse services are provided through the Central Vermont Substance Abuse Services.

Governmental Regulation and Oversight WCMHS is subject to regulations established by the State of Vermont and the Federal government. Oversight includes:

- Re-designation by the Vermont Department of Health every four years. These determinations will be in place until such a time that the next review is completed.
- Adult and Child and Family Mental health Services program reviews occur every 2 years.
- Developmental Services reviews are annual.
- Review of financial audits on an annual basis by the Vermont Department of Health
- Annual Medicaid audit
- Unaudited monthly financial information to the Vermont Department of Health.
- WCHMS is subject to requirements and review by certain federal departments and agencies, and must provide an annual audit showing compliance with requirements on funded programs, in accordance with OMB Circular A-133.

Competitive Conditions WCMHS serves Washington County, Vermont and the towns of Orange, Washington and Williamstown, Vermont in Orange County. Management estimates that there are 50 private psychologists who compete with WCMHS in its service area and that this competition has no negative effects on WCMHS.

Description of Employees For the fiscal year ended June 30, 2005, WCMHS employed 484 full time employees and approximately 200 hourly employees.

The categories of full time employees are as follows:

| | |
|----------------------|------------|
| Administrative | 26 |
| Secretarial/Clerical | 12 |
| Professional | 435 |
| Technical Support | 4 |
| Skilled Labor | 2 |
| Unskilled Labor | <u>5</u> |
| Total FTE | <u>484</u> |

Contingencies; Pending or Potential Litigation Management believes that WCMHS may be a defendant in three potential legal actions. An employee, using their own vehicle, struck a parked car and wants damages paid; Landlord is suing for damages to property previously rented by WCMHS; Client assaulted individual who claims inadequate/improper supervision alleges WCMHS did not supervise client properly. There are no other known contingencies or pending or threatened litigation and, in the opinion of management, in the event that any one or all of the actions described above is determined adversely to WCMHS, such determination would not have a material adverse effect on the present or future financial condition of WCMHS.

Governance

Directors and Officers. WCMHS is governed by a Board of Directors comprised of 14 individuals. Each director is elected for a term of one year. The Board of Directors elects from among its members a Board President, Board Vice President, Board Treasurer and Board Secretary.

| <u>Name</u> | <u>Position</u> | <u>Current Occupation</u> |
|--------------------|---------------------------|---|
| Norma Fleury | Board President | Homeless Resource Coordinator for the Good Samaritan Haven |
| Eileen Blake | Vice President | President/CEO of the Central Vermont area Visiting Nurse Association |
| Robert Harvey | Board Treasurer | Retired from Northrop-Grumman |
| Donna Izor | Secretary | Vice President of Medical Group Practices and Community Health and Education for Central Vermont Medical Center |
| Tony Anderson | Board member | Employee of National Life Insurance |
| Caroline Gillespie | Board member | Homemaker |
| Sheldon Keitel | Community-at-large member | Not currently employed |
| Irene Badeau | Community-at-large member | Currently on a leave of absence for health issues |

| <u>Name</u> | <u>Position</u> | <u>Current Occupation</u> |
|--------------------|------------------------|---|
| Joan Lamere | Board member | Coordinator and of Services for the Deaf. Certified EAP Counselor providing services to private contractors |
| Laurie Morrow, PhD | Board member | Self-employed |
| Bernadette Rose | Board member | Member of the WCMHS Children's Local Program Standing Committee. Not currently employed. |
| Carole MacIntyre | Board member | Retired from teaching |
| Donny Osman | Board member | Former legislator, six years as State Representative. Theater company owner, actor, solo performer, teacher and director. Currently, Coordinator of the Central Vermont Early Childhood Council |
| Paul Zabrieskie | Board member | Weatherization Program Director, Central Vermont Community Action Council |

Management

Paul Dupre, Executive Director, has been an employee of WCMHS for 28 years and Executive Director for six years. Paul has a Master's of Theology from the University of St. Paul, Ottawa, Canada as well as a Bachelor's of Theology and Bachelor's of Art Degrees.

Prior positions with WCMHS included Director of Community Rehabilitation and Training Program, Director of CRT Community Services and Director of CRT Residential Services.

Paul is very active in the community. His community experience includes four years as the Mayor of the City of Barre, Vermont; Barre City Alderman for ten years and Board Member of several local non-profit service agencies.

Janice Guyette, Chief Financial Officer, has been with WCMHS for 8 years and CFO for six years. She has a degree from Champlain College, Burlington, Vermont. She has been a Certified Public Accountant in the State of Vermont for thirteen years.

Prior career experience includes 7 years of public accounting and audits of non-profits and governmental agencies; accountant and management positions for other local organizations.

Community involvement includes prior Select board and School Board member as well as several positions with child and family oriented organizations.

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APPENDIX A-V

NORTH AMERICAN FAMILY INSTITUTE, INC.

(GUARANTOR)

General Operations. North American Family Institute, Inc. (“NAFI”) is a Massachusetts 501(c)(3) not-for-profit public benefit corporation organized in 1974 with a mission to create diverse and innovative services to help individuals assume control over their lives and become responsible and productive citizens. NAFI is the parent company with four subsidiary corporations, which are NAFI Connecticut, Inc., NFI North, Inc., NFI Massachusetts, Inc. and NFI Vermont, Inc. (collectively with North American Family Institute, Inc., the “NAFI Group”). NAFI is the sole member of the other entities that comprise the NAFI Group. As a multi-state organization, NAFI delivers a wide array of services for children, adults and families who need guidance, mental health, educational and integrated systems of treatment and support. NAFI’s services are provided as an alternative to state-run institutions, clinics and hospital systems. NAFI’s service delivery model emphasizes the creation of respectful, supportive and healing environments referred to as “normative communities”. These communities support positive culture and empower clients to engage in mutual help, personal growth and accountability. NAFI seeks to equip its clients and families with skills that enhance their autonomy and self-care.

NAFI provides services in 4 states including: Florida, Maryland, Virginia and Rhode Island. NAFI’s annual budget for fiscal year 2007 is \$23,000,000. State contracts with the 4 states are the major source of revenues for the NAFI Group. Revenue for NAFI includes:

| | |
|---|-----|
| State Contracts | 92% |
| Medicaid & Other Federal | 5% |
| Education Contracts | 1% |
| Other (Bureau of Nutrition, Consulting, Private Pays Misc.) | 2% |

Financials. The unaudited Financial Statements for NAFI’s fiscal year ended June 30, 2006, are included in Appendix B-V. Reference is made to the unaudited Financial Statements for information in addition to that set forth in this Appendix A-V about NAFI’s financial position as of June 30, 2006 and results of operations for the fiscal year then ended.

Summary of Financial Information and Results of Operations

Summary of Results of Operations for the Year Ended June 30, 2006 (Unaudited)

The following is a summary of financial information about NAFI for the year ended June 30, 2006 and is derived from the unaudited statements of financial position and activities included in Appendix B-V. For the year ended June 30, 2006, NAFI had total revenues of \$24,000,171 and expenses of \$24,207,839, resulting in a decrease of unrestricted net assets of \$207,688. The largest portion of NAFI’s revenue from its primary source, state governments, is billed monthly and received regularly. Expense is incurred daily over the year.

Summary of Financial Position

| | June 30, 2006 (Unaudited) | June 30, 2005 (Unaudited) |
|---|------------------------------|------------------------------|
| Current Assets: | | |
| Cash and equivalents | \$ 3,240,336 | \$ 2,833,789 |
| Accounts Receivable, net | 2,345,001 | 1,910,968 |
| Prepaid expenses and other current assets | 177,700 | 477,123 |
| Due from affiliate | 530,768 | 436,602 |
| Total Current Assets | \$ 6,293,805 | \$ 5,658,482 |
| Property and Equipment | 13,350,999 | 13,204,687 |
| Less: accumulated depreciation | (3,870,626) | (2,939,390) |
| Net Property and Equipment | 9,480,373 | 10,265,297 |
| Investments | 383,753 | 373,847 |
| Due from affiliate | 0 | 751,744 |
| Other assets | 58,011 | 155,965 |
| TOTAL ASSETS | \$16,215,942 | \$17,205,335 |
| Current Liabilities: | | |
| Current portion of long-term debt and capital leases | 123,483 | 116,153 |
| Accounts payable | 105,044 | 43,695 |
| Accrued payroll and related liabilities | 911,272 | 896,338 |
| Other accrued expenses | 719,596 | 720,989 |
| Deferred revenue | 5,580,295 | 6,297,333 |
| Due to affiliate short-term | 0 | 25,969 |
| Total Current Liabilities | \$ 7,439,689 | \$ 8,100,477 |
| Long-term debt and capital leases, net of current portion | 2,393,422 | 2,514,359 |
| TOTAL LIABILITIES | \$ 9,833,111 | \$10,614,836 |
| Net Assets: | | |
| Unrestricted | 6,521,918 | 6,149,664 |
| Net gain (loss) unrestricted | (188,388) | 372,254 |
| Temporarily restricted | 68,581 | 27,831 |
| Net gain (loss) temporarily restricted | (19,280) | 40,750 |
| Total Net Assets | \$ 6,382,831 | \$ 6,590,499 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 16,215,942 | \$ 17,205,335 |

Liquidity and Capital Resources. As of June 30, 2006, NAFI had \$3,240,336 in cash and cash equivalents and \$2,345,002 in net accounts receivable. NAFI currently maintains sufficient cash reserves to satisfy its liquidity needs. The NAFI Group has a \$4,000,000 line of credit from TD Banknorth. Borrowings under the line are jointly and severally guaranteed by the constituent entities of the NAFI Group and are secured by substantially all of their assets. Borrowings under the line of credit are due upon demand, and the line is subject to annual renewal. At June 30, 2006, NAFI Group had no amounts outstanding on the line of credit.

Properties. NAFI owns the following properties, subject to mortgages, at the following locations:

| <u>Location</u> | <u>Use</u> | <u>Mortgage Holder</u> |
|--|---------------------------|-----------------------------------|
| 11 Country Place Lane, Litchfield, CT | CT Touchstone Program | First National Bank of Litchfield |
| 63 Prospect Street, Waterbury, CT | CT Stepping Stone Program | First National Bank of Litchfield |
| 280 Pequot Ave, Warwick, RI | RI Oakland Beach | TD Banknorth, Inc. |
| 98 Russell Street, Lewiston, ME | ME Dirigo Place | Maine State Housing Authority |
| Wayside Ave, Bridgton, ME | ME Bridge Crossing | Maine State Housing Authority |
| Davenport Road, Jefferson, NH | NH Davenport Program | Farmer's Home Loan |
| 151 Ridge Street, Pawtucket, RI | RI Challenges | TD Banknorth, Inc. |
| 45 Dover Rd., New Britain, CT | CT New Britain | TD Banknorth, Inc. |
| 313 N. Windham Rd., Windham, CT | CT Safe Home | First National Bank of Litchfield |

NAFI leases the following properties:

| <u>Location</u> | <u>Use</u> |
|--|--------------------------------|
| 10 Harbor Street, Danvers, MA | NAFI Administrative Offices |
| 1031 E. Monument Street, Baltimore, MD | MD Harbor House |
| 7960 Henryton Rd, Marriottsville, MD | MD TOYC |
| 350 Duncan Drive, Providence, RI | RI Alternatives Program |
| 648 Main Street, Warren, RI | RI Main Street |
| 735 New London Ave, Cranston, RI | RI Ace Program |
| 651 George Washington Hwy, Lincoln, RI | RI Lincoln House |
| 516 N. Charles St., Baltimore, MD | MD Regional Office |
| 789 Park Ave., Cranston, RI | RI Professional Parent Program |

Impact of Inflation In the opinion of management, the operations of NAFI could be adversely affected by a high rate of inflation. A high rate of inflation could result in increased costs and expenses.

Client Care Programs and Services NAFI provides a variety of community based and residential services to children, adolescents, adults and families. Current service models include services for male and female juvenile offenders, educational programs, therapeutic foster parent programs, shelters and geriatric services. Not all services provided by NAFI are provided in each of the 4 states. Services are generally contracted through the respective agencies in that state.

Governmental Regulation and Oversight NAFI is subject to regulations and rate formulas established by the appropriate agencies of the states in which it provides services. NAFI programs in each state are subject to financial oversight by the designated state agency that contracts for the respective services. In addition, in connection with the receipt of certain federal grants, NAFI is subject to requirements and review by certain federal departments and agencies, and must provide an annual audit showing compliance with the requirements on funded programs, in accordance with OMB Circular A-133.

Competitive Conditions NAFI provides a variety of services in 4 states. Management believes that NAFI successfully competes in each state with other not-for-profit agencies and for profit agencies.

Contingencies; Pending or Potential Litigation Management is unaware of any contingent obligations. As of the date hereof, there is no litigation pending, or, to the knowledge of NAFI, threatened against NAFI, wherein an unfavorable decision would adversely affect the present or future financial condition of NAFI.

Description of Employees NAFI currently has 490 employees. There is currently no active union involvement and none is anticipated.

Directors and Officers NAFI is governed by a Board of Directors comprised of 11 individuals. The Board of Directors elects from among its members a Chair of the Board, Treasurer and Clerk.

OFFICERS

| Title | Name | Affiliations |
|-----------------------|--------------------|--|
| Chairman of the Board | Howard Rich | Retired Business |
| President | Dr. Yitzhak Bakal | President, North American Family Institute, Inc. |
| Treasurer | Daniel Nakamoto | Executive Director of Administration Services, North American Family Institute, Inc. |
| Clerk | Dr. Barbara Vinick | Professor of Sociology, Boston University |

BOARD OF DIRECTORS

| Name | Affiliations |
|--------------------|--|
| Dr. Barbara Vinick | Professor of Sociology, Boston University |
| Margaret N. Zusky | Senior Journals Editor, Blackwell Publishing Company |
| Howard Rich | Retired Business |
| Rev. Kent Johnson | Episcopal Minister |
| James Zafris | Retired Bank President |
| Dr. William Madaus | Retired President, Social Services Organization |
| Roger Marcorelle | Banking Vice President |
| Dr. Nancy Grossman | Consultant |
| Dennis Lewis | Director of Operations, Careco |

Management

President: Dr. Yitzhak Bakal, M.S.W., A.C.S.W., and Ed.D. Since 1972, Founder and President of the North American Family Institute, Inc. Former Assistant Commissioner of Institutions, Department of Youth Services, Commonwealth of Massachusetts and Director of Special Services, Jewish Family and Children's Services. He has had numerous consultations with national and state organizations on deinstitutionalization initiatives and made countless presentations on topics ranging from treatment alternatives, family work and intervention strategies. He has served as a Field Faculty member for: Hebrew University, Jerusalem; University of Connecticut; Brandeis University; and Harvard University. Dr. Bakal has authored numerous books and articles closing institutions, rehabilitation of youthful offenders, and treatment approaches.

Executive Director of Administrative Services: Daniel Nakamoto, M.S.P. Mr. Nakamoto has been with NAFI since 2000. He has held a number of senior level positions with the Commonwealth of Massachusetts – Undersecretary of Human Services and Assistant Secretary of Facility Consolidations, Executive Office of Health and Human Services; Assistant Commissioner for Field Operations, Department of Mental Health; and Director of Contract Administration, Department of Youth Services. Past private sector positions include: Vice President of Operations, Justice Resource Institute and Deputy Director, Crime and Justice Foundation. Current civic involvement includes: President, Building Materials Resource Center and Treasurer, Boston Building Materials Cooperative.

Chief Financial Officer: Pamela S. Bruce, M.B.A. Ms. Bruce has been with NAFI since 1998. She started as the NAFI Senior Staff Accountant and was promoted to Comptroller in 2000 and to CFO in 2005. She worked previously at Dolan-Jenner Industries and Fishery Products International, USA.

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APPENDIX B

FINANCIAL STATEMENTS OF THE PROVIDERS AND GUARANTOR

| | |
|---|----------------|
| Clara Martin Center Audited Financial Statements (For the fiscal year ended June 30, 2005) | APPENDIX B-I |
| Health Care and Rehabilitation Services of Southeastern Vermont, Inc. Audited Financial Statements (For the fiscal year ended June 30, 2005) | APPENDIX B-II |
| NFI Vermont, Inc. Audited Financial Statements (For the fiscal year ended June 30, 2005) | APPENDIX B-III |
| Washington County Mental Health Services, Inc. Audited Financial Statements (For the fiscal year ended June 30, 2005) | APPENDIX B-IV |
| North American Family Institute, Inc. UNAUDITED Financial Statements (for the year ended June 30, 2006) | APPENDIX B-V |

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APPENDIX B-I

**Clara Martin Center
Audited Financial Statements
(For the fiscal year ended June 30, 2005)**

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The Clara Martin Center
FINANCIAL STATEMENTS
June 30, 2005

The Clara Martin Center
TABLE OF CONTENTS
June 30, 2005

| | <u>Page</u> |
|---|-----------------|
| INDEPENDENT AUDITOR'S REPORT | 1 |
| FINANCIAL STATEMENTS | |
| Statement of Financial Position | 2 |
| Statement of Activities | 3 |
| Statement of Cash Flows | 4 |
| Notes to Financial Statements | 5 |
| | <u>Schedule</u> |
| SUPPLEMENTARY INFORMATION | |
| Schedule of Client Fees | 1 |
| Schedule of Department of Mental Health Contracts | 2 |
| Schedule of Other Contracts | 3 |
| | <u>Report</u> |
| REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS | 1 |

Kittell Branagan & Sargent

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of The Clara Martin Center

We have audited the accompanying statement of financial position of The Clara Martin Center (a nonprofit organization) for the year ended June 30, 2005 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Clara Martin Center for the year ended June 30, 2005 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of The Clara Martin Center taken as a whole. The supplementary information on schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Kittell Branagan & Sargent

St. Albans, Vermont
August 17, 2005

The Clara Martin Center
STATEMENT OF FINANCIAL POSITION
June 30, 2005

ASSETS

CURRENT ASSETS

| | |
|---------------------|---------------|
| Cash | \$ 762,041 |
| Accounts receivable | 220,920 |
| Other receivables | 230,468 |
| Prepaid expenses | <u>76,826</u> |

TOTAL CURRENT ASSETS

1,290,255

PROPERTY AND EQUIPMENT, less accumulated depreciation

1,044,006

OTHER ASSETS

| | |
|--|---------------|
| Bond Trust Funds | 179,627 |
| Bond Issuance Costs, net of accumulated amortization of \$6,092 | <u>48,733</u> |

TOTAL OTHER ASSETS

228,360

TOTAL ASSETS

\$ 2,562,621

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

| | |
|--|---------------|
| Current portion of long-term debt | \$ 55,000 |
| Accounts payable | 260,083 |
| Deferred revenue | 104,973 |
| Accrued expenses | 81,151 |
| CSP Payee Accounts | 8,253 |
| Accrued compensated absences and wages | <u>61,237</u> |

TOTAL CURRENT LIABILITIES

570,697

LONG-TERM DEBT, less current portion

848,965

NET ASSETS

1,142,959

TOTAL LIABILITIES AND NET ASSETS

\$ 2,562,621

See Accompanying Notes to Financial Statements.

The Clara Martin Center
STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2005

| | Total Agency | Children & Family Program | Community Support | Adult Walk-In | Emergency | Subtotal Mental Health | Substance Abuse | Non-Mental Health | Admin- istration |
|---|---------------------|---------------------------------|----------------------|------------------|----------------|------------------------------|--------------------|----------------------|---------------------|
| REVENUE | | | | | | | | | |
| Client fees, net | \$ 4,334,345 | \$ 2,209,915 | \$ 1,440,798 | \$ 377,031 | \$ 28,345 | \$ 4,056,089 | \$ 278,256 | \$ - | \$ - |
| State contracts & grants: | | | | | | | | | |
| Dept. of Mental Health: | | | | | | | | | |
| Grant in aid | 208,948 | 71,808 | 5,541 | 7,946 | 91,711 | 177,006 | 31,942 | - | - |
| Contracts | 149,164 | 91,589 | 55,575 | - | - | 147,164 | - | - | 2,000 |
| Other contracts | 444,458 | 45,553 | 57,519 | 39,581 | 7,150 | 149,803 | 278,655 | - | 16,000 |
| Local revenue | 425,759 | 368,602 | 3,890 | 45,067 | - | 417,559 | 8,200 | - | - |
| Other revenue | 424,713 | 38,036 | 151,401 | 89,217 | - | 278,654 | 22,103 | - | 123,956 |
| TOTAL REVENUE | <u>5,987,387</u> | <u>2,825,503</u> | <u>1,714,724</u> | <u>558,842</u> | <u>127,206</u> | <u>5,226,275</u> | <u>619,156</u> | <u>-</u> | <u>141,956</u> |
| EXPENSES | | | | | | | | | |
| Salaries | 3,091,332 | 1,180,228 | 664,447 | 373,125 | 92,009 | 2,309,809 | 316,064 | - | 465,459 |
| Fringe Benefits | 829,725 | 331,531 | 194,600 | 78,646 | 22,847 | 627,624 | 83,430 | - | 118,671 |
| Contracted Services | 891,510 | 410,881 | 284,873 | 63,813 | 3,855 | 763,422 | 75,323 | - | 52,765 |
| Operating Expenses | 443,848 | 122,048 | 70,895 | 36,975 | 11,877 | 241,795 | 44,912 | - | 157,141 |
| Program Expenses | 141,230 | 34,324 | 81,014 | 618 | 11,082 | 127,038 | 12,556 | - | 1,636 |
| Travel and transportation | 107,519 | 44,407 | 36,599 | 2,597 | 1,519 | 85,122 | 4,881 | - | 17,516 |
| Building Expenses | 236,853 | 74,350 | 60,019 | 21,077 | 4,812 | 160,258 | 50,204 | - | 26,391 |
| Allocation of Indirect Costs: | | | | | | | | | |
| Administration | - | 312,567 | 215,376 | 81,705 | 2,207 | 611,855 | 85,768 | - | (697,623) |
| TOTAL EXPENSES | <u>5,742,017</u> | <u>2,510,336</u> | <u>1,607,823</u> | <u>658,556</u> | <u>150,208</u> | <u>4,926,923</u> | <u>673,138</u> | <u>-</u> | <u>141,956</u> |
| CHANGE IN NET ASSETS RESULTING FROM OPERATIONS | 245,370 | \$ 315,167 | \$ 106,901 | \$ (99,714) | \$ (23,002) | \$ 299,352 | \$ (53,982) | \$ - | \$ - |
| NET ASSETS, BEGINNING | <u>897,589</u> | | | | | | | | |
| NET ASSETS, ENDING | <u>\$ 1,142,959</u> | | | | | | | | |

See Accompanying Notes to Financial Statements

The Clara Martin Center
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2005

| | |
|---|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Increase in net assets | \$ 245,370 |
| Adjustments to reconcile changes in net assets to net cash provided by activities: | |
| Depreciation and amortization | 86,050 |
| Gain on Sale of Property and Equipment | (7,868) |
| (Increase) Decrease in: | |
| Accounts receivable | (28,991) |
| Other receivables | (26,720) |
| Prepaid expenses and other assets | (1,873) |
| Increase (Decrease) in: | |
| Accounts payable | 30,530 |
| Accrued expenses | (21,004) |
| Deferred revenue | <u>(8,868)</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>266,626</u> |
| CASH FLOWS USED IN INVESTING ACTIVITIES | |
| Proceeds from sale of property and equipment | 16,220 |
| Purchase of property and equipment | <u>(53,944)</u> |
| NET CASH USED IN INVESTING ACTIVITIES | <u>(37,724)</u> |
| CASH FLOWS USED IN FINANCING ACTIVITIES | |
| Principal payments on long-term borrowings and capital lease obligations | <u>(60,375)</u> |
| NET INCREASE IN CASH | 168,527 |
| CASH AT BEGINNING OF YEAR | <u>593,514</u> |
| CASH AT END OF YEAR | <u>\$ 762,041</u> |
| SUPPLEMENTAL DISCLOSURES | |
| Cash payments for interest expense | <u>\$ 54,147</u> |

See Accompanying Notes to Financial Statements.

The Clara Martin Center
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Clara Martin Center (the Agency) is an independent, not-for-profit corporation organized to provide services in the areas of mental health and related services and is exempt from income taxes under Section 501 (c)(3) of the Internal Revenue Code. In addition, the agency qualifies for the charitable contribution deduction under Section 170 (b)(1)(a) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

Cash Equivalents

For purposes of the statement of cash flows, the Agency considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents.

Depreciation

The cost of property, equipment and leasehold improvements is depreciated over the estimated useful life of the assets using the straight-line method. Estimated useful lives range from 3 to 30 years.

State Grants

The Agency receives a number of grants from and has entered into various contracts with the State of Vermont related to the delivery of mental health and developmental services.

Vacation Pay and Fringe Benefits

Vacation pay is accrued and charged to the programs when earned by the employee. Fringe benefits are allocated to the appropriate program expense based on the percentage of program salaries to total salaries.

Revenue

Revenue from federal, state and other sources is recognized in the period earned.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The Clara Martin Center
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 2 ACCOUNTS RECEIVABLE

Accounts receivable of the Agency consisted of the following at June 30, 2005:

| | |
|---------------------------------|-------------------|
| First party (clients) | \$ 28,092 |
| Third party insurance | 86,775 |
| Medicaid - Fees | 71,671 |
| - PATH | 22,547 |
| - Waiver | 20,610 |
| - Quitting Time | <u>12,954</u> |
| | 242,649 |
| Allowance for doubtful accounts | <u>(21,729)</u> |
| | <u>\$ 220,920</u> |

NOTE 3 OTHER RECEIVABLES

Other receivables of the Agency consisted of the following at June 30, 2005:

| | |
|----------------------|-------------------|
| RWJ Grant | \$ 80,000 |
| School contracts | 68,564 |
| VA contract | 3,801 |
| HARC | 2,839 |
| SRS | 500 |
| Probation – Parole | 13,382 |
| Supported Employment | 2,000 |
| CVSAS | 24,354 |
| Career Start | 30,515 |
| DMH | 2,500 |
| INT – RNB | 271 |
| Miscellaneous | <u>1,742</u> |
| | <u>\$ 230,468</u> |

The Agency received the majority of its revenue from the State of Vermont. Future ability to fund operations is dependent upon maintaining funding from this source.

The Clara Martin Center
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 4 PROPERTY AND EQUIPMENT

The Agency had property and equipment consisting of the following at June 30, 2005:

| | |
|---|---------------------|
| Land and land improvements | \$ 72,295 |
| Buildings and building improvements | 1,428,185 |
| Program equipment | 17,237 |
| Office equipment | 205,121 |
| Vehicles | 35,726 |
| Computer system | <u>166,229</u> |
| | 1,924,793 |
| Accumulated Depreciation and Amortization | <u>(880,787)</u> |
| | <u>\$ 1,044,006</u> |

NOTE 5 RESTRICTED CASH

The Clara Martin Center has entered into loan agreements to aid in the funding of bond issuances. Under the terms of the agreements amounts have been set aside for future capital acquisitions and the payment of principal and interest. At June 30, 2005, these amounts totaled \$179,627.

NOTE 6 LONG-TERM DEBT

Long-term debt consisted of the following at June 30, 2005:

Loans payable due June 2032, fixed interest rates from 4.37% to 6.50%. Interest payments due semi-annually 6/15 and 12/15; principal payments due 6/15. Loans are subject to a mandatory sinking fund redemption at a redemption price equal to the principal amount of the bonds redeemed, without premium, plus interest accrued to the date fixed for redemption at such series. Loans secured by real estate.

\$ 903,965

Less current portion

(55,000)

\$ 848,965

The Clara Martin Center
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 6 LONG-TERM DEBT (continued)

Aggregate principal payments on long-term debt due within the next five years is as follows:

| <u>Year ending June 30,</u> | |
|-----------------------------|---------------------|
| 2006 | \$ 55,000 |
| 2007 | 70,000 |
| 2008 | 50,000 |
| 2009 | 55,000 |
| 2010 | 60,000 |
| Thereafter | <u>613,965</u> |
| | <u>\$ 903,965</u> |

Interest expense for the year was \$54,147.

NOTE 7 LINE OF CREDIT

The organization has available lines of credit with an upper limit of \$150,000. As of June 30, 2005, the organization had the full amount available on the line of credit. These funds are available with a variable interest rate of 6.75%. This line of credit expires April 2006.

NOTE 8 DEPOSITS AND INVESTMENTS

At year-end, the carrying amount of Clara Martin Center's deposits was \$762,041 which \$100,000 was covered by the federal depository insurance corporation. The excess amount of \$662,041 was covered by FDIC bond insurance taken out in January 2005.

NOTE 9 DEFERRED REVENUE

| | |
|--------------------------|---------------------|
| DMH | \$ 44,780 |
| CRASH | 23,480 |
| Safe Haven – Vt. Housing | 12,106 |
| Town Appropriations | 1,546 |
| VCRYPT | 22,311 |
| Randolph Rotary Club | <u>750</u> |
| | <u>\$ 104,973</u> |

SUPPLEMENTARY INFORMATION

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The Clara Martin Center
SCHEDULE OF CLIENT FEES
 For the Year Ended June 30, 2005

| | Children | | | | Subtotal | |
|----------------------------|---------------------|---------------------------|---------------------|-------------------|------------------|-------------------|
| | Total Agency | Children & Family Program | Community Support | Adult Walk-In | Emergency | Substance Abuse |
| Patient Fees | \$ 257,717 | \$ 25,671 | \$ 14,199 | \$ 119,609 | \$ 2,681 | \$ 95,557 |
| DMH Medicaid Fees | 1,500,724 | 1,166,566 | 262,882 | 39,061 | 30,039 | 2,176 |
| Private Insurance | 360,769 | 48,165 | 73,550 | 139,802 | 4,987 | 94,265 |
| Medicaid Case Management | 1,781,026 | 753,691 | 1,003,321 | 12,754 | 2,466 | 8,794 |
| Discount-Patient | (131,973) | (10,151) | (4,739) | (55,977) | (2,453) | (58,653) |
| Discount-Medicaid | (280,793) | (4,957) | (262,882) | (7,178) | (5,460) | (316) |
| Discount-Private Insurance | (151,048) | (15,650) | (48,120) | (46,618) | (3,716) | (36,944) |
| Discount-Case Management | (1,034,580) | (29,252) | (1,003,321) | (1,705) | (199) | (103) |
| Non-DMH Medicaid Fees | 72,979 | - | - | 795 | - | 72,184 |
| VHAP Medicaid Fees | 459,431 | 242,868 | - | 214,701 | 556 | 1,306 |
| Discount-VHAP Medicaid | (101,004) | (61,935) | - | (38,213) | (556) | (300) |
| Waiver | 94,899 | 94,899 | - | - | - | - |
| Crash School - Self-Pay | 100,290 | - | - | - | - | 100,290 |
| Case Rate | 1,405,908 | - | 1,405,908 | - | - | - |
| NET CLIENT FEES | \$ 4,334,345 | \$ 2,209,915 | \$ 1,440,798 | \$ 377,031 | \$ 28,345 | \$ 278,256 |

The Clara Martin Center
SCHEDULE OF DEPARTMENT OF MENTAL HEALTH CONTRACTS
For the Year Ended June 30, 2005

| | <u>Total Agency</u> | <u>Children & Family Program</u> | <u>Community Support</u> |
|---|-------------------------|--|------------------------------|
| DEPARTMENT OF DEVELOPMENT & MENTAL HEALTH SERVICE: | | | |
| DMH Special Services Grants | \$ 3,470 | \$ 777 | \$ 2,693 |
| Respite Care Grant | 44,647 | 44,647 | - |
| DMH Miscellaneous | 34,500 | 2,500 | 30,000 |
| Housing Contingency | 22,882 | - | 22,882 |
| DMH Access Grant | <u>43,665</u> | <u>43,665</u> | <u>-</u> |
| TOTAL | <u>\$ 149,164</u> | <u>\$ 91,589</u> | <u>\$ 55,575</u> |

The Clara Martin Center
SCHEDULE OF OTHER CONTRACTS
 For the Year Ended June 30, 2005

| | Total Agency | Children & Family Program | Community Support | Adult Walk-In | Emergency | Subtotal Mental Health | Substance Abuse | Admin- istration |
|-------------------------------|-------------------|---------------------------------|----------------------|------------------|-----------------|------------------------------|--------------------|---------------------|
| OTHER STATE CONTRACTS: | | | | | | | | |
| Probation & parole-Federal | \$ 64,267 | \$ - | \$ - | \$ 26,609 | \$ - | \$ 26,609 | \$ 37,658 | \$ - |
| Corrections-State | 12,990 | - | - | 12,990 | - | 12,990 | - | - |
| Community Partnership Grant | 8,350 | 8,350 | - | - | - | 8,350 | - | - |
| Career Start Project | 37,203 | 37,203 | - | - | - | 37,203 | - | - |
| Supported employment-State | 57,519 | - | 57,519 | - | - | 57,519 | - | - |
| Department of Health | 16,000 | - | - | - | - | - | - | 16,000 |
| OADAP-State | 206,604 | - | - | (18) | - | (18) | 206,622 | - |
| OADAP-State-Case Management | 1,300 | - | - | - | - | - | 1,300 | - |
| VA Contracts | 33,075 | - | - | - | - | - | 33,075 | - |
| SRS abuse-State | 7,150 | - | - | - | 7,150 | 7,150 | - | - |
| TOTAL OTHER CONTRACTS | \$ 444,458 | \$ 45,553 | \$ 57,519 | \$ 39,581 | \$ 7,150 | \$ 149,803 | \$ 278,655 | \$ 16,000 |

Report 1

Kittell Branagan & Sargent

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees of
The Clara Martin Center

We have audited the financial statements of The Clara Martin Center (a nonprofit organization) as of and for the year ended June 30, 2005, and have issued our report thereon dated August 17, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether The Clara Martin Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control over Financial Reporting

In planning and performing our audit, we considered The Clara Martin Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Kittell Branagan & Sargent

St. Albans, Vermont
August 17, 2005

certified public accountants

APPENDIX B-II

**Health Care and Rehabilitation Services of Southeastern Vermont, Inc.
Audited Financial Statements
(For the fiscal year ended June 30, 2005)**

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HEALTH CARE AND REHABILITATION
SERVICES OF SOUTHEASTERN VERMONT, INC.

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

FOR THE YEARS ENDED
JUNE 30, 2005 AND 2004

HEALTH CARE AND REHABILITATION SERVICES OF SOUTHEASTERN VERMONT, INC.

TABLE OF CONTENTS

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

| | <u>PAGE (S)</u> |
|---|-----------------|
| Independent Auditors' Report | 1 |
| Statements of Financial Position | 2 |
| Statements of Activities and Changes in Net Assets - 2005 | 3 |
| Statements of Activities and Changes in Net Assets - 2004 | 4 |
| Statements of Cash Flows | 5 |
| Notes to Financial Statements | 6 - 13 |
| Schedule 1: Client Fees - 2005 | 14 |
| Client Fees - 2004 | 15 |
| Schedule 2: Department of Mental Health Contracts - 2005 | 16 |
| Department of Mental Health Contracts - 2004 | 17 |
| Schedule 3: Other State Contracts - 2005 | 18 |
| Other State Contracts - 2004 | 19 |
| Schedule 4: Day Treatment Case Rate Funds | 20 |
| Schedule 5: Statement of Developmental Services Changes in Net Assets - 2005 | 21 |
| Statement of Developmental Services Changes in Net Assets - 2004 | 22 |
| Report 1: Independent Auditors' Report on Schedule of Federal Awards | 23 |
| Schedule of Federal Awards - 2005 | 24 |
| Report 2: Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> | 25 |
| Report 3: Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 | 26 - 27 |
| Schedule of Findings and Questioned Costs | 28 |

☐ TYLER,
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☐ ☐ ST. SAUVEUR

Certified Public Accountants, P.C.

603-653-0044
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PO Box 628
Lebanon, NH 03766

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Health Care and Rehabilitation Services of Southeastern Vermont, Inc.:

We have audited the accompanying statements of financial position of Health Care and Rehabilitation Services of Southeastern Vermont, Inc. (a not-for-profit organization) as of June 30, 2005 and 2004, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Agency'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Health Care and Rehabilitation Services of Southeastern Vermont, Inc. as of June 30, 2005 and 2004, and the results of its activities, changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 2, 2005 on our consideration of Health Care and Rehabilitation Services of Southeastern Vermont, Inc.'s internal control over financial reporting and on our tests of its compliance with laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Health Care and Rehabilitation Services of Southeastern Vermont, Inc. taken as a whole. The accompanying schedule of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Tyler, Simms and St. Sauveur, CPAs, P.C.

Lebanon, New Hampshire
September 2, 2005

HEALTH CARE AND REHABILITATION SERVICES OF SOUTHEASTERN VERMONT, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2005 AND 2004

| ASSETS | 2005 | 2004 |
|--|---------------------|---------------------|
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 538,912 | \$ 169,345 |
| Accounts receivable - Medicaid | 1,840,764 | 2,063,793 |
| Accounts receivable - other | 724,243 | 657,890 |
| Pledges receivable | 43,050 | 78,417 |
| Prepaid expense | 186,206 | 78,017 |
| Debt service reserve - current | 42,071 | 32,803 |
| Total current assets | <u>3,375,246</u> | <u>3,080,265</u> |
| PROPERTY, PLANT, AND EQUIPMENT: | | |
| Land | 550,377 | 123,139 |
| Buildings and improvements | 2,067,483 | 1,686,953 |
| Furniture, fixtures, and program equipment | 663,867 | 626,049 |
| Office equipment | 694,444 | 669,992 |
| Vehicles | 212,716 | 163,368 |
| Construction in progress | 66,181 | 12,716 |
| | <u>4,255,068</u> | <u>3,282,217</u> |
| Less accumulated depreciation | <u>1,895,496</u> | <u>1,767,042</u> |
| Net property, plant, and equipment | <u>2,359,572</u> | <u>1,515,175</u> |
| OTHER ASSETS: | | |
| Deposits | 21,814 | 30,249 |
| Deferred finance costs, net of accumulated amortization of \$24,559 and \$20,019 in 2005 and 2004, respectively | 62,685 | 67,225 |
| Debt service reserve | 122,528 | 124,609 |
| Capital acquisition reserve | - | 134,825 |
| Investments - restricted | <u>92,671</u> | <u>46,091</u> |
| Total other assets | <u>299,698</u> | <u>402,999</u> |
| Total assets | <u>\$ 6,034,516</u> | <u>\$ 4,998,439</u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 839,931 | \$ 1,096,214 |
| Deferred revenue | 236,115 | 191,999 |
| Accrued health insurance | 215,000 | 182,000 |
| Accrued expenses | 416,972 | 363,504 |
| Accrued vacation | 215,000 | 217,800 |
| Current portion of long-term debt | 37,780 | 12,135 |
| Current portion of bonds payable | <u>105,000</u> | <u>105,000</u> |
| Total current liabilities | <u>2,065,798</u> | <u>2,168,652</u> |
| LONG-TERM DEBT, less current portion shown above | <u>691,553</u> | <u>-</u> |
| BONDS PAYABLE, less current portion shown above | <u>1,080,000</u> | <u>1,185,000</u> |
| Total liabilities | <u>3,837,351</u> | <u>3,353,652</u> |
| NET ASSETS: | | |
| Unrestricted | | |
| Undesignated | 1,726,828 | 1,503,470 |
| Board designated | 334,616 | 16,809 |
| Temporarily restricted | <u>135,721</u> | <u>124,508</u> |
| Total net assets | <u>2,197,165</u> | <u>1,644,787</u> |
| Total liabilities and net assets | <u>\$ 6,034,516</u> | <u>\$ 4,998,439</u> |

The accompanying notes to financial statements are an integral part of these statements.

HEALTH CARE AND REHABILITATION SERVICES OF SOUTHEASTERN VERMONT, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2005

| | Total Agency | Children | Adult | CRT | Emergency Screening | Subtotal Mental Health | Developmental Services | Substance Abuse | Non- Mental Health | Administration |
|-------------------------------|---------------------|-------------------|------------------|-------------------|------------------------|------------------------------|---------------------------|--------------------|--------------------------|----------------|
| REVENUE | | | | | | | | | | |
| Client fees | \$ 21,284,470 | \$ 8,900,688 | \$ 765,812 | \$ 3,983,450 | \$ 164,509 | \$ 13,814,459 | \$ 7,065,421 | \$ 404,505 | \$ 85 | \$ - |
| State Grants: | | | | | | | | | | |
| Grant-in aid | 565,911 | 200,165 | 62,879 | 39,990 | 78,043 | 381,077 | 158,667 | 26,167 | - | - |
| DMH contracts/grants | 17,501 | 8,500 | 2,918 | 2,333 | - | 13,751 | - | 3,750 | - | - |
| Other state contracts | 1,319,936 | 344,759 | 100,000 | 65,225 | - | 509,984 | 290,656 | 340,782 | 178,514 | - |
| Local revenue | 158,366 | 250 | 76,512 | 11,215 | 12,714 | 100,691 | 3,443 | 306 | 43,641 | 10,285 |
| Other revenue | 413,042 | 42,998 | 79,141 | 6,297 | 10,031 | 138,467 | 2,484 | 46,031 | 210,431 | 15,629 |
| TOTAL REVENUE | 23,759,226 | 9,497,360 | 1,087,262 | 4,108,510 | 265,297 | 14,958,429 | 7,520,671 | 821,541 | 432,671 | 25,914 |
| EXPENSES | | | | | | | | | | |
| Salaries | 10,836,048 | 4,494,906 | 681,993 | 1,956,498 | 150,904 | 7,284,301 | 1,757,252 | 442,181 | 280,810 | 1,071,504 |
| Fringe benefits | 3,629,835 | 1,505,693 | 228,453 | 655,383 | 50,549 | 2,440,078 | 588,641 | 148,121 | 94,065 | 358,930 |
| Other personnel costs | 2,462,633 | 1,247,027 | 1,690 | 207,198 | 94,947 | 1,550,862 | 909,703 | 1,919 | - | 149 |
| Program expenses | 368,024 | 99,751 | 1,049 | 135,432 | 18 | 236,250 | 116,587 | 2,694 | 10,111 | 2,382 |
| Operating expenses | 4,448,285 | 366,667 | (15,007) | 274,578 | 77,587 | 703,825 | 3,098,665 | 96,626 | 59,910 | 489,259 |
| Travel and transportation | 628,014 | 174,931 | 25,091 | 114,677 | 13,248 | 327,947 | 219,727 | 11,430 | 13,246 | 55,664 |
| Building expenses - direct | 834,009 | 39,503 | 2,633 | 90,150 | 6 | 132,292 | 703 | 11,547 | 7,828 | 681,639 |
| Building expenses - allocated | - | 194,554 | 17,332 | 212,206 | 8,674 | 432,766 | 135,426 | 26,343 | - | (594,535) |
| Allocation of indirect costs: | | | | | | | | | | |
| Administration | - | 783,446 | 90,973 | 351,659 | 38,187 | 1,264,265 | 658,418 | 71,454 | 44,941 | (2,039,078) |
| TOTAL EXPENSES | 23,206,848 | 8,906,478 | 1,034,207 | 3,997,781 | 434,120 | 14,372,586 | 7,485,122 | 812,315 | 510,911 | 25,914 |
| CHANGE IN NET ASSETS | 552,378 | \$ 590,882 | \$ 53,055 | \$ 110,729 | \$ (168,823) | \$ 585,843 | \$ 35,549 | \$ 9,226 | \$ (78,240) | \$ - |
| BEGINNING NET ASSETS | 1,644,787 | | | | | | | | | |
| ENDING NET ASSETS | \$ 2,197,165 | | | | | | | | | |

The accompanying notes to financial statements are an integral part of these statements.

HEALTH CARE AND REHABILITATION SERVICES OF SOUTHEASTERN VERMONT, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004

| | Total Agency | Children | Adult | CRT | Emergency Screening | Subtotal Mental Health | Developmental Services | Substance Abuse | Non- Mental Health | Administration |
|-------------------------------|---------------------|-------------------|--------------------|------------------|------------------------|------------------------------|---------------------------|--------------------|--------------------------|----------------|
| REVENUE | | | | | | | | | | |
| Client fees | \$ 20,302,701 | \$ 9,013,451 | \$ 812,588 | \$ 3,826,763 | \$ 241,209 | \$ 13,894,011 | \$ 5,999,272 | \$ 409,117 | \$ 301 | \$ - |
| State Grants: | | | | | | | | | | |
| Grant-in aid | 488,280 | 209,212 | 44,416 | 39,990 | 61,105 | 354,723 | 124,505 | 9,052 | - | - |
| DMH contracts/grants | 170,899 | 168,532 | (1,133) | - | - | 167,399 | - | 3,500 | - | - |
| Other state contracts | 1,203,937 | 233,922 | 113,220 | 63,945 | - | 411,087 | 310,961 | 285,908 | 195,981 | - |
| Local revenue | 319,069 | 745 | 138,813 | 11,575 | - | 151,133 | 3,691 | 4,194 | 43,398 | 116,653 |
| Other revenue | 237,084 | 5,983 | 2,929 | 20,805 | 260 | 29,977 | 1,253 | 25,973 | 176,442 | 3,439 |
| TOTAL REVENUE | 22,721,970 | 9,631,845 | 1,110,833 | 3,963,078 | 302,574 | 15,008,330 | 6,439,682 | 737,744 | 416,122 | 120,092 |
| EXPENSES | | | | | | | | | | |
| Salaries | 10,717,555 | 4,651,832 | 707,140 | 1,964,245 | 118,002 | 7,441,219 | 1,663,594 | 387,645 | 246,577 | 978,520 |
| Fringe benefits | 3,139,652 | 1,362,730 | 207,153 | 575,415 | 34,568 | 2,179,866 | 487,341 | 113,559 | 72,234 | 286,652 |
| Other personnel costs | 2,295,683 | 1,369,942 | 5,157 | 211,191 | 127,371 | 1,713,661 | 572,571 | 3,386 | 6,065 | - |
| Program expenses | 373,183 | 108,104 | 764 | 141,653 | 542 | 251,063 | 109,620 | 876 | 9,605 | 2,019 |
| Operating expenses | 4,130,992 | 309,645 | 137,528 | 243,166 | 124,708 | 815,047 | 2,616,540 | 84,650 | 61,590 | 553,165 |
| Travel and transportation | 580,135 | 176,476 | 19,424 | 118,176 | 14,263 | 328,339 | 187,352 | 13,063 | 12,810 | 38,571 |
| Building expenses - direct | 824,794 | 41,274 | 2,507 | 91,203 | - | 134,984 | 16,841 | 8,529 | 7,855 | 656,585 |
| Building expenses - allocated | - | 99,651 | 8,757 | 198,461 | 7,452 | 314,321 | 117,483 | 20,809 | - | (452,613) |
| Allocation of indirect costs: | | | | | | | | | | |
| Administration | - | 788,782 | 105,735 | 344,233 | 41,472 | 1,280,222 | 560,656 | 61,446 | 40,483 | (1,942,807) |
| TOTAL EXPENSES | 22,061,994 | 8,908,436 | 1,194,165 | 3,887,743 | 468,378 | 14,458,722 | 6,331,998 | 693,963 | 457,219 | 120,092 |
| CHANGE IN NET ASSETS | 659,976 | \$ 723,409 | \$ (83,332) | \$ 75,335 | \$ (165,804) | \$ 549,608 | \$ 107,684 | \$ 43,781 | \$ (41,097) | \$ - |
| BEGINNING NET ASSETS | 984,811 | | | | | | | | | |
| ENDING NET ASSETS | \$ 1,644,787 | | | | | | | | | |

The accompanying notes to financial statements are an integral part of these statements

HEALTH CARE AND REHABILITATION SERVICES OF SOUTHEASTERN VERMONT, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

| | <u>2005</u> | <u>2004</u> |
|---|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | \$ 552,378 | \$ 659,976 |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: | | |
| Depreciation | 177,980 | 171,223 |
| Amortization | 4,540 | 4,540 |
| Provision for bad debt | 632,560 | 487,587 |
| Gain on sale of assets | (3,475) | - |
| Change in net unrealized losses (gains) on investments | (645) | (572) |
| (Increase) decrease in the following assets: | | |
| Accounts receivable - trade | (409,531) | (1,298,472) |
| Accounts receivable - other | (66,353) | (395,681) |
| Pledges receivable | 35,367 | (78,417) |
| Prepaid expenses and other assets | (99,754) | 14,029 |
| Increase (decrease) in the following liabilities: | | |
| Accounts payable and accrued expenses | (172,615) | 365,639 |
| Deferred revenue | 44,116 | 51,318 |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | <u>694,568</u> | <u>(18,830)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of investments | (45,935) | (38,355) |
| Proceeds from sale of assets | 3,475 | - |
| Purchases of property and equipment | (280,576) | (94,377) |
| Increase (decrease) in debt service and capital acquisition reserve funds | 127,638 | (17,423) |
| NET CASH USED IN INVESTING ACTIVITIES | <u>(195,398)</u> | <u>(150,155)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Repayment of notes payable | (24,603) | (26,631) |
| Repayment of bonds payable | (105,000) | (95,000) |
| NET CASH USED IN FINANCING ACTIVITIES | <u>(129,603)</u> | <u>(121,631)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 369,567 | (290,616) |
| CASH AND CASH EQUIVALENTS, Beginning of year | <u>169,345</u> | <u>459,961</u> |
| CASH AND CASH EQUIVALENTS, End of year | \$ <u>538,912</u> | \$ <u>169,345</u> |

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

| | | |
|--|------------------|------------------|
| Cash paid during the year for interest | \$ <u>74,843</u> | \$ <u>81,688</u> |
|--|------------------|------------------|

The accompanying notes to financial statements are an integral part of these statements.

HEALTH CARE AND REHABILITATION SERVICES OF SOUTHEASTERN VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005 AND 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

General - Health Care and Rehabilitation Services of Southeastern Vermont, Inc. (the Agency) is an independent not-for-profit corporation organized to provide services in the areas of mental health and related services and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Agency has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a)(2) of the Internal Revenue Code

Financial Reporting - The Agency adopted Statement of Financial Accounting Standards (SFAS) No. 116, "Accounting for Contributions Received and Made, and SFAS No. 117, Financial Statements of Not-for-Profit Organizations". SFAS No. 117 establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net asset categories according to external (donor) imposed restrictions. SFAS No. 116 requires that unconditional promises to give (pledges) be recorded as receivables and revenue. It also requires the organization to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. A description of the three net asset categories follows.

Unrestricted net assets - include the following:

Undesignated - Undesignated, unrestricted net assets include the revenues and expenses associated with the principal operating mission of the Agency.

Board Designated - Board designated net assets include the revenues from various unrestricted contributions that the board of trustees has set aside and elected to use towards future operations.

Temporarily Restricted Net Assets - Include gifts for which donor imposed restrictions have not been met. Assets are released from restrictions as expenditures are made in line with restrictions called for under the terms of the donation. Contributions are recorded as unrestricted revenue and support of the current year to the extent that current year expenditures, consistent with the donor restrictions, have been incurred.

Basis of Accounting - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Cash Equivalents - The Agency considers cash on hand, cash in banks and all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Other Assets - Other assets include costs associated with new financing. These costs are being amortized over the lives of the related debts. Total amortization expense amounted to \$4,540 for each of the years ended June 30, 2005 and 2004.

Deferred Revenue - The Agency recognizes revenues earned. Amounts received in advance of the period in which service is rendered are recorded as a liability under "deferred revenue."

HEALTH CARE AND REHABILITATION SERVICES OF SOUTHEASTERN VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005 AND 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Depreciation - The Agency follows the policy of charging to costs and expenses annual amounts of depreciation, which allocates the cost of property, plant and equipment over American Hospital Association (AHA) approved lives, which approximates estimated useful lives. Depreciation charges are calculated using the straight-line method over the estimated useful lives of the assets. Depreciation expense for the years ended June 30, 2005 and 2004 was \$177,980 and \$171,223, respectively. The Agency has a policy of capitalizing assets with a cost in excess of \$1,000 and a life greater than 1 year. All property and equipment is recorded at cost or estimated fair value at date of donation.

The Agency reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, as well as the effects of obsolescence, demand, competition and other economic factors.

Expenditures for repairs and maintenance are expensed when incurred and betterments are capitalized.

Support and Revenue - The Agency receives its grant and contract support primarily from the State of Vermont Agency of Human Services (Department of Mental Health Services).

Revenues - Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets by fulfillment of the donor-stipulated purpose or by passage of the stipulated time period are reported as reclassifications between applicable classes of net assets.

State Grants - The Agency receives a number of grants from, and has entered into various contracts with, the State of Vermont related to the delivery of mental health and mental retardation services.

Advertising - Advertising costs are expensed to operations as incurred. Advertising expense was \$9,907 and \$15,301 for the years ended June 30, 2005 and 2004, respectively.

Vacation Pay and Fringe Benefits - Vacation pay is accrued and charged to the appropriate program expenses when earned by the employee. Fringe benefits are allocated to the appropriate program expense based on the percentage of program salaries to total salaries.

HEALTH CARE AND REHABILITATION SERVICES OF SOUTHEASTERN VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005 AND 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Functional Allocation of Expenses - The cost of providing the various programs and other activities has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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 certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Accounts Receivable - Accounts receivable is carried at its estimated collectible amounts. Account credit is generally extended on a short-term basis; thus accounts receivable do not bear interest, although a finance charge may be applied to such receivables that are past due.

The Agency uses the allowance method to account for uncollectible accounts receivable.

Reclassifications - Certain reclassifications have been made to the 2004 financial statements to conform to the 2005 presentation.

2. ACCOUNTS RECEIVABLE:

As of June 30, trade accounts receivable was composed of the following:

| | <u>2005</u> | <u>2004</u> |
|-----------------------------------|---------------------|---------------------|
| Medicaid fees: | | |
| Title XIX | \$ 1,276,440 | \$ 1,448,390 |
| PC Plus | 148,999 | 119,432 |
| VHAP | 62,617 | 46,568 |
| OADAP | 60,971 | 86,586 |
| Personal Care | 7,014 | 13,699 |
| Medicaid waiver fees | 326,904 | 194,864 |
| Medicaid case rate fees | 8,857 | 178,785 |
| Private pay | 229,493 | 192,679 |
| Insurance companies | 209,158 | 164,392 |
| Medicare | <u>142,871</u> | <u>230,563</u> |
| Total accounts receivable – trade | 2,473,324 | 2,675,958 |
| Allowance for doubtful accounts | <u>(632,560)</u> | <u>(612,165)</u> |
| | <u>\$ 1,840,764</u> | <u>\$ 2,063,793</u> |

HEALTH CARE AND REHABILITATION SERVICES OF SOUTHEASTERN VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005 AND 2004

2. ACCOUNTS RECEIVABLE (continued):

Accounts receivable - other was composed of the following as of June 30:

| | <u>2005</u> | <u>2004</u> |
|---|-------------------|-------------------|
| State of Vermont - Supported employment | \$ 144,048 | \$ 7,782 |
| - DCF | 84,689 | 36,132 |
| - DAIL | 5,711 | - |
| - PATH | 100,000 | 25,000 |
| - ADAP | 4,410 | 1,350 |
| - DMH | 3,868 | 47,275 |
| - Other - Non-mental Health | - | 201 |
| School SBS Contracts | 234,393 | 363,438 |
| Other - Town Appropriations | 78,483 | 70,058 |
| - RSVP Federal Grant | 38,528 | 76,801 |
| - Other | <u>30,113</u> | <u>29,853</u> |
| Total accounts receivable - other | \$ <u>724,243</u> | \$ <u>657,890</u> |

3. LONG-TERM DEBT:

Long-term debt consisted of the following as of June 30:

| | | |
|--|-------------|-------------|
| <u>Notes Payable:</u> | <u>2005</u> | <u>2004</u> |
| 3.9% note payable with Chrysler Financial, secured by vehicle, in monthly installments of \$796 principal and interest, through January 2005. | \$ - | \$ 5,501 |
| Non-interest bearing note payable with Chrysler Financial, secured by vehicle in monthly installments of \$686 principal and interest, through January 2005. | - | 4,118 |
| 2.9% note payable with Ford Motor Credit, secured by vehicle, in monthly installments of \$622.87 principal and interest, through January 2009. | 25,410 | - |
| 1.9% note payable with Toyota Motor Credit, secured by vehicle, in monthly installments of \$509.34 principal and interest, through November 2007. | 14,415 | - |
| 1.93% note payable with Toyota Motor Credit, secured by vehicle, in monthly installments of \$378.09 principal and interest, through November 2009. | 19,193 | - |

HEALTH CARE AND REHABILITATION SERVICES OF SOUTHEASTERN VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005 AND 2004

3. LONG-TERM DEBT (continued):

| | <u>2005</u> | <u>2004</u> |
|---|---------------------|---------------------|
| 5.16% note payable with Chittenden Bank, secured by vehicle, in monthly installments of \$676.03 principal and interest, through November 2008. | 25,315 | - |
| Non-interest bearing note payable with Ford Motor Credit, secured by vehicle, in monthly installments of \$503 principal and interest, through November 2004. | - | 2,516 |
| Variable rate mortgage payable, currently 5.75% based on the Wall Street Journal prime rate, payable in one principal payment due May 2007. | 315,000 | - |
| Variable rate mortgage payable, currently 6.25% based on the Weekly Average Yield on U.S. Treasury Securities, payable in 60 installments of \$2,845.96, 199 installments at \$2,862.86 and a final installment of \$2,863.54 principal and interest, respectively, due June 2020. | <u>330,000</u> | <u>-</u> |
| | 729,333 | 12,135 |
| LESS: Current portion | <u>37,780</u> | <u>12,135</u> |
| | \$ <u>691,553</u> | \$ <u>-</u> |
| <u>Bonds Payable:</u> | | |
| Vermont Educational and Health Buildings Financing Agency, Council of Development and Mental Health Services Acquisition Program Bond, Series 1999A, interest payable semi-annually at varying rates, currently 6.2%, with annual principal payments of varying amounts through December 2019, secured by gross receipts and all land and buildings. | \$ 615,000 | \$ 660,000 |
| Vermont Educational and Health Buildings Financing Agency, Council of Development and Mental Health Services Acquisition Program Bond, Series 2002A, interest payable semi-annually at varying rates, currently 4.375%, with annual principal payments of varying amounts through June 2032, secured by gross receipts and all land and buildings. | 570,000 | 625,000 |
| Vermont Educational and Health Buildings Financing Agency, Council of Development and Mental Health Services Acquisition Program Bond, Series 2002B, interest payable semi-annually at varying rates, currently 4.75%, with annual principal payments of varying amounts through December 2006, secured by gross receipts and all land and buildings. Paid in full December 2004. | <u>-</u> | <u>5,000</u> |
| | 1,185,000 | 1,290,000 |
| LESS: Current portion | <u>105,000</u> | <u>105,000</u> |
| | \$ <u>1,080,000</u> | \$ <u>1,185,000</u> |

HEALTH CARE AND REHABILITATION SERVICES OF SOUTHEASTERN VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005 AND 2004

3. LONG-TERM DEBT (continued):

The combined future amount of maturities for long-term debt by year and in the aggregate is as follows as of June 30 2005:

| | |
|--|---------------------|
| 2006 (included in current liabilities) | \$ 142,780 |
| 2007 | 499,449 |
| 2008 | 92,621 |
| 2009 | 88,892 |
| 2010 | 89,744 |
| Thereafter | <u>1,000,847</u> |
| | \$ <u>1,914,333</u> |

The Agency has an agreement with Vermont Educational and Health Building Financing Agency and is required to comply with certain covenants and provisions. As of June 30, 2005 and 2004, all scheduled payments had been made. As of June 30, 2005, the Agency was in compliance with all covenants and provisions.

4. DEFERRED REVENUE:

Deferred revenue was composed of the following as of June 30:

| | <u>2005</u> | <u>2004</u> |
|---|-------------------|-------------------|
| State of Vermont - Supported employment | \$ 19,067 | \$ - |
| - DMF | 53,811 | 9,168 |
| - DAIL | 10,214 | 3,910 |
| - ADAP | 1,080 | 61,377 |
| - Other - Non-mental Health | 7,677 | 18,073 |
| Other - Town Appropriations | 75,483 | 69,392 |
| - Ottaquechee Health Foundation | 27,500 | - |
| - Holt Foundation Grants | <u>41,283</u> | <u>30,079</u> |
| Total deferred revenue | \$ <u>236,115</u> | \$ <u>191,999</u> |

5. LINE OF CREDIT:

On August 18, 2004, the Agency renewed its line of credit, expiring December 31, 2005. The line is a \$750,000 note, variable interest at 7% at June 30, 2005, interest only payments, principal due at maturity (December 31, 2005). There was no balance outstanding as of June 30, 2005. The line is secured by substantially all business assets.

HEALTH CARE AND REHABILITATION SERVICES OF SOUTHEASTERN VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005 AND 2004

6. OPERATING LEASES:

The Agency leases equipment and buildings under various operating leases with third parties. Building rent under these leases was \$360,484 for the year ended June 30, 2005. Several of the building leases are at will month to month. Equipment rental under these leases were \$10,902 for June 30, 2005.

Minimum future lease payments for buildings and equipment as of June 30, 2005 for the remaining lease terms are as follows:

| | |
|------|-------------------|
| 2006 | \$ 144,300 |
| 2007 | 52,314 |
| 2008 | <u>12,417</u> |
| | \$ <u>209,031</u> |

7. PENSION PLAN:

The Agency makes contributions to a tax-sheltered annuity on behalf of its employees. This program covers substantially all full-time employees. Contributions totaled \$176,174 and \$162,817 for the years ended June 30, 2005 and 2004, respectively.

8. BOARD COMPOSITION:

The Vermont Department of Developmental and Mental Health Services require a designated agency to be governed by a board whose majority is comprised of both individuals who are or were eligible to receive services from an agency because of their disability, and family members of an individual who is or was eligible to receive services because of his or her disability.

As of June 30, 2005, the Agency's Board composition met this criteria.

9. COMMITMENTS AND CONTINGENT LIABILITIES:

Health insurance - It is the policy of the Agency to act as a self-insurer for health insurance claims. At June 30, 2005 and 2004, an allowance of \$215,000 and \$182,000, respectively, had been provided for unreported health care claims. This amount is included in current liabilities.

Litigation - the Agency is defendant in several lawsuits arising from normal business activities. Management has reviewed pending litigation with legal counsel and believes that those actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the Agency's financial position.

Construction-in-Progress - The Agency has incurred costs related to the renovation of the White River Junction, Vermont facility acquired in 2005 and the renovation and expansion of the Brattleboro, Vermont facility.

HEALTH CARE AND REHABILITATION SERVICES OF SOUTHEASTERN VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005 AND 2004

10. GUARANTEE OF CLIENT OBLIGATIONS/CONTINGENCY:

During the fiscal year ended June 30, 2000, the Agency guaranteed the personal vehicle loans of three clients totaling \$72,000. The outstanding balance of these loans at June 30, 2005 and 2004 was \$0 and \$13,136, respectively.

During the fiscal year ended June 30, 2005, the Agency guaranteed the personal loans of two clients totaling \$58,012. The outstanding balance of these loans at June 30, 2005 was \$56,104.

11. RESERVE FUNDS:

In accordance with the terms of its financing agreement regarding the Vermont Council of Development and Mental Health Services Capital Acquisition Program Bonds, the Agency maintains a debt service reserve fund and a capital acquisition reserve fund. The capital acquisition reserve funds are invested in corporate bonds totaling \$0 and \$134,825 at June 30, 2005 and 2004, respectively. The debt service reserve funds are invested in cash, common fund equities and corporate bonds totaling \$164,599 and \$157,412 at June 30, 2005 and 2004, respectively.

12. SUBSEQUENT EVENTS:

Subsequent to the year ended June 30, 2004, the Agency received approximately \$479,000 in "fiscal pending cash payments" from the State of Vermont. The funds were initiated by the State prior to June 30, 2004 for advanced estimated settlement of consumer services performed on or before June 30, 2004. The funds were received by the Agency during the first week of July 2004 and are therefore reflected in accounts receivable in the financial statements.

Subsequent to the year ended June 30, 2004, the Board of Directors approved and established a board designated capital reserve fund totaling \$300,000 to be used to fund Agency building programs. According to management, the Agency is proactively responding to the escalating costs of ownership, renovations and repairs of existing and future facilities by establishing this reserve.

Subsequent to the year ended June 30, 2005, the Board of Directors approved the addition of \$250,000 to the established board designated capital reserve fund noted above.

Subsequent to the year ended June 30, 2005, the Agency guaranteed the personal loan of a client totaling \$29,386.

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SUPPLEMENTAL INFORMATION

HEALTH CARE AND REHABILITATION SERVICES OF SOUTHEASTERN VERMONT, INC.

SCHEDULE 1: CLIENT FEES - 2005

| Income Description | TOTALS | Children | Adult | CRT | Emergency Screening | Subtotal Mental Health | Developmental Services | Substance Abuse | Non-Mental Health |
|----------------------------|----------------------|---------------------|-------------------|---------------------|---------------------|------------------------|------------------------|-------------------|-------------------|
| Patient Fees | | | | | | | | | |
| Gross Patient Fees | \$ 514,162 | \$ 71,127 | \$ 104,575 | \$ 17,537 | \$ 77,641 | \$ 270,880 | \$ 72,186 | \$ 171,011 | \$ 85 |
| Patient Fee discounts | (251,093) | (57,128) | (48,246) | (3,241) | (31,336) | (139,951) | (1,331) | (109,811) | - |
| Insurance Fees | | | | | | | | | |
| Commercial Insurance | 505,678 | 178,161 | 129,075 | 25,604 | 76,063 | 408,903 | - | 96,775 | - |
| Fee adjustments | (188,152) | (46,160) | (48,743) | (9,416) | (37,581) | (141,900) | - | (46,252) | - |
| VHAP Managed Care | 201,929 | 2,678 | 169,261 | - | 4,735 | 176,674 | 788 | 24,467 | - |
| Fee adjustments | (55,069) | (860) | (44,424) | (382) | (1,337) | (47,003) | - | (8,066) | - |
| PC Plus Managed Care | 758,639 | 528,075 | 190,871 | 278 | 100 | 719,324 | 210 | 39,105 | - |
| Fee adjustments | (119,700) | (61,747) | (43,819) | (265) | - | (105,831) | (105) | (13,764) | - |
| Medicare | 283,483 | - | 57,347 | 207,712 | 4,824 | 269,883 | - | 13,600 | - |
| Fee adjustments | (142,048) | - | (12,304) | (114,235) | (7,501) | (134,040) | (4,312) | (3,696) | - |
| Medicaid Fees | | | | | | | | | |
| Clinic Services | 630,482 | 350,071 | 106,164 | 1,713 | 127,909 | 585,857 | 10,876 | 33,749 | - |
| Fee adjustments | (153,029) | (54,045) | (23,811) | (1,232) | (49,008) | (128,096) | (9,701) | (15,232) | - |
| Specialized Rehabilitation | 7,843,814 | 7,579,485 | 254,252 | 291 | - | 7,834,028 | - | 9,786 | - |
| Fee adjustments | (839,100) | (809,766) | (27,174) | - | - | (836,940) | (598) | (1,562) | - |
| Case Management | 911,000 | 783,259 | 3,096 | - | - | 786,355 | 122,731 | 1,914 | - |
| Fee adjustments | (84,736) | (38,449) | (308) | - | - | (38,757) | (45,422) | (557) | - |
| OADAP Medicaid | 344,666 | - | - | - | - | - | - | 344,666 | - |
| Fee adjustments | (131,628) | - | - | - | - | - | - | (131,628) | - |
| Case Rate - CRT | 3,742,014 | - | - | 3,742,014 | - | 3,742,014 | - | - | - |
| Personal Care Services | 24,563 | - | - | - | - | - | 24,563 | - | - |
| Fee adjustments | (5,467) | - | - | - | - | - | (5,467) | - | - |
| Waiver - MH | 289,323 | 289,323 | - | - | - | 289,323 | - | - | - |
| Waiver - DS | 6,714,878 | - | - | - | - | - | 6,714,878 | - | - |
| Inter-Program services | - | - | - | - | - | - | - | - | - |
| Other | | | | | | | | | |
| Other Fees (Adjustments) | 489,861 | 186,664 | - | 117,072 | - | 303,736 | 186,125 | - | - |
| Totals | \$ 21,284,470 | \$ 8,900,688 | \$ 765,812 | \$ 3,983,450 | \$ 164,509 | \$ 13,814,459 | \$ 7,065,421 | \$ 404,505 | \$ 85 |

HEALTH CARE AND REHABILITATION SERVICES OF SOUTHEASTERN VERMONT, INC.

SCHEDULE 1: CLIENT FEES - 2004

| Income Description | TOTALS | Children | Adult | CRT | Emergency Screening | Subtotal Mental Health | Developmental Services | Substance Abuse | Non-Mental Health |
|----------------------------|----------------------|---------------------|-------------------|---------------------|---------------------|------------------------|------------------------|-------------------|-------------------|
| Patient Fees | | | | | | | | | |
| Gross Patient Fees | \$ 496,085 | \$ 62,391 | \$ 106,372 | \$ 12,990 | \$ 88,095 | \$ 269,848 | \$ 30,131 | \$ 195,805 | \$ 301 |
| Patient Fee discounts | (224,719) | (44,135) | (44,009) | (2,983) | (15,825) | (106,952) | (1,619) | (116,148) | - |
| Insurance Fees | | | | | | | | | |
| Commercial Insurance | 426,277 | 163,445 | 123,580 | 4,912 | 67,864 | 359,801 | (174) | 66,650 | - |
| Fee adjustments | (211,135) | (92,609) | (46,186) | (2,379) | (38,261) | (179,435) | (428) | (31,272) | - |
| VHAP Managed Care | 166,251 | 1,324 | 142,980 | 1,995 | 1,187 | 147,486 | - | 18,765 | - |
| Fee adjustments | (31,645) | (624) | (25,261) | (690) | (509) | (27,084) | - | (4,561) | - |
| PC Plus Managed Care | 1,103,765 | 731,865 | 214,901 | 1,817 | 125,367 | 1,073,950 | 2,153 | 27,662 | - |
| Fee adjustments | (226,369) | (109,219) | (71,199) | (828) | (35,625) | (216,871) | (679) | (8,819) | - |
| Medicare | 375,668 | 121 | 121,777 | 177,349 | 28,650 | 327,897 | 9,168 | 38,603 | - |
| Fee adjustments | (71,801) | - | (13,766) | (41,118) | (3,680) | (58,564) | (4,666) | (8,571) | - |
| Medicaid Fees | | | | | | | | | |
| Clinic Services | 560,122 | 410,108 | 71,805 | 291 | 59,897 | 542,101 | 4,462 | 13,559 | - |
| Fee adjustments | (156,818) | (94,398) | (21,237) | (617) | (34,053) | (150,305) | (2,869) | (3,644) | - |
| Specialized Rehabilitation | 8,388,222 | 8,025,165 | 323,460 | 1,255 | - | 8,349,880 | - | 38,342 | - |
| Fee adjustments | (943,895) | (831,687) | (71,320) | (2,107) | (2,280) | (907,394) | (5,716) | (30,785) | - |
| Case Management | 968,504 | 836,058 | 3,218 | 627 | - | 839,903 | 124,168 | 4,433 | - |
| Fee adjustments | (80,068) | (33,779) | (2,527) | (526) | - | (36,832) | (43,135) | (101) | - |
| OADAP Medicaid | 232,216 | - | 53 | 62 | 1,433 | 1,548 | - | 230,668 | - |
| Fee adjustments | (55,303) | - | (53) | - | (1,051) | (1,104) | - | (54,199) | - |
| Case Rate - CRT | 3,626,113 | - | - | 3,626,113 | - | 3,626,113 | - | - | - |
| Personal Care Services | 69,881 | - | - | - | - | - | 69,881 | - | - |
| Fee adjustments | (9,084) | - | - | - | - | - | (9,084) | - | - |
| Waiver - MH | 258,895 | 258,895 | - | - | - | 258,895 | - | - | - |
| Waiver - DS | 5,646,494 | - | - | - | - | - | 5,646,494 | - | - |
| Inter-Program services | - | - | - | (73,107) | - | (73,107) | 73,107 | - | - |
| Other | | | | | | | | | |
| Other Fees (Adjustments) | (4,955) | (269,470) | - | 123,707 | - | (145,763) | 108,078 | 32,730 | - |
| Totals | \$ 20,302,701 | \$ 9,013,451 | \$ 812,588 | \$ 3,826,763 | \$ 241,209 | \$ 13,894,011 | \$ 5,999,272 | \$ 409,117 | \$ 301 |

HEALTH CARE AND REHABILITATION SERVICES OF SOUTHEASTERN VERMONT, INC.

SCHEDULE 2: DEPARTMENT OF MENTAL HEALTH CONTRACTS -- 2005

| | <u>Totals</u> | <u>Children</u> | <u>Adult</u> | <u>CRT</u> | <u>Emergency Services</u> | <u>Subtotal Mental Health</u> | <u>DS</u> | <u>Substance Abuse</u> | <u>Non- Mental Health</u> | <u>Administration</u> |
|---------------------------|------------------|-----------------|-----------------|-----------------|-------------------------------|---------------------------------------|-------------|----------------------------|-----------------------------------|-----------------------|
| Children's Summer Respite | \$ 8,500 | \$ 8,500 | \$ - | \$ - | \$ - | \$ 8,500 | \$ - | \$ - | \$ - | \$ - |
| Other | <u>9,001</u> | <u>-</u> | <u>2,918</u> | <u>2,333</u> | <u>-</u> | <u>5,251</u> | <u>-</u> | <u>3,750</u> | <u>-</u> | <u>-</u> |
| TOTAL | <u>\$ 17,501</u> | <u>\$ 8,500</u> | <u>\$ 2,918</u> | <u>\$ 2,333</u> | <u>\$ -</u> | <u>\$ 13,751</u> | <u>\$ -</u> | <u>\$ 3,750</u> | <u>\$ -</u> | <u>\$ -</u> |

HEALTH CARE AND REHABILITATION SERVICES OF SOUTHEASTERN VERMONT, INC.

SCHEDULE 2: DEPARTMENT OF MENTAL HEALTH CONTRACTS - 2004

| | <u>Totals</u> | <u>Children</u> | <u>Adult</u> | <u>CRI</u> | <u>Emergency Services</u> | <u>Subtotal Mental Health</u> | <u>DS</u> | <u>Substance Abuse</u> | <u>Non- Mental Health</u> | <u>Administration</u> |
|---------------------------|-------------------|-------------------|-------------------|-------------|-------------------------------|---------------------------------------|-------------|----------------------------|-----------------------------------|-----------------------|
| Children's Summer Respite | \$ 8,500 | \$ 8,500 | \$ - | \$ - | \$ - | \$ 8,500 | \$ - | \$ - | \$ - | \$ - |
| CUPS | 152,600 | 152,600 | - | - | - | 152,600 | - | - | - | - |
| Other | 9,799 | 7,432 | (1,133) | - | - | 6,299 | - | 3,500 | - | - |
| TOTAL | \$ 170,899 | \$ 168,532 | \$ (1,133) | \$ - | \$ - | \$ 167,399 | \$ - | \$ 3,500 | \$ - | \$ - |

HEALTH CARE AND REHABILITATION SERVICES OF SOUTHEASTERN VERMONT, INC.

SCHEDULE 3: OTHER STATE CONTRACTS - 2005

| | <u>Totals</u> | <u>Children</u> | <u>Adult</u> | <u>CRT</u> | <u>Emergency Services</u> | <u>Subtotal Mental Health</u> | <u>Developmental Services</u> | <u>Substance Abuse</u> | <u>Non- Mental Health</u> | <u>Administration</u> |
|-----------------------|---------------------|-------------------|-------------------|------------------|-------------------------------|---------------------------------------|-----------------------------------|----------------------------|-----------------------------------|-----------------------|
| DCF - IFBS | \$ 97,988 | \$ 97,988 | \$ - | \$ - | \$ - | \$ 97,988 | \$ - | \$ - | \$ - | \$ - |
| DCF - Parent Educator | 43,460 | 43,460 | - | - | - | 43,460 | - | - | - | - |
| DCF - Foster Care | 70,779 | 55,877 | - | - | - | 55,877 | 14,902 | - | - | - |
| DCF - CUPS | 35,014 | 35,014 | - | - | - | 35,014 | - | - | - | - |
| DCF - Other | 80,448 | 80,448 | - | - | - | 80,448 | - | - | - | - |
| Supported Employment | 362,612 | 30,933 | - | 65,225 | - | 96,158 | 266,454 | - | - | - |
| ADAP | 340,782 | - | - | - | - | - | - | 340,782 | - | - |
| Other State Contracts | 288,853 | 1,039 | 100,000 | - | - | 101,039 | 9,300 | - | 178,514 | - |
| TOTAL | \$ 1,319,936 | \$ 344,759 | \$ 100,000 | \$ 65,225 | \$ - | \$ 509,984 | \$ 290,656 | \$ 340,782 | \$ 178,514 | \$ - |

HEALTH CARE AND REHABILITATION SERVICES OF SOUTHEASTERN VERMONT, INC.

SCHEDULE 3: OTHER STATE CONTRACTS - 2004

| | <u>Totals</u> | <u>Children</u> | <u>Adult</u> | <u>CRT</u> | <u>Emergency Services</u> | <u>Subtotal Mental Health</u> | <u>Developmental Services</u> | <u>Substance Abuse</u> | <u>Non- Mental Health</u> | <u>Administration</u> |
|-----------------------|---------------------|-------------------|-------------------|------------------|-------------------------------|---------------------------------------|-----------------------------------|----------------------------|-----------------------------------|-----------------------|
| SRS - IFBS | \$ 108,362 | \$ 108,362 | \$ - | \$ - | \$ - | \$ 108,362 | \$ - | \$ - | \$ - | \$ - |
| SRS - Parent Educator | 40,932 | 40,932 | - | - | - | 40,932 | - | - | - | - |
| SRS - Foster Care | 98,510 | 69,940 | - | - | - | 69,940 | 28,570 | - | - | - |
| SRS - Other | 7,545 | 7,545 | - | - | - | 7,545 | - | - | - | - |
| Supported Employment | 325,811 | - | - | 63,945 | - | 63,945 | 261,866 | - | - | - |
| ADAP | 282,908 | - | - | - | - | - | - | 282,908 | - | - |
| Other State Contracts | 339,869 | 7,143 | 113,220 | - | - | 120,363 | 20,525 | 3,000 | 195,981 | - |
| TOTAL | \$ 1,203,937 | \$ 233,922 | \$ 113,220 | \$ 63,945 | \$ - | \$ 411,087 | \$ 310,961 | \$ 285,908 | \$ 195,981 | \$ - |

HEALTH CARE AND REHABILITATION SERVICES OF SOUTHEASTERN VERMONT, INC.

SCHEDULE 4: DAY TREATMENT CASE RATE FUNDS – 2005

| | <u>MH Day Treatment</u> |
|----------|-----------------------------|
| Medicaid | \$ <u>45,480</u> |
| TOTAL | \$ <u><u>45,480</u></u> |

SCHEDULE 4: DAY TREATMENT CASE RATE FUNDS – 2004

| | <u>MH Day Treatment</u> |
|----------|-----------------------------|
| Medicaid | \$ <u>62,579</u> |
| TOTAL | \$ <u><u>62,579</u></u> |

HEALTH CARE AND REHABILITATION SERVICES OF SOUTHEASTERN VERMONT, INC.

SCHEDULE 5: DEVELOPMENTAL SERVICES CHANGES IN NET ASSETS - 2005

| | Residential | Service Planning and Coordination | Community Support | Vocational | Respite | All Other DS Services | Total |
|----------------------------------|-------------------|---|----------------------|------------------|-------------------|-----------------------------|------------------|
| REVENUE | | | | | | | |
| Patient fees, net | \$ 3,230,299 | \$ 828,282 | \$ 2,170,251 | \$ 296,574 | \$ - | \$ 540,015 | \$ 7,065,421 |
| State-contracts & grants: | | | | | | | |
| Grant in Aid | - | - | - | 4,385 | 93,333 | 60,949 | 158,667 |
| DMH Contracts/Grants | - | - | - | - | - | - | - |
| Other State contracts | 14,902 | - | 2,600 | 266,454 | - | 6,700 | 290,656 |
| Local revenue | - | - | 3,443 | - | - | - | 3,443 |
| Other revenue | 562 | - | 1,449 | 2 | - | 471 | 2,484 |
| TOTAL REVENUE | <u>3,245,763</u> | <u>828,282</u> | <u>2,177,743</u> | <u>567,415</u> | <u>93,333</u> | <u>608,135</u> | <u>7,520,671</u> |
| EXPENSES | | | | | | | |
| Salaries | 36,829 | 342,596 | 606,170 | 284,070 | - | 487,587 | 1,757,252 |
| Fringe benefits | 12,338 | 114,762 | 203,054 | 95,157 | - | 163,330 | 588,641 |
| Other personnel costs | 441,282 | 2,423 | 85,709 | 2,315 | 84,729 | 293,245 | 909,703 |
| Program expenses | 24,829 | 13,196 | 70,351 | 862 | - | 7,349 | 116,587 |
| Operating expenses | 2,115,483 | 136,008 | 643,260 | 36,982 | - | 166,932 | 3,098,665 |
| Travel and transportation | 4,909 | 40,255 | 126,148 | 23,434 | - | 24,981 | 219,727 |
| Building expenses - direct | 42 | 26 | 244 | 141 | - | 250 | 703 |
| Building expenses - allocated | 5,521 | 23,837 | 39,648 | 24,801 | - | 41,619 | 135,426 |
| Allocation of indirect expenses: | | | | | | | |
| Program Administration | 211,703 | 53,951 | 142,239 | 37,493 | 6,791 | (452,177) | - |
| Administration | 275,158 | 70,122 | 184,874 | 48,731 | 8,827 | 70,706 | 658,418 |
| TOTAL EXPENSES | <u>3,128,094</u> | <u>797,176</u> | <u>2,101,697</u> | <u>553,986</u> | <u>100,347</u> | <u>803,822</u> | <u>7,485,122</u> |
| CHANGE IN NET ASSETS | \$ <u>117,669</u> | \$ <u>31,106</u> | \$ <u>76,046</u> | \$ <u>13,429</u> | \$ <u>(7,014)</u> | \$ <u>(195,687)</u> | \$ <u>35,549</u> |

HEALTH CARE AND REHABILITATION SERVICES OF SOUTHEASTERN VERMONT, INC.

SCHEDULE 5: DEVELOPMENTAL SERVICES CHANGES IN NET ASSETS - 2004

| | Residential | Service Planning and Coordination | Community Support | Vocational | Respite | All Other DS Services | Total |
|----------------------------------|------------------|---|----------------------|----------------|----------------|-----------------------------|------------------|
| REVENUE | | | | | | | |
| Patient fees, net | \$ 2,855,612 | \$ 692,549 | \$ 1,490,128 | \$ 389,561 | \$ - | \$ 571,422 | \$ 5,999,272 |
| State-contracts & grants: | | | | | | | |
| Grant in Aid | - | - | - | 4,385 | 77,880 | 42,240 | 124,505 |
| DMH Contracts/Grants | - | - | - | - | - | 20,525 | 20,525 |
| Other State contracts | 28,315 | 800 | 255 | 261,866 | - | (800) | 290,436 |
| Local revenue | - | 250 | 555 | - | - | 2,886 | 3,691 |
| Other revenue | 545 | 20 | 73,995 | - | - | (73,307) | 1,253 |
| TOTAL REVENUE | <u>2,884,472</u> | <u>693,619</u> | <u>1,564,933</u> | <u>655,812</u> | <u>77,880</u> | <u>562,966</u> | <u>6,439,682</u> |
| EXPENSES | | | | | | | |
| Salaries | 45,013 | 301,941 | 502,663 | 319,527 | - | 494,450 | 1,663,594 |
| Fringe benefits | 13,187 | 88,452 | 147,252 | 93,604 | - | 144,846 | 487,341 |
| Other personnel costs | 278,719 | 3,805 | 48,323 | 335 | 85,175 | 156,214 | 572,571 |
| Program expenses | 20,466 | 9,167 | 71,880 | 892 | - | 7,215 | 109,620 |
| Operating expenses | 1,983,220 | 111,436 | 360,144 | 24,083 | - | 137,657 | 2,616,540 |
| Travel and transportation | 6,608 | 29,679 | 108,973 | 20,290 | - | 21,802 | 187,352 |
| Building expenses - direct | 9,982 | 529 | 5,209 | 690 | - | 131 | 16,541 |
| Building expenses - allocated | 4,961 | 20,550 | 34,066 | 22,644 | - | 35,262 | 117,483 |
| Allocation of indirect expenses: | | | | | | | |
| Program Administration | 166,206 | 39,794 | 89,958 | 33,920 | 5,992 | (335,870) | - |
| Administration | 245,617 | 58,806 | 132,939 | 50,126 | 8,857 | 64,311 | 560,656 |
| TOTAL EXPENSES | <u>2,773,979</u> | <u>664,159</u> | <u>1,501,407</u> | <u>566,111</u> | <u>100,024</u> | <u>726,018</u> | <u>6,331,698</u> |
| CHANGE IN NET ASSETS | \$ 110,493 | \$ 29,460 | \$ 63,526 | \$ 89,701 | \$ (22,144) | \$ (163,052) | \$ 107,984 |

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Report 1

INDEPENDENT AUDITORS' REPORT ON SCHEDULE OF FEDERAL AWARDS

To the Board of Directors of
Health Care and Rehabilitation Services of Southeastern Vermont, Inc.:

We have audited the financial statements of Health Care and Rehabilitation Services of Southeastern Vermont, Inc. (a not-for-profit organization) as of and for the year ended June 30, 2005, and have issued our report thereon dated September 2, 2005. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our report.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of the Office of Management and Budget Circular A-133, "Audits of Institutions of Higher Education and Other Nonprofit Institutions". Those standards and OMB Circular A-133 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of Health Care and Rehabilitation Services of Southeastern Vermont, Inc. taken as a whole. The accompanying Schedule of Federal Awards is presented for purposes of additional analysis and is not a required part of the financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Tyler, Simms and St. Sauveur, CPAs, P.C.

Lebanon, New Hampshire
September 2, 2005

HEALTH CARE AND REHABILITATION SERVICES OF SOUTHEASTERN VERMONT, INC.

SCHEDULE OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2005

| <u>FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/PROGRAM TITLE</u> | <u>FEDERAL CFDA NUMBER</u> | <u>REVENUE RECOGNIZED</u> | <u>DISBURSEMENTS EXPENDITURES</u> |
|--|--------------------------------|-------------------------------|---------------------------------------|
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | |
| Passed through Vermont Agency of Human Services: | | | |
| Supported Employment | 84.126A | \$ 331,689 | \$ 331,689 |
| Total Department of Health and Human Services | | \$ 331,689 | \$ 331,689 |
| OTHER FEDERAL AWARDS | | | |
| Passed through Vermont Agency of Human Services: | | | |
| Retired Service Volunteer Programs - RSVP (2) | 94.002 | \$ 174,397 | \$ 174,397 |
| Substance Abuse Prevention & Treatment Block Grant - ADAP | 93.959 | 106,800 | 106,800 |
| Mental Health Block Grant | 93.958 | 126,925 | 126,925 |
| Peer Recovery Center | 93.958 | 1,082 | 1,082 |
| Social Services Block Grant - DMH | 93.667 | 109,154 | 109,154 |
| Social Services Block Grant - DCF | 93.667 | 14,197 | 14,197 |
| Training & Evaluation of Evidence Based Practices | 92.243 | 2,500 | 2,500 |
| Temporary Assistance to Needy Families | 93.558 | 1,424 | 1,424 |
| Children's Upstream Services (CUPS) | 93.104 | 55,135 | 55,135 |
| Robert Wood Depression Grant | 93.778 | 100,000 | 100,000 |
| Access to Insurance, Medical & Dental in Home - River Connections | 93.778 | 5,908 | 5,908 |
| VKAT - Riverside Middle School Program - STOP | 93.283 | 950 | 950 |
| Bio-Terrorism Hospital Preparedness | 93.003 | 2,250 | 2,250 |
| Foster Care Grant | 93.658 | 15,473 | 15,473 |
| Child Welfare Services Grant | 93.654 | 3,368 | 3,368 |
| Family Preservation Grant | 93.556 | 120 | 120 |
| Total Other Federal Awards | | 719,683 | 719,683 |
| TOTAL FEDERAL AWARDS | | \$ 1,051,372 | \$ 1,051,372 |

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Report 2

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of
Health Care and Rehabilitation Services of Southeastern Vermont, Inc.:

We have audited the financial statements of Health Care and Rehabilitation Services of Southeastern Vermont, Inc. as of and for the years ended June 30, 2005 and 2004, and have issued our report thereon dated September 2, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Health Care and Rehabilitation Services of Southeastern Vermont Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Health Care and Rehabilitation Services of Southeastern Vermont Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of Health Care and Rehabilitation Services of Southeastern Vermont, Inc. in a separate letter.

This report is intended solely for the information and use of the audit committee, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Tyler, Simms and St. Sauveur, CPAs, P.C.

Lebanon, New Hampshire
September 2, 2005

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Report 3

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors of
Health Care and Rehabilitation Services of Southeastern Vermont, Inc.

Compliance

We have audited the compliance of Health Care and Rehabilitation Services of Southeastern Vermont, Inc. with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the years ended June 30, 2005 and 2004. Health Care and Rehabilitation Services of Southeastern Vermont, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Health Care and Rehabilitation Services of Southeastern Vermont, Inc.'s management. Our responsibility is to express an opinion of Health Care and Rehabilitation Services of Southeastern Vermont, Inc.'s compliance based on our audit.

We have conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Health Care and Rehabilitation Services of Southeastern Vermont, Inc.'s compliance with those requirements that performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Health Care and Rehabilitation Services of Southeastern Vermont, Inc.'s compliance with those requirements.

In our opinion, Health Care and Rehabilitation Services of Southeastern Vermont, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the years ended June 30, 2005 and 2004.

Internal Control Over Compliance

The management of Health Care and Rehabilitation Services of Southeastern Vermont, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Health Care and Rehabilitation Services of Southeastern Vermont, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONTINUED)**

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level their risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Tyler, Lemms and St. Lawrence, CPAs, P.C.

Lebanon, New Hampshire
September 2, 2005

HEALTH CARE AND REHABILITATION SERVICES OF SOUTHEASTERN VERMONT, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2005

SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Health Care and Rehabilitation Services of Southeastern Vermont, Inc.
2. There were no reportable conditions noted during the audit of the financial statements as reported in the Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of Health Care and Rehabilitation Services of Southeastern Vermont, Inc., which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. There were no reportable conditions in internal control over major federal award programs for Health Care and Rehabilitation Services of Southeastern Vermont, Inc.
5. No instances of noncompliance material to the financial statements of Health Care and Rehabilitation Services of Southeastern Vermont, Inc. were disclosed during the audit.
6. There were no audit findings relative to the major federal award programs for Health Care and Rehabilitation Services of Southeastern Vermont, Inc.
7. The programs tested as major programs included: U.S. Department of Education CFDA No. 84.126A passed through the Vermont Agency of Human Services.
8. The threshold for distinguishing between Type A and B programs was \$300,000.
9. Health Care and Rehabilitation Services of Southeastern Vermont, Inc. qualified as a low-risk auditee.

FINDINGS-FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

None

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAMS AUDIT

None.

APPENDIX B-III

**NFI Vermont, Inc.
Audited Financial Statements
(For the fiscal year ended June 30, 2005)**

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NFI VERMONT, INC.

Financial Statements

June 30, 2005

(With Independent Auditors' Report Thereon)

NFI VERMONT, INC.

Financial Statements

June 30, 2005

Table of Contents

| | Page |
|--|-------------|
| Independent Auditors' Report | 1 |
| Statement of Financial Position | 2 |
| Statement of Activities | 3 |
| Statement of Functional Expenses | 4 |
| Statement of Cash Flows | 5 |
| Notes to Financial Statements | 6 |
| Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 11 |



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Independent Auditors' Report

The Board of Directors
NFI Vermont, Inc.:

We have audited the accompanying statement of financial position of NFI Vermont, Inc. (NFIV) as of June 30, 2005, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of NFIV's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 NFIV's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NFIV as of June 30, 2005, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated September 28, 2005, on our consideration of NFIV's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of the internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

KPMG LLP

September 28, 2005

NFI VERMONT, INC.
Statement of Financial Position
June 30, 2005

Assets

| | |
|---|---------------------|
| Current assets: | |
| Cash and equivalents | \$ 27,006 |
| Restricted cash (note 4) | 93,178 |
| Accounts receivable, net (note 2) | 1,322,553 |
| Prepaid expenses and other current assets | 58,966 |
| Total current assets | 1,501,703 |
| Property and equipment (note 4): | |
| Land | 192,113 |
| Construction in progress | 1,100 |
| Buildings and improvements | 1,044,148 |
| Equipment and furnishings | 159,234 |
| Motor vehicles | 92,845 |
| | 1,489,440 |
| Less accumulated depreciation | (374,965) |
| Property and equipment, net | 1,114,475 |
| Other assets (note 4) | 96,863 |
| Total assets | \$ 2,713,041 |

Liabilities and Net Assets

| | |
|--|---------------------|
| Current liabilities: | |
| Current portion of long-term debt (note 4) | \$ 65,682 |
| Accounts payable | 67,622 |
| Line of credit (note 3) | 169,000 |
| Accrued payroll and related liabilities (note 6) | 390,589 |
| Other accrued expenses (note 8) | 6,046 |
| Due to affiliate (note 7) | 120,066 |
| Total current liabilities | 819,005 |
| Long-term liabilities: | |
| Long-term debt, net of current portion (note 4) | 919,247 |
| Due to affiliate (note 7) | 54,250 |
| Total long-term liabilities | 973,497 |
| Total liabilities | 1,792,502 |
| Net assets: | |
| Unrestricted | 920,539 |
| Total net assets | 920,539 |
| Total liabilities and net assets | \$ 2,713,041 |

See accompanying notes to financial statements.

NFI VERMONT, INC.

Statement of Activities

Year ended June 30, 2005

Changes in unrestricted net assets:

Revenues and other support:

Contracts, net (notes 2 and 8)

\$ 10,071,558

Contributions:

In-kind

14,459

Other

5,181

Interest and dividends

86

Miscellaneous

10,303

Total revenues and other support

10,101,587

Expenses:

Program services (note 8)

9,067,153

Supporting services (note 7)

995,082

Total expenses

10,062,235

Increase in unrestricted net assets before gain on sale of property
and equipment

39,352

Gain on sale of property and equipment

6,989

Increase in unrestricted assets

46,341

Net assets at beginning of year

874,198

Net assets at end of year

\$ 920,539

See accompanying notes to financial statements.

NFI VERMONT, INC.
Statement of Functional Expenses
Year ended June 30, 2005

| | Program services | Supporting services | Total |
|-------------------------------------|-----------------------------|--------------------------------|-------------------|
| Personnel expenses: | | | |
| Salaries | \$ 4,721,273 | 347,424 | 5,068,697 |
| Payroll taxes and employee benefits | 1,244,241 | 86,031 | 1,330,272 |
| | <u>5,965,514</u> | <u>433,455</u> | <u>6,398,969</u> |
| Other expenses: | | | |
| Contracted services | 1,479,564 | 383,871 | 1,863,435 |
| Other direct expenses | 493,331 | 63,674 | 557,005 |
| Occupancy | 489,313 | 62,119 | 551,432 |
| Transportation | 249,380 | 12,019 | 261,399 |
| Consumables | 210,457 | — | 210,457 |
| Equipment | 35,508 | 10,856 | 46,364 |
| Interest | 32,319 | 13,470 | 45,789 |
| In-kind | 14,459 | — | 14,459 |
| | <u>3,004,331</u> | <u>546,009</u> | <u>3,550,340</u> |
| Depreciation | 97,308 | 15,618 | 112,926 |
| Total expenses | <u>\$ 9,067,153</u> | <u>995,082</u> | <u>10,062,235</u> |

See accompanying notes to financial statements.

NFI VERMONT, INC.

Statement of Cash Flows

Year ended June 30, 2005

| | |
|--|-------------------|
| Cash flows from operating activities: | |
| Increase in unrestricted net assets | \$ 46,341 |
| Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities: | |
| Depreciation and amortization | 112,926 |
| Gain on sale of property and equipment | (6,989) |
| Changes in assets and liabilities: | |
| Accounts receivable, net | (270,001) |
| Prepaid expenses and other current assets | (4,409) |
| Other assets | (1,090) |
| Accounts payable | 188,432 |
| Accrued payroll and related liabilities | (110,731) |
| Other accrued expenses | (37,167) |
| Deferred revenue | (5,589) |
| Net cash provided by operating activities | <u>(88,277)</u> |
| Cash flows from investing activities: | |
| Purchases of property and equipment | (186,920) |
| Proceeds from sale of property and equipment | 7,000 |
| Net cash used by investing activities | <u>(179,920)</u> |
| Cash flows from financing activities: | |
| Issuance of long-term debt | 106,430 |
| Repayments of long-term debt | (54,085) |
| Decrease in due to affiliate | (122,522) |
| Net cash used by financing activities | <u>(70,177)</u> |
| Net decrease in cash and equivalents | (338,374) |
| Cash and equivalents at beginning of year | 458,558 |
| Cash and equivalents at end of year | <u>\$ 120,184</u> |
| Supplemental data: | |
| Cash paid for interest | <u>\$ 45,789</u> |

See accompanying notes to financial statements.

NFI VERMONT, INC.

Notes to Financial Statements

June 30, 2005

(1) Summary of Significant Accounting Policies

NFI Vermont, Inc. (NFIV) is a not-for-profit organization whose purpose is to provide community-based social services to individuals and their families. NFIV is a wholly controlled subsidiary of North American Family Institute, Inc. (NAFI), which is the sole member of NFIV's board of directors. Substantially all of NFIV's revenues are derived from services contracted with the State of Vermont Departments of Mental Health and Children and Families, Medicaid, private insurers, and other third parties.

(a) Basis of Presentation

The accompanying financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on NFIV as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. All of NFIV's activities and balances are unrestricted.

(b) Revenue Recognition

Under cost reimbursement contracts, revenues are recognized as costs are incurred. Under units-of-service contracts, revenues are recognized at the time services are provided.

(c) Income Taxes

NFIV is an organization described under Section 501(c)(3) of the Internal Revenue Code (IRC) and is generally exempt from income taxes under IRC Section 501(a).

(d) Use of Estimates

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

NFIV considers the estimate of its allowance for contractual adjustments and doubtful accounts receivable to be critical accounting policies requiring extensive subjective judgments. NFIV bases its estimates on historical experience and other assumptions believed to be reasonable under the circumstances. NFIV considers the estimates of its self insured health plan to be critical accounting policies requiring extensive subjective judgments, as well. NFIV bases its estimates for its self insured health plan on historical experience and on industry averages and industry experience. Actual results could differ from these estimates under different assumptions or conditions.

(e) Concentration of Risk

NFIV receives the majority of its funding from state contracts that are renewable annually. Legislative budgets could significantly impact NFIV's ability to start new programs and to continue existing programs.

NFI VERMONT, INC.

Notes to Financial Statements

June 30, 2005

(f) Cash Equivalents

All short-term investments with an original maturity at purchase of three months or less are considered cash equivalents for purposes of the statement of cash flows.

(g) Property and Equipment

Property and equipment are recorded at cost or, in the case of donated property, at fair value at the date of gift. Depreciation is provided using the straight-line method over the following estimated useful lives:

| | |
|----------------------------|---------------|
| Buildings and improvements | 15-33.3 years |
| Equipment and furnishings | 2-10 years |
| Motor vehicles | 3-5 years |

Leasehold improvements are amortized over 5 years or the term of the lease, whichever is greater.

(h) Self-Insurance

NFIV is self-insured for employee medical health care costs. At June 30, 2005, the estimated liability for health care claims incurred but not yet reported or paid was \$129,217, and is included in accrued payroll and related liabilities in the accompanying statement of financial position.

(i) In-Kind Contributions

In-kind contributions are generally recognized at fair value on the date received. During fiscal 2005, NFIV received in-kind contributions of rent and consumables amounting to \$14,459.

(2) Accounts Receivable

Accounts receivable of \$1,322,553 are carried net of an allowance for contractual adjustments and doubtful accounts receivable of \$315,757. Contract revenues of \$10,071,558 in 2005 have been reduced by estimated contractual adjustments and doubtful accounts of \$157,612.

(3) Line of Credit

NAFI makes available to its subsidiaries, including NAFI Connecticut, Inc. (NAFICT), NFI Vermont, Inc. (NFIV), NFI Massachusetts, Inc. (NFI) and NFI North, Inc. (NFIN), an on demand \$4,000,000 line of credit from TD Banknorth. The line of credit bears interest at the bank's prime rate (6.25% at June 30, 2005) plus 0.50%. Borrowings under the line are jointly guaranteed by NAFI, NAFICT, NFIV, NFI, and NFIN and are collateralized by substantially all of their assets.

Borrowings under the line of credit are due upon demand, and the line is subject to annual renewal. At June 30, 2005, \$169,000 was outstanding under this line of credit.

In addition, NAFI has entered into Letter of Credit agreements with TD Banknorth for the year ended June 30, 2005 for a total of \$2,058,000. The Letter of Credit agreements are carved out of the \$4,000,000 line of credit and are not collateralized with additional cash by NAFI. The Letter of Credit agreements are a requirement of NAFI's workers' compensation carrier.

NFI VERMONT, INC.
Notes to Financial Statements
June 30, 2005

(4) Long-Term Debt

Long-term debt at June 30, 2005 consisted of the following:

| Interest rate | Fiscal year due | Amount |
|--|--------------------|------------|
| Bond payable: | | |
| 4.375% fixed, bond series 2002A | 2017 | 880,000 |
| Mortgage payable, secured by real estate: | | |
| 6.72% fixed | 2010 | 64,000 |
| Vehicle notes, secured by automobiles: | | |
| 4.70% fixed | 2006 | \$ 4,189 |
| 5.99% fixed | 2009 | 16,751 |
| 6.75% fixed | 2010 | 19,989 |
| | | <hr/> |
| Total vehicle notes payable | | 40,929 |
| | | <hr/> |
| Total long term debt | | 984,929 |
| | | <hr/> |
| Less current portion | | (65,682) |
| | | <hr/> |
| Total long term debt, net of current portion | | \$ 919,247 |
| | | <hr/> |

On June 15, 2003 NFIV entered into a bond agreement with Chittenden Trust Company for \$1,000,000. The bond agreement consisted of two series: Bond Series A at a fixed rate of 4.375% for 15 years and Bond Series B at an adjustable rate starting at 4.750% for 2 years, which has been paid in full as of June 30, 2005. The bond was acquired for the purpose of financing projects and refinancing outstanding debt. The bond is guaranteed by North American Family Institute, Inc.

Bond issuance costs of \$92,500 will be amortized over the term of the bonds and are included net of amortization of \$15,417 in other assets in the accompanying statement of financial position.

The bond contains certain provisions that require NFIV to maintain debt service deposits with a trustee in the amount of \$93,000. These deposits, including interest earned totaling \$93,178, are recorded in the statement of financial position as restricted cash.

NFI VERMONT, INC.
Notes to Financial Statements
June 30, 2005

Scheduled repayments of long-term debt are as follows:

| | <u>Amount due</u> |
|----------------------|-------------------|
| Year ending June 30: | |
| 2006 | \$ 65,682 |
| 2007 | 67,253 |
| 2008 | 68,062 |
| 2009 | 63,963 |
| 2010 | 114,969 |
| Thereafter | <u>605,000</u> |
| | <u>\$ 984,929</u> |

Interest expense was \$45,789 for the year ended June 30, 2005.

(5) Operating Leases

NFIV leases certain property, motor vehicles, and equipment under noncancelable (except under certain circumstances) operating lease arrangements. Rental and lease expense amounted to \$368,747 for the year ended June 30, 2005. Future minimum lease payments as of June 30, 2005 are as follows:

| | <u>Amount</u> |
|----------------------|-------------------|
| Year ending June 30: | |
| 2006 | \$ 255,199 |
| 2007 | 191,482 |
| 2008 | 153,491 |
| 2009 | 140,436 |
| 2010 | <u>7,763</u> |
| | <u>\$ 748,371</u> |

(6) Retirement Plan

NFIV has a qualified retirement plan for eligible employees to which annual contributions are made at the discretion of NFIV's board of directors. NFIV's contribution amounted to \$124,151 for the year ended June 30, 2005, and is included in accrued payroll and related liabilities in the accompanying statement of financial position.

(7) Related-Party Transactions

North American Family Institute, Inc. (NAFI), an affiliate, charges an administrative management fee for supporting service costs that NAFI incurs on behalf of the Company. These allocated costs amounted to \$360,000 for the year ended June 30, 2005, and have been included in supporting services expenses in the accompanying statements of activities and functional expenses.

NAFI is committed to providing the necessary level of support to its affiliates. Advances from NAFI to NFIV have been reported as due to affiliate on the accompanying statement of financial position. At

NFI VERMONT, INC.
Notes to Financial Statements
June 30, 2005

June 30, 2005, such advances amounted to \$174,316, of which \$120,066 is expected to be paid within one year and \$54,250 is due in years thereafter.

(8) Collaborative Agreement

NFIV participates in a collaborative agreement with two unrelated organizations to operate the Centerpoint Adolescent Treatment Services program. The agreement among the three parties establishes the collaborative through June 30, 2007, with an option for renewal. This agreement provides for cost and revenue sharing above certain pre-defined thresholds. Revenue generated from this collaborative at June 30, 2005 by NFIV was \$670,088, which was included in contract revenue in the statement of activities. Expenses incurred by NFIV for the collaborative were \$648,621 for the year ended June 30, 2005, and are included in program expenses in the statement of activities. At June 30, 2005, NFIV had a receivable from the collaborative of \$30,553.



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**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

The Board of Directors
NFI Vermont, Inc.:

We have audited the financial statements of NFI Vermont, Inc. (NFIV), as of and for the year ended June 30, 2005, and have issued our report thereon September 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered NFIV's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NFIV's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of directors, management, federal awarding agencies, pass-through entities, and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

September 28, 2005

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APPENDIX B-IV

**Washington County Mental Health Services, Inc.
Audited Financial Statements
(For the fiscal year ended June 30, 2005)**

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Washington County Mental Health Services, Inc.

FINANCIAL STATEMENTS

June 30, 2005

Washington County Mental Health Services, Inc.
TABLE OF CONTENTS
June 30, 2005

| | <u>Page</u> |
|--|---------------------|
| INDEPENDENT AUDITOR'S REPORT | 1 |
| FINANCIAL STATEMENTS | |
| Statement of Financial Position | 2 |
| Statement of Activities | 3 |
| Statement of Cash Flows | 4 |
| Notes to Financial Statements | 5 |
| SUPPLEMENTARY INFORMATION | <u>Schedule</u> |
| Schedule of Client Fees | 1 |
| Schedule of Department of Mental Health Contracts | 2 |
| Schedule of Other State Contracts | 3 |
| Schedule of Access Grant Revenue and Expenses | 4 |
| Schedule of Developmental Services Revenue and Expenses | 5 |
| Schedule of Expenditures of Federal Awards | 6 |
| REPORTS ACCOMPANYING THE FINANCIAL STATEMENTS | <u>Report</u> |
| Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards | 1 |
| Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 | 2 |
| Schedule of Findings and Scheduled Costs | 3 |

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of Washington County Mental Health Services, Inc.

We have audited the accompanying statement of financial position of Washington County Mental Health Services, Inc. (a nonprofit organization) for the year ended June 30, 2005 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Washington County Mental Health Services, Inc. for the year ended June 30, 2005 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2005 on our consideration of Washington County Mental Health Services, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Washington County Mental Health Services, Inc. taken as a whole. The supplementary information on schedules 1 through 5 and the accompanying schedule of expenditures of federal awards on schedule 6 (which is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Kittell Branagan & Sargent

St. Albans, Vermont
September 1, 2005

certified public accountants

Washington County Mental Health Services, Inc.
STATEMENT OF FINANCIAL POSITION
June 30, 2005

ASSETS

CURRENT ASSETS

| | |
|---|----------------|
| Cash | \$ 1,912,380 |
| Accounts receivable - trade | 1,354,960 |
| Accounts receivable - other | 457,693 |
| Prepaid expenses and other current assets | <u>403,941</u> |

| | |
|----------------------|------------------|
| TOTAL CURRENT ASSETS | <u>4,128,974</u> |
|----------------------|------------------|

PROPERTY, PLANT & EQUIPMENT - net of
Accumulated Depreciation of \$3,055,141

3,500,865

OTHER ASSETS

| | |
|------------------------|----------------|
| Deferred finance costs | 131,338 |
| Debt finance payment | 79,315 |
| Debt service reserve | 252,792 |
| Rep payee accounts | <u>118,991</u> |

| | |
|--------------------|----------------|
| TOTAL OTHER ASSETS | <u>582,436</u> |
|--------------------|----------------|

| | |
|--------------|---------------------|
| TOTAL ASSETS | <u>\$ 8,212,275</u> |
|--------------|---------------------|

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

| | |
|-----------------------------------|----------------|
| Accounts payable | \$ 759,298 |
| Deferred income | 293,307 |
| Accrued vacation | 895,274 |
| Accrued payroll and payroll taxes | 573,734 |
| Accrued expenses | 78,148 |
| Rep payee accounts | 118,991 |
| Current portion of long-term debt | <u>220,667</u> |

| | |
|---------------------------|------------------|
| TOTAL CURRENT LIABILITIES | <u>2,939,419</u> |
|---------------------------|------------------|

| | |
|---|------------------|
| LONG-TERM DEBT, less current maturities | <u>2,696,507</u> |
|---|------------------|

| | |
|------------|------------------|
| NET ASSETS | <u>2,576,349</u> |
|------------|------------------|

| | |
|----------------------------------|---------------------|
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 8,212,275</u> |
|----------------------------------|---------------------|

See Accompanying Notes to Financial Statements.

Washington County Mental Health Services, Inc.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005

| | Total Agency | Children | Adult | CRT | Emergency Screening | Subtotal Mental Health | Develop- mental Services | Substance Abuse | Non- mental Health | Admin- istration |
|----------------------------------|-----------------|--------------|--------------|--------------|------------------------|------------------------------|--------------------------------|--------------------|--------------------------|---------------------|
| | | | | | | | | | | |
| REVENUE | | | | | | | | | | |
| Client fees, net | \$ 28,874,704 | \$ 9,731,467 | \$ 526,272 | \$ 6,111,787 | \$ 60,815 | \$ 16,430,341 | \$ 12,444,363 | \$ - | \$ - | \$ - |
| State Grants - | | | | | | | | | | |
| Grant-in-aid | 389,139 | 47,853 | 81,512 | 43,864 | 74,856 | 248,085 | 137,712 | 3,342 | - | - |
| Department of | | | | | | | | | | |
| Mental Health Contracts | 43,155 | 9,259 | 990 | 27,571 | - | 37,820 | 5,335 | - | - | - |
| Other state contracts/grants | 2,674,963 | 2,289,071 | 50,118 | 123,785 | - | 2,462,974 | 133,203 | - | 78,786 | - |
| Local revenue | 248,206 | 48,813 | 53,459 | - | 80,000 | 182,272 | 3,362 | - | 62,572 | - |
| Other revenue | 632,766 | 65,695 | 47,573 | 12,897 | 124 | 126,289 | 179,641 | 39,530 | 287,306 | - |
| TOTAL REVENUE | 32,862,933 | 12,192,158 | 759,924 | 6,319,904 | 215,795 | 19,487,781 | 12,903,616 | 42,872 | 428,664 | - |
| EXPENSES | | | | | | | | | | |
| Salaries | 16,167,069 | 5,352,712 | 627,554 | 3,364,579 | 347,100 | 9,691,945 | 4,815,068 | 37,610 | 142,616 | 1,479,830 |
| Fringe Benefits | 5,055,250 | 1,673,729 | 196,229 | 1,052,064 | 108,534 | 3,030,556 | 1,505,614 | 11,760 | 44,595 | 462,725 |
| Other personnel costs | 7,720,855 | 2,711,598 | 16,090 | 302,311 | 365 | 3,030,364 | 4,553,818 | - | 36,391 | 100,282 |
| Program expenses | 721,573 | 362,393 | 1,430 | 165,900 | 2,915 | 532,638 | 184,952 | - | - | 3,983 |
| Operating expenses | 1,161,673 | 229,603 | 34,434 | 191,341 | 14,387 | 469,765 | 275,572 | - | 8,142 | 408,194 |
| Client/Staff transportation | 847,323 | 223,749 | 9,218 | 151,186 | 5,543 | 389,696 | 317,276 | - | 6,581 | 133,770 |
| Building expenses | 812,973 | 189,410 | 31,773 | 252,032 | 1,439 | 474,654 | 268,430 | 180 | 1,134 | 68,575 |
| Allocation of indirect costs -- | | | | | | | | | | |
| Administration | - | 811,807 | 55,400 | 405,736 | 1,134 | 1,274,077 | 854,530 | 3,511 | 16,966 | (2,149,084) |
| Transportation | - | - | 1,123 | 138,035 | - | 139,158 | 43,006 | - | - | (182,164) |
| Maintenance/janitorial | - | 98,700 | 14,366 | 108,899 | 4,752 | 226,717 | 99,394 | - | - | (326,111) |
| TOTAL EXPENSES | 32,486,716 | 11,653,701 | 987,617 | 6,132,083 | 486,169 | 19,259,570 | 12,917,660 | 53,061 | 256,425 | - |
| INCREASE / (DECREASE) | | | | | | | | | | |
| IN NET ASSETS | 376,217 | \$ 538,457 | \$ (227,693) | \$ 187,821 | \$ (270,374) | \$ 228,211 | \$ (14,044) | \$ (10,189) | \$ 172,239 | \$ - |
| NET ASSETS, BEGINNING OF YEAR | 2,200,132 | | | | | | | | | |
| NET ASSETS, END OF YEAR | \$ 2,576,349 | | | | | | | | | |

See Accompanying Notes to Financial Statements.

Washington County Mental Health Services, Inc.
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2005

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|--|----------------|
| Increase in Net Assets | \$ 376,217 |
| Adjustments to reconcile decrease in net assets to net cash provided by operating activities: | |
| Depreciation and Amortization | 324,681 |
| (Gain)/Loss on disposal of assets | 2,240 |
| (Increase)/decrease in: | |
| Accounts receivable - trade | 853,956 |
| Accounts receivable - other | (66,006) |
| Debt service reserve | 12,734 |
| Prepaid expenses and other assets | (37,091) |
| Increase/(decrease) in: | |
| Accounts payable | 359,401 |
| Accrued liabilities | 637,074 |
| Deferred revenue | <u>102,935</u> |

NET CASH PROVIDED BY OPERATING ACTIVITIES 2,566,141

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of property and equipment (333,216)

CASH FLOWS FROM FINANCING ACTIVITIES

Payments of long-term debt (186,704)

NET INCREASE IN CASH 2,046,221

CASH OVERDRAFT AT BEGINNING OF YEAR (133,841)

CASH AT END OF YEAR \$ 1,912,380

SUPPLEMENTAL CASH FLOW INFORMATION

Interest paid \$ 173,208

Property and equipment financed through debt \$ 39,587

See Accompanying Notes to Financial Statements

Washington County Mental Health Services, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Washington County Mental Health Services, Inc. (WCMHS) is a not-for-profit, tax exempt corporation under Section 501(C)(3) of the Internal Revenue Code. In addition, the organization qualifies for the charitable contribution deduction under section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under section 509(a)(2). The corporation is organized under Vermont law to provide services in the areas of mental health, developmental services and related non-mental health programs.

Depreciation

The cost of property and equipment is depreciated over the assets estimated useful life using the straight-line method. The cost of leasehold improvements is depreciated over the estimated useful lives of the assets.

State Grants

The Agency receives a number of grants from and has entered into various contracts with the State of Vermont related to the delivery of mental health and developmental services.

Vacation Pay

Vacation pay is accrued and charged to fringe benefits when earned by the employee. Fringe benefits are allocated to the appropriate program expense based on the percentage of program salaries to total salaries.

Revenue

Revenue from federal, state and other sources is recognized in the period earned.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Financing Costs

The Organization has capitalized costs incurred with the issuance of bonds (see Note 6). These costs are being amortized over 3 to 20 years using the straight line method.

NOTE 2 PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

| | |
|---|---------------------|
| Land | \$ 602,599 |
| Buildings and Improvements | 4,230,740 |
| Furniture, fixtures and program equipment | 144,966 |
| Office equipment | 1,248,038 |
| Vehicles | <u>329,663</u> |
| | 6,556,006 |
| Accumulated Depreciation | <u>(3,055,141)</u> |
| NET BOOK VALUE | <u>\$ 3,500,865</u> |

Washington County Mental Health Services, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 3 ACCOUNTS RECEIVABLE

ACCOUNTS RECEIVABLE - TRADE

| | |
|---------------------------------|---------------------|
| Waiver | \$ 540,431 |
| Clients | 75,787 |
| Insurance | 121,372 |
| Medicaid | <u>926,199</u> |
| | 1,663,789 |
| Allowance for doubtful accounts | <u>(308,829)</u> |
| | <u>\$ 1,354,960</u> |

ACCOUNTS RECEIVABLE - OTHER

| | |
|---|-------------------|
| Schools | \$ 49,439 |
| Consulting contracts | 97,270 |
| State of Vermont - Social and Rehabilitative Services | 213,633 |
| - DMH | 990 |
| - Aging and Disability | 5,000 |
| Vt. Health Access | 15,000 |
| Other | <u>76,361</u> |
| | <u>\$ 457,693</u> |

NOTE 4 ACCRUED EXPENSES

| | |
|------------------------|------------------|
| Amounts payable to DMH | <u>\$ 78,148</u> |
|------------------------|------------------|

NOTE 5 LINE OF CREDIT

WCMHS has a \$1,850,000 line of credit, with an interest rate at 4.50%. As of June 30, 2005, the line of credit had no balance outstanding. The line matures February 28, 2006.

NOTE 6 LONG-TERM DEBT

Long-term debt consisted of the following at June 30, 2005:

Loan payable, due December 2018, with variable interest rates from 6.0% to 6.25% over the life of the loan. Interest payments are due semi-annually on 6/15 and 12/15, with principal payments due annually on 12/15. The terms of this loan are subject to a mandatory sinking fund redemption, at a redemption price equal to the principal amount of the series 1999 A Bonds redeemed, without premium, plus interest accrued to the date fixed for redemption of such series 1999 A Bonds. Loan secured by several facility properties.

\$ 970,000

Washington County Mental Health Services, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 6 LONG-TERM DEBT (continued)

| | |
|--|-----------|
| Loan payable, due June 2032, fixed interest rates from 4.375% to 6.50%, interest payments due semi-annually 6/15 & 12/15, with principal payments due 6/15. Loans subject to mandatory sinking fund redemption, at a redemption price equal to the principal amount of the bonds redeemed without premium, plus interest accrued to the date fixed for redemption at such series. Loans secured by real estate. | 1,445,000 |
| Mortgage payable, U.S. Department of Housing and Urban Development, secured by land and building at 7 St. Paul Street, Montpelier, Vermont, due October 2023, interest at 9.25%, monthly payments of \$2,019. | 213,604 |
| Loan payable, secured by equipment, due March 2008, interest at .375% above prime, monthly payments of \$1,014. | 28,581 |
| Loans payable, secured by vehicles, due from July 2006 to September 2009, with interest at 5.5% to 7.9%, monthly payments from \$169 to \$473. | 25,911 |
| Loan payable, secured by equipment, due November 2007, with interest at 3.9%, monthly payments of \$164. | 4,679 |
| Loan payable, secured by vehicle, due November 2007, with interest at 9.45%, monthly payments of \$415. | 10,725 |
| Loan payable, secured equipment, due May 2009, with interest at 7.5%, monthly payments of \$1,085. | 44,783 |
| Loan payable, secured by vehicle, due October 2005, interest fixed at 2.90%, monthly payments of \$601 | 2,367 |
| Loans payable, secured by vehicles, due May 2006 and December 2007, with interest at 12.0% and 12.24%, monthly payments of \$265 and \$436. | 13,807 |
| Loans payable, secured by vehicles, due from October 2005 to February 2007, with interest rates from 9.50% to 12.24%, monthly payments from \$197 to \$577. | 22,924 |
| Loan payable, secured by equipment, due May 2007, interest fixed at 7.83%, monthly payments of \$4,436. | 90,758 |
| Loan payable, secured by vehicle, due September 2006, interest at 3.9%, monthly payments of \$502. | 6,864 |

Washington County Mental Health Services, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 6 LONG-TERM DEBT (continued)

| | |
|---|---------------------|
| Loan payable, secured by vehicle, due June 2007, interest at 7.49%, monthly payments of \$412. | 18,619 |
| Loan payable, secured by vehicle, due July 2009, interest at 7.24%, monthly payments of \$431. | <u>18,552</u> |
| | 2,917,174 |
| Less: Current Portion | <u>(220,667)</u> |
| LONG-TERM PORTION | <u>\$ 2,696,507</u> |

Aggregate principal payments on long-term debt, due within the next five years and thereafter are as follows:

| Year Ending June 30, | |
|-------------------------|---------------------|
| 2006 | \$ 220,667 |
| 2007 | 206,300 |
| 2008 | 142,122 |
| 2009 | 173,626 |
| 2010 | 75,854 |
| Thereafter | <u>2,098,605</u> |
| | <u>\$ 2,917,174</u> |

Total interest expense was \$173,207 for the year ended June 30, 2005.

NOTE 7 RESTRICTED CASH

Washington County Mental Health Services, Inc. has entered into loan agreements to aid in the funding of bond issuances. Under the terms of the agreements the amount of \$332,107 has been set aside for the payment of principal and interest.

NOTE 8 DEFERRED REVENUE

| | |
|------------------------------|-------------------|
| DMH - Flexible Funds | \$ 946 |
| - Special Services | 5,401 |
| - Respite Grant | 38,119 |
| - CS Summer Grant | 3,000 |
| - Psych RN | 14,537 |
| - Other | 6,264 |
| Bio-Terrorism Grant | 70,442 |
| Muffins | 1,862 |
| SRS Daycare Contract | 40,241 |
| CRT Special Donation Held | 14,623 |
| DS/GT Special Donations Held | 52,263 |
| School Match Funds | 2,697 |
| HUD | 3,320 |
| Other | <u>39,592</u> |
| | <u>\$ 293,307</u> |

Washington County Mental Health Services, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 9 OPERATING LEASES

The Agency leases vehicles and real estate under various operating leases, which expire between August 2005 and October 2008. Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year as of June 30, 2005 for each of the next four years are:

| Year Ending <u>June 30,</u> | |
|--------------------------------|-------------------|
| 2006 | \$ 118,093 |
| 2007 | 50,059 |
| 2008 | 38,519 |
| 2009 | <u>2,799</u> |
| TOTAL | <u>\$ 209,470</u> |

Total rent expense for the year ended June 30, 2005, including rent expense for leases with a remaining term of one year or less was \$183,234.

NOTE 10 PENSION PLAN

Subsequent to the year ended June 30, 2005, the board approved the implementation of a 403(b) pension plan in which the Agency will match up to 2% of eligible employees' salary. An internal analysis estimated that the cost to the Agency, if the plan had been in place in fiscal year 2005, would have been approximately \$183,260.

Washington County Mental Health Services, Inc.

SCHEDULE OF CLIENT FEES

For the Year Ended June 30, 2005

| | <u>Total Agency</u> | <u>Children</u> | <u>Adult</u> | <u>Community Rehabilitation & Treatment</u> | <u>Emergency Screening</u> | <u>Subtotal Mental Health</u> |
|-------------------------|-------------------------|---------------------|-------------------|---|--------------------------------|---------------------------------------|
| Patient Fees | \$ 38,816 | \$ 6,110 | \$ 10,272 | \$ 15,338 | \$ (662) | \$ 31,058 |
| Medicaid fees | 9,083,550 | 8,663,206 | 204,343 | 17 | 36,167 | 8,903,733 |
| PC Plus | 479,689 | 243,803 | 214,380 | (100) | 5,678 | 463,761 |
| CRT Case Rates | 5,904,237 | - | - | 5,904,237 | - | 5,904,237 |
| Insurance fees | 191,545 | 49,779 | 97,202 | 36,175 | 19,632 | 202,788 |
| Transportation | 85 | - | 75 | - | - | 75 |
| Waiver services | 11,806,634 | 461,974 | - | - | - | 461,974 |
| Personal Care Services | 36,953 | - | - | - | - | - |
| Student assistance | 276,530 | 276,530 | - | - | - | 276,530 |
| Assisted Community Care | 186,070 | - | - | 59,351 | - | 59,351 |
| Room and board | <u>870,595</u> | <u>30,065</u> | <u>-</u> | <u>96,769</u> | <u>-</u> | <u>126,834</u> |
| TOTAL | <u>\$ 28,874,704</u> | <u>\$ 9,731,467</u> | <u>\$ 526,272</u> | <u>\$ 6,111,787</u> | <u>\$ 60,815</u> | <u>\$ 16,430,341</u> |

| <u>Clinical Services</u> | <u>Community Support</u> | <u>Crisis Services</u> | <u>Respite</u> | <u>Residential</u> | <u>Service Coordination and Planning</u> | <u>Employment Services</u> | <u>Subtotal Develop- mental Services</u> |
|------------------------------|------------------------------|----------------------------|-------------------|---------------------|--|--------------------------------|--|
| \$ 3,583 | \$ 419 | \$ - | \$ - | \$ - | \$ 3,756 | \$ - | \$ 7,758 |
| 7,106 | 87,592 | - | - | - | 85,119 | - | 179,817 |
| 15,949 | (21) | - | - | - | - | - | 15,928 |
| - | - | - | - | - | - | - | - |
| (3,231) | 199 | (8,211) | - | - | - | - | (11,243) |
| 10 | - | - | - | - | - | - | 10 |
| 373,124 | 2,311,509 | 503,748 | 699,107 | 5,354,173 | 1,190,902 | 912,097 | 11,344,660 |
| - | 36,953 | - | - | - | - | - | 36,953 |
| - | - | - | - | - | - | - | - |
| - | - | - | - | 126,719 | - | - | 126,719 |
| - | - | 9,286 | - | 734,475 | - | - | 743,761 |
| <u>\$ 396,541</u> | <u>\$ 2,436,651</u> | <u>\$ 504,823</u> | <u>\$ 699,107</u> | <u>\$ 6,215,367</u> | <u>\$ 1,279,777</u> | <u>\$ 912,097</u> | <u>\$ 12,444,363</u> |

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Washington County Mental Health Services, Inc.
SCHEDULE OF DEPARTMENT OF MENTAL HEALTH CONTRACTS
For the Year Ended June 30, 2005

| | Total Agency | Community | | | Subtotal Mental Health | Community | | | | Respite | Residential | Subtotal Develop- mental Services | |
|--|-----------------|-----------|--------|----------------------------------|------------------------------|------------------------|------------|----------|----------|---------|-------------|--|--|
| | | Children | Adult | Rehabil- ation & Treatment | | Employment Services | Clinical | Support | | | | | |
| DEPARTMENT OF MENTAL HEALTH CONTRACTS | | | | | | | | | | | | | |
| CUPS | \$ 6,312 | \$ 6,312 | \$ - | \$ - | \$ 6,312 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | |
| Respite Care | 41,802 | 41,802 | - | - | 41,802 | - | - | - | - | - | - | - | |
| Psych Nursing | 14,537 | - | - | 14,537 | 14,537 | - | - | - | - | - | - | - | |
| Special Services Grants | 11,461 | 6,410 | - | 5,051 | 11,461 | - | - | - | - | - | - | - | |
| DBT Grant | 1,875 | - | - | 1,875 | 1,875 | - | - | - | - | - | - | - | |
| CRT Grant | 2,500 | - | - | 2,500 | 2,500 | - | - | - | - | - | - | - | |
| DS One-time funding | 8,893 | - | - | - | - | 1,333 | - | 4,071 | 3,489 | - | - | 8,893 | |
| VDH Eldercare Consultatic | 990 | - | 990 | - | 990 | - | - | - | - | - | - | - | |
| Medicaid Match Repaymer | (53,717) | (50,159) | - | - | (50,159) | - | (3,558) | - | - | - | - | (3,558) | |
| Other | 8,502 | 4,894 | - | 3,608 | 8,502 | - | - | - | - | - | - | - | |
| TOTAL | \$ 43,155 | \$ 9,259 | \$ 990 | \$ 27,571 | \$ 37,820 | \$ 1,333 | \$ (3,558) | \$ 4,071 | \$ 3,489 | \$ - | \$ - | \$ 5,335 | |

Washington County Mental Health Services, Inc.
 SCHEDULE OF OTHER STATE CONTRACTS
 For the Year Ended June 30, 2005

| | Total Agency | Children | Adult | Community Rehabili- ation & Treatment | Subtotal Mental Health | Employment Services | Community Support | Subtotal Develop- mental Services | Non- mental Health |
|----------------------------|-----------------|--------------|-----------|--|------------------------------|------------------------|----------------------|--|--------------------------|
| OTHER STATE CONTRACTS | | | | | | | | | |
| Voc Rehab Grants | \$ 51,637 | - | \$ - | \$ 51,637 | \$ 51,637 | \$ - | \$ - | \$ - | - |
| Voc. Rehab Transition | 127,060 | - | - | - | - | 127,060 | - | 127,060 | - |
| Supported Employment | 87,386 | 53,114 | - | 34,272 | 87,386 | - | - | - | - |
| Professional Foster Care | 289,272 | 289,272 | - | - | 289,272 | - | - | - | - |
| DCF IFBS Contract | 140,682 | 140,682 | - | - | 140,682 | - | - | - | - |
| DET Grants/Programs | 4,538 | - | - | - | - | - | - | - | 4,538 |
| DCF Adolescent Planning | 61,235 | 61,235 | - | - | 61,235 | - | - | - | - |
| DCF ASO | 28,025 | 28,025 | - | - | 28,025 | - | - | - | - |
| DCF SED Reimbursements | 1,484,126 | 1,484,126 | - | - | 1,484,126 | - | - | - | - |
| Other State DCF | 176,434 | 176,254 | - | - | 176,254 | - | - | - | 180 |
| DOE-CACFP Grant | 6,047 | 6,047 | - | - | 6,047 | - | - | - | - |
| DCF CUPS Grant | 22,231 | 22,231 | - | - | 22,231 | - | - | - | - |
| Other State Revenue | 6,228 | 85 | - | - | 85 | - | 6,143 | 6,143 | - |
| OVHA | 87,994 | - | 50,118 | 37,876 | 87,994 | - | - | - | - |
| Department of Health Grant | 28,000 | 28,000 | - | - | 28,000 | - | - | - | - |
| VDH Bioterrorism Grant | 74,068 | - | - | - | - | - | - | - | 74,068 |
| TOTAL | \$ 2,674,963 | \$ 2,289,071 | \$ 50,118 | \$ 123,785 | 2,462,974 | \$ 127,060 | \$ 6,143 | \$ 133,203 | \$ 78,786 |

Washington County Mental Health Services, Inc.
SCHEDULE OF ACCESS GRANT REVENUE AND EXPENSES
For the Year Ended June 30, 2005

| | <u>Total Agency</u> |
|--------------------------------------|-------------------------|
| REVENUE | |
| Client Fees, Net | \$ 233,299 |
| State Contracts | |
| Grant-in-aid | 34,416 |
| Other - Donations | <u>250</u> |
| TOTAL REVENUE | <u>267,965</u> |
| DIRECT EXPENSES | |
| Salaries and wages | 124,217 |
| Fringe benefits | 38,841 |
| Other personnel costs | 450 |
| Program expenses | 1,204 |
| Operating expenses | 4,186 |
| Vehicle and transportation | 7,791 |
| Building expenses | 5,923 |
| Allocation of indirect costs | |
| Program Infrastructure | 17,021 |
| Administration | 14,469 |
| Maintenance/janitorial | <u>4,679</u> |
| TOTAL EXPENSES | <u>218,781</u> |
| EXCESS OF REVENUES OVER EXPENSES | <u>\$ 49,184</u> |

Washington County Mental Health Services, Inc.
SCHEDULE OF DEVELOPMENTAL SERVICES REVENUE AND EXPENSES
For the Year Ended June 30, 2005

| | Clinical Services | Community Support | Crisis Services | Respite | Residential | Service Coordination and Planning | Employment Services | Program Infrastructure | Total Develop- mental Services |
|---|----------------------|----------------------|--------------------|-----------------|-------------------|---|------------------------|---------------------------|---|
| REVENUE | | | | | | | | | |
| Client fees, net | \$ 396,541 | \$ 2,436,651 | \$ 504,823 | \$ 699,107 | \$ 6,215,367 | \$ 1,279,777 | \$ 912,097 | \$ - | \$ 12,444,363 |
| Dept. of Mental Health: | | | | | | | | | |
| Grant-in-aid | - | - | - | 98,560 | - | 36,964 | 2,188 | - | 137,712 |
| Contracts | (3,558) | 4,071 | - | 3,489 | - | - | 1,333 | - | 5,335 |
| Other state contracts | - | 6,143 | - | - | - | - | 127,060 | - | 133,203 |
| Local Revenue | - | 3,362 | - | - | - | - | - | - | 3,362 |
| Other revenue | 3,362 | 128,276 | - | - | 45,634 | (2,861) | 5,230 | - | 179,641 |
| TOTAL REVENUE | 396,345 | 2,578,503 | 504,823 | 801,156 | 6,261,001 | 1,313,880 | 1,047,908 | - | 12,903,616 |
| EXPENSES | | | | | | | | | |
| Salaries | 99,563 | 1,398,322 | 241,205 | 4,280 | 1,629,790 | 776,161 | 503,829 | 161,918 | 4,815,068 |
| Fringe Benefits | 31,132 | 437,239 | 75,422 | 1,330 | 509,616 | 242,705 | 157,541 | 50,629 | 1,505,614 |
| Other personnel costs | 60,578 | 622,787 | 112,816 | 721,696 | 2,830,842 | 105,900 | 94,410 | 4,789 | 4,553,818 |
| Program expenses | 2,385 | 17,473 | 11,119 | - | 141,960 | 8,925 | 2,724 | 366 | 184,952 |
| Operating expenses | 876 | 18,202 | 13,698 | - | 95,086 | 37,555 | 17,725 | 92,430 | 275,572 |
| Travel and transportation | 764 | 163,762 | 10,396 | - | 77,091 | 32,981 | 29,399 | 2,883 | 317,276 |
| Building expenses | 942 | 22,417 | 27,219 | - | 165,433 | 10,459 | 17,554 | 24,406 | 268,430 |
| Allocation of indirect costs -- | | | | | | | | | |
| Program Infrastructure | 7,234 | 80,960 | 14,829 | 21,398 | 164,915 | 36,771 | 24,618 | (350,725) | - |
| Administration | 17,507 | 196,490 | 35,953 | 53,034 | 401,686 | 89,054 | 60,806 | - | 854,530 |
| Transportation | 43,006 | - | - | - | - | - | - | - | 43,006 |
| Maintenance/janitorial | 621 | 12,575 | 877 | - | 55,711 | 5,703 | 10,601 | 13,306 | 99,394 |
| TOTAL EXPENSES | 264,608 | 2,970,227 | 543,534 | 801,738 | 6,072,130 | 1,346,214 | 919,207 | 2 | 12,917,660 |
| EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES FROM OPERATIONS | \$ 131,737 | \$ (391,724) | \$ (38,711) | \$ (582) | \$ 188,871 | \$ (32,334) | \$ 128,701 | \$ (2) | \$ (14,044) |

Washington County Mental Health Services, Inc.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2005

| Federal Grantor/ Pass-through Grantor/ Program Title | Federal CFDA Number | Revenue Recognized | Disbursements/ Expenditures |
|---|---------------------------|-----------------------|--------------------------------|
| <u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u> | | | |
| Foster Care -- Title IV -- E | 93.658 | \$ 289,271 | \$ 289,271 |
| Social Services Block Grant | 93.667 | 109,495 | 109,495 |
| Children's Upstream Services (CUPS) | 93.104 | 19,859 | 19,859 |
| Medical Assistance Program | 93.778 | 25,000 | 25,000 |
| Bio-Terrorism Grant | 93.283 | 74,068 | 74,068 |
| Mental Health Services Block Grant | 93.958 | 63,700 | 63,700 |
| Evidence Based Practices | 93.243 | <u>5,500</u> | <u>5,500</u> |
| TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | <u>586,893</u> | <u>586,893</u> |
| <u>U.S DEPARTMENT OF EDUCATION</u> | | | |
| Rehabilitation Services -- Vocational Rehabilitation Grants | 84.126A | 228,061 | 228,061 |
| Safe and Drug Free Schools and Communities | 84.184A | <u>25,868</u> | <u>25,868</u> |
| TOTAL U.S. DEPARTMENT OF EDUCATION | | <u>253,929</u> | <u>253,929</u> |
| <u>SOCIAL SECURTTY ADMINISTRATION</u> | | | |
| Social Security- Benefits Planning, Assistance And Outreach Programs | 96.008 | <u>2,500</u> | <u>2,500</u> |
| TOTAL FEDERAL AWARDS | | <u>\$ 843,322</u> | <u>\$ 843,322</u> |

The balance of the permanent HUD insured building loan was \$213,604 at June 30, 2005.

The Schedule of Expenditures of Federal Awards was prepared in accordance with the accounting policies outlined in Footnote 1.

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Kittell Branagan & Sargent

154 North Main Street
St. Albans, Vermont 05478
802 524-9531
802 524-9533 FAX
Burlington 802 893-4741
Vermont License #167

REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
Washington County Mental Health Services, Inc.

We have audited the financial statements of Washington County Mental Health Services, Inc. (a nonprofit organization) as of and for the year ended June 30, 2005, and have issued our report thereon dated September 1, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Washington County Mental Health Services, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Washington County Mental Health Services, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned function. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended-solely for the information of the Board of Directors, management, others within the organization and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Kittell Branagan & Sargent

St. Albans, Vermont
September 1, 2005

certified public accountants

Kittell Branagan & Sargent

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**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors of
Washington County Mental Health Services, Inc.

Compliance

We have audited the compliance of Washington County Mental Health Services, Inc. (a nonprofit organization) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Washington County Mental Health Services, Inc.'s major federal programs are identified in the schedule of expenditures of federal awards. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Washington County Mental Health Services, Inc.'s management. Our responsibility is to express an opinion on Washington County Mental Health Services, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Washington County Mental Health Services, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Washington County Mental Health Services, Inc.'s compliance with those requirements.

In our opinion, Washington County Mental Health Services, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control over Compliance

The management of Washington County Mental Health Services, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Washington County Mental Health Services, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

To the Board of Directors of
Washington County Mental Health Services, Inc.
Page Two

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended-solely for the information of the Board of Directors, management, others within the organization and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Kittell Branagan + Sargent

St. Albans, Vermont
September 1, 2005

Washington County Mental Health Services, Inc.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2005

Section I --- Summary of Auditor's Results

Type of auditor's report issued: *unqualified*

Internal control over financial reporting:

Material weakness(es) identified? ☐ yes ☒ no

- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ yes ☒ none reported

Noncompliance material to financial statements noted? ☐ yes ☒ no*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified? ☐ yes ☒ no
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ yes ☒ none reported

Type of auditor's report issued on compliance for major programs: *unqualified*Any audit findings disclosed that are required to be reported in accordance with section 510 (a) of Circular A-133? ☐ yes ☒ no

Identification of major programs:

CFDA Number(s)
93.658Name of Federal Program or Cluster
Foster Care IV-EDollar threshold used to distinguish
Between type A and type B programs: \$ 300,000Auditee qualified as low-risk auditee? ☒ yes ☐ no

Section II --- Financial Statement Findings: None found

APPENDIX B-V

**North American Family Institute, Inc.
UNAUDITED Financial Statements
(for the year ended June 30, 2006)**

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North American Family Institute, Inc.
INCOME STATEMENT
For the Twelve Months Ending June 30, 2006
* UNAUDITED *

Changes in unrestricted net assets:

| | |
|---|------------------|
| Revenues and other support: | |
| Contracts, net | \$22,847,047 |
| Contributions: | |
| In-kind | 692,954 |
| Other | 2,328 |
| Interest and dividends | 58,205 |
| Miscellaneous | 23,360 |
| | <hr/> 23,623,894 |
| Net assets released from program restrictions | 28,998 |
| Total revenues and other support | <hr/> 23,652,892 |

Expenses:

| | |
|---------------------|------------------|
| Program services | 19,382,156 |
| Supporting services | 4,825,683 |
| Total expenses | <hr/> 24,207,839 |

| | |
|--|-----------|
| Increase in unrestricted net assets before gain (loss) on sale of property and equipment and investment activities | (554,947) |
|--|-----------|

| | |
|--|-----------------|
| Net realized and unrealized gain (loss) on investments | 9,905 |
| Gain (Loss) on sale of property and equipment | 356,654 |
| Increase (Decrease) in unrestricted assets | <hr/> (188,388) |

Changes in temporarily restricted net assets:

| | |
|--|----------------|
| Contributions | 9,718 |
| Net assets released from program restrictions | (28,998) |
| Increase (Decrease) in temporarily restricted net assets | <hr/> (19,280) |

| | |
|-----------------------------------|--------------|
| Increase (Decrease) in net assets | \$ (207,668) |
|-----------------------------------|--------------|

| | |
|---------------------------------|--------------|
| Net assets at beginning of year | \$ 6,590,499 |
| Net assets at end of year | \$ 6,382,831 |

North American Family Institute, Inc.
STATEMENT OF FINANCIAL POSITION
For the Twelve Months Ending June 30, 2006
UNAUDITED

ASSETS

Current assets:

| | |
|---|------------------|
| Cash and equivalents | \$ 3,240,336 |
| Accounts Receivable, net | 2,345,002 |
| Prepaid expenses and other current assets | 177,699 |
| Due from affiliate | 530,768 |
| Total current assets | 6,293,805 |

Property and equipment

| | |
|--|--------------------|
| Land | 296,543 |
| Buildings and improvements | 11,567,020 |
| Equipment and furnishings | 1,388,490 |
| Motor vehicles | 98,946 |
| Subtotal - Property and Equipment | 13,350,999 |
| Less: accumulated depreciation | (3,870,626) |
| Property and equipment, net | 9,480,373 |

| | |
|---------------------|----------------------|
| Investments | 383,753 |
| Other assets | 58,011 |
| TOTAL ASSETS | \$ 16,215,942 |

LIABILITIES AND NET ASSETS

Current liabilities:

| | |
|--|------------------|
| Current portion of long-term debt and capital leases | 123,483 |
| Accounts payable | 105,044 |
| Accrued payroll and related liabilities | 911,272 |
| Other accrued expenses | 719,594 |
| Deferred revenue | 5,580,295 |
| Due to affiliate short-term | 0 |
| Total current liabilities | 7,439,688 |

Long-term liabilities:

| | |
|---|------------------|
| Long-term debt and capital leases, net of current portion | 2,393,422 |
| Total liabilities | 9,833,110 |

Net assets:

| | |
|---|----------------------|
| Unrestricted (Beginning Balance) | 6,521,918 |
| Net gain (loss) unrestricted (Current Year) | (188,388) |
| Temporarily restricted (Beginning Balance) | 68,581 |
| Net gain (loss) temporarily restricted (Current Year) | (19,279) |
| Total net assets | 6,382,832 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 16,215,942 |

APPENDIX C

THE VERMONT EDUCATIONAL AND HEALTH BUILDING FINANCING AGENCY

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APPENDIX C

THE VERMONT EDUCATIONAL AND HEALTH BUILDINGS FINANCING AGENCY

The Vermont Educational and Health Buildings Financing Agency (the "Agency") has been 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 Chapter 131, Title 16, Sections 3851-3862, Vermont Statutes Annotated, as amended (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 of Vermont, the State Treasurer, the Secretary of Human Services Agency, and the Secretary of Administration 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, Vice Chair, Treasurer and 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 residence are as follows:

Officers

James B. Potvin, Chair
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 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 Wepler
Financial Consultant
Morrisville, Vermont

Executive Director

Robert W. Giroux
Executive Director
Vermont Educational and Health
Buildings Financing Agency
56 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 and will submit its approving opinion with regard to the legality of the Bonds in substantially to the form attached hereto as Appendix F.

Public Financial Management, Inc., 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, 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, including (i) its Revenue Bonds (Vermont Council of Developmental and Mental Health Services Acquisition Program) Series 1999A and Taxable Revenue Bonds (Vermont Council of Developmental and Mental Health Services Acquisition Program) Series 1999B, a portion of the proceeds of which were loaned to Healthcare and Rehabilitation Services of Southeastern Vermont, Inc., and Washington County Mental Health Services, Inc., and (ii) its Revenue Bonds (Developmental and Mental Health Services Acquisition Pool) Series 2002A and Taxable Revenue Bonds (Developmental and Mental Health Services Acquisition Pool) Series 2002B, a portion of the proceeds of which were loaned to the Providers. With the exception of the loans to these Providers, all outstanding Agency bonds and note issues have been authorized and issued pursuant to financing documents separate from and unrelated to the Loan Agreements and the Indenture for the Bonds and are payable from certain revenues other than those pledged for payment of the Bonds. Inasmuch as each 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, financings 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 Bonds, any Loan Agreement or the Indenture 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.

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APPENDIX D

DEFINITION OF CERTAIN TERMS

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APPENDIX D

DEFINITION OF CERTAIN TERMS

In addition to the words and terms defined elsewhere in this Official Statement, the following words and terms as used herein have the following meanings unless the context or use clearly indicates another or different meaning or intent.

“Acquisition Certificate” shall mean a certificate of a Provider substantially in the form attached to the Provider's Loan Agreement.

“Acquisition Fund” shall mean the separate Acquisition Fund for each Provider established by the Indenture.

“Account” shall mean an account established under the Indenture.

“Affiliate” shall mean a corporation, partnership, joint venture, association, business trust or similar entity (a) which controls or which is controlled, directly or indirectly, by the Provider or any other Affiliate; or (b) a majority of the members of the Directing Body of which are members of the Directing Body of the Provider. For purposes of this definition, control means with respect to (a) a corporation having stock, the ownership, directly or indirectly, of more than 50% of the securities (as defined in Section 2(1) of the Securities Act of 1933, as amended) of any class or classes, the holders of which are ordinarily, in the absence of contingencies, entitled to elect a majority of the directors of such corporation; (b) a not for profit corporation not having stock, having the power to elect or appoint, directly or indirectly, a majority of the Directing Body of such corporation; or (c) any other entity, the power to direct the management of such entity through the ownership of at least a majority of its voting securities or the right to designate or elect at least a majority of the members of its Directing Body, by contract or otherwise. For the purposes of this definition “Directing Body” shall mean (a) with respect to a corporation having stock, such corporation's board of directors and the owners, directly or indirectly, of more than 5% of the securities (as defined in Section 2(1) of the Securities Act of 1933, as amended) of any class or classes, the holders of which are ordinarily, in the absence of contingencies, entitled to elect a majority of the corporation's directors (both of which groups shall be considered a Directing Body); (b) with respect to a not for profit corporation not having stock, such corporation's members if the members have complete discretion to elect the corporation's directors, or the corporation's directors if the corporation's members do not have such discretion; and (c) with respect to any other entity, its governing board or body. For the purposes of this definition, all references to directors and members shall be deemed to include all Persons performing the function of directors or members however denominated.

“Authorized Denominations” shall mean, with respect to principal installments relating to the Series 2006A Bonds, denominations of \$5,000 and any integral multiple thereof, and, with respect to principal installments allocable to the Series 2006B Bonds, \$1,000 or any integral multiple thereof.

“Authorized Investments” shall mean such of the Eligible Investments as are authorized by law for the investment of the funds of the Issuer.

“Authorized Officer”, when used with respect to the Issuer, shall mean any one of the Executive Director, Chairman or the Treasurer of the Issuer or any one of such other person or persons designated by the Issuer as an Authorized Officer for purposes of the Indenture and the Loan Agreements; and when used with respect to the Provider, shall mean the chief executive officer of the Provider or any one of such other person or persons designated by such chief executive officer or the Board of Trustees of such Provider as an Authorized Officer for purposes of the Indenture and each Loan Agreement.

“Board of Trustees” shall mean, with respect to the Provider, either the board of trustees or board of directors of the Provider or any committee of such board of trustees or board of directors duly authorized to act for it with respect to any applicable matter.

“Board Resolution” shall mean a copy of a resolution or other action, certified by the Secretary or an Assistant Secretary of the Issuer, the Administrator or a Provider, as the case may be, to have been duly adopted by the Issuer or the Board of Trustees of such Provider or the Administrator, as the case may be, and to be in full force and effect on the date of such certification.

“Bond Counsel” shall mean the firm of attorneys which at the time of initial issuance of the Bonds rendered the opinion as to the authorization, issuance and enforceability of the Bonds and the excludability from gross income for federal income tax purposes of the interest on the Series 2006A Bonds or any successor of such firm or to any prior successor of such firm, or, if such firm or successor no longer exists or is unable or unwilling to provide services as Bond Counsel, any other attorney or firm of attorneys at law, which attorney or firm is nationally recognized as bond counsel and experienced in the financing of facilities for non-government use through the issuance of tax-exempt revenue bonds under the exemption provided by Section 103 of the Code, selected by the Issuer (with written notice to the Trustee of such selection).

“Bond Fund” shall mean the Bond Fund established by the Indenture.

“Bondholder” or **“Holder”** or **“owner of a Bond”** or **“Owner”** shall mean, as of any time, the registered owner of any Bond as shown in the register kept by the Trustee as bond registrar. Wherever any word or term defined in this definition is used in a context of action by Bondholders or holders or owners or Owners of the Bonds, the term shall, unless the context or use requires a different meaning or intent, mean the Bondholders or holders or owners or Owners, one or more, of Bonds having collectively a majority in Outstanding Principal Amount of all Bonds then Outstanding.

“Bond Purchase Agreement” shall mean the Contract of Purchase among the Issuer, the Providers and the Purchaser pertaining to the Bonds.

“Bonds” shall mean the Series 2006A Bonds and the Series 2006B Bonds.

“Business Day” shall mean any day other than a Saturday, Sunday or other day on which the Trustee is required or authorized by law to remain closed.

“Certificate of the Issuer” and **“Certificate of the Provider”** shall mean an instrument of the Issuer or the applicable Provider, respectively, signed by, respectively, an Authorized Officer of the Issuer or an Authorized Officer of such Provider.

“Closing Fee” shall mean the fee to be paid to the Issuer and/or the Administrator pursuant to each Loan Agreement.

“Code” shall mean the Internal Revenue Code of 1986, as amended. References to provisions of the Code include applicable successor provisions of the Code or applicable successor provisions of any recodification of the internal revenue laws of the United States.

“Continuing Disclosure Agreement” shall refer to the obligations of a Provider set forth in its Loan Agreement relating to the Bonds.

“Contract Payments” shall mean (i) the Finance Payments, (ii) restorations to the applicable Reserve Account, (iii) any amounts required by the Code to be rebated to the United States of America by a Provider, and (iv) any other amounts due from the applicable Provider under its Loan Agreement, excluding the Issuer Expenses and the Ordinary Expenses and Extraordinary Expenses of the Trustee and any other amounts payable to the Trustee for its own account under the Loan Agreements, the Indenture or any of the Mortgages.

The word **“correspond,”** when used with reference to Bonds of a given stated maturity that **“correspond”** to one or more Stated Maturities of Principal Installments, shall have the meaning set forth in the definition of the term **“stated maturity”**.

“Debt Service” shall mean the aggregate scheduled principal (including principal payable by sinking fund redemption requirements) and interest payable by a Provider in any Fiscal Year (or, in the use of a calculation of Debt Service Coverage Ratio described in Appendix E — Summary of Certain Provisions of the Loan Agreement -- Paragraph (c) under Additional Covenants of the Provider), payable by and in the then current fiscal year of the Person who has acquired applicable Provider or into whom the Provider has merged) on outstanding Long-Term Indebtedness. Long-Term Indebtedness more than 25% or more of the principal amount comes or may come due in any one Fiscal Year by maturity, mandatory sinking fund redemption or optional or mandatory tenders thereof shall be assumed to amortize on a level debt service basis over a period of twenty years or its actual remaining term to maturity, whichever is less, or alternatively may be assumed to mature in accordance with the terms of a binding commitment to pay such indebtedness upon maturity from a financial institution rated “Aa” from Moody’s or “AA” from S&P.

“Debt Service Coverage Ratio” shall mean the ratio of Net Income Available for Debt Service for the period or periods in question to the Maximum Annual Debt Service. If the terms of the indebtedness are such that interest thereon for any future period of time is to be calculated at a varying rate per annum or a fixed rate per annum based upon a varying index, then, for the purpose of making such determination of debt service, such indebtedness shall be assumed to bear interest at 120% of the average interest rate on the Provider’s variable rate indebtedness outstanding for the most recent 24 month period; provided, however, that (i) if such indebtedness has been outstanding for less than 24 months but for at least 12 months, then the interest rate shall be assumed to be 120% of the average rate for the most recent 12 months or the interest rate in effect on the date of calculation, whichever is higher, and (ii) if no such indebtedness is outstanding or if such indebtedness has been outstanding for less than 12 months, then the interest rate shall be assumed to be 120% of (a) the Bond Market Association Municipal Swap Index for tax-exempt debt, and (b) LIBOR for taxable debt.

“Delivery Costs” shall mean, as to each Provider, the total of (a) such Provider's share of the Issuer's costs of issuing the Bonds allocated to such Provider, on a pro rata basis or directly attributable to such Provider, as determined by the Issuer, including, without limitation, filing and recording costs, printing costs, reproduction and binding costs, fees and expenses of the Trustee, financing discounts, bond insurance premiums and legal fees and disbursements, financial and other professional consultant fees, costs of rating agencies or credit ratings, fees for authentication, registration, transportation, and safekeeping of Bonds, and other charges and fees in connection with the foregoing, plus (b) any costs or expenses incurred directly by such Provider in connection with the execution of its Loan Agreement that at the request of such Provider are included in advance in the computation of Maximum Delivery Costs in its Loan Agreement to be paid from the Delivery Costs Fund and that, according to generally accepted accounting principles, can be charged as a Property Cost, plus (c) the Closing Fee; provided, however, that any Delivery Costs paid from the proceeds of the Bonds must constitute a “cost” as defined in the Enabling Act and, in addition, Delivery Costs may be paid from the proceeds of the Series 2006A Bonds only if such payment will not jeopardize the exclusion from gross income for federal income tax purposes of the interest on the Series 2006A Bonds.

“Delivery Costs Fund” shall mean the Delivery Fund Costs established by the Indenture.

“Delivery Date” shall mean the date of the authentication and delivery of the Bonds in exchange for the purchase price therefor.

“Department” shall mean the State of Vermont Department of Developmental and Mental Health Services or any other agency or combination of said agencies with which a Provider has one or more existing Service Contracts.

“Eligible Investments” shall mean the following investments:

(i) Certificates or interest-bearing notes or obligations of the United States, or those for which the full faith and credit of the United States are pledged for the payment of principal and interest.

(ii) Investments in any of the following obligations provided such obligations are backed by the full faith and credit of the United States (a) the Export-Import Bank of the United States, (b) the Federal Housing Administration, (c) the Government National Mortgage Association (“GNMA”), (d) the Rural Economic

Community Development Administration (formerly known as the Farmers Home Administration), (e) the Federal Financing Bank, (f) the Department of Housing and Urban Development, (g) the General Services Administration, (h) the U.S. Maritime Administration or (i) the Small Business Administration.

(iii) Investments in direct obligations in any of the following agencies which obligations are not fully guaranteed by the full faith and credit of the United States (a) senior obligations by the Federal Home Loan Bank System, (b) senior debt obligations and participation certificates (excluding stripped mortgage securities which are purchased at prices exceeding their principal amounts) issued by the Federal Home Loan Mortgage Corporation (“FHLMC”) or senior debt obligations and mortgagebacked securities (excluding stripped mortgage securities which are purchased at prices exceeding their principal amounts) of the Federal National Mortgage Association (“FNMA”) (c) obligations of the Resolution Funding Corporation (“REFCORP”) or (d) senior debt obligations of the Student Loan Marketing Association (“SLMA”) (excluding securities that do not have a fixed par value/or whose terms do not promise a fixed dollar amount at maturity or call date).

(iv) Investments in (a) U.S. dollar denominated deposit accounts, federal funds, bankers acceptances, and certificates of deposit of any bank whose short term debt obligations are rated A-1+ by S&P and P-1 by Moody’s and maturing no more than 360 calendar days after the date of purchase (holding company ratings are not considered as rating of the bank) or (b) Certificates of deposit of any bank, which certificates are fully insured by the Federal Deposit Insurance Corporation (“FDIC”).

(v) Investments in money market funds rated “AAAm” or “AAAm-G” by S&P.

(vi) Commercial paper which is rated at the time of purchase in the single highest classification, P-1 by Moody’s, Inc. and A-1+ by S&P and which matures not more than 270 calendar days after the date of purchase.

(vii) Pre-refunded municipal obligations defined as follows: any bonds or other obligations rated “AAA” by S&P and “Aaa” by Moody’s (based on an irrevocable escrow account or fund) of any state of the United States of America or any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice.

(viii) Municipal obligations rated “Aaa/AAA” or general obligations of States with a rating of “A1/A+” or higher by both Moody’s and S&P.

The value of the above investments (paragraphs i-viii) shall be determined as follows:

“Value”, which shall be determined as of the end of each quarter, means that the value of any investments shall be calculated as follows:

for securities:

- (1) computed on the basis of the bid price last quoted by the Federal Reserve Bank of New York on the valuation date and printed in the Wall Street Journal or the New York Times; or
- (2) a valuation performed by a nationally recognized and accepted pricing service 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 dealer or their parent holding companies must be rated at least investment grade by S&P and Moody’s and must be market makers in the securities being valued.

as to certificates of deposit and banker’s acceptances: the face amount thereof, plus accrued interest.

(ix) Repurchase agreements with (a) any domestic bank, or domestic branch of a foreign bank, the long term debt which is rated at least “A” by S&P and “A2” by Moody’s; or (n) any broker-dealer with “retail customers” or a related affiliate thereof which broker dealer has, or the parent company (which guarantees the provider) of which has, long term debt rated at least “A” by S&P and “A2” by Moody’s, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation; or (c) any other entity rated at least “A” by S&P and “A2” by Moody’s and acceptable to the Insurer, provided that:

- a) the repurchase agreement is collateralized with the obligations described in paragraphs (i) or (ii) above; or with obligations described in paragraph (iii) (a) and (b) above.
- b) the Trustee will value the collateral securities at least weekly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within (2) business days.
- c) the market value of the collateral must be maintained at: 104% of the total principal of the repurchase agreement for obligations described in paragraphs (i) and (ii); 105% of the total principal of the repurchase agreement for obligations described in paragraph (iii) (a) and (b) above.
- d) the Trustee or a third party acting solely as agent therefore or for the Issuer (“the “Holder of the Collateral”) has possession of the collateral or the collateral has been transferred to the Holder of the Collateral in accordance with applicable state and federal laws (other than by means of entries on the transferor’s books).
- e) the repurchase agreement shall state and an opinion of counsel shall be rendered at the time such collateral is delivered that the Holder of the Collateral has a perfected first priority security interest in the collateral, and substituted collateral and all proceeds thereof.
- f) the repurchase agreement shall provide that if during its term the provider’s rating by either Moody’s or S&P is withdrawn or suspended or falls below “A-” by S&P or “A3” by Moody’s, as appropriate, the provider must, at the direction of the Issuer or the Trustee (who shall give such direction if so directed by the Insurer), within 10 days of receipt of such direction, repurchase all collateral and terminate the agreement, with no penalty or premium to the Issuer or Trustee.

(x) Investment agreements with (a) a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long-term debt of which, or, in the case of a guaranteed corporation the long term debt is rated at least “AA” by S&P and “Aa2” by Moody’s; or (B) a monoline municipal bond insurance company or a subsidiary thereof whose claims paying ability is rated at least “AA” by S&P and “Aa2” by Moody’s; provided, that in all cases, by the terms of the investment agreement:

- a) interest payments are to be made to the Trustee at least one business day prior to debt service payment dates on the Bonds and in such amounts as are necessary to pay debt service (or, if the investment agreement is for the construction fund, construction draws) on the Bonds;
- b) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven days’ prior notice (which notice may be amended or withdrawn at any time prior to the specified withdrawal date); provided that the Indenture specifically requires the Issuer or the Trustee to give notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;

- c) the investment agreement shall state that it is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof;
- d) a fixed guaranteed rate of interest is to be paid on invested funds and all future deposits, if any, required to be made to restore the amount of such funds to the level specified under the Indenture;
- e) the term of the investment agreement does not exceed seven years or such longer term as approved by the Insurer. An Insurer approved investment agreement for the Debt Service Reserve Fund may extend until the maturity for the Bonds;
- f) the Issuer or the Trustee receives the opinion of domestic counsel (which opinion shall be addressed to the Issuer and the Insurer) that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and of foreign counsel (if applicable) in form and substance acceptable, and addressed to, the Insurer;
- g) the Indenture and investment agreement shall provide that if during its term:
 - (1) the provider's rating by either S&P or Moody's falls below 'AA-' or 'Aa3' respectively, the provider must, at the direction of the Issuer or the Trustee (who shall give such direction if, but only if, so directed by the Insurer), within 10 days of receipt of such direction, either (i) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the Issuer, the Trustee or a third party acting solely as agent therefor (the "Holder of the Collateral") Permitted Collateral which are free and clear of any third-party liens or claims at the Collateral Levels set forth below; or (ii) repay the principal of and accrued but unpaid interest on the investment (the choice of (i) or (ii) above shall be that of the Issuer or Trustee, as appropriate), and
 - (2) the provider's rating by either Moody's or S&P is withdrawn or suspended or falls below "A-" or "A3" by S&P or Moody's, as appropriate, the provider must, at the direction of the Issuer or the Trustee (who shall give such direction if, but only if, so directed by the Insurer), within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment in either case with no penalty or premium to the Issuer or Trustee;
- h) The investment agreement shall state and an opinion of counsel shall be rendered that the Trustee has a perfected first priority security interest in the Permitted Collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Trustee is in possession); and
- i) the investment agreement must provide that if during its term
 - (1) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the Issuer or the Trustee (who shall give such direction if so directed by the Insurer), be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Issuer or Trustee, as appropriate;
 - (2) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("event of insolvency"), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Issuer or Trustee, as appropriate;

- (3) the provider fails to perform any of its obligations under the Investment Agreement (other than obligations related to payment or rating) and such breach continues for ten (10) Business Days or more after written notice thereof is given by the Trustee to the provider, it shall be an Event of Default; or
- (4) a representation or warranty made by the provider proves to have been incorrect or misleading in any material respect when made, it shall be an Event of Default.

Permitted Collateral for Investment Agreements (“Permitted Collateral”):

- A. U.S. direct Treasury obligations,
 - B. Senior debt and/or mortgage backed obligations of GNMA, FNMA or FHLMC and other government sponsored agencies backed by the full faith and credit of the U.S. government and approved by the Insurer.
 - C. Collateral levels must be 104% of the total principal deposited under the investment agreement for U.S. direct Treasury obligations, GNMA obligations and full faith and credit U.S. government obligations and 105% of the total principal deposited under the investment agreement for FNMA and FHLMC.
 - D. The collateral must be held by a third party, segregated and marked to market at least weekly.
- (xi) Forward delivery agreements approved in writing by the Insurer (supported by appropriate opinions of counsel).
- (xii) Other forms of investments approved in writing by the Insurer.

“**Enabling Act**” shall mean Chapter 131, Title 16, Sections 3851 through 3862, Vermont Statutes Annotated, as amended, or any successor statute.

“**Environmental Laws**” shall mean all federal, state or local laws, rules, regulations, codes, ordinances, or by-laws, and any judicial or administrative interpretations thereof, including orders, decrees, judgments, rulings, directives or notices of violation, that create duties, obligations or liabilities with respect to: (i) human health; or (ii) environmental pollution, impairment or disruption, including, without limitation, laws governing the existence, use, storage, treatment, discharge, release, containment, transportation, generation, manufacture, refinement, handling, production, disposal, or management of any Hazardous Materials (as hereinafter defined), or otherwise regulating or providing for the protection of the environment, and further including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act (42 U.S.C. Sec. 9601 et seq.) (“CERCLA”), the Hazardous Materials Transportation Act (49 U.S.C. Sec. 1801 et seq.), the Public Health Service Act (42 U.S.C. Sec. 300 et seq.), the Pollution Prevention Act (42 U.S.C. Sec. 13101 et seq.), the Federal Insecticide, Fungicide and Rodenticide Act (7 U.S.C. Sec. 136 et seq.), the Resource Conservation and Recovery Act (42 U.S.C. Sec. 6901 et seq.), the Safe Drinking Water Act (21 U.S.C. Sec. 349, 42 U.S.C. Secs. 201, 300f), the Toxic Substances Control Act (15 U.S.C. Sec. 2601 et seq.), the Clean Water Act (33 U.S.C. Sec. 1251 et seq.), the Clean Air Act (15 U.S.C. Sec. 7401 et seq.), and similar state and local statutes, and all regulations adopted pursuant thereto, as amended.

“**Event of Default**” or “**Default**” shall mean an Event of Default or Default under, as applicable, a Loan Agreement, a Mortgage, or the Indenture.

“**Expenses**” shall mean the total operating and non-operating expenses of a Provider, determined in accordance with generally accepted accounting principles consistently applied, provided that such determination shall not take into account (a) any loss resulting from the early extinguishment of indebtedness or the sale, exchange

or other disposition of property not in the ordinary course of business or (b) any losses resulting from any reappraisal revaluation or write-down of assets.

“Extraordinary Expenses” shall mean, with respect to the Trustee, the reasonable fees, expenses or costs incurred by the Trustee, including all advances, costs, reasonable counsel fees and expenses and other expenses and liabilities reasonably made or incurred by the Trustee, in excess of its Ordinary Expenses, upon and during the continuance of an Event of Default under the Indenture, an Event of Default under any Loan Agreement or an event of default under any Mortgage (including interest at the base rate of the Trustee if not paid when due).

“Facilities” shall mean (a)(i) any land not constituting Property on which any real or personal property constituting Property is located and (ii) any buildings, structures or other improvements not constituting Property located on the land described in subclause (i) of this clause, (b)(i) any buildings, structures or other improvements not constituting Property (A) at, on or in which any real or personal property constituting Property is located or (B) located on land constituting Property and (ii) any land not constituting Property on which any building, structures or other improvement described in subclause (i) of this clause is located, and (c) any personal property not constituting Property located at, in or on any Property.

“Final Acquisition Date” shall mean, with respect to a Provider, the earliest of (a) the date on which the Projects of such Provider are completed, (b) the date on which such Provider no longer intends to expend moneys on deposit in the Acquisition Fund, as evidenced by the filing with the Trustee of a Certificate of an Authorized Officer of such Provider in accordance with its Loan Agreement, or (c), as applicable, (i) September 12, 2009, or (ii) such later date as may be specified in one or more certificates of an Authorized Officer of such Provider (A) to the effect that such Provider reasonably expects to use all or a portion of the remaining funds in the Acquisition Fund to pay Property Costs on or before the date specified in the applicable certificate, (B) filed with the Trustee September 12, 2009, on or before, as the case may be, or the date specified in the next prior certificate, if any, and (C) accompanied by an opinion of Bond Counsel to the effect that the disbursement of funds in such Acquisition Fund on or before the date set forth in the applicable certificate to pay Property Costs will not violate the Enabling Act or jeopardize the exclusion from gross income for federal income tax purposes of the interest on the Series 2006A Bonds.

“Finance Payment” shall mean each Principal Installment and Interest Installment agreed to be paid by a Provider pursuant to its Loan Agreement. Such term shall also include any premium payable on optional prepayments of Principal Installments with respect to the Bonds under the provisions of its Loan Agreement.

“Finance Payment Date” shall mean the Stated Maturity of each Interest Installment of each Finance Payment and the Stated Maturity of each Principal Installment of each Finance Payment, in each case as set forth in Exhibit B to each Loan Agreement.

“Finance Payment Fund” shall mean the separate Finance Payment Fund for each Provider established under the Indenture.

“First Interest Payment Date” shall mean the date on which the first Interest Installment is due under each Loan Agreement as specified in Exhibit B to each Loan Agreement.

“Fiscal Year” shall mean the fiscal year of a Provider or such other period of time hereafter adopted by such Provider as its fiscal year for budgeting purposes.

“Fund” shall mean a Fund established under the Indenture. Any reference to a Fund shall include, whether or not explicitly so stated, each Account, if any, established within such Fund.

“Government and Equivalent Securities” shall mean the following investments: (i) Non-callable direct obligations of the United States of America or obligations on which the timely payment of principal and interest is fully guaranteed by the full faith and credit of the United States of America, and (ii) non-callable bonds, debentures, notes or other evidences of indebtedness issued by any of the following: Bank for Cooperatives, Federal Intermediate Credit Banks, Federal Home Loan Banks, Federal Land Banks, Federal National Mortgage Association, Government National Mortgage Association, or any other agency or instrumentality of the United

States of America created by an Act of Congress and substantially similar to the foregoing in its legal relationship to the United States of America.

“Governmental Obligations” shall mean direct obligations of, or obligations the timely payment of the principal of and interest on which is fully and unconditionally guaranteed by, the United States of America.

“Guarantor” shall mean North American Family Institute, Inc., together with any successors or assigns and any surviving, resulting or transferee entity.

“Guaranty” shall mean the Guaranty Agreement, dated as of August 1, 2006, from the Guarantor to the Issuer, as it may be amended from time to time.

“Gross Revenues” shall mean all money, accounts, receipts, revenues, rentals, income and other money received or receivable by or on behalf of the Provider from any and all sources (whether or not in connection with the ownership or the operation of the Property, Facilities or other facilities of the Provider), including without limitation the operation, ownership and leasing of the Property and the Facilities, the proceeds of any license or sublease permitted under each Loan Agreement, and the proceeds of any dispositions or financings and all rights to receive the same whether in the form of accounts receivable, contract rights, chattel paper, instruments, general intangibles or other rights and the proceeds thereof, and any insurance proceeds and condemnation awards from the Property or the Facilities to the extent provided in each Loan Agreement or the Mortgages, whether now existing or hereafter coming into existence and whether now owned or held or hereafter acquired by the Provider; provided, however, that there shall be excluded from Gross Revenues, gifts, grants, bequests, donations and contributions made to the Provider and designated at the time of making thereof by the donor or maker as being for certain specified purposes inconsistent with the application thereof to the payment of amounts due under each Loan Agreement or the Mortgages or as being not subject to pledge, and any income derived therefrom to the extent required by such designation or restriction.

“Hazardous Materials” shall mean (a) any “hazardous material,” “hazardous substance,” “hazardous waste,” “oil,” “regulated substance,” “toxic substance” or words of similar import as defined under any of the Environmental Laws; (b) asbestos in any form; (c) urea formaldehyde foam insulation; (d) polychlorinated biphenyls; (e) radon gas; (f) flammable explosives, (g) radioactive materials; (h) any chemical, contaminant, solvent, material, pollutant or substance that may be dangerous or detrimental to any real property or premises, the environment or the health and safety of employees or other occupants of any real property or premises, and (i) any substance, the generation, storage, transportation, utilization, disposal, management, release or location of which, on, under or from any real property or premises is prohibited or otherwise regulated pursuant to any of the Environmental Laws.

“Indebtedness” shall mean, without duplication, (a) all obligations of a Provider recorded or required to be recorded as liabilities on the balance sheets thereof for the payment of moneys as determined in accordance with generally accepted accounting principles consistently applied (exclusive of reserves such as those established for deferred taxes) and (b) all contingent obligations in respect of, or to purchase or otherwise acquire or service, indebtedness of other persons, including but not limited to guarantees or endorsements, obligations to reimburse issuers of letters of credit or equivalent instruments for the benefit of any person, and contingent obligations to repurchase property theretofore sold by such contingent obligor.

“Indenture” shall mean the Indenture between the Issuer and the Trustee pursuant to which the Bonds are issued and secured, as it may be amended from time to time.

“Insurance Trustee” shall mean The Bank of New York or any successor thereto.

“Insurer” shall mean Radian Asset Assurance Inc., a corporation organized under the laws of the State of New York, or any successor thereto.

“Insurer Default” shall mean any of the following: (a) there shall occur a default in the payment of principal of or any interest on any Bond when required to be made by the Policy; (b) the Policy shall have been

declared null and void or unenforceable in a final determination by a court of law; (c) a proceeding shall have been instituted in a court having jurisdiction in the premises seeking a decree or order for relief in respect of the Insurer in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect or for the appointment of a receiver, liquidator, assignee, custodian, trustee or sequestrator (or other similar official) of the Insurer or for any substantial part of its property or for the winding-up or liquidation of its affairs and such proceeding shall remain undismissed or unstayed and in effect for a period of 60 consecutive days or such court shall enter a decree or order granting the relief sought in such proceeding; or (d) the Insurer shall voluntarily suspend transaction of its business, shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, shall consent to the entry of an order for relief in an involuntary case under any such law or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian or sequestrator (or other similar official) of the Insurer or for any substantial part of its property, or shall make a general assignment for the benefit of creditors

“Interest Installment” shall mean each of the interest payments defined as such in each Provider's Loan Agreement.

“Interest Payment Date” shall mean each date which a scheduled payment of interest is due on the Bonds as set forth in this Official Statement. (until payment at maturity or upon prior redemption of all outstanding Bonds).

“Issuer Expenses” shall mean all reasonable costs and expenses, including fees and disbursements of counsel, incurred or to be paid by the Issuer in connection with (a) the issuance, sale and delivery of the Bonds, (b) actions taken by the Issuer from time to time under a Loan Agreement, a Tax Certificate or the Indenture or (c) actions taken by the Issuer at the request of a Provider.

“Loan Agreement” shall mean each Loan Agreement by and between the Issuer and a Provider, as any such Loan Agreement may be amended from time to time, as originally executed or as it may from time to time be supplemented, modified or amended, and the plural of such term means all of such Loan Agreements collectively.

“Long-Term Indebtedness” shall mean all indebtedness having a maturity of a term longer than one year incurred or assumed by a Provider, including Short-Term Indebtedness if a 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 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 Provider for a period from the date originally incurred, longer than one 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 year; and
- (iii) installment sale or conditional sale contracts having an original term in excess of one year.

“Maximum Annual Debt Service” shall mean the maximum amount of Debt Service as computed for the then current or any future Fiscal Year of a Provider during the period in which such Provider's loan under its Loan Agreement is scheduled to be paid (or, with respect to a calculation of Debt Service Coverage Ratio for a merger authorized by its Loan Agreement, computed for the then current fiscal year of the Person who has acquired the Provider or into which the Provider has merged); provided, however, that the amount on deposit in the Reserve Account or any reserve or similar fund or account established pursuant to a loan agreement substantially similar to its Loan Agreement shall be deducted from the amount of Debt Service due in the Fiscal Year in which the Provider's loan under such loan agreement is scheduled to be finally paid and retired.

“Moody’s” shall mean Moody’s Investors Service, Inc., or any successor thereto (or to any such prior successor) which performs the functions of a securities rating agency.

“Mortgage” shall mean each Mortgage and Security Agreement from a Provider, as mortgage and debtor, to the Trustee, as mortgagee and secured party as it may be amended from time to time.

“Net Income Available for Debt Service” shall mean, as to any period of 12 consecutive months (but if for a prior Fiscal Year of the applicable Provider, for the most recent Fiscal Year of such -Provider for which audited financial statements of such Provider are available), all Revenues of a Provider minus all Expenses, plus any depreciation, amortization and interest included as an Expense with respect to such period, all determined in accordance with generally accepted accounting principles consistently applied (or, with respect to a calculation of Debt Service Coverage Ratio pursuant to a merger authorized by its Loan Agreement, all revenues of the Person who has acquired the Provider or into which the Provider has merged, minus all expenses of such Person, plus any depreciation, amortization, and interest included as an expense with respect to such period, all determined in accordance with generally accepted accounting principles consistently applied).

“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 land only, the improvement of which was financed with the process of such Non-Recourse Indebtedness and which is subject to such lien with no recourse, directly or indirectly, to any other property of the Provider.

“Opinion of Counsel” shall mean a written opinion of counsel, who may be counsel to one or more of the Issuer or a Provider and who shall be satisfactory to the Trustee.

“Ordinary Expenses” shall mean, with respect to the Trustee, the reasonable fees, charges and expenses for its services as trustee, bond registrar and paying agent under the Indenture, including all advances, costs, counsel fees and expenses and other expenses and liabilities reasonably made or incurred by the Trustee (including interest at the base rate of the Trustee if not paid when due).

“Outstanding” and **“Outstanding Principal Amount”** when used in connection with Bonds shall mean, at any time, the principal amount of Bonds theretofore issued under the Indenture which have not been paid or deemed to be paid within the meaning of the Indenture, exclusive of the principal amount of a Bond in exchange for or upon transfer or replacement of which another Bond has been authenticated and delivered under the applicable provisions of the Indenture. The principal amount of a Bond for the payment at the stated maturity or redemption of which moneys have been deposited with the Trustee and which is not presented for payment on the applicable stated maturity date or redemption date, as the case may be, has been paid for purposes of the Indenture. Notwithstanding anything to the contrary in the preceding two sentences, in determining whether the Holders of the requisite principal amount of Bonds Outstanding have given any request, demand, authorization, direction, notice, consent, or waiver hereunder, Bonds owned by the Issuer or a Provider shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent, or waiver, only Bonds that the Trustee knows to be so owned shall be so disregarded. Bonds so owned that have been pledged in good faith may be regarded as Outstanding for such purposes if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Bonds and that the pledgee is not the Issuer, a Provider, or any Affiliate of a Provider.

“Permitted Encumbrances” shall mean

(1) Any lien or encumbrance created or incurred in the ordinary course of business which does not secure, directly or indirectly, the repayment of borrowed money or the payment of installment sales contracts or capital leases individually or in the aggregate, and which does not materially impair the value or the utility of the property subject to such lien or encumbrance.

(2) Liens arising by reason of good faith deposits with the Provider in connection with tenders, leases or real estate, bid or contracts (other than contracts for the payment of money), deposits by the Provider 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.

(3) Statutory rights of the United States of America to recover against the Provider by reason of any Federal loan, grant or subsidy made available to the Provider and similar rights under state statutes.

(4) Any lien arising by reason of deposits to enable the Provider to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with worker's compensation, unemployment insurance, pension or profit-sharing plans, or other social security, or to share in the privileges or benefits required for companies participating in such arrangements.

(5) Any judgment lien against the Provider so long as such judgment is being contested and execution thereon is stayed and so long as such judgment lien will not materially interfere with or impair the operations conducted on all property.

(6) (i) Rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any property, (ii) 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 being contested and execution thereon is stayed or which have been due for less than 90 days and (iii) easements, rights-of-way, servitudes, restrictions and other minor defects, encumbrances and irregularities in the title of any property that do not materially impair the use of such property in any manner.

(7) Any lien on the property of the Provider that is existing on the Delivery Date, provided that no lien so described may be extended, renewed or replaced by another lien, nor may it be modified to apply to any Property of the Provider not subject to such lien on the date of bond closing, unless the lien qualifies as a Permitted Encumbrance; and provided further that no additional indebtedness may be incurred that is secured by such lien unless the foregoing conditions are met.

(8) Any liens on pledges of grants or gifts which secure payment of Short-Term Indebtedness.

(9) Liens to which the property is subject at the time (the "Effective Date") either (A) the owner of the property becomes, or is merged into or consolidated with, the Provider or (B) all or substantially all of its assets are sold or otherwise conveyed to the Provider; provided that, (1) no lien so described may be extended or renewed, nor may it be modified, to apply to any property of the Provider not subject to such lien on the Effective Date, unless the lien as so extended, renewed or modified, or the replacement lien, otherwise qualifies as a Permitted Lien; (2) no additional Indebtedness may be thereafter incurred that is secured by such lien; (3) no lien so described was created in order to avoid the limitations contained herein on the impositions of liens on the property of the Provider; and (4) such Indebtedness does not become part of the indebtedness of the Provider, unless it is incurred in accordance with the terms set forth in Section 4.4(c) of this Loan Agreement.

(10) Any lease and leaseback, lien security interest or similar arrangements entered into by the Provider with an issuer, to the extent that such arrangement is required by law in connection with the issuance of bonded indebtedness. Such arrangements entered into pursuant to this Loan Agreement and on a parity lien for revenues with Indebtedness insured by the Insurer shall be subject to the approval of The Insurer.

(11) Any lien with respect to property acquired after the Delivery Date, which lien either secures the purchase price of such property or is a lien to which such property is subject at the time of its acquisition. Any such lien may secure Long-Term Indebtedness permitted by Section 3.2(c)(G) of a Loan Agreement.

(12) Any lien imposed by the grantor, expressed or implied, on property of an obligor received as a gift, grant or bequest, pursuant to the terms thereof.

(13) Liens on moneys deposited by patients or others with the Provider as security for, or as prepayment for, the cost of patient care; or any rights of residents of life care or similar facilities to endowment or similar funds deposited by or on behalf of such residents.

(14) Operating leases or ground leases of five years or less whereunder the Provider is the lessor; or any license or other use agreement made with respect to property where revenues generated inure to the benefit of the Provider.

(15) Any lien on money (or the investment made with such money) held in any depreciation reserve, debt service reserve, construction, debt service or similar fund and granted by an obligor to secure payment of indebtedness (including any commitment indebtedness, whether or not then drawn upon); and any lien on money (or the investment made with such money) held in any escrow or similar fund to defease indebtedness.

(16) Liens securing Non-Recourse Debt incurred pursuant to a Loan Agreement.

(17) Any lien on property (other than real estate) in the nature of a purchase money security interest resulting from installment sale agreements or borrowings, financing leases, or similar agreements relating to the acquisition of property; or liens of a lessee or a vendee on the property being leased or sold under a lease, installment sale or similar agreement.

(18) Such minor defects and irregularities of title as normally exist with respect to property similar in character to the property involved, and which do not materially adversely affect the value of or materially impair the property affected thereby.

(19) Any lien on pledges, gifts or grants to be received in the future, including any income derived from the investment thereof and liens on or in property given, bequeathed or devised to the owner thereof existing at the time of such gift, bequest or devise, provided that (i) such liens attach solely to the property which is the subject of such gift, bequest or devise, and (ii) the Indebtedness secured by such liens is not assumed the Provider.

(20) Any lien securing all debt on a parity basis.

(21) any lien on Gross Revenues securing Long-Term Indebtedness incurred pursuant to a Loan Agreement.

(22) each Loan Agreement.

(23) the liens of the Indenture, of each Mortgage and of each additional security instrument executed pursuant to any Special Conditions.

The priority of lien of any Permitted Encumbrance shall be determined by applicable law at the time of its creation; provided, however, that notwithstanding the foregoing any lien on Gross Revenues described in clause 21 above may be on a parity with the lien on and security interest in the Gross Revenues granted under a Loan Agreement and the Trustee, if directed by the Provider, shall enter into an intercreditor agreement acknowledging and giving effect to such senior or parity lien, as the case may be.

The word “**pertain**,” when used with reference to Principal Installments of one or more Stated Maturities that “pertain” to Bonds of a given Stated Maturity, shall have the meaning set forth in the definition of the term “Stated Maturity”.

“**Person**” shall mean an individual, corporation, limited liability company, joint venture, partnership, trust, unincorporated organization in any other form or government, political subdivision or agency or authority thereof.

“**Pledged Receipts**” shall mean (a) the Contract Payments received or receivable pursuant to each of the Loan Agreements, (b) all other receipts, revenues or other amounts received or receivable by the Issuer or the Trustee in respect of (i) the loan of the proceeds of the Bonds to each of the Providers, except for Issuer Expenses and any other payments to the Issuer for its own account and any payments to the Trustee for its own account, (ii) any condemnation award relating to any of the Property and (iii) casualty insurance or other insurance relating to any of the Property, except for payments to the Issuer as an additional insured under any policy of liability insurance relating to any of the Property or any of the Facilities, (c) all other moneys received or receivable by the Trustee for

deposit in any Fund established under the Indenture and (d) moneys deposited in said Funds and any investments in which moneys in said Funds are invested and the interest, profits and other income or proceeds derived therefrom (provided, however, that moneys and investments held in the Rebate Fund and the interest, profits and other income or proceeds derived from such investments are held for the benefit of the United States of America and not for the benefit of the Bondholders and do not secure the Bonds). Notwithstanding anything in the foregoing definition to the contrary, the term “Pledged Receipts” does not include Unassigned Issuer Rights or any amounts due to the Trustee for its own account under the Indenture, under any of the Loan Agreements or under any of the Mortgages.

“**Policy**” shall mean the financial guaranty insurance policy issued by the Insurer insuring the payment when due of the principal of and interest on the Bonds as provided therein.

“**Principal Amount**” shall mean the amount designated as such in Exhibit B to each Loan Agreement, as it may be reduced pursuant to the applicable Loan Agreement.

“**Principal Installment**” shall mean each of the principal installment payments defined as such in each Loan Agreement.

“**Project**” or “**Projects**” shall mean the transaction or transactions, as the case may be, that are described in the Special Conditions for which an Acquisition Certificate may be executed by a Provider and honored by the Trustee, as provided in each such Provider's Loan Agreement.

“**Property**” shall mean (a) those items of real and personal property the acquisition, construction, improvement, repair or installation of which is being financed or refinanced under each Loan Agreement, or which are otherwise being financed or refinanced under each Loan Agreement, and all equipment pertaining to or otherwise used in the operation of such items of real property, and (b) any substitutes for or additions to the property described in clause (a) of this definition permitted by a Loan Agreement.

“**Property Costs**” shall mean all costs (including costs of acquisition, construction, renovation, repair and installation) incurred by a Provider in connection with the Property described in clause (a)(i) of the definition of “Property”, including the legal costs and expenses incurred by such Provider in satisfaction of the Special Conditions or otherwise in connection with such Property, and included within the definition of “cost” in the Enabling Act, to the extent that such costs may be paid without causing the interest on the Series 2006A Bonds to cease to be entitled to the exclusion afforded by Section 103 of the Code; provided, however, that “Property Costs” shall not include Delivery Costs.

“**Property-Specific Principal Installments**” shall mean, with respect to a particular Property, that portion of the Principal Installments specifically allocated to such Property specified in the applicable Loan Agreement. The sum of the Property-Specific Principal Installments for all Properties shall equal the aggregate Principal Installments.

“**Purchaser**” shall mean Municipal Capital Markets Group, Inc. (together with any successors or assigns and any surviving, resulting or transferee entity).

“**Rating Agency**” shall mean any securities rating agency which has been requested to assign and has assigned a rating to the Bonds.

“**Rebate Account**” shall mean the Rebate Account for each Provider established by the Indenture in the Rebate Fund.

“**Reserve Account**” shall mean the separate Reserve Account for each Provider established by the Indenture.

“**Reserve Amount**” shall mean, with respect to each Reserve Account, an amount equal to the least of (a) 10% of the Principal Amount (exclusive of principal amount attributable to original issue discount), (b) the maximum annual Principal Installments and Interest Installments payable by such Provider, (c) one hundred twenty-

five percent (125%) of the average annual Principal Installments and Interest Installments, payable by such Provider, or (d) the amount specified in such Provider's Loan Agreement, including the allocations thereof to specific Properties, subject to reduction as provided in such Provider's Loan Agreement.

"Responsible Officer", when used with respect to the Trustee, shall mean the chairman or vice chairman of the board of directors of the Trustee, the chairman or vice chairman of the executive committee of said board, the president, any vice president, any assistant vice president, the secretary, any assistant secretary, the treasurer, any assistant treasurer, the cashier, any assistant cashier, any trust officer or assistant trust officer, the controller, any assistant controller, or any other officer of the Trustee customarily performing functions similar to those performed by any of the above designated officers and also means, with respect to a particular corporate trust matter, any other officer of the Trustee to whom such matter is referred because of his knowledge of and familiarity with the particular subject.

"Resolution" or **"Resolutions"** shall mean the resolution or resolutions adopted by the Board of Trustees of a Provider that authorizes the execution and delivery of its Loan Agreement.

"Revenues" shall mean for any period (a) in the case of any Provider providing health care services the sum of (i) gross patient service revenues less contractual allowances and provisions for uncollectible accounts, free care and discounted care, plus (ii) other operating revenues, plus (iii) non-operating revenues, all as determined in accordance with generally accepted accounting principles consistently applied; and (b) in the case of any other Provider, gross revenues less sale discounts and sales returns and allowances as determined in accordance with generally accepted accounting principles consistently applied; provided, however, that, in either case, no determination thereof shall take into account (A) any gain resulting from the early extinguishment of indebtedness or the sale, exchange or other disposition of property not in the ordinary course of business, (B) gifts, grants, bequests or donations restricted as to use for a purpose inconsistent with the payment of Debt Service, (C) insurance (other than business interruption insurance) and condemnation proceeds and (D) earnings resulting from any reappraisal revaluation or write-up of assets.

"S&P" shall mean Standard & Poor's, a Division of The McGraw Hill Companies, Inc., or any successor thereto (or to any such prior successor) which performs the functions of a securities rating agency.

"Sale Date" shall mean the date on which the Issuer enters into the Bond Purchase Agreement.

"Series 2006A Bonds" shall mean the bond or bonds initially issued pursuant to the Indenture designated "Vermont Educational and Health Buildings Financing Agency Revenue Bonds (Developmental and Mental Health Services Acquisition Pool), Series 2006B", any bond or bonds issued in exchange therefor or upon transfer or upon transfer or in replacement thereof pursuant to Sections 2.5 or 2.8 of the Indenture and any temporary bonds of such series issued pursuant to Section 2.7 of the Indenture.

"Series 2006B Bonds" shall mean the bond or bonds initially issued pursuant to the Indenture designated "Vermont Educational and Health Buildings Financing Agency Taxable Revenue Bonds (Developmental and Mental Health Services Acquisition Pool), Series 2006B," any bond or bonds issued in exchange therefor or upon transfer or in replacement thereof pursuant to Sections 2.5 or 2.8 of the Indenture and any temporary bonds of such series issued pursuant to Section 2.7 of the Indenture.

"Service Contract" shall mean each of the contracts between each Provider and a Department under which the Provider is paid or reimbursed by the providing human services.

"Short-Term Indebtedness" shall mean all indebtedness, other than the current portion of Long-Term Indebtedness, incurred or assumed by the Provider, for any of the following:

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

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

“**Special Conditions**” shall mean the special conditions listed and described in Exhibit D to each Loan Agreement that must be satisfied prior to the withdrawal of funds from the applicable Acquisition Fund.

“**Special Record Date**” shall mean, with respect to interest on the Bonds payable other than on an Interest Payment Date, the special record date established by the Trustee, which shall be not more than fifteen (15) nor fewer than ten (10) days before the date set for payment of such interest.

“**State**” shall mean the State of Vermont.

“**Stated Maturity**” when used with respect to an Interest Installment, shall mean the date specified in Exhibit B to a Loan Agreement as the Stated Maturity Date of the applicable Interest Installment, and, when used with respect to a Principal Installment, shall mean the date specified in Exhibit B to each Loan Agreement as the Stated Maturity Date of the applicable Principal Installment. For purposes of a Loan Agreement, the Indenture and each Mortgage, Principal Installments “pertain” to Bonds of the stated maturity the principal of which is scheduled to be paid in whole or in part by such Principal Installments either at the stated maturity of such Bonds or by redemption pursuant to the mandatory sinking fund redemption provisions of the Indenture, even though the Stated Maturities of such Principal Installments scheduled to pay principal of such Bonds by such redemption differ from the stated maturity of such Bonds.

The term “**stated maturity**,” when used with respect to a Bond, shall mean the date such Bond is stated to mature as provided in the Indenture.

“**Subordinated Indebtedness**” shall mean indebtedness of a Provider that by the terms thereof is specifically junior and subordinate to the obligations of such Provider under a Loan Agreement 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 Exhibit E to such Loan Agreement.

“**Tax Certificate**” shall mean the Provider Tax Certificate executed and delivered by each Provider at the time of the issuance and delivery of the Bonds, as may be amended from time to time.

“**Tax-Exempt Organization**” shall mean a corporation organized under the laws of the United States of America or any state thereof that is an organization described in Section 501(c)(3) of the Code, is exempt from federal income taxes under Section 501(a) of the Code and is not a “private foundation” within the meaning of Section 509(a) of the Code, or corresponding provisions of federal income tax laws from time to time in effect.

“**Trustee**” shall mean the Chittenden Trust Company, as Trustee under the Indenture, and any successor Trustee under the Indenture.

“**Unassigned Issuer Rights**” shall mean all of the rights of the Issuer (a) to Issuer Expenses under the additional payments section of each Loan Agreement (but only to the extent that such Issuer Expenses are paid to the Issuer for its own account), to indemnity under each Loan Agreement and to reimbursement for attorneys' fees and expenses under the expenses of collection section of each Loan Agreement and to any other payment for its own account under each Loan Agreement, (b) to give or withhold consent to amendments, to each Loan Agreement or the Guaranty under the amendments section of each Loan Agreement, (c) to receive notices under each Loan Agreement or the Guaranty and (d) to enforce any of the foregoing rights.

“**Uniform Commercial Code**” shall mean the Uniform Commercial Code of the State of Vermont, as the same may be amended from time to time.

APPENDIX E

SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENTS

27

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APPENDIX E

SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENTS

The following is a summary, which does not purport to be complete, comprehensive or definitive, of certain provisions contained in each Loan Agreement, and is qualified by reference to each Loan Agreement in its entirety. Each Loan Agreement is substantially identical.

Funding Payment of Property Costs and Payment of Delivery Costs

Issuance of Bonds. Subject to the conditions of funding in each Loan Agreement, the Issuer will include in the aggregate principal amount of the Bonds an amount equal to the "Principal Amount" specified in Exhibit B of each Loan Agreement and will deposit such amount in accordance with the provisions of each Loan Agreement.

Issuer to Pledge and Assign Contract Payments. Each Provider has authorized the Issuer to pledge and assign and grant a security interest in all or any part of the Contract Payments and its right, title and interest in and to such Provider's Loan Agreement (except for the Unassigned Issuer Rights) to the Trustee for the Trustee's benefit and for the benefit of the Owners from time to time of the Bonds.

Any such assignment or pledge shall be subject to the terms of the applicable Loan Agreement and of the Indenture, and no assignment or pledge shall be made or given in such manner as would cause the amount of the Contract Payments to be greater than the amounts, or to be payable at times that are different from the times, stated in such Loan Agreement.

Each Provider acknowledges that the Issuer will combine the pledge and assignment of all or a portion of the Contract Payments with similar payments to be provided by other Providers or related parties to the payment of the Bonds. Each Provider consents thereto, provided that a Provider shall never be liable for, and no special fund of a Provider created by the Indenture shall be used to cure, the default of another Provider or any Person related to another Provider.

Deposits; Reductions of Principal Amount. Each Provider acknowledges in its Loan Agreement that Funds and Accounts will be established as provided in the Indenture and that moneys will be deposited in and withdrawn from the Funds and Accounts, and invested while on deposit in any Fund or Account, as provided in the Indenture, its Loan Agreement and each other Loan Agreement. Without limiting the generality of the foregoing sentence, each Provider also acknowledges that (i) a separate Acquisition Fund and a separate Finance Payment Fund will be established into which no moneys other than those allocable to such Provider will be deposited, (ii) the Reserve Fund shall contain therein a separate Reserve Account for such Provider into which no moneys other than those allocable to such Provider will be deposited, (iii) the Rebate Fund shall contain a separate Rebate Account for such Provider into which no moneys other than those allocable to such Provider will be deposited and (iv) the Delivery Costs Fund shall be a common, general fund held by the Trustee for the purpose of paying the Delivery Costs and similar costs that are to be paid for such Provider and other Providers and into which moneys allocable to each Provider will be deposited.

On the Delivery Date, the Principal Amount for each Provider will be deposited pursuant to its Loan Agreement, and any accrued interest received from the sale of the Bonds shall be allocated to each Provider and the amount so allocated deposited in the applicable Provider's Loan Agreement. The deposit of the Principal Amount pursuant to each Loan Agreement shall be deemed to include a pro rata portion of any underwriting discount reflected in the net proceeds of the sale of the Bonds, and the amount of such discount shall be treated as having been applied by the Trustee to the payment of Delivery Costs prior to the deposit of the Principal Amount with the Trustee pursuant to each Loan Agreement.

Use of Delivery Costs Fund. The Trustee is authorized when requested by the Administrator to withdraw amounts from the Delivery Costs Fund for the purpose of paying the Delivery Costs and similar and proper amounts payable by all Providers to the persons entitled thereto, including the Closing Fee to the Issuer.

If any obligations described in clause (b) of the definition of Delivery Costs are incurred by a Provider, the Issuer shall request prompt payment thereof from the Delivery Costs Fund in the amounts and to the payees specified by such Provider.

On the earliest practicable date after the expiration of six (6) months from the Delivery Date, the Trustee shall transfer any money remaining in the Delivery Costs Fund to the Finance Payment Fund established under each Loan Agreement to which such money is allocable, the amount so transferred to each such Finance Payment Fund to be the amount allocable to the applicable Loan Agreement.

Use of Acquisition Fund. Money on deposit in each Acquisition Fund shall be used exclusively for the purpose of paying, or for reimbursements to the Provider for the payment of, Property Costs except that all amounts remaining in an Acquisition Fund following the applicable Final Acquisition Date will be transferred to the Finance Payment Fund and applied to the payment or prepayment of Principal Installments. Each Provider agrees:

- (i) to take diligently all steps necessary to commence and complete the Projects and to satisfy the applicable Special Conditions; and
- (ii) from time to time, diligently to requisition money from the Acquisition Fund by delivery to the Trustee of appropriate Acquisition Certificates for the payment of Property Costs related to the Projects for which the Special Conditions have been satisfied.

The Indenture requires the Trustee to make the requested disbursements from the Acquisition Fund to the person or persons designated therein for payment upon receipt by the Trustee of a properly completed Acquisition Certificate concurrently with or after the satisfaction of the applicable Special Conditions. Each Provider agrees that it will not request moneys to be withdrawn from the Acquisition Fund for any purpose other than the payment or reimbursement of Property Costs. All of such disbursements shall be made within five (5) Business Days following the Trustee's receipt of a properly completed Acquisition Certificate that is eligible for payment under the applicable Loan Agreement.

Neither the Issuer, the Trustee, nor the Owners shall have any responsibility for or liability with respect to the commencement or completion of any Project and shall have no liability for the payment of any Property Costs. The Owners shall have no liability for the payment of any Contract Payments, and neither the Issuer nor the Trustee shall have any liability for the payment of Contract Payments (except from amounts received from each Provider for the payment of its Contract Payments).

Each Provider may make any change or substitution of any part of the Property or of any component of a Project whenever the Provider deems such change or substitution to be necessary and appropriate to comply with the covenants contained in its Loan Agreement or if it is necessary to satisfy any Special Conditions; provided that no such change or substitution shall be made unless the Provider delivers to the Trustee and the Issuer an opinion of Bond Counsel to the effect that such change or substitution will not adversely affect the exclusion from gross income for federal income tax purposes of the interest on the Series 2006A Bonds or the validity of the Bonds and is permitted by the Enabling Act and, in the case of the change or substitution of land or other real property, an appraisal by a licensed real estate appraiser approved by the Issuer showing that the nature of the Property after such change or substitution will constitute property of equal or greater value than its value without such change or substitution. Actions described therein shall be evidenced by a Certificate of the Provider filed with the Trustee prior to such action being taken.

On the Final Acquisition Date applicable to a Provider, each Provider shall file a Certificate of the Provider with the Trustee stating that the Final Acquisition Date has occurred. Upon receipt of such Certificate, and not later than whichever is applicable of the third anniversary of the date of initial issuance of the Bonds or the relevant date specified in clause (c)(ii) of the definition of Final Acquisition Date (whether or not a Certificate of the Provider has been filed), the Trustee shall transfer all amounts remaining in the Acquisition Fund to the applicable Finance Payment Fund. Any transferred amounts shall be applied to the payment or prepayment of Principal Installments of such Provider as provided in its Loan Agreement for money transferred to the Finance Payment Fund from the Acquisition Fund. After such transfer, the Acquisition Fund shall be closed.

During the time, if any, in which money is on deposit in an Acquisition Fund, the Provider shall be entitled to direct the Trustee to invest such money in Authorized Investments; provided that any such investments must comply with the requirements of the Tax Certificate. Earnings on such investments will be credited as provided in the Indenture.

No amount for the acquisition of real estate in excess of the appraised value of such real estate may be withdrawn from the Acquisition Fund.

Payments of Principal and Interest; Other Payments

Payments of Principal and Interest; Prepayments of Principal Installments.

Principal Installments and Payment Thereof. Each Provider agrees to pay to the Trustee for deposit in the Finance Payment Fund the Principal Amount in installments (the “**Principal Installments**”), such Principal Installments to be paid in monthly increments on the dates and in the amounts specified in the Provider’s Loan Agreement. Such payments shall be made to the Trustee at the office of the Trustee.

Interest Installments and Other Interest; Payment of Interest Installments and other Interest. Each Provider agrees to pay interest on each of its Principal Installments at the rates per annum set forth in its Loan Agreement. Such interest shall accrue from the Dated Date and shall be calculated on the basis of a 360-day year comprised of twelve (12) 30-day months. The installments of such interest due with respect to each Finance Payment Date (the “**Interest Installments**”) will be computed as provided in the Loan Agreements. The Interest Installments shall be payable to the Trustee in monthly increments on the dates and in the amounts as specified in the applicable Loan Agreement. In the event of an optional or mandatory prepayment of Principal Installments (including without limitation a prepayment of Principal Installments from Accelerated Principal Installment Money) that occasions a redemption of Bonds occurring on a date other than an Interest Payment Date, interest shall accrue from, as applicable, the Dated Date or the last Interest Payment Date on which interest on the Bonds was paid to the date of the corresponding redemption of Bonds and shall be payable to the Trustee as provided in the applicable Loan Agreement on or before the date of such redemption. The Interest Installments and other interest payable under each Loan Agreement shall be paid to the Trustee at the office of the Trustee until all Finance Payments are paid in full and shall be deposited in the Finance Payment Fund.

Application of Certain Money Transferred to a Finance Payment Fund; Prepayment of Principal Installments. Money transferred from the Acquisition Fund to a Finance Payment Fund following a Final Acquisition Date shall be applied to the payment or prepayment of Principal Installments as set forth in each Loan Agreement. Money transferred to the Finance Payment Fund as provided in a Loan Agreement representing proceeds of casualty insurance or a condemnation award with respect to any Property and not applied to the repair or restoration of the applicable Property shall be applied to the payment or prepayment of Principal Installments as set forth in each Loan Agreement. If the Indenture permits optional redemption of Principal Installments due to a casualty loss or condemnation, then each Provider shall have the right to prepay in whole or in part, but only in Authorized Denominations, such of the Principal Installments that pertain to the Bonds that are subject to such right of redemption (any partial prepayment of Principal Installments to be applied to the Principal Installments eligible for prepayment in the inverse order of their Stated Maturities), and at the price or prices, including any premium, that correspond to the redemption price on the applicable date of redemption of the Bonds to which such prepaid Principal Installments pertain. The Principal Installments may not be prepaid except as provided above in this paragraph or as provided in the Indenture for the application of Accelerated Principal Installment Money.

Deposit and Application of Other Moneys Deposited in Each Finance Payment Fund. Amounts representing capitalized interest shall be deposited in a separate account in the applicable Finance Payment Fund. On the date provided in its Loan Agreement, each Provider shall pay to the Trustee for deposit to its Finance Payment Fund an amount equal to the amounts specified in its Loan Agreement in order to accumulate in the Finance Payment Fund (a) not later than the first day of the month preceding the next Finance Payment Date the amount of the Interest Installment the Stated Maturity of which occurs on such Finance Payment Date, and (b) not later than the first day of the month next preceding each Finance Payment Date on which the Stated Maturity of a Principal installment occurs, the amount of the Principal Installment the Stated Maturity of which is the applicable Finance Payment Date. On the Business Day next preceding each Finance Payment Date, the Trustee shall transfer from each

Finance Payment Fund to the Bond Fund an amount equal to the Finance Payment required to be withdrawn from the applicable Finance Payment Fund with respect to such Finance Payment Date. Further, on the date of any redemption of Bonds, the Trustee shall transfer to the Bond Fund from each Finance Payment Fund from which money is to be applied to such redemption an amount, including accrued interest to the redemption date and premium, if any, required to be applied from the applicable Finance Payment Fund to the payment of principal of, premium, if any, and interest on the Bonds to be redeemed. After any such transfer on the date of any redemption of Bonds (other than a mandatory sinking fund redemption under the applicable provisions of the Indenture), there shall be transferred to the Provider any amount then on deposit in such Provider's Finance Payment Fund paid by such Provider in addition to payments on account of Principal Installments and Interest Installments to accomplish such redemption and not needed for such purposes; provided that no such transfer shall reduce the amount on the deposit in such Finance Payment below the amount required to be therein under the terms of the applicable Loan Agreement. In the event a Provider elects to discharge its obligations under its Loan Agreement in accordance with the applicable provisions thereof and desires to utilize moneys on deposit in its Finance Payment Fund for such purpose, upon receipt by the Trustee of written approval of the Administrator and written direction of the Provider, moneys on deposit in the Finance Payment Fund allocable to the portion of the outstanding Principal Amount to be discharged shall be transferred by the Trustee to an escrow account established pursuant to such Provider's Loan Agreement for such purpose.

If the Trustee receives from a Provider less than the full amount of any payment due on the first day of a month from such Provider with respect to Principal Installments or Interest Installments, or, after an acceleration of Principal Installment pursuant to the remedies provided in the Loan Agreement, any payment that, after any payment by the Trustee and the Issuer, is less than the full amount of any deficiency in the Reserve Amount and the Principal Installments and interest due on account of such acceleration, the Trustee shall allocate the amount received, first, to the replenishment of any deficiency in the Reserve Amount (which replenishment shall be deposited in the Reserve Account), second, to the payment of all Interest Installments or any portion thereof then due or past due, and third, to Principal Installments; provided, that any such amount received by the Trustee while an Event of Default exists under the Indenture shall be applied as provided in the Indenture.

Application of Money in Each Reserve Account. Money on deposit in each Reserve Account shall be held by the Trustee as a special reserve fund for the purpose of making Finance Payments of the Provider to such Reserve Account if and to the extent funds are not available in such Provider's Finance Payment Fund to make the transfers to the Bond Fund to pay Interest Installments and Principal Installment as provided in each Loan Agreement and described above. If on the Business Day next preceding any Finance Payment Date, or on any date of redemption of Bonds due to an extraordinary mandatory redemption as provided in the Indenture, money on deposit in a Finance Payment Fund is not sufficient to make the transfers from such Finance Payment Fund to the Bond Fund then required, the Indenture shall require the Trustee to transfer from the applicable Reserve Account the lesser of (i) the amount equal to the deficiency or (ii) the total amount on deposit in the Reserve Account; provided, however, that no money shall be transferred from any Reserve Account for the payment of principal or premium due on an optional redemption of the Bonds. If such transfer is made from a Reserve Account (and any subsequent transfer prior to the restoration of the deficiency in such Reserve Amount for the Reserve Account caused by such transfer), the applicable Provider shall replenish such Reserve Account so that it contains an amount equal to such Reserve Amount as soon after such transfer as possible (from the next moneys received by a Provider, including moneys received and otherwise legally available from any Department or other agency of the State), and, in any event, within a period of not more than twelve (12) months, by the making of monthly deposits to such Reserve Account in an amount at least equal to 1/12th of the deficiency, on the first day of each month beginning the first month next succeeding the month in which such transfer occurs and ending the month such deficiency is eliminated. Upon any such transfer from a Reserve Account and failure to replenish in accordance with, the preceding sentence, an Event of Default shall exist under the applicable Loan Agreement. Moneys on deposit in a Reserve Account shall, with other funds as necessary, be used for the purpose of paying the last maturing Finance Payments to which such Reserve Account relates after all such prior Finance Payments have been paid in full; provided, however, that in the event a Provider elects to discharge its obligations under its Loan Agreement in accordance with the applicable provisions thereof and desires to utilize moneys on deposit in its Reserve Account for such purpose, then upon receipt by the Trustee of written direction from such Provider, an amount therein allocable to the portion of the outstanding Principal Amount to be discharged shall be transferred by the Trustee to an escrow account established pursuant to the applicable provisions of such Loan Agreement for such purpose.

The Indenture shall require the Trustee to invest the amounts in such Finance Payment Fund and each Reserve Account at the direction of the applicable Provider, in Authorized Investments; provided, that any such investments must comply with the Tax Certificate and the applicable Loan Agreement. Any earnings on the applicable Finance Payment Fund and such Reserve Account will be applied as set forth in the Indenture. If, at any time, however, the amount on deposit in the Reserve Account exceeds the applicable Reserve Amount, the Trustee shall transfer such excess to the applicable Finance Payment Fund. In addition, when, with respect to a particular Provider's Property, all Finance Payments related to the Property-Specific Principal Installments therefor have been paid (or, pursuant to the defeasance provisions of its Loan Agreement, deemed paid) in full, then the portion of the Reserve Amount allocated to such Property shall be released by the Trustee to the Provider, and the Reserve Amount shall be reduced by the amount so released. Each Finance Payment Fund and each Reserve Account will be held by the Trustee solely for the purposes stated in the applicable Loan Agreement and the Indenture. The deposits required to be made to a Finance Payment Fund by a Loan Agreement to make Interest Installments and Principal Installments may be reduced to take into account money already on deposit in such Finance Payment Fund as earnings from investments in such Finance Payment Fund or transfers of excess money from the Reserve Account or earnings from investments in the Acquisition Fund.

In addition to the Finance Payments and the restorations to the Reserve Account required by its Loan Agreement, each Provider agrees to pay to the Trustee (i) any amounts required by the Code to be rebated to the United States of America by the Provider under its Loan Agreement, the Indenture and the Tax Certificate and, if applicable, any such amount that is delinquent and interest and any assessed penalty thereon, and (ii) the Provider's share of the Ordinary Expenses and Extraordinary Expenses of the Trustee for the performance of its duties under the Indenture and all other payments due to the Trustee for its own account under such Loan Agreement and under the Indenture, such Ordinary Expenses, Extraordinary Expenses and other amounts to be allocated to each Provider pro rata (on the basis of the percentage of the original principal amount of the Bonds allocated to the Principal Amount of the applicable Provider) to the extent not directly attributable to such Provider. The Trustee shall notify each Provider of any payment due under clauses (i) or (ii) above of this paragraph, and payment shall be made within thirty (30) days of the giving of any such notice.

In computing the amount in each Finance Payment Fund and each Reserve Account, investments shall be valued at the market price thereof, inclusive of accrued interest, except that investment contracts shall be valued at the amount on deposit under the applicable investment contract plus accrued interest. Valuation of each Finance Payment Fund and each Reserve Account shall occur quarterly as of January 1, April 1, July 1 and October 1 of each calendar year, except in the event of a withdrawal from a Reserve Account, whereupon such Reserve Account shall also be valued immediately after such withdrawal and otherwise as necessary to assure that the withdrawal complies with the applicable provisions of the Loan Agreement and the Indenture. If amounts on deposit in a Reserve Account shall, as of any quarterly valuation date, be less than the applicable Reserve Amount due to a decrease in the market value of the investments on deposit in such Reserve Account, the applicable Provider shall deposit to such Reserve Account from its first available moneys after required deposits to its Finance Payment Fund an amount equal to the deficiency over a period of not more than three (3) months, in not more than three (3) substantially equal payments, payable not less often than monthly, commencing the first day of the month following the month in which such deficiency occurs, and ending when the deficiency no longer exists.

Security Interests; Pledge; Permitted Indebtedness; Liens. Each Provider under its Loan Agreement grants to the Issuer and the Trustee a lien on and security interest in the Gross Revenues of such Provider (including, without limitation, the "accounts", the "general intangibles" and the "proceeds" (each as defined in the Uniform Commercial Code) of such "accounts" and "general intangibles" of the Provider), whether now owned or hereafter acquired, and on and in all moneys and investments on deposit from time to time in the Acquisition Fund, the Finance Payment Fund and the Reserve Account, and such money and investments are pledged under each Loan Agreement to the payment of all amounts due thereunder. It is provided, however, that unless and until an Event of Default shall occur and be continuing, each Provider shall be permitted to use, enjoy and expend such Gross Revenues including without limitation, such accounts, general intangibles and proceeds in the ordinary course of its business and affairs, subject to the requirements for maintaining the Deposit Account under its Loan Agreement. The security interests and liens created and the pledge and assignment made under each Loan Agreement shall and do attach on the Delivery Date and may be enforced under each Loan Agreement in any manner permitted by the Uniform Commercial Code or other applicable law, and certain provisions of the form of the Mortgage attached to

the applicable Loan Agreement are incorporated in such Loan Agreement for all purposes and made applicable to such Loan Agreement on the date thereof.

As further security for the payment of all amounts due under its Loan Agreement and for the performance of its obligations therein, each Provider shall execute a Mortgage, and if necessary, more than one Mortgage, with respect to the Property, and other security instruments or agreements, at the time or times and completed in the manner specified in the Special Conditions in its Loan Agreement. It is provided, however, that the postponement of the execution and delivery of the Mortgage(s) shall not in any manner postpone the attachment of the liens and security interests granted, and the pledge and assignment made, in each Loan Agreement.

Each Provider covenants and agrees in its Loan Agreement that it will not create or suffer or permit to be created any lien or file any financing statement describing any such lien (other than Permitted Encumbrances) upon any of the collateral on which a lien and in which a security interest is granted in its Loan Agreement or upon any of its Property that is subject to the lien of a Mortgage; provided, that no such lien shall be created, suffered, or permitted to exist on any moneys or securities credited to such Provider's Deposit Account, the Acquisition Fund, the Finance Payment Fund, a Reserve Account, the Rebate Account or any other fund or account created under its Loan Agreement or the Indenture.

The Issuer agrees to direct the Trustee in the Indenture, and each Provider directs the Trustee, to establish and maintain as long as any Contract Payments remain unpaid under its Loan Agreement a demand deposit account (the "**Deposit Account**") in the name of the applicable Provider and under the control of the Trustee. During the existence of an Event of Default under a Loan Agreement all Gross Revenues of the applicable Provider shall be deposited immediately upon receipt in the Deposit Account.

The Trustee shall withdraw from each Deposit Account and deposit in the applicable Finance Payment Fund in advance of any deposits or payments required by the applicable Loan Agreement such amounts as are then required to be on deposit in the applicable Finance Payment Fund and to provide for the payment of the Ordinary Expenses, the Extraordinary Expenses and the Issuer Expenses allocable to the applicable Provider and then shall pay over to the applicable Provider any amounts remaining in such account. The Issuer agrees to direct the Trustee in the Indenture to allow the Provider to use, in the Provider's sole discretion, any amounts in such account in excess of the next ensuing monthly deposits or other required payments hereunder (including, but not limited to, any amounts required to restore its Reserve Account to its required amount, to pay rebate or satisfy any payments in arrears) immediately after sufficient moneys have been deposited in its Deposit Account to satisfy such requirements. Each Provider agrees that it shall not enter into any other agreement requiring or providing for the deposit of any such moneys with any bank, trust company or any other Person other than the Trustee except in connection with a Permitted Encumbrance entered into in compliance with its Loan Agreement or, subject to the lien in favor of the Trustee, excess moneys in its Deposit Account that are allowed to be used by such Provider.

Additional Payments. Each Provider agrees to pay, as "**Additional Payments**", such Provider's share of the following described items, allocated to the Provider pro rata (on the basis of the percentage of the original principal amount of the Bonds allocated to the Provider's Principal Amount) to the extent not directly attributable to the Provider:

- (a) any and all Issuer Expenses;
- (b) the Ordinary Expenses and the Extraordinary Expenses of the Trustee;
- (c) (i) any costs and expenses, including reasonable attorneys' fees and expenses, related to any action deemed necessary, reasonable or appropriate to be performed under its Loan Agreement by the Trustee (to the extent such costs and expenses are not a part of the Ordinary Expenses or the Extraordinary Expenses of the Trustee), the Issuer, Bond Counsel, or their agents and (ii) any amounts payable by such Provider pursuant to its Loan Agreement for expenses of the Trustee or the Issuer after an Event of Default; and
- (d) any fees and expenses (i) of any Rating Agency with respect to the Bonds or (ii) relating to the maintenance of any rating on the Bonds.

Representations and Covenants; Disclaimer of Warranties

Representations and Covenants of Provider. Each Provider warrants, represents and covenants in its Loan Agreement as follows:

(a) The Provider (i) is a non-profit corporation duly organized, validly existing and in good standing under the laws of the State, (ii) is duly qualified and in good standing as a foreign corporation in each jurisdiction in which the failure to qualify would have a materially adverse effect upon its financial condition, business or properties and (iii) has all requisite power, authority, licenses and permits to own or lease as lessee its properties, including without limitation its Property and its Facilities, to conduct its business as now conducted and proposed to be conducted, including without limitation to engage in and carry out the activities for which its Property and its Facilities are now used and proposed to be used, to enter into and perform its Loan Agreement, its Mortgage(s) and its Tax Certificate, to acquire the Property, if any, proposed to be acquired with the loan made under its Loan Agreement, and to carry out its Projects. At the time of acquisition of any Property to be refinanced with the loan made under its Loan Agreement, the Provider had all requisite power, authority, licenses and permits to acquire such Property. The Provider does not own, directly or indirectly, a majority of the outstanding voting securities of any other corporation or a controlling interest in any other entity.

(b) The Resolution pertaining to the Provider has been duly adopted and is in full force and effect, and the execution, delivery and performance by the Provider of its Loan Agreement, its Mortgage(s) and its Tax Certificate have been duly authorized on the part of the Provider by all necessary action and will not violate or constitute a default under the Provider's incorporation papers or bylaws or any agreement or instrument binding upon it or its properties or any applicable law or regulation of any governmental authority.

(c) The Provider's Loan Agreement, its Mortgage(s) and its Tax Certificate have been duly executed and delivered by one or more Authorized Officers of the Provider and are the valid and binding obligations of the Provider, enforceable against the Provider in accordance with their respective terms.

(d) The Property and Facilities are and will be used only to carry out the lawful purposes of the Provider, and the Property listed in item I of Exhibit A of its Loan Agreement constitutes "facilities" as defined in the Enabling Act. Each Project of the Provider constitutes a "facility" as defined in the Enabling Act.

(e) Except as specifically described in the Official Statement, no litigation, proceedings or investigations (including without limitation proceedings or investigations by or before any governmental authority) are pending or, to the knowledge of the Provider, threatened against the Provider, seeking to restrain, enjoin or in any way limit the approval or issuance and delivery of the Official Statement relating to the Bonds or the Bonds by the Issuer or the execution, delivery or validity of or performance by the Provider of its Loan Agreement, its Mortgage(s) or its Tax Certificate, or which would in any manner challenge or adversely affect the corporate existence of the Provider or the powers of the Provider to enter into and carry out the transactions described in or contemplated by its Loan Agreement, its Mortgage(s) or its Tax Certificate or which, if determined adversely to the Provider, would have a materially adverse effect on the business, operation or condition, financial or otherwise, of the Provider.

(f) Neither the Provider's property (including without limitation its Property and its Facilities) nor its use by the Provider violates any Environmental Laws or similar law or restriction.

(g) The Provider has not heretofore engaged in, and the consummation of the transactions provided for in, and compliance by the Provider with the provisions of, its Loan Agreement, its Mortgage(s) and its Tax Certificate will not involve, any prohibited transaction within the meaning of the Employee Retirement Income Security Act of 1974, as amended (sometimes referred to as "ERISA"), or Section 4975 of the Code. No "employee pension benefit plans," as defined in ERISA (sometimes referred to as "Plans"), maintained by the Provider, nor any trust created under its Loan Agreement, has incurred any "accumulated funding deficiency," as defined in Section 302 of ERISA, nor does the present value of all benefits vested under all Plans exceed, as of the last annual valuation date, the value of the assets of the Plan allocable to such vested benefits.

(h) The Provider has full power and lawful authority to grant a lien on and security interest in the Gross Revenues. The Provider's Loan Agreement creates a valid and binding security interest in the Gross Revenues in favor of the Trustee as security for payment of the Bonds, enforceable by the Trustee in accordance with the terms hereof. Under the laws of the State, (1) such security interest, (2) and each pledge, assignment, lien, or other security interest made to secure any prior obligations of the Provider which, by the terms hereof, ranks on a parity with or prior to the security interest granted hereby, is and shall be prior to any judicial lien hereafter imposed on such collateral to enforce a judgment against the Provider on a simple contract, and (3) by the date of issue of the Bonds, the Provider will have filed all financing statements describing, and transferred such possession or control over, such collateral and for so long as any Finance Payments are outstanding the Provider will file, continue, and amend (and pay or cause to be paid all such fees and expenses incident thereto) all such financing statements and transfer such possession and control) as may be necessary to establish and maintain such priority in each jurisdiction in which the Provider is organized or such collateral may be located or that may otherwise be applicable pursuant to Article 9 of the Uniform Commercial Code of the State. The Provider has not heretofore made a pledge of, granted a lien or security interest in, or made an assignment or sale of the Gross Revenues that ranks on a parity with or prior to the pledge granted under this Loan Agreement, except to secure Indebtedness that will be outstanding upon the issuance of the Bonds, nor has the Provider described the Gross Revenues in any financing statement that will remain effective when the Bonds are issued, except in connection with the foregoing pledges, assignments, liens and security interests.

(i) If required by law to be licensed to provide the services currently provided by the Provider, the Provider, its Property and its Facilities are so licensed, or, in the case of any such Property or Facility to be constructed, renovated or expanded, such Property or Facility is designed to comply with applicable standards for such licensure.

(j) The Provider has not permitted and will not permit any portion of its Property or its Facilities to be used (i) for sectarian instruction or study or as a place for devotional activities or religious worship or in connection with any part of the program of a school or department of divinity for any religious denomination or the training of ministers, priests, rabbis or other similar persons in the field of religion or (ii) in a manner which is prohibited by the Establishment of Religion Clause of the First Amendment to the Constitution of the United States of America and the decisions of the United States Supreme Court interpreting the same or by any comparable provisions of the Constitution of the State and the decisions of the Supreme Court of the State interpreting the same.

(k) The Provider will from time to time promptly execute and deliver to the Issuer and Trustee all such assignments, certificates, supplemental writings and financing statements and do all other acts or things as the Issuer or the Trustee may reasonably request in order to more fully evidence and perfect the liens, security interests and pledge and assignment created in its Loan Agreement.

(l) The Provider has a contract or contracts in full force and effect for service with one or more Departments covering the Provider's essential services, including services to be performed at or with its Property and its Facilities and, to the best of the Provider's knowledge, the Provider is in substantial compliance with each of such contracts. The Provider has not received a notice from any Department proposing to terminate such contract or contracts for noncompliance or by reason of any breach or default.

(m) The Provider will maintain the required Reserve Amount in its Reserve Account except as otherwise provided in its Loan Agreement.

(n) Any financial information with respect to the Provider presented by the Provider to the Issuer or the Purchaser is to the best of the Provider's knowledge correct and complete and fairly represents the Provider's financial condition and the results of its operations at the date thereof and for the period indicated therein.

(o) The Provider has or upon acquisition thereof will have good and marketable title to all its properties and assets (including its Property and its Facilities), subject to no lien, encumbrance or charge except for Permitted Encumbrances.

(p) The Provider is not in default, in any respect which would have a materially adverse effect on its financial condition, operations or business, under any order or decree of any court or governmental authority or

under any agreement or other instrument to which it is a party, or by which it or its properties are bound, and, to the best of the knowledge of the Provider, the Provider is complying with all applicable statutes and regulations of each governmental authority having jurisdiction over it or its business, operations and property.

(q) No event has occurred and is continuing and no condition exists which constitutes or, after notice or lapse of time or both, would constitute a default or event of default or Event of Default by the Provider under its Loan Agreement, its Mortgage(s) or its Tax Certificate.

(r) All tax returns and reports of the Provider required by law to be filed have been accurately completed and duly filed and all taxes, fees and other governmental charges (other than those being contested in good faith by appropriate proceedings diligently conducted and with respect to which adequate reserves have been established) shown thereon which are due and payable have been paid. The charges and reserves on the books of the Provider in respect of all income and other taxes are adequate, and the Provider knows of no additional assessments against it.

(s) The loan made to the Provider from a portion of the proceeds of the Bonds will induce the Provider to continue to engage in the business and operations in which it is engaged on the date of execution and delivery of its Loan Agreement.

(t) All of the proceeds of the Bonds loaned to the Provider will be used as provided in its Loan Agreement.

(u) No one of the Provider's Loan Agreement, Mortgage(s), or Tax Certificate, or the Preliminary Official Statement relating to the Bonds, the Official Statement relating to the Bonds or any other document, certificate or statement furnished by or on behalf of the Provider to the Issuer or the Purchaser in connection with its Loan Agreement or relating to the issue and sale by the Issuer or the purchase by the Purchaser of the Bonds contains any untrue statement of a material fact concerning the Provider's Property, Facilities, Projects or the Provider (including its financial condition, business and operations) or omits to state a material fact necessary in order to make the statements contained in its Loan Agreement and therein with respect to its Property, its Facilities, its Projects or the Provider not misleading. There is no fact (other than facts relating to general economic conditions) which materially adversely affects the business, operations, affairs, conditions, properties or assets of the Provider which has not been set forth in a document, certificate or statement furnished to the Purchaser by or on behalf of the Provider prior to or on the date of delivery of the Bonds. Without limiting the generality of the foregoing provisions described in this paragraph, the Provider acknowledges that the summary of the Provider's financial history and operations contained in the Preliminary Official Statement relating to the Bonds and the Official Statement relating to the Bonds (the "Provider's Summary") has been prepared on behalf of the Provider, with the assistance of the Provider, solely from information submitted to the Purchaser by the Provider, and the sufficiency, accuracy and completeness of the Provider's Summary is the sole responsibility of the Provider. The Provider agrees that the Provider's Summary and the financial statements of the Provider contained in such Preliminary Official Statement and such Official Statement may be used by the Purchaser in the offering of the Bonds, and the Provider will cooperate in providing such additional information with respect to the Provider as a prospective purchaser of the Bonds may reasonably request.

(v) The Provider has deemed the Preliminary Official Statement final, in so far as the information contained therein relates to the Provider, its Property, its Facilities and its Projects, as of its date.

(w) The Provider is and will continue to be an "eligible institution" as defined in the Enabling Act.

(x) To the best of the Provider's knowledge, after reasonable inquiry and investigation, other than as disclosed in any Phase I Environmental Assessment Report required to be delivered pursuant to the Special Conditions set forth in its Loan Agreement, none of the real property owned and/or occupied by the Provider and located in the State, including, but not limited to, its Property, is presently used or has ever been used by previous owners and/or operators to refine, produce, store, handle, dispose of, transfer, process or transport Hazardous Materials, and the Provider has not used nor does the Provider intend to use, said real property, including, but not limited to, the Property, for the purpose of refining, producing, storing, disposing of, handling, transferring, processing or transporting Hazardous Materials;

(y) All certificates of need and other permits required for the construction or acquisition of the Provider's Projects have been obtained or are reasonably expected to be obtained;

(z) To the best of the Provider's knowledge, after reasonable inquiry and investigation, no lien has been attached to any revenues or any real or personal property owned by the Provider and located in the State, including, but not limited to, its Property, arising from an intentional or unintentional action or omission of the Provider or any previous owner and/or operator of said real property, including, but not limited to, its Property, resulting in the releasing, spilling, pumping, pouring, emitting, emptying or dumping of Hazardous Materials into the waters outside the jurisdiction of the State or onto lands from which it might flow or drain into said waters or into waters outside the jurisdiction of the State where draining may have resulted to the lands, waters, fish, shellfish, wildlife, biota, air and other resources owned, managed, held in trust or otherwise controlled by the State; and

(aa) The Provider has not received a summons, citation, directive, letter or other communication, written or oral, from any governmental body or agency concerning any intentional or unintentional action or omission on the Provider's part resulting in the releasing, spilling, leaking, pumping, pouring, emitting, emptying or dumping of Hazardous Materials into the waters or onto the lands of the State, or into the waters outside the jurisdiction of the State resulting in damage to the lands, waters, fish, shellfish, wildlife, biota, air and other resources owned, managed, held in trust or otherwise controlled by the State.

Disclaimer of Warranties. NEITHER THE ISSUER, THE OWNERS NOR THE TRUSTEE MAKES ANY WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY, FITNESS OR USEFULNESS FOR ANY PARTICULAR PURPOSE OR FITNESS FOR THE USE CONTEMPLATED BY ANY PROVIDER OF ANY OF THE PROPERTY OF ANY PROVIDER, OR ANY OTHER REPRESENTATION OR WARRANTY WITH RESPECT TO THE PROPERTY. NO BREACH OF WARRANTY SHALL AFFECT THE OBLIGATION OF ANY PROVIDER TO PAY ITS CONTRACT PAYMENTS WHEN DUE. THIS DISCLAIMER IS GIVEN BY THE TRUSTEE, THE OWNERS AND THE ISSUER TO THE APPLICABLE PROVIDER AND TO EACH OF SUCH OTHER PERSONS ONLY AND IS NOT INTENDED, NOR SHALL IT BE CONSTRUED, TO AMEND, MODIFY OR OTHERWISE AFFECT THE GUARANTIES AND WARRANTIES, IF ANY, PROVIDED BY THE MANUFACTURER, WHOLESALE DISTRIBUTOR, OR ANY OTHER PERSON WITH RESPECT TO ANY PROPERTY OF ANY PROVIDER.

Additional Covenants of Each Provider.

(a) Each Provider will take, or require to be taken, all action as may be reasonably within its ability or as may, from time to time, be required of the Provider under applicable law or regulations to avoid jeopardizing the exclusion from gross income for federal income tax purposes of the interest on the Series 2006A Bonds and the exemption from State taxation afforded the Bonds and any income derived therefrom by the Enabling Act or other applicable law, including, without limitation, the preparation and filing of any material required to be filed by it in order to maintain such exclusion or exemption.

(b) Each Provider has, or upon acquisition thereof will have, and retain full title to its Facilities and its Property, and keep such title to its Facilities and its Property free from all liens and encumbrances other than Permitted Encumbrances and has, or upon acquisition thereof will have, full right, power and authority to mortgage or grant a security interest in all property referred to in its Mortgage(s).

(c) Each Provider will maintain its existence as a non-profit corporation and its good standing in the State and its qualification and good standing in each jurisdiction in which the failure so to be qualified would have a material adverse effect upon its business or properties; provided, however, that (i) the Provider may merge with or be acquired by another Person if (A) the Person into which the Provider merges or which acquires the Provider assumes all of the obligation of the Provider under its Loan Agreement, its Mortgages) and its Tax Certificate, (B) after such merger or acquisition such Person will not be in default in the performance of its duties, obligations and covenants under this Loan Agreement, will be able to issue at least one dollar of additional Long-Term Indebtedness and will have for its then current fiscal year a Debt Service Coverage Ratio of 1.25 and (C) Bond Counsel renders an opinion to the effect that such merger or acquisition does not (1) violate the Enabling Act, (2) adversely affect the validity of the Bonds or (3) jeopardize the exclusion from gross income for federal income tax purposes of the

interest in the Series 2006A Bonds, and (ii) the Provider may acquire other Persons or permit other Persons to merge with it if (A) the Provider is the surviving entity, (B) the Provider after such acquisition or merger will be able to issue at least one dollar of additional Long-Term Indebtedness and will have for its then current Fiscal Year a Debt Service Coverage Ratio of not less than 1.25 (or, with the consent of the Insurer, have a Debt Service Coverage Ratio higher than it was prior to such transaction) and (C) Bond Counsel renders an opinion to the effect that such merger or acquisition does not (1) violate the Enabling Act, (2) adversely affect the validity of the Bonds or (3) jeopardize the exclusion from gross income for federal income tax purposes of the interest on the Series 2006A Bonds.

(d) Each Provider will accrue all tax liabilities, required withholding of income taxes of employees, required old age and unemployment contributions, payments in lieu of taxes and other assessments, governmental charges or levies imposed upon it or upon its income or profits or properties belonging to it and pay the same prior to the respective dates on which interest, penalties or liens attach; provided that it shall not be required to pay any such tax, assessment or other governmental charge as is being contested in good faith by appropriate proceedings, so long as adequate reserves therefor are maintained in accordance with generally accepted accounting principles and enforcement of any lien therefor is effectively stayed.

(e) Each Provider will keep, as to itself and each of its subsidiary Affiliates, if any, proper books of account in which entries will be made of all transactions in accordance with normal business requirements and generally accepted accounting principles, and maintain and consistently apply a system of accounting in accordance with generally accepted accounting principles.

(f) Each Provider will maintain all of its properties, plant and equipment, whether or not constituting a portion of its Property or its Facilities, in good repair, working order and condition, and make all needful and proper repairs, replacements, additions and improvements thereto.

(g) Each Provider will immediately upon becoming aware of the occurrence and continuation of any event or of the existence of any condition which constitutes or, after notice or lapse of time or both, would permit the acceleration of any indebtedness of the Provider or of which the Provider is guarantor or constitute a default or event of default or Event of Default under its Loan Agreement, its Mortgage(s) or any other loan or financing arrangement to which the Provider is a party as a debtor or guarantor, give written notice to the Trustee and the Insurer, specifying the nature and duration thereof and the action proposed to be taken with respect thereto.

(h) Each Provider will indemnify the Issuer, the Trustee and the Purchaser and each of them against and hold them and each of them harmless from any claim by any Person based upon any relationship, agreement or understanding with or representation by the Provider, for a commission or fee in connection with its Facilities, its Property, its Loan Agreement, its Mortgage(s), its Tax Certificate or the purchase of the Bonds by the Purchaser.

(i) Each Provider will in the maintenance, improvement and operation of its Property and its Facilities, comply with all applicable Environmental Laws and all applicable building, zoning and land use and sanitary and safety laws, rules and regulations, and not permit a nuisance thereon.

(j) Each Provider will not take, or permit to be taken on its behalf, any action which would jeopardize the exclusion from gross income for federal income tax purposes of the interest on the Series 2006A Bonds or the exemption from State taxation afforded the Bonds and any income derived therefrom by the Enabling Act or other applicable law.

(k) Each Provider will not sell, lease, transfer or otherwise dispose of all or a substantial part of its assets, whether in one transaction or in a series of transactions, other than in the ordinary course of business; provided, however, that a merger or acquisition described under subsection (c) of this section "Additional Covenants of Each Provider" shall not constitute a violation of this subparagraph.

(l) Without limiting the generality of the covenants of each Provider under subsection (a) or subsection (j) of this section "Additional Covenants of Each Provider", each Provider represents, warrants and covenants as follows:

(i) No arrangement, formal or informal, has been, and none shall be, authorized, permitted or made for the purchase of any of the Series 2006A Bonds by the Provider or any related party (as defined in Section 1.150-1(c) of the Treasury Regulations) in an amount related to the amount of the loan made to the Provider pursuant to its Loan Agreement.

(ii) The Provider is a Tax-Exempt Organization. The Provider has received letters from the Internal Revenue Service to that effect. Such letters have not been modified, limited or revoked and are in full force and effect. The Provider is in compliance with all terms, conditions, and limitations, if any, contained in such letters and the facts and circumstances which form the basis of such letters continue to exist. The Provider will not take any action or omit to take any action if such action or omission would cause any revocation or adverse modification of such federal income tax status of the Provider.

(iii) Neither the issuance of the Bonds, the carrying out of any transactions authorized or required by its Loan Agreement, its Mortgage(s) or any other of the documents in connection with which the Bonds are being issued, nor the ownership, operation and management of its Facilities or its Property, will result in the creation of an unrelated trade or business under Section 513(a) of the Code. Revenues derived from the ownership, operation, and management of its Property or its Facilities will not constitute unrelated business taxable income to the Provider or to any subsidiary under Section 512 of the Code or be subject to federal income taxation under Section 511 of the Code.

(iv) The Provider directly employs and will continue to employ all of the managerial, supervisory, and other personnel necessary to maintain, use and operate its Property and its Facilities. There is and will be no arrangement, formal or informal, under which a management company will be engaged to maintain or operate its Property or its Facilities unless Bond Counsel delivers an opinion to the effect that any such arrangement will not jeopardize the exclusion from gross income for federal income tax purposes of the interest on the Series 2006A Bonds.

(v) The Provider shall not take or permit any action which (1) would cause the Series 2006A Bonds to be "arbitrage bonds" under Section 148 of the Code, (2) would cause the Series 2006A Bonds not to meet any of the requirements of Section 149 of the Code, or (3) would cause the Series 2006A Bonds to cease to be "qualified 501(c)(3) bonds" under Section 145 of the Code.

(vi) The Provider will perform its obligations, agreements, covenants and representations contained in its Tax Certificate as if they were set forth in its Loan Agreement. All representations and covenants of the Provider in its Tax Certificate shall be treated as if they were representations and covenants of the Provider set forth in its Loan Agreement.

(vii) The Provider is an organization organized and operated exclusively for charitable purposes and not for pecuniary profit; and no part of its net earnings inures to the benefit of any person, private stockholder or individual, all within the meaning of the Securities Act of 1933, as amended. The Provider shall not take any action or omit to take any action if such action or omission would change its status as described in this subparagraph.

(m) No Provider shall breach any covenant made by it in its Tax Certificate and, in particular, shall use, permit the use of or omit to use Gross Proceeds (as defined in its Tax Certificate) or any other amounts (or any property the acquisition, construction or improvement of which is to be financed directly or indirectly with Gross Proceeds) in a manner that, if made or omitted, respectively, would cause the interest on any Series 2006A Bond to become includable in the gross income of the Owner thereof for federal income tax purposes. No Provider will pledge or set aside money that it reasonably expects to use to pay its obligations under its Loan Agreement except in its Finance Payment Fund.

(n) Except for expenditures for Authorized Investments, no Provider shall use Gross Proceeds to make or finance loans to any person or entity other than a Tax-Exempt Organization or a state or local government. For purposes of the foregoing covenant, Gross Proceeds are considered to be "loaned" to a person or entity if (i) property acquired, constructed or improved with Gross Proceeds is sold or leased to such person or entity in a transaction that creates a debt for federal income tax purposes, (ii) capacity in or service from such property is

committed to such person or entity under a take-or-pay, output or similar contract or arrangement, or (iii) indirect benefits, or burdens and benefits of ownership, of Gross Proceeds or any property acquired, constructed or improved with Gross Proceeds are otherwise transferred in a transaction that is the economic equivalent of a loan.

(o) Except to the extent permitted by its Tax Certificate, no Provider shall directly or indirectly invest Gross Proceeds in any investment (or use Gross Proceeds to replace money so invested), if as a result of such investment the Yield (defined in its Tax Certificate) from the Delivery Date of all investments acquired with Gross Proceeds (or with money replaced thereby) whether then held or previously disposed of, exceeds the Yield of the Series 2006A Bonds.

(p) Each Provider covenants and agrees to cooperate fully with the Issuer or the Administrator, and shall abide by all reasonable instructions of the Issuer, in connection with the determination by the Issuer of any amounts required by the Code to be rebated to the United States of America by the Issuer or by the Provider pursuant to its Loan Agreement and the Tax Certificate.

A Provider may be released from any of its covenants contained in subsections (l), (m), (n), (o) or (p) of this section "Additional Covenants of Each Provider" if Bond Counsel renders an opinion to the effect that failure by the Provider to comply with the applicable covenant will not jeopardize the exclusion from gross income for federal income tax purposes of the interest on the Series 2006A Bonds (or any such covenant may be modified to the extent set forth in an opinion of Bond Counsel to the effect that such modification will not jeopardize the exclusion from gross income for federal income tax purposes of the interest on the Series 2006A Bonds).

Indemnification. (a) Each Provider releases the Issuer, the Trustee and the Insurer and their respective officers, directors, members, employees, attorneys and agents from, agrees that the Issuer, the Trustee and the Insurer and their respective officers, directors, members, employees, attorneys and agents shall not be liable for, and agrees to indemnify and hold the Issuer, the Trustee and the Insurer and their respective officers, directors, members, employees, attorneys and agents harmless from any claim by or on behalf of any Person or any liability (i) that may be occasioned by any cause whatsoever pertaining to the applicable Provider's Projects, Property or Facilities, including without limitation any claim or liability arising out of (A) any condition of such Property, Facilities or Projects, (B) the construction, reconstruction, improvement, use, occupancy, conduct or management of or any work or anything whatsoever done or omitted to be done in or about such Property, Facilities or Projects, or (C) any accident, injury or damage whatsoever to any Person occurring in or about such Property, Facilities or Projects, (ii) with respect to, or as a direct or indirect result of, any Hazardous Materials, (iii) arising out of the failure, or alleged failure, of the applicable Provider to comply with its obligations under its Loan Agreement, the Indenture, the Tax Certificate or Mortgage(s) or arising out of any transaction contemplated by any such document, (iv) arising out of any act or omission of or misrepresentation by the applicable Provider or any of its agents, contractors, servants, employees or licensees, (v) arising out of any act, failure to act, or misrepresentation by any Person (including the Provider) in connection with the offering, issuance, sale, delivery or resale of the Bonds, but only to the extent permitted by law, (vi) arising out of any act, failure to act, or misrepresentation by the Issuer in connection with the applicable Provider's Loan Agreement, the Indenture, the Bond Purchase Agreement or any other document involving the Issuer and respecting the offering, issuance, sale, delivery or resale of the Bonds, the security for the Bonds, the loan of a portion of the proceeds of the Bonds to the applicable Provider or any other matter regarding the Issuer's human services providers program, (vii) arising out of an allegation or determination that the Bonds or the obligations of the applicable Provider under its Loan Agreement should have been registered under the Securities Act of 1933, as amended, or the Indenture, or any other instrument, should have been qualified under the Trust Indenture Act of 1939, as amended, or (viii) arising out of any untrue statement, or alleged untrue statement, of a material fact contained in the Preliminary Official Statement relating to the Bonds or the Official Statement relating to the Bonds or any amendment or supplement thereto or the omission or alleged omission to state in any thereof a material fact necessary to make the statements in them not misleading, except a statement or omission under the caption "UNDERWRITING", a statement or omission under the caption "THE ISSUER" or a statement or omission relating to any Provider other than the applicable Provider. In addition, each Provider agrees to indemnify and hold the Issuer, the Trustee and the Insurer harmless to the fullest extent permitted by law from any losses, costs, charges, expenses, judgments and liabilities incurred in connection with any action, suit or proceeding instituted or threatened in connection with the transactions contemplated by the Bonds, its Loan Agreement or the Indenture. The indemnification provided by this section is in addition to any other indemnification provided by the applicable Provider to the Issuer, the Trustee or the Insurer.

Each Provider releases the Trustee from, agrees that the Trustee shall not be liable for, and agrees to indemnify and hold the Trustee and their respective officers, directors, employees, attorneys and agents harmless against all liabilities, claims, costs and expenses (including without limitation reasonable attorney's fees and expenses) incurred without negligence or bad faith on account of any action taken or omitted to be taken by any of them in the performance of their duties or powers in respect of the Bonds, the Indenture or the applicable Provider's Loan Agreement, Mortgage(s) or Tax Certificate, or any action taken at the request of or with the consent of such Provider, including the defense by the Trustee against any claim, action or proceeding brought in connection with the exercise or performance of the powers or duties of the Trustee under the Bonds or any of the documents described above in this paragraph.

Each Provider agrees to indemnify and hold harmless, but only to the extent permitted by law, the Purchaser, any person who "controls" the Purchaser within the meaning of Section 15 of the Securities Act of 1933, as amended, and any member, officer, director, official and employee of the Purchaser from any loss, claim, damage or expense or liability of any nature arising or resulting from or in any way connected with any actual or alleged act, failure to act, or misrepresentation by the applicable Provider in connection with the issuance, sale or delivery of the Bonds, including without limitation any misrepresentation or omission with respect to the information concerning the applicable Provider, its Property, Projects or Facilities contained in the Preliminary Official Statement relating to the Bonds or the Official Statement relating to the Bonds, including Appendices A and B to either thereof.

In case any claim shall be made or any action shall be brought against the Issuer, the Trustee, the Insurer, the Purchaser, or any of their officers, directors, members, employees, attorneys or agents, as the case may be, with respect to which claim or action any such Person is indemnified by a Provider pursuant to its Loan Agreement (each Person so indemnified being an "Indemnified Person"), an Indemnified Person seeking indemnity shall promptly notify the Provider in writing, and the Provider shall promptly assume the defense thereof, including the employment of counsel reasonably satisfactory to each Indemnified Person who has so notified the Provider, the payment of all expenses and the right to negotiate and consent to settlement. If any such Indemnified Person is advised in a written opinion of counsel that there may be legal defenses available to it which are adverse to the Provider or that the defense of such Indemnified Person should be handled by separate counsel, the Provider shall not have the right to assume the defense of such Indemnified Person, but shall be responsible for the fees and expenses of counsel retained by such Indemnified Person in assuming its own defense, and provided also that, if the Provider shall have failed to assume the defense of such action or to retain counsel reasonably satisfactory to such Indemnified Person within a reasonable time after notice of such action or claim, the fees and expenses of counsel retained by any such Indemnified Person shall be paid by the Provider. Notwithstanding, and in addition to, any of the foregoing, any Indemnified Person shall have the right to employ separate counsel in any such action and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Indemnified Person unless the employment of such counsel has been specifically authorized, in writing, by such Provider. The Provider shall not be liable for any settlement of any such action effected without its written consent, but if settled with the written consent of the Provider or if there be a final judgment for the plaintiff in any such action with or without consent of the Provider, the Provider agrees to indemnify and hold harmless such Indemnified Person from and against any expenses (including reasonable attorney's fees and expenses), loss or liability by reason of such settlement or judgment. Any obligation under this section "Indemnification" of the Provider to reimburse a Person for expenses includes the obligation to make advances to the Person to cover such expenses in reasonable amounts and at reasonable periodic intervals, as requested by the Person.

(b) Each Provider shall also indemnify the Issuer for all reasonable costs and expenses, including reasonable counsel fees and expenses, incurred in (i) enforcing any obligation of the applicable Provider under its Loan Agreement or any related agreement, (ii) taking any action requested by the applicable Provider, (iii) taking any action required by its Loan Agreement or any related agreement, or (iv) taking any action considered necessary by the Issuer and which is authorized by its Loan Agreement or any related agreement.

(c) Each Provider shall protect, hold harmless and indemnify the Insurer for, from and against any and all liability, obligations, losses, claims and damages paid or incurred in connection with its business or properties, its Loan Agreement or the Indenture and any related instrument (including all environmental liabilities regarding its properties), (except that the Provider shall not protect, hold harmless or indemnify the Insurer for the willful or wanton acts or omissions, mistakes or gross negligence of the Insurer, to the extent that such acts, omissions, mistakes or gross negligence of such party are successfully alleged to have caused the liability, obligation, loss,

claim or damage) and expenses in connection herewith including reasonable attorneys' fees and expenses. The obligations of a Provider to protect, hold harmless, reimburse and indemnify the Insurer as set forth under this Section shall survive any termination, release, satisfaction and discharge of its Loan Agreement or the Indenture.

(d) The indemnification described in this section "Indemnification" is intended to and shall include the indemnification of all members, officials, directors, officers, employees and agents of the Issuer, the Trustee, the Insurer and the Purchaser. Such indemnification is intended to and shall be enforceable by the Issuer, the Trustee and the Purchaser, to the full extent permitted by law. This section will survive the termination of the applicable Loan Agreement, Mortgage(s), Tax Certificate and the Indenture. The indemnification described in this section is in addition to any other indemnification provided to the Issuer by a Provider.

No Violation of Environmental Laws. Each Provider agrees not to violate any Environmental Laws applicable to its Projects, Property, Facilities or other property. Without limiting the foregoing, each Provider will not, and will not knowingly permit any person to, dispose of any Hazardous Material into or onto, or (except in accordance with applicable law) from, its Property, Facilities or other property, nor will a Provider knowingly allow any lien imposed pursuant to any law, regulation or order relating to Hazardous Materials or the disposal thereof to be imposed or to remain on its Property, Facilities or other property.

Secondary Market Disclosure. Each Provider, under its Loan Agreement, 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) to file within 180 days after the end of each of its fiscal years, beginning after its 2003 fiscal year, with each nationally recognized municipal securities information repository and to any Vermont state information depository, core financial information for the prior fiscal year, including (i) the Provider's audited financial statements, prepared in accordance with generally accepted accounting principles in effect from time to time, and (ii) material historical quantitative data concerning the Provider of the type generally found in Appendix A to the Official Statement for the Bonds; 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 Provider to comply with clause (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 security;
- (vii) modifications to rights of security holders;
- (viii) bond calls;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the securities;

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 described in paragraph (a) of this section (the "Disclosure Covenant") or for any remedy for breach thereof, unless such owner shall have filed with the Provider written notice of and request to cure such breach, and the Provider shall have refused to comply within a reasonable time. 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 said paragraph (a) may be prosecuted by any beneficial owner except in compliance with the remedial and enforcement provisions of the applicable Loan Agreement.

Any amendment to the Disclosure Covenant may only take effect if:

(1) the amendment 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 Provider, or type of business conducted; the provisions of each Loan Agreement, as described in this section, as amended, would have complied with the requirements of Rule 15c2-12 (the "Rule") of the Securities and Exchange Commission (the "SEC") at the time of issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and the amendment does not materially impair the interests of beneficial owners, as determined by parties unaffiliated with the Provider or the Issuer; or

(2) all or any part of the Rule, as interpreted by the staff of the SEC at the date of the adoption of the delivery of the Series 2006A Bonds, ceases to be in effect for any reason, and the Provider elects that the requirements described in this section shall be deemed amended accordingly.

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.

Any assertion of beneficial ownership must be filed, with full documentary support, as part of the written request described in the preceding paragraph.

Approval of Indenture; Each Provider To Be Bound by Indenture. Each Provider acknowledges that the Indenture grants rights to, imposes obligations upon and otherwise affects such Provider. Each Provider acknowledges that it has examined the Indenture and that the execution of its Loan Agreement shall constitute conclusive evidence of the examination and approval of the Indenture by such Provider. Additionally, each Provider agrees that (a) whenever the Indenture imposes a duty or obligation upon such Provider, such duty or obligation shall be binding upon such Provider to the same extent as if such Provider were an express party to the Indenture, and such Provider agrees to carry out and perform all of its obligations thereunder, as if such Provider were an express party thereto, and (b) all rights (including without limitation all permissive rights) granted to such Provider in the Indenture shall be carried out by such Provider in accordance with the terms of the Indenture, as if such Provider were an express party thereto.

Events of Default and Remedies

Enumeration of "Events of Default". The following shall be "Events of Default" under the applicable provider's Loan Agreement, and the terms "Event of Default" or "Default" shall mean, whenever they are used in a Loan Agreement, any one or more of the following events:

(a) failure by a Provider to make Contract Payments and any other payments or deposits required under its Loan Agreement when due, in the amounts, at the times, and to the places required or specified therein and such failure shall continue for a period of five (5) days after such payment shall become due and payable;

(b) failure by a Provider to observe and perform any covenant, condition or agreement on its part required by its Loan Agreement to be observed or performed, or the breach of any representation or warranty contained therein, in any Mortgage of the Provider or in any other security instrument executed in connection with its Loan Agreement or in its Tax Certificate, other than failure to make any payments as specified in clause (a) above, which failure shall continue for or such breach shall not be rectified within a period of thirty (30) days after written notice, specifying such failure or breach and requesting that it be remedied, is given to the Provider (and, in the case of NFI Vermont, Inc., to the Guarantor) by the Issuer, the Trustee or the Insurer

(c) by any means permitted under a Loan Agreement;

(d) if any warranty or representation made by a Provider in its Loan Agreement is false or misleading when made in any material respect, or if any other warranty, or representation or any certification, financial statement or other information made or furnished by a Provider to the Issuer or made or furnished, at any time, in or pursuant to the terms of any document executed by a Provider in connection with the Bonds or otherwise made or furnished in connection with the Bonds, by a Provider or by any person who guarantees or who is liable for any obligations of a Provider under its Loan Agreement, in connection with such loan transaction, shall prove to have been false or misleading in any material respect when made;

(e) the occurrence of an Event of Default under the Indenture, any Mortgage of a Provider or under any other document executed by a Provider in connection with the issuance of the Bonds; or

(f) the occurrence of a default with respect to (i) any other indebtedness of a Provider that is secured by a lien on or security interest in its Property, or (ii) any indebtedness above \$500,000 in principal amount (including separate obligations for less than \$500,000 in principal amount if the aggregate amount of such separate obligations with respect to which a default occurs exceeds \$500,000 in principal amount);

(g) a Provider admits insolvency or bankruptcy or its inability to pay its debts as they mature, or is generally not paying its debts as such debts become due, or makes an assignment for the benefit of creditors or applies for or consents to the appointment of a trustee, custodian or receiver for the Provider, or for the major part of its property;

(h) a trustee, custodian or receiver is appointed for a Provider or for the major part of its property and is not discharged within thirty (30) days after such appointment; or

(i) bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings, proceedings under Title 11 of the United States Code, as amended, or any successor provision, or other proceedings for relief under any bankruptcy law or similar law for the relief of debtors are instituted by or against a Provider (other than bankruptcy proceedings instituted by a Provider against third parties), and if instituted against a Provider are allowed against the Provider or are consented to or are not dismissed, stayed or otherwise nullified within (30) days after the date such proceedings are instituted.

Remedies in the Event of Default. If an Event of a Default occurs under a Provider's Loan Agreement, the applicable Provider agrees that any one or more of the following remedial steps may be taken, the taking of any such remedy not being a condition to the taking of any other remedy:

(a) The Issuer or the Trustee may, with the prior written consent of the Insurer, declare all Principal Installments payable under the applicable Loan Agreement and any amounts payable under the applicable Loan Agreement to replenish the applicable Provider's Reserve Account to be immediately due and payable, whereupon the same, together with interest then due and owing and to become due and owing on such Principal Installments and any amounts so payable to replenish such Reserve Account shall become immediately due and payable, thereby accelerating all of the Stated Maturities of the Principal Installments;

(b) The Issuer or the Trustee may, with the prior written consent of the Insurer, enforce, through foreclosure proceedings or otherwise, the liens, pledges and security granted or created under or in the applicable Loan Agreement, in each Mortgage of the applicable Provider, and in every other security instrument executed by

the applicable Provider in connection with or securing the loan made under its Loan Agreement or in connection with or securing the Bonds, exercise any or all other remedies under any such Mortgage and exercise any or all remedies under the Indenture;

(c) The Issuer or the Trustee may, with the prior written consent of the Insurer, take whatever other action permitted at law or in equity as may appear necessary or desirable to collect all amounts then due and thereafter to become due under the applicable Loan Agreement, or to enforce the performance and observance of any other obligation, agreement or covenant of the applicable Provider under its Loan Agreement.

Following the deduction and payment to the Trustee of its Ordinary Expenses allocable to the applicable Provider then due and not paid and its Extraordinary Expenses then due and not paid incurred with respect to any Event of Default under the applicable Loan Agreement and any other amounts payable by the applicable Provider to the Trustee for its own account then due and not paid, and the deduction and payment to the Issuer of all payments for its own account then due under the applicable Loan Agreement and not paid (payments to the Trustee and the Issuer to be made pro rata if the applicable amount is not sufficient to pay the foregoing amounts in full), any amounts collected pursuant to action taken as described in this section "Remedies in the Event of Default" shall be paid into the applicable Finance Payment Fund or otherwise applied in accordance with the provisions of, as applicable, the applicable Loan Agreement and the Indenture. The Indenture will provide, and the parties to each Loan Agreement agree, that no provision of such Loan Agreement or the Indenture shall require the Trustee with respect to an Event of Default to perform any duty, take any action or to exercise any rights or powers (other than the giving of notices) unless it has received a deposit of funds or other security or enforceable indemnity satisfactory to it for the payment of all of its Extraordinary Expenses relating thereto and for the protection of the Trustee against financial liability in the performance of any such duty, taking any such action or exercising any such right or power.

Provisions of General Application

Term. The Term of each Loan Agreement shall commence as of its date and shall terminate, except as otherwise described therein, on the date on which all Contract Payments, Issuer Expenses and all other sums payable thereunder are paid in full. Notwithstanding any provision to the contrary therein, all representations, certifications and covenants of a Provider as to the indemnification or various parties and the payment of fees and expenses of the Issuer and all matters affecting the tax-exempt status of the Series 2006A Bonds shall survive the cancellation of the applicable Loan Agreement.

Provider to Select, Provide for Delivery of, Own, Operate, Possess and Maintain its Property and Own, Operate, Possess and Maintain its Facilities. (a) Each Provider, subject to the liens and rights granted in its Loan Agreement and its Mortgage(s) and in other security instruments executed in connection with its Loan Agreement, shall have exclusive title, ownership and possession of, and the sole right and duty of and responsibility for selecting, providing for the delivery of, operating and maintaining, its Property and exclusive title, ownership and possession of, and the sole right and duty of and responsibility for operating and maintaining, its Facilities. Neither the Issuer, the Trustee nor the Owners shall have any responsibility or liability for any such ownership, possession, selection, delivery, operation or maintenance. Failure by a Provider to select, provide for delivery of, own, operate, possess and maintain its Property or to own, operate, possess and maintain the Facilities shall not relieve the Provider of its obligation to pay its Contract Payments or allocable share of the Issuer Expenses or to perform any of its other obligations under its Loan Agreement.

(b) To the extent permitted by law, each Provider assumes all rights and obligations of every nature or kind with respect to its Property and its Facilities, and each Provider agrees to and does release, and agrees to defend, protect, pay and save harmless the Issuer, the Trustee and the Owners against and from the costs, losses and/or expenses of or related to any and all claims, demands or damages with respect to its Property and Facilities. No loss or damage to any of its Property or Facilities nor any defect therein nor unfitness or obsolescence thereof shall relieve the applicable Provider of its obligation to pay its Contract Payments or its allocable share of the Issuer Expenses or any other amounts required under its Loan Agreement, or to perform any of its other obligations under its Loan Agreement.

(c) Each Provider will diligently enforce the provisions of all construction contracts required with respect to any of its Projects by the Special Conditions or otherwise entered into with respect to any such Project. In

the event of a default by any contractor or subcontractor under any such contract, or in the event of a breach of warranty by any contractor or subcontractor under any such contract with respect to any materials, workmanship or performance guaranty, the applicable Provider shall proceed, either separately or in conjunction with others, to pursue such remedies against the contractor or subcontractor so in default and against each surety for the performance of such contract as it may deem advisable. The applicable Provider will advise the Trustee of the steps it intends to take in connection with any such default. The Issuer and/or the Trustee, pursuant to the Indenture, may in the name of the Provider or in its own name and the name of the applicable Provider, prosecute any action or proceeding or take any other action involving any such contractor, subcontractor or surety which the Issuer or the Trustee deems reasonably necessary, and in such event the applicable Provider will cooperate fully with the Issuer and the Trustee. Any amounts recovered by way of damages, refunds, adjustments or otherwise in connection with the foregoing prior to the applicable Final Acquisition Date shall be deposited in the applicable Acquisition Fund or, if recovered after the applicable Final Acquisition Date and full disposition of the applicable Acquisition Fund, shall be deposited in the applicable Finance Payment Fund.

Maintenance of Property and Facilities; Remodeling. (a) Each Provider will maintain, preserve and keep its Property and Facilities, or cause its Property and Facilities to be maintained, preserved and kept, with the appurtenances and every part and parcel thereof, in good repair, working order and condition, subject to normal wear and tear, and will from time to time make or cause to be made all necessary and proper repairs, replacements and renewals, which shall thereupon become part of the Property or the Facilities, as the case may be.

(b) Each Provider shall have the privilege of remodeling its Property or Facilities or making substitutions, alterations, additions, modifications and improvements to its Property or Facilities from time to time as the applicable Provider, in its sole discretion, may deem to be desirable for its uses and purposes. The costs of such remodeling, substitutions, alterations, additions, modifications and improvements shall be paid by the applicable Provider, or the applicable Provider shall cause such amounts to be paid, and such remodeling, substitutions, alterations, additions, modifications and improvements shall become part of its Property or Facilities, as the case may be, and shall be included under the terms of its Loan Agreement as part of its Property or Facilities, as the case may be.

Insurance. (a) Prior to the commencement of withdrawals from its Acquisition Fund, each Provider shall provide or cause to be provided insurance on its Property to the extent required by the applicable Special Conditions. From and after commencement of withdrawals from its Acquisition Fund, each Provider shall keep itself, its Property and its Facilities continuously insured by responsible insurance companies against such risks as are customarily insured against, paying as the same become due and payable all premiums with respect thereto, including but not limited to insurance upon a repair and replacement cost value basis in an amount equal to 100% of such value, as determined by a recognized and qualified appraiser selected by the applicable Provider, against the loss or damage by fire and lightning and other casualties, with uniform standard extended coverage endorsement limited only as may be provided in the standard form of extended coverage endorsement at the time in use by the applicable Provider.

(b) From and after the date of its Loan Agreement, each Provider shall (i) keep itself continuously insured by responsible insurance companies, licensed to do business in the State, (A) with comprehensive general liability insurance with coverage limits in the amounts stated in the applicable Special Conditions, and (B) with worker's compensation insurance, disability benefits insurance, and each other form of insurance which the applicable Provider is required by law or by any contract with a Department to provide, covering loss resulting from injury, sickness, disability or death of employees of the applicable Provider, and (ii) pay the premiums on same as they become due.

(c) Any insurance policy required to be carried by a Provider pursuant to the provisions of its Loan Agreement shall provide (to the extent that such provision is obtainable on commercially reasonable terms) that such policy shall not be cancelled without thirty (30) days' prior written notice to the Trustee and the Provider and shall also provide that such policy shall not be cancelled without thirty (30) days prior written notice to the Provider. If a Provider receives notice that any such insurance shall be cancelled or terminated, the Provider shall notify the Trustee promptly of such cancellation or termination, and shall prior to the effective date of such termination or termination replace such insurance.

(d) All insurance proceeds resulting from the damage or destruction from any cause whatsoever of all or part of its Property shall be paid to the Trustee and applied as hereinafter provided in the applicable Loan Agreement. All insurance proceeds resulting from the damage or destruction from any cause whatsoever of all or any part of a Provider's Facilities shall be paid to the Trustee and applied as the applicable Provider may determine (except that such proceeds shall not be applied to the prepayment of the Principal Installments). All other insurance proceeds shall be applied toward the extinguishment or satisfaction of the liability with respect to which such insurance proceeds are paid.

(e) All insurance required to be carried by a Provider under its Loan Agreement shall name the Issuer and the Trustee as additional insureds and loss payees, as their interests may appear. Certificates evidencing such insurance shall be delivered by the applicable Provider to the Trustee and the Issuer. The Trustee shall receive at least annually a Certificate of each Provider certifying that the applicable Provider is, as of the date of such certificate, in full compliance with the provisions of its Loan Agreement with respect to insurance, and the Issuer shall receive at least annually a Certificate of each Provider certifying that the Issuer is named as an additional insured on all policies of general liability insurance required by the applicable Loan Agreement.

(f) Each Provider shall (i) cause an independent insurance consultant to annually review the insurance coverage maintained by the Provider and to make recommendations with respect thereto and (ii) comply with the recommendations made by such insurance consultant.

(g) Each Provider will not self-insure without the consent of the Insurer.

Damage to Property or Facilities. (a) In the event of any damage to or loss of a Provider's Property or Facilities, or any part thereof, there shall be no abatement or reduction in the Finance Payments or any other payments due under the applicable Loan Agreement. Promptly after the occurrence of any material damage or loss of a Provider's Property or Facilities, the Provider shall notify the Issuer and the Trustee as to the nature and extent of such damage or loss and, with respect to damage to or loss of its Property, as soon as practicable thereafter, notify the Issuer and Trustee whether it is practicable and desirable to rebuild, repair or restore such damage or loss. If the Provider shall determine that such rebuilding, repairing or restoring is practicable and desirable, the Provider shall forthwith proceed with such rebuilding, repairing or restoring and shall notify the Issuer and the Trustee upon the completion thereof, which rebuilding, repair or restoration shall thereupon become part of the Provider's Property. In such case, any insurance proceeds received in respect of such damage or loss, after payment of all expenses incurred in the collection thereof, shall be held by the Trustee in a separate trust account and used by the Provider for payment of, or reimbursement for, the costs of such rebuilding, repairing or restoring upon receipt by the Trustee of requisitions signed by an Authorized Officer of the Provider. Any such insurance proceeds that exceed the cost of rebuilding, repairing and restoring such Property, as set forth in the final requisition (which shall be identified as such), or as set forth in a Certificate of the Provider delivered to the Trustee as promptly as practicable after the delivery of the final requisition, shall be deposited in the Provider's Finance Payment Fund and applied to the payment or prepayment of the Provider's Principal Installments in accordance with its Loan Agreement.

(b) If a Provider determines not to rebuild, repair or restore its damaged Property with the proceeds of insurance, the Provider shall cause such proceeds to be deposited in its Finance Payment Fund, and such proceeds so deposited will be applied to the payment or prepayment of its Principal Installments in accordance with its Loan Agreement.

Condemnation of Property or Facilities. (a) In the event that title to or the temporary use of a Provider's Property or Facilities, or any part thereof, shall be taken in condemnation or by the exercise of the power of eminent domain by any governmental body or by any Person acting under governmental authority, there shall be no abatement or reduction in the Finance Payments or any other payments due under the applicable Loan Agreement. Each Provider agrees to use its best efforts to obtain an award with respect to its Property from such condemnation or taking by eminent domain that is in an amount at least equal to the outstanding Principal Installments of the applicable Provider. Promptly after such condemnation or exercise of the power of eminent domain with respect to its Property, the applicable Provider shall notify the Issuer and the Trustee whether it elects to restore or replace such Property. If the applicable Provider elects to restore or replace such Property, the applicable Provider shall forthwith proceed with such restoration or replacement and shall notify the Issuer and the Trustee of the completion thereof, which restoration or replacement shall thereupon become part of such Property. In such case, any proceeds

received from any award or awards in respect of such Property or any part thereof made in such condemnation or eminent domain proceedings, after payment of all expenses incurred in the collection thereof, shall be held by the Trustee in a separate trust account and used by the applicable Provider for payment of, or reimbursement for, the costs of such restoration or replacement upon receipt by the Trustee of requisitions signed by an Authorized Officer of the applicable Provider. Any such proceeds that exceed the cost of such restoration or replacement shall be, as set forth in the final requisition (which shall be identified as such), or as set forth in a Certificate of the applicable Provider delivered to the Trustee as promptly as practicable after the delivery of the final requisition, shall be deposited in the Finance Payment Fund of the applicable Provider and applied to the payment or prepayment of its Principal Installments in accordance with its Loan Agreement.

(b) If a Provider determines not to restore or replace the Property with the proceeds of the condemnation award or awards, the Provider shall cause such proceeds remaining after payment of all expenses incurred in the collection thereof to be deposited in its Finance Payment Fund, and the proceeds so deposited shall be applied to the payment or prepayment of its Principal Installments in accordance with its Loan Agreement.

(c) The Trustee shall cooperate fully with a Provider, at the expense of the Provider, in the handling and conduct of any prospective or pending condemnation proceedings with respect to the Property or Facilities of such Provider or any part of either thereof. In no event will the Issuer or the Trustee voluntarily settle or consent to the settlement of any prospective or pending condemnation proceedings with respect to the Property or Facilities of a Provider or any part of either thereof without the prior written consent of the Provider, so long as no Event of Default under the Provider's Loan Agreement shall have occurred and be continuing.

Payment of Taxes, Liens and Assessments. (a) Each Provider shall (i) pay, or make provision for payment of, as the same shall respectively become due, all lawful taxes and assessments levied or assessed by the federal or any state or municipal government with respect to its Property or Facilities, or levied upon the Issuer or the Trustee with respect to or upon its Property or Facilities or any part thereof, or upon any payments under its Loan Agreement; (ii) not create nor suffer to be created any lien (including any judgment lien) or charge, other than a Permitted Encumbrance and encumbrances that satisfy the requirements of its Loan Agreement, upon its Property or Facilities or any part thereof or upon any payments under its Loan Agreement; (iii) pay or cause to be discharged or make adequate provision to satisfy and discharge, within sixty (60) days after the same shall come into force, any lien or charge (other than a Permitted Encumbrance) upon its Property or Facilities or any part thereof or any payments hereunder, and all lawful claim or demand for labor, materials, supplies or other charges which, if unpaid, might be or become a lien not constituting a Permitted Encumbrance upon its Property or Facilities or any part thereof or any payments hereunder, except Permitted Encumbrances; and (iv) pay all utility and other charges, including "service charges," incurred or imposed for the operation, maintenance, use, occupancy, upkeep and improvement of its Property and Facilities.

(b) Each Provider may, at its expense, in good faith (i) claim or defend any tax exemption for its Property or Facilities to which the Provider believes it is entitled, or (ii) contest any such taxes, assessments, liens and other charges and, in the event of any contest, may permit the taxes, assessments, liens or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Issuer or the Trustee shall notify the Provider that, in the opinion of counsel, by non-payment of any such items, the security afforded pursuant to the terms of the Indenture, the Mortgage(s) or its Loan Agreement will be materially adversely affected or the use of its Property or Facilities would be materially adversely affected, in which event such taxes, assessments, liens or charges shall be paid forthwith or such other action shall be taken as to remove any such adverse effect.

Compliance with Orders, Ordinances, Etc. (a) Each Provider agrees that it will promptly comply with all statutes, codes, laws, acts, ordinances, rules, regulations, permits, licenses and authorizations of all federal, state, county, municipal and other governments, departments, commissions or boards, and with all requirements of companies or associations insuring its Property or Facilities, which are or at any time hereafter may be applicable to its Property or Facilities or any part thereof, or to any use, manner of use or condition of its Property or Facilities or any part thereof.

(b) Notwithstanding the provisions described in subsection (a) of this section "Compliance with Orders, Ordinances, Etc.," a Provider may in good faith contest the validity or the applicability of any requirement

of the nature referred to in such subsection (a). In such event, the Provider may fail to comply with the requirements or requirements so contested during the period of such contest and any appeal therefrom, provided that, during the period of such contest or appeal, enforcement of such item or any penalty is effectively stayed so that no part of its Property or Facilities is subject to loss or forfeiture and that such failure to comply shall not materially adversely affect the operation of the Provider as a going concern or adversely affect the security intended to be created under its Loan Agreement or pursuant to its Loan Agreement or under or pursuant to the Indenture or its Mortgage(s).

Discharge of Loan Agreement by Payment. When all Finance Payments required to be paid under a Loan Agreement have been paid in full and the applicable Provider shall also have paid or caused to be paid all other sums payable under its Loan Agreement, or when all such Finance Payments have become due and payable, whether at maturity or otherwise, and the applicable Provider shall have provided for the payment of the whole amount due or to become due, including all interest that has accrued thereon or that may accrue to the final Finance Payment Date by depositing with the Trustee, for payment of such Finance Payments, an amount sufficient to pay such Finance Payments in full and the applicable Provider shall also have paid or caused to be paid all other sums payable under its Loan Agreement, then the applicable Provider shall be discharged and released from the liens of its Loan Agreement (other than provisions of its Loan Agreement which survive the termination thereof) and of its Mortgage(s).

Discharge of Loan Agreement and Finance Payments by Deposit. (a) Subject to any additional requirements or preconditions that may be included in the Indenture, a Provider may discharge its obligation to pay its Finance Payments, or any portion of its Finance Payments, and its obligations to pay all other sums payable or to become payable under its Loan Agreement by:

(i) depositing or causing to be deposited with the Trustee money in an amount that shall be sufficient, or non-redeemable Governmental Obligations which constitute Available Moneys, the principal of and the interest on which when due (without the necessity of reinvestment), will produce sufficient money (or a combination of money and such Government Securities that, taking into account the principal and interest payable on such Government Securities (without reinvestment) will produce sufficient money) to pay as due the full amount of its Finance Payments or any portion thereof to the final Finance Payment Date or any earlier Finance Payment Date fixed for the redemption of Bonds to which the prepayment of the applicable Finance Payments or applicable portions thereof will be applied, and to pay all such other amounts as may become payable under its Loan Agreement; provided that nothing in this subsection (a) shall preclude the payment of a portion of its Finance Payments from being provided for as such Finance Payments become due to the final Finance Payment Date and the payment of a portion of its Finance Payments being provided for as such Finance Payments become due to one or more earlier dates fixed for the redemption of Bonds to which the prepayment of the applicable Finance Payments or the applicable portion thereof will be applied;

(ii) providing the Trustee with an opinion of Bond Counsel to the effect that the deposit specified in subdivision (i) of this subsection (a) will not jeopardize the exclusion from gross income for federal income tax purposes of the interest on the Series 2006A Bonds and, if such deposit is to pay or prepay all Finance Payments of a Provider, that all conditions to the discharge and release of the lien of its Loan Agreement and its Mortgage(s) have been satisfied; and

(iii) providing the Trustee with a certificate of an independent certified public accountant or a firm of independent certified public accountants certifying the accuracy of the calculations set forth in subdivision (i) of this subsection (a).

(b) Subject to subsection (c) of this section "Discharge of Loan Agreement and Finance Payments by Deposit", upon compliance with subsection (a) of this section by a Provider, the Finance Payments of the Provider with respect to which deposits for purposes of discharging its Loan Agreement and Finance Payments have been made shall no longer be regarded as outstanding and unpaid, and if such deposits are made with respect to all Finance Payments due or to become due under its Loan Agreement, the Provider shall be discharged and released from the liens of its Loan Agreement and its Mortgage(s). If such deposits are being made with respect to only a portion of its Finance Payments, its Property may be released from its Mortgage(s) in accordance with the requirements of its Loan Agreement.

(c) Before the discharge and release of the liens of its Loan Agreement and Mortgage(s) pursuant to this section, or the discharge of the Provider from its obligation to make any portion of its Finance Payments, provision shall have been made by the Provider with the Trustee for:

(i) establishment of a separate escrow account or fund with the Trustee for the deposit pursuant to subsection (a)(i) of this section "Discharge of Loan Agreement and Finance Payments by Deposit";

(ii) the receipt by the Trustee on or before each Finance Payment Date with respect to which such deposit has been made of the full amount required by the applicable Loan Agreement to be paid to the Trustee on each such Finance Payment Date and, if any Bonds are to be redeemed prior to the stated maturity thereof, receipt by the Trustee on or before the date of redemption of all amounts required to be paid thereunder with respect to the redemption of such Bonds;

(iii) the investment, at the direction of the Administrator, of moneys deposited with the Trustee for the payment or prepayment of the applicable Finance Payments in non-redeemable Governmental Obligations which constitute Available Moneys maturing in sufficient time to make available the moneys required for such purposes (other than any such moneys required to be held uninvested);

(iv) if Finance Payments are to be prepaid as a result of such deposit, receipt by the Trustee with such deposit of irrevocable notice from the Provider specifying each date on which Finance Payments are to be prepaid (each such date to be a date on which Bonds are subject to redemption) and the Stated Maturities and principal amount of each Stated Maturity of the Finance Payments to be prepaid on each such date and irrevocable instructions to give timely notice of each redemption of Bonds to occur as a result of such prepayment; and

(v) the payment to the Provider, periodically or following final payment of the Finance Payments with respect to which such deposit has been made, of any moneys, interest earnings, profits or capital gains determined by an independent certified public accountant to be over and above the amounts necessary to make the Finance Payments and pay the other amounts due under the applicable Loan Agreement.

Amendments. Except as provided therein, a Loan Agreement shall not be amended in any manner following the execution hereof by the parties to the Loan Agreement. Prior to the Sale Date, a Loan Agreement may be amended in writing by the parties to the Loan Agreement for any purpose upon written notice of such amendment to the Administrator and, if the Trustee has then been appointed, to the Trustee. After the Sale Date, a Loan Agreement may be amended in writing by the parties to the Loan Agreement with the prior written consent of the Insurer (a) to waive terminating events pertaining to the Maximum Delivery Costs and the Maximum Permissible Interest Rate, (b) for the purpose of curing any ambiguity or of curing, correcting or supplementing any defective provision contained therein or (c) at the request of any Rating Agency for the purpose of maintaining or enhancing the rating on the Bonds; provided, however, that no amendment pursuant to clause (a), (b) or (c) of this sentence shall adversely affect the right of the Issuer (or the Trustee as its assignee) to receive Finance Payments and all other payments due under the applicable Loan Agreement or, unless the Trustee consents thereto, affect any right or duty of the Trustee. All other amendments and supplements to a Loan Agreement must be approved by the Trustee and the Insurer and, if the Indenture must be amended or supplemented with Bondholders' consent as a result of any amendment of a Loan Agreement, in the same manner and to the same extent as is set forth in the Indenture for similar amendments thereto. A Loan Agreement shall not be amended unless Bond Counsel delivers an opinion to the Issuer and the Trustee to the effect that such amendment will not jeopardize the exclusion from gross income for federal income tax purposes of the interest on the Series 2006A Bonds.

Reporting Requirements. (a) Each Provider agrees that not later than thirty (30) days after the creation of any Indebtedness (other than Indebtedness under its Loan Agreement) for borrowed money the principal amount of which exceeds \$50,000, it will file or cause to be filed with the Trustee a summary description of each such transaction.

(b) Each Provider agrees promptly to provide or cause to be provided to the Trustee, the Issuer and the Purchaser such financial, statistical and other information that any such Person shall from time to time reasonably request regarding the Provider (any such information requested by any one of such Persons to be given to all other Persons referred to in this subsection).

(c) Each Provider agrees to provide to the Trustee, the Issuer and the Purchaser promptly, and in any case not more than ninety (90) days after the end of each Fiscal Year, a certificate of its chief financial officer to the effect that the Provider is in compliance with the terms and conditions of its Loan Agreement and of its Mortgage(s), or specifying the nature of any noncompliance and the remedial action taken or proposed to be taken to cure such noncompliance.

(d) Each Provider agrees to provide to the Trustee, the Issuer and the Purchaser (i) promptly after the preparation thereof, and not later than one hundred eighty (180) days after the end of each Fiscal Year, its audited financial statements, (ii) promptly after the preparation thereof its annual report, (iii) promptly after the preparation thereof and in any event not later than forty-five (45) days after the end of each three quarter of each Fiscal Year, its unaudited quarterly financial statements, and (iv) promptly upon written request of the Trustee, the Issuer or the Purchaser all budgets, budget amendments, reports, certificates and financial information required to be filed with any agency of the State (any information requested by any one of such Persons to be given to all other Persons referred to in this subparagraph).

(e) Upon the written request of any Beneficial Owner, a Provider shall promptly send to such Beneficial Owner (or to any securities pricing service designated and the address of which is specified in such request) copies of any information required to be furnished under this section "Reporting Requirements".

Sale, Lease or Other Disposition of Property. Except as otherwise permitted by its Loan Agreement and except for dispositions in the ordinary course of business, a Provider may not demolish, remove, sell, lease, loan, assign, transfer or otherwise dispose of any of its property (including (without limitation) cash, marketable securities, receivables or any property, structures, machinery or other improvements constituting a part of its Property or Facilities) except as provided in the Loan Agreement and described in this section "Sale, Lease or Other Disposition of Property".

(a) So long as no Event of Default under its Loan Agreement shall have occurred and be continuing, a Provider may demolish, remove, sell, lease, loan, assign, transfer or otherwise dispose of any of its property in any Fiscal Year if there shall have been delivered to the Trustee:

(i) (A) a certificate of an independent certified appraiser acceptable to the Trustee and the Provider to the effect that the Provider received in consideration of such disposition an amount at least equal to the value (as defined in subsection (b) below) of such property and the net proceeds of such disposition were applied within 12 months of such disposition, together with any other moneys necessary therefor, to the construction, installation or acquisition of replacement or substitute property, structures, machinery, equipment or other improvements having a value (but not necessarily the same function) at least equal to the value of such property immediately prior to such disposition, and an opinion of counsel acceptable to the Trustee to the effect that such property, structures, machinery, equipment or other improvements constructed or installed in replacement or substitution therefor are free of all liens and encumbrances (other than Permitted Encumbrances) and, if a part of the Provider's Property, are subject to the lien of the Mortgage(s) and, if constituting property (or a substitution therefor) in which a security interest is granted hereunder, is subject to such security interest; or

(B) the proceeds of such disposition for deposit in the Bond Fund established under the Indenture and a certificate of an independent certified appraiser acceptable to the Trustee and the Provider, in form and substance satisfactory to the Trustee, to the effect that such proceeds are at least equal to the value (as defined in subsection (b) below) of such property; or

(C) an amount of funds of the Provider for deposit in the Bond Fund established under the Indenture and a certificate of an independent certified appraiser acceptable to the Trustee

and the Provider, in form and substance satisfactory to the Trustee, to the effect that such amount is at least equal to the value (as defined in subsection (b) below) of such property;

(ii) an opinion of Bond Counsel to the effect that such disposition and application of proceeds thereof will not jeopardize the excludability of the interest on the Series 2006A Bonds from gross income for federal income tax purposes.

(b) For the purposes of subsection (a) above, the value of property shall be equal to (i) in the case of any securities, the greater of their book or fair market value at the time of disposition and (ii) in the case of any other property, its fair market value immediately prior to disposition.

(c) Notwithstanding anything else in this section "Sale, Lease or Other Disposition of Property", the Provider may transfer its Property as a whole to any Affiliate of the Provider which is a Tax-Exempt Organization if at the time of such transfer:

(i) no Event of Default shall have occurred and be continuing under its Loan Agreement and no event shall have occurred and be continuing that with the passage of time or the giving of notice or both would constitute such an Event of Default;

(ii) such Tax-Exempt Organization shall not have assumed or incurred any indebtedness as liabilities which the Provider would not have been permitted to assume or incur under the terms of its Loan Agreement; and

(iii) such Tax-Exempt Organization shall have agreed to be bound by all of the Provider's obligations under its Loan Agreement and under its Mortgage(s), including pledging the security required by its Loan Agreement and its Mortgage(s); provided that such assumption shall not operate to release the Provider from its obligations under its Loan Agreement or Mortgage(s) and any such transferee shall become jointly and severally obligated with the Provider under its Loan Agreement and Mortgage(s).

No such transfer shall be effective unless there shall be delivered to the Trustee and the Issuer an opinion of Bond Counsel to the effect that such transfer will not jeopardize the excludability of the interest on the Series 2006A Bonds from the gross income of the Owners thereof for federal income tax purposes.

(d) Each Provider will also not sell, lease, donate, exchange or dispose of any non-operating assets (including cash and cash equivalents) with or without consideration in other than the ordinary course of business without (i) a certificate of an Authorized Officer stating that such Provider or successor, as applicable, immediately following the transfer or disposition, will be able to issue at least one dollar of additional Long-Term Indebtedness; and (iii) a certificate of an Authorized Officer stating that the Debt Service Coverage Ratio of the Provider or successor, as applicable, after giving effect to the transaction, will not be less than 1.25 (or alternatively, with the consent of the Insurer, have a Debt Service Coverage Ratio higher than it was prior to the transaction).

(e) Nothing contained in this section "Sale, Lease or Other Disposition of Property" shall be construed to restrict the right of the Provider (i) to purchase or sell any property in the ordinary course of business, (ii) to transfer cash, securities or other investment properties in connection with ordinary investment transactions, or (iii) to purchase or lease as lessee any property for cash at or below its fair market value.

(f) No assignment, by lease, sale or otherwise, shall relieve a Provider of its liability for any of its obligations under its Loan Agreement, and in the event of any such transfer the Provider shall continue to remain primarily liable (except as otherwise described in subparagraph (c)(iii) of this section "Sale, Lease or Other Disposition of Property") for the Contract Payments and for performance and observance of the other agreements on its part provided in its Loan Agreement.

(g) Any assignment, lease or sale shall be made subject to the Indenture, to the Loan Agreement of the applicable Provider and its Mortgage(s), and copies of the documents with respect to any such assignment, lease or sale shall be promptly furnished to the Trustee.

(h) Notwithstanding anything else in this Section, when, with respect to a particular Property, all Finance Payments related to the Property-Specific Principal Installments therefor have been paid (or, pursuant to the defeasance provision of its Loan Agreement, deemed paid) in full, then such Property shall, upon request of the applicable Provider, be released from the Mortgage thereon. Any shortfall in any monthly payment of a Principal Installment due from a Provider shall be allocated ratably among the monthly payments relating to the corresponding Property-Specific Principal Installments due on such date.

APPENDIX F

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

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APPENDIX F

SUMMARY OF CERTAIN PROVISIONS OF INDENTURE

The following is a summary, which does not purport to be complete, comprehensive or definitive of certain provisions contained in the Indenture and is qualified by reference to Indenture in its entirety.

Pledge and Assignment

The Bonds are issued under and entitled to the benefits of the Indenture. Pursuant to the Indenture, in order to secure (a) the payment of the principal of, premium, if any, and interest on the Bonds and (b) the payment, performance and observance (i) by the Issuer and each Provider of all agreements, covenants and conditions expressed or implied in the Indenture and the Bonds to be paid, performed and observed by any one or more of them, (ii) by the Issuer of all agreements, covenants and conditions expressed or implied in each Loan Agreement to be paid, performed and observed by the Issuer and (iii) by each Provider of all agreements, covenants and conditions expressed or implied in its Loan Agreement to be paid, performed and observed by the applicable Provider, the Issuer grants, pledges and assigns unto the Trustee, and to its successors in said trusts, and to its assigns, all right, title and interest of the Issuer in and to, and grants to the Trustee and said successors and assigns a security interest under the Enabling Act and the Uniform Commercial Code in,

(a) the Pledged Receipts, (b) each of the Loan Agreements and the Guaranty, including without limitation all rights and remedies to enforce each of the Loan Agreements and the Guaranty and the making of payments thereunder, (c) each of the Mortgages, including without limitation all rights and remedies to enforce each of the Mortgages and the making of payments thereunder, (d) every other security instrument executed by any of the Providers to secure the obligations of the applicable Provider under its Loan Agreement or any of its other obligations with respect to the loan to such Provider of a portion of the proceeds of the Bonds, including without limitation all rights and remedies to enforce each of such security instruments and the making of payments thereunder, (e) all other security heretofore, now or hereafter granted or held for the payment of amounts owing under any of the Loan Agreements or the Guaranty or otherwise owing with respect to any of the loans made with the proceeds of the Bonds and (f) any and all property that may, from time to time hereafter, by delivery or by writing of any kind, be subjected to the lien and security interest of the Indenture by the Issuer or by anyone on its behalf (and the Trustee is authorized to receive the same at any time as additional security under the Indenture), which subjection to the lien and security interest of the Indenture of any such property as additional security may be made subject to any reservations, limitations, or conditions that shall be set forth in a written instrument executed by the Issuer or anyone so acting on its behalf or by the Trustee respecting the use and disposition of such property or the proceeds thereof; provided, however that notwithstanding anything in the foregoing grant, pledge and assignment to the contrary, such grant, pledge and assignment (including the security interest granted thereby) does not include the Unassigned Issuer Rights, the Administration Fee, the Ordinary Expenses and the Extraordinary Expenses of the Trustee or any other payments due to the Trustee under the Indenture, under any of the Loan Agreements or under any of the Mortgages for its own account.

The pledge and assignment made by the Issuer pursuant to the Indenture is for the benefit, security and protection of all Bonds from time to time issued under and secured by the Indenture, except that moneys and investments held in the Rebate Fund and the interest, profits and other income or proceeds derived from such investments are held for the benefit of the United States of America and not for the benefit of the Bondholders and do not secure the Bonds. The property, interest, rights and remedies granted, pledged and assigned and in which a security interest is granted pursuant to the foregoing pledge and assignment are referred to as the "Trust Estate," except that the term "Trust Estate" does not include moneys and investments held in the Rebate Fund established under the Indenture or the interest, profits and other income or proceeds derived from such investments.

Limitations on Obligations of the Issuer

Any obligation of the Issuer for the payment of money under the Indenture is not a debt or general obligation of the Issuer or a general obligation or charge against or pledge of the faith and credit or taxing power of the State of Vermont but is payable solely from the Trust Estate.

Funds and Revenues

Establishment of Funds. The Issuer establishes and creates the following Funds and Accounts under the Indenture: (a) an Acquisition Fund for each Provider; (b) the Bond Fund; (c) a Finance Payment Fund for each Provider; (d) the Reserve Fund, and within the Reserve Fund, a Reserve Account for each Provider; (e) the Delivery Costs Fund; and (f) the Rebate Fund, and within the Rebate Fund, a Rebate Account for each Provider.

Deposits to Bond Fund. Money will be deposited into the Bond Fund as provided in the Indenture or in any of the Loan Agreements. Money deposited into the Bond Fund, together with all investments thereof and investment income therefrom, shall be applied solely as provided in the Indenture or in any of the Loan Agreements. The Trustee shall deposit to the credit of the Bond Fund immediately upon receipt any amounts delivered to the Trustee for deposit thereto.

On the Business Day next preceding each Interest Payment Date, the Trustee shall transfer from moneys available in the Finance Payment Fund of each Provider to the Bond Fund an amount equal to the respective Provider's Finance Payment due on such Interest Payment Date, as required by the applicable Loan Agreement. If necessary, the Trustee shall transfer to the Bond Fund moneys available in the Reserve Account of a Provider to the extent of any deficiency in the amount required to have been accumulated in its Finance Payment Fund as provided in its Loan Agreement.

In addition, on each Final Acquisition Date (if any) on which Principal Installments are prepaid from moneys remaining in an Acquisition Fund, and on any (late on which the Trustee receives a prepayment of Principal Installments from insurance or a condemnation award, or proceeds from an acceleration of amounts due under a Loan Agreement as a result of the occurrence of an Event of Default thereunder and the acceleration of the Principal Installments due thereunder, the Trustee shall transfer from the Finance Payment Fund of the applicable Provider to the Bond Fund such amounts as are required to redeem Bonds in accordance with the applicable provisions of the Indenture.

In addition, on the Business Day immediately preceding the date designated at the written direction of a Provider or Providers for an optional redemption of applicable Bonds, the Trustee shall transfer from the Finance Payment Fund of the applicable Provider to the Bond Fund such amounts as are required to redeem such Bonds in accordance with the applicable provision of the Indenture.

The Trustee shall apply the money in the Bond Fund to pay the principal of (and premium, if any) and interest on the Bonds on each date such principal, premium, if any, and interest is then due, whether on an Interest Payment Date or a date other than an Interest Payment Date on which Bonds are redeemed or on which principal of, premium, if any, or interest on the Bonds is otherwise due.

Finance Payment Funds. The Trustee shall deposit to the credit of the Finance Payment Fund for each Provider the amounts the Trustee receives that are required to be deposited thereto from time to time by the applicable Loan Agreement. The Finance Payment Fund of each Provider, including all money therein and all investments thereof and investment income therefrom, shall be held and applied in accordance with the applicable Loan Agreement.

Reserve Fund. On the Delivery Date, the Trustee shall deposit to the credit of the Reserve Account of each Provider the amount required to be deposited therein by the applicable Loan Agreement. The Reserve Account of each Provider, including all money therein and all investments thereof and investment income therefrom, shall be held and applied in accordance with the applicable Loan Agreement.

Delivery Costs Fund. The money deposited in the Delivery Costs Fund, together with all investments thereof and investment income therefrom, shall be applied solely as provided in each Loan Agreement and as may otherwise be provided in the Indenture.

The Trustee shall withdraw and disburse from the Delivery Costs Fund, upon its receipt of a Certificate of the Issuer, the amount specified in such Certificate to pay, or to reimburse the Issuer for the payment of, Delivery Costs of the Bonds. Each Certificate for the withdrawal and disbursement of money from the Delivery Costs shall state: (i) the amount to be withdrawn and disbursed; (ii) the payee; and (iii) that the Issuer or the Administrator or both, as the case may be, have incurred Delivery Costs at least equal to the amount requested to be withdrawn or, in the case of Delivery Costs of a character described in clause (ii) of the definition of Delivery Costs, that such costs were directed to be paid pursuant to the Loan Agreements, and that no such Delivery Costs are the basis for any other certificate that has previously been honored or granted or is then pending.

The Trustee shall transfer any money remaining in the Delivery Costs Fund six months after the Delivery Date pro rata (on the basis of the portion of moneys originally deposited in the Delivery Costs Fund allocable to each Provider) to each Finance Payment Fund.

Acquisition Funds. The Acquisition Fund of each Provider, including all money therein and all investments thereof and investment income therefrom, shall be held for the applicable Provider, pledged to secure the applicable Provider's obligations under its Loan Agreement until expended in accordance with such Loan Agreement, and applied solely as provided in the Indenture or in the applicable Loan Agreement.

The Trustee shall withdraw, disburse, transfer and invest money on deposit in each Acquisition Fund in accordance with the requirements of the applicable Loan Agreement.

Upon receipt of a Certificate of a Provider indicating that additional moneys are required to be deposited to the Provider's Rebate Account, the Trustee shall transfer from the Acquisition Fund of such Provider to its Rebate Account the amount specified in the Certificate.

Moneys to be Held in Trust. All moneys required under any provision of the Indenture to be deposited with or paid to the Trustee for the account of any Fund or Account under the Indenture shall be held by the Trustee in trust and shall while held by the Trustee be subject to the lien or security interest created by the Indenture.

Security for Deposits. All money deposited with the Trustee pursuant to the Indenture, except for money deposited with the Trustee pursuant to the obligation to establish Deposit Accounts as set forth in the Indenture and the applicable provision of the Loan Agreements, in excess of the amount guaranteed by the Federal Deposit Insurance Corporation or other Federal agency, shall be continuously secured by the Trustee, for the benefit of the Issuer, the applicable Providers and the Bondholders in the manner required by law.

Notwithstanding the requirement of the Indenture for the Trustee to secure money deposited under the Indenture, it shall not be necessary for the Trustee to give such security for the deposit with it of any money to be used to pay principal, premium, if any, or interest that is at, or within one (1) Business Day of, the time of such deposit, due and payable with respect to any Bonds, or for the Trustee to give security for any money which shall be invested in Authorized Investments.

Authorized Investments. Money held for the credit of the Bond Fund, Delivery Costs Fund and the Rebate Fund shall, as nearly as may be practicable, be continuously invested and reinvested in Authorized Investments by the Trustee.

Money held for the credit of each Finance Payment Fund, the Reserve Fund and each Acquisition Fund shall, as nearly as may be practicable, be continuously invested and reinvested in Authorized Investments, but only upon receipt by the Trustee of the written direction of the applicable Provider, as provided in the applicable provisions of each Loan Agreement.

Investments in which money held under the Indenture or a Loan Agreement are invested shall mature, or shall be subject to redemption by the holder thereof at the option of such holder at not less than the principal amount thereof reasonably possible, not later than the respective dates when money is expected to be required for application pursuant to the Indenture or the applicable Loan Agreement; provided, however, that Authorized Investments in the Reserve Fund may not have maturities longer than ten years, the average life of which is no longer than five years.

Investments in which any money credited to any such Fund or Account is invested shall be deemed at all times to be a part of such Fund or Account.

The interest accruing on and any profit realized from investments held in any Fund or Account pertaining to a particular Provider shall be credited to the Reserve Account of such Provider if and to the extent the amount in such Reserve Account is less than the applicable Reserve Amount and if and when the amount in such Reserve Account equals or exceeds such Reserve Amount shall be credited to the Fund or Account of which such investments are a part, and any loss resulting from such investments shall be charged to such Fund or Account; provided, however, that earnings on investments in the Acquisition Fund of each Provider shall be credited to the Finance Payment Fund of such Provider; and provided further, however, that if at any time the amount on deposit in a Reserve Account exceeds the Reserve Amount therefor, the Trustee shall transfer such excess to the Finance Payment Fund of the applicable Provider. The interest accruing on and any profit realized from investments held in any Fund or Account not established for a particular Provider shall be credited to the Fund or Account of which such investment is a part, and any loss resulting from such investment shall be charged to such Fund or Account.

The Trustee shall sell at the best price reasonably obtainable or present for redemption any investments in which money held under the Indenture or under any Loan Agreement is invested whenever it shall be necessary so to do in order to provide money to make any application of money from the Fund or Account to which such investments are credited.

The Trustee shall not be liable for any loss resulting from any investment made in accordance with any direction by a Provider, if permitted under the Indenture, nor for any investment made in accordance with any direction by a Provider, the effect of which would be to make the Series 2006A Bonds "arbitrage bonds" within the meaning of the Code.

The Trustee may fully rely without further investigation on all information and directions of a Provider with respect to the investment of moneys in any Fund established pursuant to the Indenture or any of the Loan Agreements.

Investments held under the Indenture or under any of the Loan Agreements shall be valued at least quarterly at the market price thereof, inclusive of accrued interest, except that investment contracts shall be valued at the amount on deposit under the applicable investment contract plus accrued interest. No credit facilities, insurance policies, hedge or par-put agreements may be used without the prior written consent of the Insurer.

The Trustee may carry out all investment transactions through its own facilities.

Rebate Fund. This provision applies only to the Series 2006A Bonds. There shall be deposited into each Rebate Account such amounts, if any, as are required to be paid into the applicable Rebate Account in accordance with the applicable Loan Agreement and the Indenture.

No later than sixty (60) days after each applicable date specified in the Indenture, the Trustee shall pay from each Rebate Account with respect to which the required rebate payment amount is greater than zero to the United States on behalf of the Issuer the required rebate payment amount with respect to such Rebate Account as computed and certified in accordance with the applicable provisions of the Indenture.

To the extent amounts in any Rebate Account are insufficient to make any payment of rebatable arbitrage due to the United States, the applicable Provider shall be liable for the deficiency. To the extent any payment of rebatable arbitrage or penalty in lieu of rebate is not timely made to the United States, the applicable Provider shall

pay to the United States any correction amount, interest, penalty, or other amount necessary to prevent the Bonds from becoming arbitrage bonds within the meaning of Section 148 of the Code. Each Provider covenants that to the extent necessary it shall obtain the advice and assistance of experts to aid it in complying with the rebate provisions of the Indenture. Neither the Issuer nor the Trustee is responsible for the calculation or payment of any amounts due to the United States with respect to the Series 2006A Bonds, except that the Trustee is responsible for paying to the United States from each Rebate Account the amount, if any, calculated by the applicable Provider to be payable from its Rebate Account.

Defeasance

When the Issuer has paid or has caused to be paid to the holders of the Bonds the principal, premium, if any, and interest due or to become due thereon at the times and in the manner stipulated therein and in the Indenture and all Ordinary Expenses and Extraordinary Expenses of the Trustee and all other amounts (including other fees and expenses of the Trustee and payments to the Issuer for its own account) required to be paid under the Indenture, under each Loan Agreement and under the Bond Purchase Agreement have been paid or provided for to the satisfaction of the Issuer and the Trustee (which with respect to the Issuer shall be evidenced to the Trustee by a Certificate of the Issuer), the lien of the Indenture shall terminate, and the Trustee shall execute and deliver to each Provider and the Issuer an appropriate discharge of the Indenture and all other certificates, documents and statements appropriate to terminate the lien of the Indenture.

Outstanding Bonds shall be deemed to have been paid within the meaning of the Indenture when the Trustee shall hold, in trust for and irrevocably committed thereto, sufficient moneys, or non-redeemable Government which constitute Available Monies and Equivalent Securities certified by an independent firm of accountants of national reputation or a firm of attorneys whose cash flow calculation are generally acceptable to the Insurer to be in a principal amount and to have maturities, interest rates and interest payment dates (without reinvestment of any principal or earnings) to produce sufficient moneys (or a combination of moneys and Government and Equivalent Securities so certified as to produce sufficient moneys), (a) to pay at maturity the principal of such Bonds, if any, not earlier redeemed, (b) to pay the principal amount and premium, if any, due on the redemption of such Bonds, if any, for which notice of redemption has been given by the Trustee, and to pay the principal amount of and premium, if any, due on the redemption of such Bonds, if any, as to which the Trustee has received irrevocable written instructions from the Provider or Providers by or on behalf of which such deposit is made specifying (i) one or more dates on which Bonds shall be redeemed (each of which dates must be a date on which the Indenture permits such redemption), (ii) the principal amount of Bonds to be redeemed on each date, and (iii) that the Trustee shall give notice of redemption as provided in the Indenture with respect to each such date, (c) to pay interest as it shall become due on such Bonds until the maturity or earlier redemption thereof, (d) to pay any overdue principal of and premium and interest on such Bonds, and (e) to pay or prepay the fees and expenses of the Trustee in connection with all matters relating to such deposit and the Bonds to which it pertains, including without limitation the duties of the Trustee set forth in any escrow agreement or similar document relating to such deposit. Available Monies shall mean any monies on deposit with the Trustee which are (i) bond proceeds or refunding bond proceeds, (ii) amounts on deposit for a period of 124 consecutive days during which no petition in bankruptcy under the U.S. Bankruptcy Code has been filed by or against the entity which paid such money, and no similar proceedings have been instituted under state insolvency or other laws affecting creditors' rights generally, or (iii) any monies with respect to which an unqualified opinion from nationally recognized counsel has been received stating that such payments to Bondholders would not constitute voidable preferences under Section 547 of the U.S. Bankruptcy Code, or similar state or federal laws with voidable preference provisions in the event of the filing of a petition for relief under the U.S. Bankruptcy Code, or similar state or federal laws with voidable preference provisions by or against the entity from whom the money is received.

In the event such deposit is made with respect to some but not all of the Bonds then Outstanding, the Provider or Providers by or on behalf of which such deposit is being made shall designate the one or more stated maturities of Bonds and the principal amount of each such stated maturity with respect to which such deposit is made (which one or more stated maturities and principal amounts thereof shall correspond to the one or more stated maturities and the principal amount of each such stated maturity of the Principal Installments to which such deposit pertains); provided that, if such deposit shall provide for the payment of the principal of (and premium, if any) and interest on some but not all Outstanding Bonds of a particular stated maturity of Bonds, the Trustee shall select the

Outstanding Bonds within such stated maturity with respect to which such deposit is made in the same manner as provided in the Indenture for the selection of Bonds to be redeemed.

There shall also be delivered to the Insurer an opinion of Bond Counsel to the effect that all of the requirements of this Indenture for defeasance of the applicable Bonds have been complied with.

No forward delivery agreement, hedge, purchase and resale agreement or par-put agreement may be utilized with respect to any investment under this Section 6.1 without the prior written consent of the Insurer.

Notwithstanding anything in the Indenture to the contrary, however, the deposit of moneys or Government and Equivalent Securities described in the Indenture shall not cause Bonds to be deemed paid (a) if made during the existence of an Event of Default under the Indenture, unless made with respect to all Bonds then Outstanding, and (b) unless a copy of the verification report described in the defeasance provisions of the Indenture has been delivered to the Trustee.

Any deposit of money and Government and Equivalent Securities for the purpose of causing the Bonds to be deemed paid shall be held by the Trustee in a segregated account in trust for the Holders of the Bonds with respect to which such deposit is made and, together with any investment income therefrom, shall be disbursed solely to pay the principal of (and premium, if any) and interest on such Bonds when due; provided, however, that amounts shown by a verification report described in the defeasance provisions of the Indenture not to be needed for such purposes may be disbursed from such account.

No money or payment received from Government and Equivalent Securities deposited under the defeasance provisions of the Indenture shall be invested or reinvested unless in Government and Equivalent Securities and unless such money, if any, not invested, such payment, if any, not reinvested, and such new investments are together shown by a verification report as described in the indenture to be of such amounts, maturities, and interest payment dates and to bear such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, be sufficient to pay amounts due on the Bonds to which such deposit pertains as provided in the Indenture.

At such time as a Bond shall be paid or deemed to be paid as provided in the Indenture, such Bond shall no longer be secured by or entitled to the benefits of the Indenture, except for the purposes of payment of principal of, premium, if any, and interest on such Bond from the applicable deposit of money or Government and Equivalent Securities, and all covenants, agreements, and other obligations of the Issuer with respect to such Bond shall be deemed for all purposes to have been discharged and satisfied.

Notwithstanding the termination of the lien of the Indenture, if the Trustee is then holding any funds for payment to any Bondholder, it shall continue to hold and make payment of such funds in accordance therewith, and shall continue to exercise and perform all other rights and obligations under the Indenture which by their nature cannot be satisfied or performed prior to the termination of the lien of the Indenture. Without limiting the generality of the foregoing, and notwithstanding the termination of the lien of the Indenture, any provisions of the Indenture which relate to the maturity of the Bonds, interest payments and dates thereof, optional and mandatory redemption provisions, exchange, transfer and registration of Bonds, replacement of mutilated, destroyed, lost or stolen bonds, the safekeeping and cancellation of Bonds, nonpresentment of Bonds, the holding of moneys in trust, the payment of moneys held in Rebate Account or otherwise to be rebated to the United States pursuant to the Indenture, the payment of a rebate analyst, repayments of moneys in Funds and Accounts held under the Indenture, and the duties of the Trustee and each Provider under the Indenture and under the applicable Loan Agreement with respect to the foregoing matters shall survive and remain binding notwithstanding the release and discharge of the Indenture. Any amounts remaining in any Fund or Account under the Indenture after all of the Outstanding Bonds shall be paid or deemed to have been paid (except for amounts held by the Trustee for the payment of principal of, premium, if any, and interest on the Bonds, for payment of a rebate analyst or for rebate to the United States of America), and all other amounts required to be paid under the Indenture, including without limitation amounts payable to the Issuer or the Trustee under the Indenture, under any of the Loan Agreements and under the Bond Purchase Agreement, shall have been paid or provided for to the satisfaction of the Issuer (as to amounts payable to the Issuer and as evidenced to the Trustee by a certificate of the Issuer) and of the Trustee (as to amounts payable to the Trustee) shall be paid, as to amounts in any Fund or Account established for the account of a particular Provider, to the order of the

applicable Provider and, as to amounts held in any Fund or Account not established for the account of a particular Provider, to each Provider, pro rata, on the basis of the initial principal amount of the Bonds allocable to the applicable Provider.

Nonpresentment of Bonds

Anything in the Indenture to the contrary notwithstanding, the Trustee shall notify the Issuer in writing of any moneys held by the Trustee in trust for the payment and discharge of any of the Bonds which remain unclaimed six months prior to the date when such moneys would escheat under applicable law and shall, at the written request of the Issuer, repay such moneys, without liability for interest, to the Issuer, as its absolute property and free from trust, or if the Issuer does not so request in writing or if such repayment is not permitted under applicable escheat law, shall apply such moneys as provided by such applicable law, and the Trustee shall upon such payment or application be released and discharged with respect thereto, and the Bondholders shall look only to the Issuer or to such other Person as such applicable law may provide for the payment of such Bonds, the Issuer or such other Person being liable only to the extent of such moneys received from the Trustee (exclusive of any interest on such moneys received from the Trustee). Without limiting the generality of the foregoing, neither the Issuer nor any such other Person shall be liable for interest on any such moneys.

The provisions described above under "Defeasance" and "Nonpresentment of Bonds" shall survive the release, discharge and satisfaction of the Indenture.

Default Provisions and Remedies of Trustee and Bondholders

Events of Default. Each of the following events is defined as and shall constitute an "Event of Default" under the Indenture:

- (a) the failure to make payment of the principal of or interest on any of the Bonds when the same becomes due and payable (except for principal due on account of an optional redemption); or
- (b) the failure of a Provider to make full payment when due of any of the Contract Payments in accordance with the terms of its Loan Agreement; or
- (c) default in the performance or observance of any covenant, agreement or obligation of the Issuer, the Administrator or any Provider under the Indenture, and the failure to cure such default within 30 days after the defaulting Person's receipt of written notice of default from the Trustee, the Insurer or the Holders of at least 25% of the principal amount of the Outstanding Bonds; or
- (d) any other event constituting an Event of Default under any Loan Agreement or Mortgage or the Guaranty shall have occurred and be continuing.

Remedies Upon Event of Default. Upon the occurrence of an Event of Default, the Trustee, after considering any actions being taken by the Administrator pursuant to the Indenture of which it has received written notice, may with the prior written consent of the Insurer, and upon receipt of direction from the Insurer or the Holders of a majority of the principal amount of the Outstanding Bonds (with the prior written consent of the Insurer) shall, upon the Trustee's having received deposit of funds, security and/or indemnity satisfactory to it for the payment of all Ordinary Expenses and Extraordinary Expenses of the Trustee (including reasonable legal counsel fees and expenses) and for the protection of the Trustee and the Trust Estate against any financial liability incurred or resulting from any such action, proceed against each Person in default under the Indenture, or each Provider in default under its Loan Agreement or its Mortgage(s), as applicable, or against each such Person and each such Provider, or against the Guarantor under the Guaranty, which proceeding may include the exercise of any and all rights of the Trustee under each defaulting Provider's Mortgage(s), for the purpose of protecting and enforcing the rights of the Trustee and the Bondholders, or as their interests may appear, under the Indenture and any such Mortgage.

Upon the happening and continuance of any Event of Default, the Insurer may, in its discretion, either direct the Trustee in writing to declare the principal of all Bonds then Outstanding (if not then due and payable) to be due and payable immediately or continue to pay principal and interest on the originally scheduled payment dates of the Bonds.

Any such proceedings by the Trustee may be by mandamus or other suit, action or special proceeding in equity or at law, in any court of competent jurisdiction, for any relief permitted by law or at equity, including the specific performance of any covenant or agreement contained in the Indenture or in a defaulting Provider's Loan Agreement, as applicable, or its Mortgage(s) or thereby to enjoin any act or thing that may be unlawful or in violation of any right of the Trustee or Holders under the Indenture or any combination of such remedies, except that the right to accelerate the date on which principal of any Bond is payable shall never be available as a remedy under the Indenture other than as set forth in the preceding paragraph.

Notwithstanding any other provision of the Indenture, it is expressly agreed and provided that (i) the Bonds are and represent the special obligations of the Issuer and are payable solely from and secured solely by the Trust Estate, and the Holders of the Bonds, the Trustee and all other Persons shall have no recourse against the Issuer beyond the Trust Estate; and (ii) the Issuer's liability for monetary damages for breach of any covenant, agreement or obligation under the Indenture is limited to the Trust Estate.

All proceedings with respect to an Event of Default under the Indenture shall be instituted and maintained for the equal benefit of all Holders as their respective interests may appear.

The exercise of any remedy in the Indenture conferred or reserved shall not be deemed a waiver of any other available remedy.

No delay or omission to exercise any right or power accruing upon an Event of Default shall impair any other power or right or shall be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

The Trustee may, with the written consent of the Insurer, and shall, (i) upon the written direction of the Insurer or (ii) upon written request of the Holders of not less than a majority in principal amount of the Bonds then Outstanding and with the written consent of the Insurer, 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 Indenture or before the completion of the enforcement of any rights of the Trustee under the Indenture, but such waiver shall not waive any subsequent Event of Default or impair any rights or remedies consequent thereon.

No remedy in the Indenture conferred upon or reserved to the Trustee or the Insurer is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and in addition to every other remedy given under the Indenture, under any Loan Agreement or any Mortgage or now or hereafter existing at law or in equity; provided, however, that in no event shall the date on which principal of any Bond is payable be accelerated.

Subject to the provisions of the Indenture concerning the consequences of an Insurer Default, anything in the Indenture (other than in such provisions of the Indenture concerning the consequences of an Insurer Default) to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default, the Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Holders or the Trustee for the benefit of Holders under the Indenture, including, without limitation, acceleration of the principal of the Bonds and the right to annul any declaration of acceleration, and the Insurer shall also be entitled to approve all waivers of Events of Default.

The occurrence of an Event of Default under the Indenture shall not constitute an Event of Default under any Loan Agreement unless the occurrences or events constituting an Event of Default under the Indenture also constitute an Event of Default under such Loan Agreement.

In the event that any and all occurrences or events constituting an Event of Default under the Indenture no longer shall be occurring and continuing, then immediately upon such nonoccurrence and noncontinuance there no longer shall be in effect an Event of Default under the Indenture. Promptly upon such nonoccurrence and noncontinuance, the Trustee shall so notify in writing the Issuer and the Administrator.

In the event that all proceedings taken by the Trustee to enforce any right under the Indenture shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Trustee, then the Issuer, the Trustee, the Administrator, the Providers and the Holders of the Bonds shall be restored to their former positions and rights under the Indenture, respectively, and all rights, remedies and powers of the Trustee and the Insurer shall continue as though no such proceeding had been taken.

Trustee May Enforce Claims Without Possession of Bonds. All rights of action and claims under the Indenture or the Bonds may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust.

Limitation on Suits. No Holder of any Bond shall have any right to institute any proceeding, judicial or otherwise, under or with respect to the Indenture, or for the appointment of a receiver or trustee or for any other remedy under the Indenture, unless:

- (a) such Holder has previously given written notice to the Trustee of a continuing Event of Default;
- (b) the Holders of not less than a majority in principal amount of the Outstanding Bonds shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee under the Indenture;
- (c) such Holder or Holders have offered to the Trustee indemnity satisfactory to it against the costs, expenses, and liabilities to be incurred in compliance with such request;
- (d) the Trustee for 60 days after the receipt of such notice, request, and offer of indemnity has failed to institute any such proceeding; and
- (e) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Holders of a majority in principal amount of the Outstanding Bonds.

It is understood and intended that no one or more Holders of Bonds shall have any right in any manner whatever by virtue of, or by availing of, any provision of the Indenture to affect, disturb, or prejudice the lien of the Indenture or the rights of any other Holders of Bonds, or to obtain or to seek to obtain priority or preference over any other Holders or to enforce any right under the Indenture, except in the manner provided in the Indenture and for the equal and ratable benefit of all Outstanding Bonds.

Unconditional Right of Bondholders to Receive Principal and Interest. Notwithstanding any other provision of the Indenture, the Holder of any Bond shall have the right, which is absolute and unconditional, to receive payment of the principal of and interest on such Bond on the respective stated maturities or Interest Payment Dates expressed in such Bond (or, in the case of redemption, on the applicable redemption date, except as otherwise provided in the Indenture with respect to an optional redemption of the Bonds), but solely from the sources from which such principal and interest are payable pursuant to the terms of such Bonds, and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Holder; provided, however, that no Bondholder shall be entitled to take any action or institute any such suit to enforce the payment of its Bonds, whether for principal or interest, if and to the extent that the taking of such action or the institution or prosecution of any such suit or the entry of judgment therein would under applicable law result in a surrender, impairment, waiver, or loss of the lien of the Indenture upon the Trust Estate, or any part thereof, as security for Bonds held by any other Bondholder.

Application of Money Collected. Any money received or collected by the Trustee during the occurrence and continuance of an Event of Default under the Indenture shall be applied as follows:

First, To the payment of amounts, if any, payable to the United States Treasury in accordance with the rebate provisions of the Indenture;

Second, To the payment, pro rata, of (a) all Ordinary Expenses and Extraordinary Expenses of the Trustee then due and unpaid and any other amounts then due under the Indenture or under any of the Loan Agreements to the Trustee for its own account and unpaid and (b) all amounts due under the Indenture or under any of the Loan Agreements to the Issuer for Issuer Expenses then due and unpaid;

Third, To the payment of all interest then due on the Bonds or, if the amount available for the payment of interest is insufficient for such purpose, to the payment of interest ratably in accordance with the amount due in respect of each Bond;

Fourth, To the payment of the unpaid principal then due on any of the Bonds (other than Bonds called for redemption for the payment of which moneys are held pursuant to the provisions of the Indenture), in the order of their due dates, and if the amount available shall not be sufficient to pay in full the principal of the Bonds due on any particular date, then to the payment of such principal ratably, in accordance with the amount due in respect of each Bond;

Fifth, Any such money that was received by the Trustee from or on account of a Provider during the acceleration of the Principal Installments payable under its Loan Agreement shall be applied to the extraordinary mandatory redemption of Bonds as provided in the Indenture.

Sixth, as to the remainder, if any, of such money, to the Issuer or to whosoever may be lawfully entitled to receive the same or as a court of competent jurisdiction may direct.

If the principal of all the Bonds shall by their terms have become due and payable, all such moneys shall be applied, first, as provided in First above; second, as provided in Second above in this section; and third, to the payment of the principal and interest then due and unpaid upon the Bonds, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond ratably, according to the amounts due respectively for principal and interest.

Whenever the Trustee shall direct the application of moneys to the payment of principal of or interest on the Bonds as described above in this section "Application of Money Collected", it shall fix the date upon which such application is to be made, and upon that date, interest shall cease to accrue on the amounts of principal, if any, to be paid on that date, provided the moneys are available therefor. The Trustee shall give notice of the deposit with it of any moneys and of the fixing of that date, all consistent with the requirements of the Indenture for the establishment of, and for giving notice with respect to, a Special Record Date for the payment of overdue interest. The Trustee shall not be required to make payment of principal of and any premium on a Bond to the Owner thereof, until the Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if it is paid in full.

Separation of Liability. No amounts in the Acquisition Fund, the Finance Payment Fund, the Reserve Account, the Deposit Account or the Rebate Account of any Provider, no security granted in a Loan Agreement, a Mortgage, or other security instrument or agreement and no money collected with respect to such security and no amount otherwise collected from or on behalf of any Provider shall be liable for or utilized to cure the default of or otherwise pay amounts due from any other Provider.

The Trustee

Certain Duties and Responsibilities. The Trustee accepts the trusts imposed upon it by the Indenture and agrees to perform said trusts and any duties required to be performed by it under the terms of the Indenture but only upon and subject to the terms and conditions contained in the Indenture.

Except during the continuance of an Event of Default, the Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Indenture, and no implied covenants or obligations with respect to the Trustee shall be read into the Indenture, the Bonds or any of the Loan Agreements. In case an Event of Default has occurred under the Indenture or under any of the Loan Agreements and is continuing, the Trustee shall exercise such of the rights and powers vested in it by the Indenture, the Bonds or any of the applicable Loan Agreements, and use the same degree of care and skill in their exercise, as an ordinarily prudent trustee under a corporate mortgage would use and exercise. Without limiting the generality of the foregoing, the Trustee shall have no duty to monitor the financial, business or other affairs of any of the Providers.

In the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of the Indenture, the Bonds, the Loan Agreements or the Mortgages.

The Trustee shall not be required to take notice or to be deemed to have notice of any Event of Default described in subsection (c) or subsection (d) described above under "Events of Default" unless the Trustee shall be specifically notified in writing of such Event of Default by the Issuer or the Bondholders of at least 25% of the aggregate principal amount of the Bonds then Outstanding; provided, that the Issuer shall have no duty to monitor the financial, business or other affairs of any of the Providers.

All references in the Indenture or in any Loan Agreement to the Trustee's providing any notice to any Person "immediately" shall mean telephonic notice within one (1) Business Day that the Trustee acquires actual knowledge of such matters, promptly followed by written confirmation thereof.

Certain Rights of Trustee. Except as otherwise described in the Indenture and above under "Certain Duties and Responsibilities":

(a) the Trustee may rely and shall be protected in relying on and acting or refusing to act on the basis of any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(b) the Trustee may consult with legal counsel (including Bond Counsel), and the written advice of such counsel or any opinion of counsel shall be full and complete authorization and protection in respect of any action taken, suffered, or omitted by the Trustee under the Indenture in good faith and in reliance thereon;

(c) the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Indenture or to perform any duty required as a result of an Event of Default at the request or direction of any of the Bondholders pursuant to the Indenture, unless such Bondholders shall have offered to the Trustee funds, security and/or indemnity reasonably satisfactory against the costs, expenses, and liabilities previously incurred and/or which might be incurred by it in compliance with such request or direction or in the performance of such duty;

(d) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled during reasonable business hours to examine the books, records, and premises of the Issuer and the Providers, personally or by agent or attorney, and to make copies from such books and records at the expense of the applicable Provider; and

(e) the Trustee may execute any of the trusts or powers hereunder or perform any duties under the Indenture either directly or by or through agents or attorneys, and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it under the Indenture.

Trustee Not Responsible for Recitals, Value of Security or Application of Proceeds or other Actions.

The Trustee assumes no responsibility for the recitals contained in the Indenture and in the Bonds, except for the certificate of authentication on the Bonds, and except for recitals concerning the Trustee.

The Trustee makes no representations as to the value or condition of the Trust Estate or any part thereof, or as to the title of the Issuer thereto or as to the security afforded thereby or hereby (including the validity or enforceability of any Mortgage) or as to the validity or sufficiency of the Indenture or the Bonds.

The Trustee shall not be accountable for the application of the proceeds of the Bonds or of any money paid to the Issuer or to any Provider on the basis of a Certificate of the Issuer or a Certificate of an applicable Provider unless such application by the Trustee or payment by the Trustee to the Issuer or a Provider pursuant to such certificate conflicts with the explicit provisions of the Indenture. The Trustee may conclusively rely upon the truth, accuracy and completeness of any statement made in any certificate delivered pursuant to a Loan Agreement, and shall not be liable for any application of the proceeds of the Bonds by any Provider or the Issuer.

The Trustee shall not be held liable for any action taken by it or omitted to be taken by it in the performance or administration of the trusts herein created that do not result from negligence or willful misconduct.

Trustee, Issuer or Agent of Issuer May Hold Bonds. The Trustee, the Issuer or any agent of the Issuer in its individual or any other capacity may become the owner or pledgee of Bonds with the same rights it would have if the applicable Person were not the Trustee, the Issuer or agent of the Issuer. The Trustee may also engage in or be interested in any financial or other transaction with any Provider, the Administrator or the Issuer, provided that if the Trustee determines that any such relation is in conflict with its duties under the Indenture, it shall eliminate the conflict or resign as Trustee.

Liability for Interest. The Trustee shall be under no liability for interest on any money received by it under the Indenture except for earnings on investments in which such money is invested except as otherwise agreed in writing with the Issuer or the applicable Provider.

Corporate Trustee Required; Eligibility. There shall at all times be a Trustee under the Indenture that shall be a bank or trust company organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise corporate trust powers, subject to supervision or examination by Federal or state authority, having its principal office in the United States and, in the case of any successor Trustee appointed pursuant to the applicable provisions of the Indenture, having a combined capital and surplus of at least \$10,000,000.

If such entity publishes reports of condition at least annually, pursuant to law or to the requirements of such supervising or examining authority, then for the purposes of eligibility under the Indenture, the combined capital and surplus of such entity shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If such entity does not publish such reports of condition at least annually, then for purposes of eligibility the combined capital and surplus of such entity shall be deemed to be its combined capital and surplus as set forth in its most recent audited annual financial statements

If at any time the Trustee shall cease to be eligible in accordance with the provisions of the Indenture (which cessation of eligibility shall include the failure of a successor Trustee to maintain a combined capital and surplus of at least \$10,000,000), it shall resign immediately in the manner and with the effect specified in the Indenture.

Resignation of Trustee; Removal. The Trustee may at any time resign from the trusts created under the Indenture by giving thirty (30) days' written notice to the Issuer, the Insurer each Provider and each holder of a Bond, but such resignation shall not take effect until the appointment of a successor Trustee and acceptance by the successor Trustee of such trusts. The Trustee may be removed at any time by an instrument or concurrent instruments in writing delivered to the Trustee and to the Issuer and signed by the Insurer or by the owners of at least fifty-one percent (51%) of the Outstanding Principal Amount of the Bonds. The Trustee may also be removed

at any time (a) for any breach of trust or violation of the Indenture (i) by a Board Resolution of the Issuer or, (ii) upon application of the holders of not less than five percent (5%) in principal amount of the Bonds then Outstanding, by any court of competent jurisdiction, or (b) by a Board Resolution of the Issuer for failure in the reasonable judgment of the Issuer to perform any of its duties under the Indenture with competence or due care.

Appointment of Successor Trustee. In case the Trustee shall resign or be removed, or be dissolved, or otherwise become incapable of acting under the Indenture, a successor acceptable to the Insurer shall be appointed by the Issuer. In the event the Trustee resigns and no successor Trustee acceptable to the Insurer is appointed by the Issuer prior to the date specified for such resignation, removal, dissolution or incapacity, the retiring Trustee may apply to a court of competent jurisdiction to appoint a successor Trustee shall be appointed by the Issuer. The current Trustee shall serve as trustee until a successor is appointed and qualified. Any successor Trustee shall notify each Provider, the Issuer, the Insurer and the holders of the Bonds in writing of its acceptance of its appointment as Trustee under the Indenture and, such notice being given and a copy thereof being filed or recorded in each office and registry, if any, in which the Indenture is filed or recorded, shall become Trustee, vested with all the property, rights and powers of the Trustee under the Indenture, without any further act or conveyance. Any predecessor Trustee shall, upon payment by the Providers of their respective share of its fees and expenses in connection therewith, from time to time execute, deliver and record and file such instruments as the Trustee may reasonably require to confirm or perfect any succession under the Indenture.

Supplemental Agreements, Amendments to the Loan Agreements

Supplemental Agreements Not Requiring Consent of Bondholders. The parties to the Indenture may with the prior written consent of the Insurer but without the consent of, or notice to, any of the holders of the Bonds, enter into agreements supplemental to the Indenture and financing statements or other instruments evidencing the existence of alien as shall not, in their opinion, be inconsistent with the terms and provisions of the Indenture for any one or more of the following purposes:

- (a) to cure any ambiguity, inconsistency, omission or formal defect in the Indenture;
- (b) to grant to or confer upon the Trustee for the benefit of the holders of the Bonds any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the holders of the Bonds or the Trustee;
- (c) to subject to the lien and pledge of the Indenture additional revenues, properties or collateral, or to correct or amplify the description of any property at any time subject to the lien of the Indenture;
- (d) to add to the covenants and agreements of the Issuer or the Providers contained in the Indenture other covenants and agreements thereafter to be observed for the protection of the holders of the Bonds;
- (e) to evidence any succession to the Issuer or any Provider not constituting a default under the Indenture or under the applicable Loan Agreement and the assumption by such successor of the covenants and agreements of the Issuer or such Provider, as the case may be, contained in the Indenture, the applicable Loan Agreement, the applicable Mortgage(s) and the Bonds;
- (f) to modify, amend or supplement the Indenture or any trust agreement supplemental to the Indenture in such manner as to permit the qualification of the Indenture and any such supplemental indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect or under any state securities law;
- (g) to permit the Trustee to comply with any obligations imposed upon it by law or to evidence the succession of a new trustee under the Indenture;
- (h) to confirm, as further assurance, any pledge under, and the subjection to any claim, lien or pledge created or to be created by, the Indenture of the revenues arising from any moneys, securities, funds or other property pledged under the Indenture;

(i) to comply with any requirement necessary, in the opinion of Bond Counsel, to maintain the excludability of interest on the Series 2006A Bonds from gross income for federal income tax purposes;

(j) to improve or maintain any rating from time to time in effect on the Bonds, so long as such change does not affect the interest rates, maturities or other terms of the Bonds; and

(k) for any other purpose, provided that such amendment does not adversely affect the interest of any Bondholder, and provided that Bond Counsel delivers an opinion to such effect addressed to the Issuer and the Trustee.

Supplemental Agreements Requiring Consent of Bondholders. In addition to supplemental agreements permitted above without consent of Bondholders, the parties hereto, with the written approval of the Insurer and of the holders of at least fifty-one percent (51%) of the Outstanding Principal Amount of the Bonds, may execute and deliver an agreement or agreements supplemental to the Indenture for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any supplemental agreement or in the Bonds; provided, however, that no amendment with respect to (i) the principal, premium, if any, or interest payable upon any Bond, (ii) the dates for the payment of interest, the dates of maturity or the redemption provisions of any Bonds or (iii) the provisions described in the section immediately above captioned "Supplemental Agreements Not Requiring Consent of Bondholders", this section "Supplemental Agreements Requiring Consent of Bondholders" and the section immediately following captioned "Opinion of Bond Counsel Required" may be made without the written approval of the holders of all of the Bonds.

If at any time the Issuer or the Trustee shall request the other to enter into any such supplemental trust agreement for any of the purposes of this section, and if all consents (other than the consent of the Bondholders) required for the making of such supplemental trust agreement have been provided to the Trustee, and if the Trustee has been informed by applicable Counsel that all opinions required for the making of such supplemental trust agreement can be given under then existing law, the Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed execution of such supplemental trust agreement to be mailed by registered or certified mail, postage prepaid, to all holders of Outstanding Bonds. Such notice shall set forth the nature of the proposed supplemental trust agreement, and shall state that copies thereof are on file at the corporate trust office of the Trustee for inspection by all holders of Outstanding Bonds. If, within sixty (60) days or such longer period as shall be prescribed by the Issuer following such notice, the holders of the requisite aggregate principal amount of the Bonds Outstanding at the time of the execution of any such supplemental trust agreement shall have consented to and approved the execution thereof as herein provided, no holder shall have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Issuer from executing the same or from taking any action pursuant to the provisions thereof. Upon the execution of any such supplemental trust agreement as in this section permitted and provided, the Indenture shall be and be deemed to be modified and amended in accordance therewith. The Trustee may rely upon an opinion of Counsel as conclusive evidence that execution and delivery of a supplemental trust agreement has been effected in compliance with these provisions.

Opinion of Bond Counsel Required. Anything in the Indenture to the contrary notwithstanding, the Trustee shall not execute any trust agreement supplemental to the Indenture without an opinion of Bond Counsel to the effect that such supplemental trust agreement is authorized under the Indenture and will not adversely affect the validity of the Bonds or the exclusion of interest on the Series 2006A Bonds from gross income for federal income tax purposes.

Consents, etc., of Bondholders. Any consent, request, direction, approval, waiver, objection, appointment or other instrument required by the Indenture to be signed and executed by Bondholders may be signed and executed in any number of substantially concurrent writings of similar tenor, and may be signed or executed by such Bondholders in person or by an agent appointed in writing. Proof of the execution of any such instrument, if made in the following manner, shall be sufficient for any of the purposes of the Indenture, and shall be conclusive in favor of the Trustee with regard to any action taken under such instrument, namely:

(a) The fact and date of the execution by any Person of any such instrument may be proved by the affidavit of a witness of such execution or by the certificate of any notary public or other officer of any jurisdiction,

authorized by the laws thereof to take acknowledgments of deeds, certifying that the Person signing such instrument acknowledged the execution thereof. Where such execution is by an officer of a corporation or association or a member of a partnership on behalf of such corporation, association or partnership, such affidavit or certificate shall also constitute sufficient proof of his authority.

(b) The fact of ownership of the Bonds and the amount or amounts, numbers and other identification of such Bonds, and the date of holding the same shall be proved by the bond register kept by the Trustee.

(c) Any request, consent or vote of the holder of any Bond shall bind every future holder of the same Bond, and the holder of every Bond issued in exchange thereof or in lieu thereof, in respect of anything done or permitted to be done by the Trustee, the Issuer or any other Person pursuant to such request, consent or vote.

(d) In determining whether the holders of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under the Indenture, Bonds which are owned by the Issuer or the Provider shall be disregarded and deemed not to be Outstanding for the purpose of determining whether the Trustee shall be protected in relying on any such demand, request, direction, consent or waiver, unless all Bonds are so owned. Only Bonds which the Trustee knows to be so owned shall be disregarded. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of this Section "Consents, etc., of Bondholders" if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right to vote such Bonds without direction of the pledgor. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of Counsel shall be full protection to the Trustee.

For all purposes of the indenture and of the proceedings for the enforcement hereof, such Person shall be deemed to continue to be the Owner of such Bond until the Trustee shall have received notice in writing to the contrary.

Nothing contained in this Section "Consents, etc., of Bondholders" shall be construed as limiting the Trustee to such proof, it being intended that the Trustee may accept any other evidence of the matters herein stated which it may deem sufficient.

Insurer Deemed Holder of Bonds

For purposes of giving any consents required under the Indenture or in any Loan Agreement or exercising any voting rights given to Holders under the Indenture or in any Loan Agreement or giving any direction or taking any other action permitted to be taken by or on behalf of the Holders under the Indenture or under any Loan Agreement, so long as no Insurer Default has occurred and is continuing, the Insurer shall be deemed to be the sole Holder of Bonds then Outstanding.

Consequences of Insurer Default

If an Insurer Default shall occur and shall not have been waived or cured, the provisions of the Indenture (i) requiring the consent of the Insurer, (ii) allowing the Insurer to direct proceedings and (iii) requiring that notices or other information be sent to the Insurer shall no longer be effective and the Insurer shall no longer have such rights; provided, however, that any rights of the Insurer arising as a result of payments made pursuant to the Policy shall continue to exist and be unaffected by any limitations on such rights set forth in this paragraph.

Extent of Covenants; No Personal Liability

No recourse under, or upon, any statement, obligation, covenant, or agreement contained in the Indenture, or in any Bond thereby secured, or the Indenture, or in any document or certification whatsoever, or under any judgment obtained against the Issuer or by the enforcement of any assessment or by any legal or equitable proceeding by virtue of any constitution or statute or otherwise or under any circumstances, shall be had against any member, officer or employee, as such, of the Issuer, either directly or through the Issuer, or otherwise, for the payment for, or to, the Issuer or any receiver therefor, or for, or to, any Holder or otherwise, of any sum that may be due and unpaid upon any such Bond. Any and all personal liability of every nature, whether at common law or in

equity or by statute or by constitution or otherwise, of any such member, officer or employee, as such, to respond by reason of any act or omission on his or her part or otherwise, for the payment for, or to, the Issuer or any receiver thereof, or for, or to, any Holder or otherwise, of any sum that may remain due and unpaid upon the Bonds thereby secured or any of them, is thereby expressly waived and released as an express condition of, and in consideration for, the execution of the Indenture and the issuance of the Bonds.

All expenses incurred in carrying out the Indenture shall be payable solely from funds derived by the Issuer from its loan of the proceeds of the Bonds to the Providers. Anything in the Indenture to the contrary notwithstanding, the performance by the Issuer of all duties and obligations imposed upon it thereby, the exercise by it of all powers granted to it thereunder, the carrying out of all covenants, agreements and promises made by it thereunder, and the liability of the Issuer for all warranties and other covenants therein shall be limited solely to the Trust Estate; and the Issuer shall not be required to effectuate any of its duties, obligations, powers or covenants except from, and to the extent of, the Trust Estate.

APPENDIX G

**PROPOSED FORM OF OPINION
OF BOND COUNSEL**

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| FRANKFURT | NEW YORK | WASHINGTON, DC |

FOUNDED 1866

September 13, 2006

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 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”):

\$13,310,000
Vermont Educational and Health Buildings Financing Agency
Revenue Bonds
(Developmental and Mental Health Services Acquisition Pool),
Series 2006A

and

\$315,000
Vermont Educational and Health Buildings Financing Agency
Taxable Revenue Bonds
(Developmental and Mental Health Services Acquisition Pool),
Series 2006B

The Bonds are issued under and pursuant to the Act and a Trust Agreement, dated as of August 1, 2006 (the “Trust Agreement”), between the Agency and Chittenden Trust Company, as trustee (the “Trustee”), for the purpose of providing funds, together with other available funds, to (i) finance, refinance or provide reimbursement to Borrowers for the cost of certain “facilities” under the Act (the Projects”), (ii) fund a Reserve Fund for the Bonds and (iii) pay certain expenses incurred in connection with the issuance of the Bonds. All capitalized terms not otherwise defined herein shall have the meanings set forth in the Trust Agreement.

The Bonds bear interest from the date thereof at fixed interest rates and are subject to redemption prior to their maturity in the manner and upon the terms and conditions set forth therein and in the Trust Agreement. The Bonds are issuable in fully registered form in authorized denominations.

The Agency will loan a portion of the proceeds of the Bonds to Washington County Mental Health Services, Inc., Health Care & Rehabilitation Services of Southeastern Vermont, Inc., NFI

Vermont, Inc., and the Clara Martin Center (each a “Borrower” and, collectively, the “Borrowers”) pursuant to separate loan agreements with each Borrower, each dated as of August 1, 2006 (each a “Loan Agreement and, collectively, the “Loan Agreements”). The obligations of NFI Vermont, Inc., under its Loan Agreement have been unconditionally guaranteed by the Guarantor pursuant to the Guaranty (as such terms are defined in the Trust Agreement). The funds and accounts created under the Trust Agreement have been pledged under the Trust Agreement as security for the Bonds.

Payment of principal of and interest on the Bonds is insured in accordance with the terms of a financial guaranty insurance policy issued by Radian Asset Assurance Inc.

We have also examined one of each Series 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 Borrowers pursuant to the Loan Agreements and, in the case of NFI Vermont, Inc., by the Guarantor pursuant to the Guaranty, from certain 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, from proceeds of remedial action taken pursuant to the Trust Agreement, the Loan Agreements and the Guaranty.
4. The Loan Agreements have been duly authorized and executed by the Agency and the Borrowers and are valid, binding and enforceable agreements in accordance with their respective terms.
5. 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.
6. Based on existing law and assuming compliance by the Borrowers 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 Series 2002A Bonds is not includible in gross income for federal income tax purposes under existing statutes, regulations and court decisions. Interest on the Series 2006A 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 calculation of the alternative minimum tax imposed on corporations by the Code. Failure by the Agency or the Borrowers to comply with their respective covenants to comply with the provisions of the Code regarding use, expenditure, and investment of the proceeds of the Series 2006A Bonds and the timely payment of certain investment earnings to the Treasury of the United States may cause interest on the Series 2006A 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 Borrowers. 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 Series 2006A 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 Borrowers with respect to certain material facts within their knowledge which we have not independently verified

and the opinions of counsel for the Borrowers that each of the Borrowers is an organization described in Section 501(c)(3) of the Code or corresponding provisions of prior law and that such counsel are not aware of any actions taken by the Borrowers which would jeopardize such status. Interest on the Series 2006B Bonds is includible in gross income for federal income tax purposes under existing statutes, regulations and court decisions. 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 Trust Agreement, the Loan Agreements and the Guaranty and the obligations of the aforementioned parties with respect to such documents are subject to bankruptcy, insolvency and other laws affecting creditors' rights generally. To the extent that the remedies under the Trust Agreement, the Loan Agreements and the Guaranty 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 also relied, without independent investigation, upon the opinions of counsel to the Borrowers, with respect to the due organization and valid existence of the Borrowers, their respective power and authority with respect to the transactions contemplated by, and their respective due authorization, execution and delivery of their respective Loan Agreements and the Guaranty.

Respectfully submitted,

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APPENDIX H

BOOK-ENTRY ONLY SYSTEM

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APPENDIX H

BOOK-ENTRY ONLY SYSTEM

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

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTC"). DTC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC and EMCC, also subsidiaries of DTC, 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", and, collectively with Direct Participants, "Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transactions, 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 interest in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's 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 Offered Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Agency or the Trustee, on a payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Trustee, or the Agency, subject to any statutory or regulatory requirements as may be in effect from time to time. Principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Agency or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

THE ABOVE INFORMATION CONCERNING DTC AND DTC'S BOOK ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE AGENCY BELIEVES TO BE RELIABLE, BUT THE AGENCY TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF. NEITHER THE AGENCY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES OR TO BENEFICIAL OWNERS WITH RESPECT TO THE RECORDS OF DTC OR ANY PARTICIPANT, PAYMENTS BY DTC OR ANY PARTICIPANT, NOTICES TO BE DELIVERED BY DTC OR ANY PARTICIPANT, OR ANY OTHER ACTION TAKEN BY DTC AS REGISTERED OWNER OF THE BONDS.

So long as Cede & Co. is the registered owner of the Bonds, as nominee for DTC, references herein to the Bondholders or registered owners of the Bonds (other than under the caption "Tax Exemption" in the Official Statement) shall mean Cede & Co., as aforesaid, and will not mean (other than under the caption "Tax Exemption" in the Official Statement) the Beneficial Owners of the Bonds.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they will be sent by the Trustee to DTC only.

For every transfer and exchange of the Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or to other governmental charge that may be imposed in relation thereto.

APPENDIX I

ALLOCATION OF LOAN PROCEEDS AND RESERVE ACCOUNT AMOUNTS BY PROVIDER AND PROPERTY AND TERM OF PORTION OF LAON ALLOCABLE TO EACH PROPERTY

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APPENDIX I

| | <u>Loan Proceeds Allocation</u> | <u>Reserve Fund Allocation</u> | <u>Term of Portion of Loan Applicable to Each Property</u> |
|--|---|------------------------------------|--|
| Clara Martin Center | | | |
| Renovate 11 South Main Street, Randolph, VT | 100,000 | 7,747 | 20 years |
| Renovate 24 South Main Street, Randolph, VT | 240,000 | 18,592 | 20 years |
| Refinance 39 Fogg Farm Road, Wilder, VT | 240,000 | 18,661 | 20 years |
| IT Enhancements (Records System and Phone System) | 335,000 | 50,000 | 7 years |
| TOTAL - CLARA MARTIN CENTER | \$ 915,000 | \$ 95,000 | |
| Health Care and Rehabilitation Services of SE VT | | | |
| Refinance Administrative Facility at 49 School Street, Hartford, VT | 750,000 | 55,851 | 30 years |
| Refinance School Facility at 49 School Street, Hartford, VT | 315,000 | 23,263 | 30 years |
| Construct New Facility at 386 River Street, Springfield, VT | 8,000,000 | 590,886 | 30 years |
| TOTAL HCRS | \$ 9,065,000 | \$ 670,000 | |
| NFI Vermont | | | |
| Renovate 125 School St., St. Johnsbury, VT | 30,000 | 5,769 | 7 years |
| Purchase New Equipment & Furnishings | 22,000 | 4,231 | 7 years |
| Purchase & Improve Admin Building - 30 Airport Rd., South Burlington, VT | 795,000 | 85,000 | 18 years |
| TOTAL NFI - VERMONT | \$ 847,000 | \$ 95,000 | |
| Washington County Mental Health | | | |
| Renovations to 174 Hospital Loop, Berlin, VT | 350,000 | 28,598 | 20 years |
| Renovations to 7 St. Paul St., Montpelier, VT | 50,000 | 4,085 | 20 years |
| Refinance 7 St. Paul St., Montpelier, VT | 213,600 | 17,317 | 20 years |
| TOTAL WASHINGTON COUNTY MENTAL HEALTH SERVICES | \$ 613,600 | \$ 50,000 | |

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APPENDIX J

FORM OF FINANCIAL GUARANTY INSURANCE POLICY

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FINANCIAL GUARANTY INSURANCE POLICY

Obligor:

Bonds:

Bond Trustee:

Insurance Trustee:

Policy Number:

Premium:

Radian Asset Assurance Inc. ("Insurer"), a corporation organized under the laws of the State of New York, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably guarantees the payment of the Obligation (hereinafter defined) to the Insurance Trustee for the benefit of the Holders (hereinafter defined) from time to time of the Bonds. This Policy does not insure against any risk other than nonpayment of the Obligation by or on behalf of the Obligor or any other obligor to the Bond Trustee. Nonpayment includes recovery from a Holder of Bonds or the Bond Trustee of any portion of the Obligation pursuant to a final judgment by any court of competent jurisdiction holding that such payment constituted a voidable preference within the meaning of any applicable bankruptcy law.

Upon receipt by the Insurer of telephonic or telegraphic notice, such notice subsequently confirmed to the Insurer in writing by registered or certified mail, from the Insurance Trustee that the Obligor (or other obligor responsible for payment of the Obligation) has failed to provide the Bond Trustee with sufficient funds for payment of the Obligation on the Due Date (hereinafter defined), the Insurer shall, not later than such Due Date or the first business day after receipt of such notice, whichever is later, pay to the Insurance Trustee for the benefit of the Holders of the Bonds an amount which shall be sufficient to pay the Obligation, but only upon receipt by the Insurer, in a form reasonably satisfactory to it, of (a) evidence of the Holder's right to receive such payment and (b) evidence, including any appropriate instruments of assignment, that all the Holder's rights with respect to such payment shall thereupon vest in the Insurer. "Due Date" means, when referring to the principal of the Obligation, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund prepayment and does not refer to any earlier date on which payment is due by reason of any other call for redemption, acceleration or other advancement of maturity unless the Insurer shall elect, in its sole discretion, to pay such principal due upon such redemption, acceleration or other advancement of maturity together with any accrued interest to the date of redemption, acceleration or other advancement of maturity. Tendering of payment, to the Bond Trustee, of such principal due upon such redemption, acceleration or other advancement of maturity, together with any accrued interest to the date of such redemption, acceleration or other advancement of maturity, shall satisfy the Insurer's obligations under this Policy, in full. When referring to interest on the Obligation, "Due Date" means the stated date for payment of interest.

The Insurer shall, to the extent of any payment made by it pursuant to this Policy, be deemed to have acquired and become the Holder of the Bonds or portions thereof or interest thereon paid from such payment and shall be fully subrogated to all rights to payment thereof.

As used herein, the term "Holder" or "Holders" means the registered owners of the Bonds as indicated in the registration books maintained by the Bond Trustee for such purpose at the time of nonpayment of the Obligation. The terms "Holder" or "Holders" shall not include the Obligor or any person or entity whose direct or indirect obligation constitutes the underlying security for the Obligation. As used herein, the term "Bond Trustee" means the Bond Trustee above named and any successor trustee duly appointed. As used herein, the term "Insurance Trustee" means the Insurance Trustee above named and any successor insurance trustee duly appointed. As used herein, the term "Obligation" means the payment of principal and interest regularly scheduled to be paid on the Bonds, which shall have become due for payment but shall be unpaid on the Due Date, but does not include any premium payable with respect to the Bonds, nor any redemption (except mandatory sinking fund redemption), acceleration or other advancement of maturity.

This Policy is non-cancelable for any reason. Premiums paid on this Policy are not refundable for any reason including without limitation the payment prior to maturity of the Bonds.

IN WITNESS WHEREOF, the Insurer has caused this Policy to be issued to the Insurance Trustee for the benefit of the Holders from time to time of the Bonds and to be executed and delivered by its duly authorized officer to become effective and binding upon the Insurer by virtue of the execution and delivery thereof on this [DATE].

RADIAN ASSET ASSURANCE INC.

By: _____
Name: [ANALYST]
Title: [TITLE]

| INSURANCE GUARANTY FUND NOTICES | |
|---------------------------------|--|
| Connecticut | In the event the Company becomes insolvent, any claims arising under this Policy are excluded from coverage by the Connecticut Insurance Guaranty Association. |
| Florida | The insurance provided by this Policy is not covered by the Florida Insurance Guaranty Association created under part II of chapter 631 of the Florida Insurance Code. |
| New York | This Policy is not covered by the Property/Casualty Insurance Security Fund established by Article 76 of the New York Insurance Law. |
| Texas | In the event the insurer is unable to fulfill its contractual obligation under this Policy, the policyholder is not protected by the Texas Property and Casualty Insurance Guaranty Act. |