NEW ISSUE—BOOK ENTRY ONLY **RATINGS: See "RATINGS" herein.**

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings in calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.

$60,000,000
ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
Variable Rate Revenue Bonds
(Sharp HealthCare)
Series 2009A

SHARP®
San Diego's Health Care Leader

Dated: Date of Delivery **Price: 100%** **Due: August 1, 2024**

The Series 2009A Bonds (the "Bonds") will initially bear interest at a Weekly Interest Rate as determined by the Remarketing Agent as described herein. While in a Weekly Interest Rate Period, interest on the Bonds is payable on the first Wednesday of each month, commencing March 4, 2009, or, if the first Wednesday is not a Business Day, the next succeeding Business Day. At the election of Sharp HealthCare (the "Corporation"), the Bonds may be converted, in whole, to bear interest in other Interest Rate Periods as described herein. While in a Weekly Interest Rate Period, the Bonds will be issued in denominations of $100,000 or any integral multiple of $5,000 in excess thereof. The Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), under the book-entry only system maintained by DTC. Beneficial owners of Bonds will not receive physical certificates representing the Bonds purchased but will receive a credit balance on the books of the nominees of such purchasers. So long as Cede & Co. is the registered owner of the Bonds, principal and purchase price of, premium, if any, and interest on the Bonds will be paid by The Bank of New York Mellon Trust Company, N.A., as trustee, to DTC, which, in turn, will remit such principal, purchase price, premium, if any, and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds, as described herein.

The principal and purchase price of and interest on the Bonds are payable from the proceeds of draws under a direct-pay Letter of Credit, dated February 12, 2009 (the "Letter of Credit"), to be issued by Bank of America, N.A. (the "Bank"). The initial expiration date of the Letter of Credit is February 13, 2012, unless extended or earlier terminated prior thereto, as described herein. The Letter of Credit will entitle the Bond Trustee to draw amounts up to the principal of and up to 35 days' accrued interest on the Bonds at the Maximum Interest Rate of 12%. See "THE BANK," "THE LETTER OF CREDIT" and "THE REIMBURSEMENT AGREEMENT" herein.

Bank of America

Holders of the Bonds will have the option to tender their Bonds or portions thereof in authorized denominations for purchase at the principal amount thereof plus accrued interest thereon, at the times and subject to the conditions described herein. Holders of the Bonds will be required to tender their Bonds for purchase at the principal amount thereof plus accrued interest thereon, under certain circumstances as described herein. See "THE BONDS – Tender of Bonds" herein.

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

The Bonds are limited obligations of the ABAG Finance Authority For Nonprofit Corporations (the "Authority"), secured under the provisions of the Bond Indenture and the Loan Agreement, as described herein, and are payable from Loan Repayments made by the Corporation under the Loan Agreement, from certain funds held under the Bond Indenture, and from payments on an Obligation (the "Series 2009 Obligation") issued under the Master Indenture, described herein, whereunder the members of the Obligated Group (the "Obligated Group") are obligated to make payments on the Series 2009 Obligation in amounts sufficient to pay principal and purchase price of and premium, if any, and interest on the Bonds when due.

NONE OF THE AUTHORITY, THE ASSOCIATION OF BAY AREA GOVERNMENTS ("ABAG"), OR THE MEMBERS OF THE AUTHORITY OR ABAG SHALL BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS OF THE AUTHORITY OR ABAG OR ANY OF THEIR MEMBERS FOR ALL OR ANY PORTION OF THE BONDS. THE BONDS SHALL NOT CONSTITUTE A DEBT OR LIABILITY OF THE AUTHORITY OR ABAG OR THE MEMBERS OF THE AUTHORITY OR ABAG OR THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. THE FAITH AND CREDIT OF NEITHER THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF NOR OF THE AUTHORITY OR ABAG OR THE MEMBERS OF THE AUTHORITY OR ABAG IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR PREMIUM, IF ANY, OR INTEREST ON THE BONDS. NEITHER THE AUTHORITY NOR ABAG HAS ANY TAXING POWER.

This Official Statement describes certain terms of the Bonds applicable while the Bonds bear interest at a Weekly Interest Rate. There are significant changes in the terms of the Bonds while the Bonds accrue interest in other Interest Rate Periods. This Official Statement is not intended to provide information with respect to the Bonds in any other Interest Rate Period or if the Bonds are no longer secured by the Letter of Credit.

This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of the Bonds. Investors should read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Bonds are offered when, as and if received by the Underwriter, subject to prior sale and to the approval of the validity of the Bonds and certain legal matters by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, the approval of certain matters for the Authority by its special counsel Chapman and Cutler LLP, San Francisco, California, for the Obligated Group by its special counsel, Hooper, Lundy & Bookman, Inc., San Diego, California, for the Bank by Morrison & Foerster LLP, Los Angeles, California and for the Underwriter by its special counsel, Sonnenschein Nath & Rosenthal LLP, Chicago, Illinois. It is expected that the Bonds in book-entry form will be available for delivery to DTC in New York, New York, on or about February 12, 2009.

Citi

The date of this Official Statement is February 4, 2009

NEW ISSUE—BOOK ENTRY ONLY **RATINGS: See "RATINGS" herein.**

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings in calculating corporate alternative minimum taxable income Bond Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds See "TAX MATTERS" herein

$60,000,000
ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
Variable Rate Revenue Bonds
(Sharp HealthCare)
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Dated: Date of Delivery **Price: 100%** **Due: August 1, 2024**

The Series 2009A Bonds (the "Bonds") will initially bear interest at a Weekly Interest Rate as determined by the Remarketing Agent as described herein While in a Weekly Interest Rate Period, interest on the Bonds is payable on the first Wednesday of each month, commencing March 4, 2009, or, if the first Wednesday is not a Business Day, the next succeeding Business Day At the election of Sharp HealthCare (the "Corporation"), the Bonds may be converted, in whole, to bear interest in other Interest Rate Periods as described herein While in a Weekly Interest Rate Period, the Bonds will be issued in denominations of $100,000 or any integral multiple of $5,000 in excess thereof The Bonds will be registered in the name of Cede & Co , as nominee of The Depository Trust Company, New York, New York ("DTC"), under the book-entry only system maintained by DTC Beneficial owners of Bonds will not receive physical certificates representing the Bonds purchased but will receive a credit balance on the books of the nominees of such purchasers So long as Cede & Co is the registered owner of the Bonds, principal and purchase price of, premium, if any, and interest on the Bonds will be paid by The Bank of New York Mellon Trust Company, N A , as trustee, to DTC, which, in turn, will remit such principal, purchase price, premium, if any, and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds, as described herein

The principal and purchase price of and interest on the Bonds are payable from the proceeds of draws under a direct-pay Letter of Credit, dated February 12, 2009 (the "Letter of Credit"), to be issued by Bank of America, N A (the "Bank") The initial expiration date of the Letter of Credit is February 13, 2012, unless extended or earlier terminated prior thereto, as described herein The Letter of Credit will entitle the Bond Trustee to draw amounts up to the principal of and up to 35 days' accrued interest on the Bonds at the Maximum Interest Rate of 12% See "THE BANK," "THE LETTER OF CREDIT" and "THE REIMBURSEMENT AGREEMENT" herein

Bank of America

Holders of the Bonds will have the option to tender their Bonds or portions thereof in authorized denominations for purchase at the principal amount thereof plus accrued interest thereon, at the times and subject to the conditions described herein Holders of the Bonds will be required to tender their Bonds for purchase at the principal amount thereof plus accrued interest thereon, under certain circumstances as described herein See "THE BONDS – Tender of Bonds" herein

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

The Bonds are limited obligations of the ABAG Finance Authority For Nonprofit Corporations (the "Authority"), secured under the provisions of the Bond Indenture and the Loan Agreement, as described herein, and are payable from Loan Repayments made by the Corporation under the Loan Agreement, from certain funds held under the Bond Indenture, and from payments on an Obligation (the "Series 2009 Obligation") issued under the Master Indenture, described herein, whereunder the members of the Obligated Group (the "Obligated Group") are obligated to make payments on the Series 2009 Obligation in amounts sufficient to pay principal and purchase price of and premium, if any, and interest on the Bonds when due

NONE OF THE AUTHORITY, THE ASSOCIATION OF BAY AREA GOVERNMENTS ("ABAG"), OR THE MEMBERS OF THE AUTHORITY OR ABAG SHALL BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS OF THE AUTHORITY OR ABAG OR ANY OF THEIR MEMBERS FOR ALL OR ANY PORTION OF THE BONDS THE BONDS SHALL NOT CONSTITUTE A DEBT OR LIABILITY OF THE AUTHORITY OR ABAG OR THE MEMBERS OF THE AUTHORITY OR ABAG OR THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION THE FAITH AND CREDIT OF NEITHER THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF NOR OF THE AUTHORITY OR ABAG OR THE MEMBERS OF THE AUTHORITY OR ABAG IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR PREMIUM, IF ANY, OR INTEREST ON THE BONDS NEITHER THE AUTHORITY NOR ABAG HAS ANY TAXING POWER

This Official Statement describes certain terms of the Bonds applicable while the Bonds bear interest at a Weekly Interest Rate. There are significant changes in the terms of the Bonds while the Bonds accrue interest in other Interest Rate Periods. This Official Statement is not intended to provide information with respect to the Bonds in any other Interest Rate Period or if the Bonds are no longer secured by the Letter of Credit.

This cover page contains certain information for general reference only It is not intended to be a summary of the security or terms of the Bonds Investors should read the entire Official Statement to obtain information essential to the making of an informed investment decision

The Bonds are offered when, as and if received by the Underwriter, subject to prior sale and to the approval of the validity of the Bonds and certain legal matters by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, the approval of certain matters for the Authority by its special counsel Chapman and Cutler LLP, San Francisco, California, for the Obligated Group by its special counsel, Hooper, Lundy & Bookman, Inc , San Diego, California, for the Bank by Morrison & Foerster LLP, Los Angeles, California and for the Underwriter by its special counsel, Sonnenschein Nath & Rosenthal LLP, Chicago, Illinois It is expected that the Bonds in book-entry form will be available for delivery to DTC in New York, New York, on or about February 12, 2009

Citi

The date of this Official Statement is February 4, 2009

The information relating to the Authority contained herein under the headings "THE AUTHORITY" and "LITIGATION—The Authority" has been furnished by the Authority. The information relating to the Bank set forth herein under the caption "THE BANK" has been furnished by the Bank, and the information relating to the Letter of Credit and Reimbursement Agreement set forth herein under the captions "THE LETTER OF CREDIT" and "THE REIMBURSEMENT AGREEMENT" has been furnished by the Bank's counsel. Such information is believed to be reliable but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Authority, the Obligated Group or the Underwriter. All other information contained herein has been obtained from the Obligated Group, DTC, the Bank and other sources (other than the Authority) that are believed to be reliable. Such other information is not guaranteed as to accuracy or completeness and is not to be relied upon or construed as a promise or representation by the Authority, the Obligated Group or the Underwriter. 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 responsibilities 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.

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

In connection with the offering of the Bonds, the Underwriter may over-allot or effect transactions that stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

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

Forward-Looking Statements

This Official Statement contains disclosures which contain forward-looking statements. Forward-looking statements include all statements that do not relate solely to historical or current fact, and can be identified by use of words like "may," "believe," "will," "expect," "project," "estimate," "anticipate," "plan," "pro forma," or "continue." These forward-looking statements are based on the current plans and expectations of the Obligated Group and are subject to a number of known and unknown uncertainties and risks, many of which are beyond the Obligated Group's control, that could significantly affect current plans and expectations and the Obligated Group's future financial position and results of operations. These factors include, but are not limited to, (i) the highly competitive nature of the health care business, (ii) the efforts of insurers, health care providers and others to contain health care costs, (iii) possible changes in the Medicare and Medicaid programs that may impact reimbursements to health care providers and insurers, (iv) changes in federal, state or local regulations affecting the health care industry, (v) the possible enactment of federal or state health care reform, (vi) the ability to attract and retain qualified management and other personnel, including affiliated physicians, nurses and medical support personnel, (vii) liabilities and other claims asserted against the Obligated Group, (viii) changes in accounting standards and practices, (ix) changes in general economic conditions, (x) future divestitures or acquisitions which may result in additional charges, (xi) changes in revenue mix and the ability to enter into and renew managed care provider arrangements on acceptable terms, (xii) the availability and terms of capital to fund future expansion plans of the Obligated Group and to provide for ongoing capital expenditure needs, (xiii) changes in business strategy or development plans, (xiv) delays in receiving payments as a result of state budget constraints, (xv) the ability to implement shared services and other initiatives and realize decreases in administrative, supply and infrastructure costs, (xvi) the outcome of pending and any future litigation, (xvii) the Obligated Group's continuing efforts to monitor, maintain and comply with appropriate laws, regulations, policies and procedures relating to its status as a tax-exempt organization as well as its ability to comply with the requirements of Medicare and Medicaid programs, (xviii) the ability to achieve expected levels of patient volumes and control the costs of providing services, (xix) results of reviews of cost reports of Members of the Obligated Group, and (xx) the Obligated Group's ability to comply with legislation and/or regulations. As a consequence, current plans, anticipated actions and future financial position and results of operations may differ from those expressed in any forward-looking statements made by or on behalf of the Obligated Group. Investors are cautioned not to unduly rely on such forward-looking statements when evaluating the information presented in this Official Statement, including APPENDIX A.

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OFFICIAL STATEMENT

$60,000,000
ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
Variable Rate Revenue Bonds
(Sharp HealthCare)
Series 2009A

INTRODUCTORY STATEMENT

The following introductory statement is subject in all respects to the more complete information set forth in this Official Statement. All descriptions and summaries of documents referred to herein do not purport to be comprehensive or definitive and are qualified in their entirety by reference to each such document. Terms used in this Official Statement and not otherwise defined have the same meanings as in the Bond Indenture (as defined below). See APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS—Definitions of Certain Terms."

Purpose of the Official Statement

This Official Statement, including the cover page, the inside cover page and the appendices hereto, is provided to furnish information in connection with the sale and delivery of $60,000,000 aggregate principal amount of ABAG Finance Authority For Nonprofit Corporations (the "Authority") Variable Rate Revenue Bonds (Sharp HealthCare), Series 2009A (the "Bonds").

The Bonds

The Bonds will be issued pursuant to and secured by a Bond Indenture dated as of February 1, 2009 (the "Bond Indenture"), between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Bond Trustee"). The Authority will lend the proceeds of the Bonds to Sharp HealthCare (the "Corporation"), which loan will be evidenced by a Loan Agreement dated as of February 1, 2009 (the "Loan Agreement"), between the Authority and the Corporation, and will be secured by payments under the Series 2009 Obligation issued pursuant to the Master Indenture (each as defined below).

Under the Bond Indenture, the Bonds are authorized to be issued in the Daily Interest Rate Period, Weekly Interest Rate Period, Short-Term Interest Rate Period or a Long-Term Interest Rate Period. The Bonds initially will bear interest at a Weekly Interest Rate. While the Bonds bear interest at a Weekly Interest Rate, interest on the Bonds is payable on the first Wednesday of each calendar month, or, if the first Wednesday is not a Business Day, the next succeeding Business Day. Thereafter, the Bonds may be converted in whole to bear interest in another Interest Rate Period. See "THE BONDS" herein. See also APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS – BOND INDENTURE."

The Bonds will be subject to optional tender for purchase by the Holders thereof while in a Weekly Interest Rate Period, and will be subject to mandatory tender upon certain events, including the conversion to a different Interest Rate Period, provided certain conditions to conversion are satisfied as described herein. See "THE BONDS—Tender of Bonds" herein.

The Obligated Group and the Master Indenture

The Corporation, Sharp Memorial Hospital ("Memorial"), Sharp Chula Vista Medical Center ("Chula Vista") and Grossmont Hospital Corporation ("Grossmont"), each California nonprofit public benefit corporations, are currently the only Members of the Obligated Group as such terms are used in the Master Indenture of Trust, dated as of June 1, 1988, as supplemented and amended to date (the "Original

Master Indenture"), and as further supplemented by that certain Supplemental Master Indenture for Obligation No. 22 dated as of February 1, 2009 ("Supplement No. 22" and, together with the Original Master Indenture as it may be further supplemented and amended from time to time, the "Master Indenture"), among the Members of the Obligated Group and The Bank of New York Mellon Trust Company, N.A., as successor master trustee (the "Master Trustee"). The Members of the Obligated Group and their affiliates and operations are collectively referred to herein as the "System". Pursuant to the Master Indenture, the Corporation is authorized to act as agent on behalf of the Members of the Obligated Group.

The System is a not-for-profit integrated regional health care delivery system based in San Diego, California. The Members of the Obligated Group own or lease and operate four acute-care hospitals and three specialty hospitals, plus a full spectrum of other facilities and services. For a description of the System, its facilities and financial performance, see APPENDIX A – "INFORMATION CONCERNING SHARP HEALTHCARE AND THE OBLIGATED GROUP."

Security for the Bonds

The Bonds are payable from payments made by the Corporation under the Loan Agreement (the "Loan Repayments"), from payments made by the Members of the Obligated Group on the Series 2009 Obligation and from certain funds held under the Bond Indenture.

In order to secure the obligation of the Corporation to make payments under the Loan Agreement, the Corporation will deliver to the Bond Trustee an Obligation (the "Series 2009 Obligation") issued pursuant to Supplement No. 22. Pursuant to the Master Indenture, the Members of the Obligated Group agree to make payments on the Series 2009 Obligation in amounts sufficient to pay, when due, the principal of and premium, if any, and interest on the Bonds. Each Obligated Group Member is jointly and severally obligated to make payments on all Obligations issued under the Master Indenture, including the Series 2009 Obligation. The Series 2009 Obligation will entitle the Bond Trustee, as the holder thereof, to the benefit of the covenants, restrictions and other obligations imposed upon the Obligated Group under the Master Indenture. For a discussion of the enforceability of the Master Indenture and Obligations against Members of the Obligated Group, see "BONDHOLDERS' RISKS — Security and Enforceability—Enforceability of the Master Indenture, the Loan Agreement and the Series 2009 Obligation" herein.

The obligations of the Members of the Obligated Group to pay amounts due on Obligations, including the Series 2009 Obligation, will be secured by a pledge of the Gross Revenues of each Member. See "SECURITY FOR THE BONDS—The Master Indenture—Pledge of Gross Revenues" herein.

In certain circumstances, the Corporation may authorize the issuance of additional Obligations under the Master Indenture that will be equally and ratably secured under the Master Indenture with the Series 2009 Obligation.

The Letter of Credit

Concurrently with and as a condition to the issuance of the Bonds, the Corporation will cause to be delivered to the Bond Trustee under the Bond Indenture, for the benefit of the owners of the Bonds, a direct-pay Letter of Credit, dated February 12, 2009 (the "Letter of Credit"), to be issued by Bank of America, N.A. (the "Bank").

The Letter of Credit will be issued pursuant to a Letter of Credit and Reimbursement Agreement dated as of February 12, 2009 (the "Reimbursement Agreement"), between the Bank and the Corporation, on behalf of itself and the Members of the Obligated Group. The Letter of Credit, any alternate credit facility and any alternate liquidity facility are defined under the Bond Indenture as the "Credit Facility" or "Liquidity Facility," as appropriate. The Bond Trustee will be entitled under the Letter of Credit to draw up to (i) the principal amount of the Bonds to enable the Bond Trustee to pay the principal of the Bonds when due at maturity, upon redemption or acceleration, or upon tender, if such tendered Bonds are not successfully remarketed by the remarketing agent for the Bonds, plus (ii) 35 days' accrued interest on the Bonds at the Maximum Interest Rate of 12% per annum on the principal amount of the Bonds, to enable the Bond Trustee to pay interest on the Bonds. The initial expiration date of the Letter of Credit is February 13, 2012, unless extended or earlier terminated, as described herein. For information regarding the Letter of Credit, see "THE BANK," "THE LETTER OF CREDIT," and "THE REIMBURSEMENT AGREEMENT" herein.

Pursuant to the Bond Indenture, the Bond Trustee will pay the interest on and principal of the Bonds, including payment of principal of and interest on the Bonds upon redemption, when due solely from Available Moneys, including moneys drawn under the Letter of Credit, unless the Bank has failed to honor a properly presented and conforming drawing with respect to such Letter of Credit, in which case the Bond Trustee will pay the principal of and interest on such Bond from Revenues (as defined in the Bond Indenture).

In order to secure the obligation of the Obligated Group to make payments under the Reimbursement Agreement, the Corporation will deliver to the Bank an Obligation (the "Bank Obligation") issued pursuant to the Master Indenture, as supplemented by Supplemental Master Indenture for Obligation No. 23 dated as of February 1, 2009 (the "Series 2009 Bank Supplement"), between the Corporation and the Master Trustee.

Credit Provider Covenants

The Master Indenture contains certain additional covenants and restrictions solely for the benefit of certain providers of credit enhancement (the "Credit Providers") on the Corporation's outstanding indebtedness (the "Credit Provider Covenants"). These Credit Provider Covenants and restrictions may be waived, modified or amended by the applicable Credit Provider(s) in their sole discretion and without notice to or consent by the bond trustee of any outstanding bonds, the Bond Trustee, the Master Trustee, the holders of outstanding bonds, including the Bonds, the holders of any Obligations or any other Person. Violation of any of such covenants may result in an Event of Default under the Master Indenture which could result in acceleration of all of the Obligations, including the Series 2009 Obligation.

Outstanding Indebtedness and Obligations

Immediately following the issuance of the Bonds, approximately $441 million in principal amount of Indebtedness will be outstanding and secured by Obligations issued under the Master Indenture (excluding Obligations issued by the Corporation in connection with interest rate hedging agreements or to providers of credit or liquidity enhancement). See Note 5 to the audited combined financial statements of the Corporation included in APPENDIX B.

Remarketing Agent

The Corporation has appointed Citigroup Global Markets Inc. as the initial remarketing agent (the "Remarketing Agent") for the Bonds under the Bond Indenture. The Remarketing Agent may be removed or replaced at any time, subject to the terms and conditions of the Bond Indenture and the Remarketing Agreement, dated as of February 1, 2009 (the "Remarketing Agreement"), between the Corporation and the Remarketing Agent.

Bondholders' Risks

There are risks associated with the purchase of the Bonds. See the information under the heading "BONDHOLDERS' RISKS" in this Official Statement for a discussion of certain of these risks.

Miscellaneous

The foregoing and subsequent summaries or description of provisions of the Bonds, the Bond Indenture, the Loan Agreement, the Master Indenture, the Reimbursement Agreement, the Remarketing

Agreement and the Series 2009 Obligation and all references to other documents and other materials related to issuance of the Bonds are not quoted in full and are only brief outlines of some of the provisions thereof and do not purport to summarize or describe all of the provisions thereof. Reference is made to said documents for full and complete statements of their provisions. The Appendices attached hereto are a part of this Official Statement. Following the issuance and sale of the Bonds, copies, in reasonable quantity, of the Bond Indenture, the Loan Agreement, the Master Indenture, Supplement No. 22 and the Series 2009 Obligation may be obtained upon request directed to the corporate trust office of the Bond Trustee.

THE AUTHORITY

The Authority is a joint powers authority duly organized and existing under the laws of the State of California. The Authority was formed pursuant to the terms of a Joint Powers Agreement, dated as of April 1, 1990, as amended as of September 18, 1990 and June 9, 1992 (the "Joint Powers Agreement"), and the Joint Exercise of Powers Law of the State (constituting Chapter 5, commencing with Section 6500, of Division 7 of Title 1 of the California Government Code), to assist nonprofit corporations and other entities to obtain financing for projects located within the several jurisdictions of Authority members with purposes serving the public interest.

NONE OF THE AUTHORITY, THE ASSOCIATION OF BAY AREA GOVERNMENTS ("ABAG"), OR THE MEMBERS OF THE AUTHORITY OR ABAG SHALL BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS OF THE AUTHORITY OR ABAG OR ANY OF THEIR MEMBERS FOR ALL OR ANY PORTION OF THE BONDS. THE BONDS SHALL NOT CONSTITUTE A DEBT OR LIABILITY OF THE AUTHORITY OR ABAG OR THE MEMBERS OF THE AUTHORITY OR ABAG OR THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. THE FAITH AND CREDIT OF NEITHER THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF NOR OF THE AUTHORITY OR ABAG OR THE MEMBERS OF THE AUTHORITY OR ABAG IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR PREMIUM, IF ANY, OR INTEREST ON THE BONDS. NEITHER THE AUTHORITY NOR ABAG HAS ANY TAXING POWER.

PLAN OF FINANCE

The Corporation will use the proceeds of the Bonds to refinance $60,000,000 of taxable loans currently outstanding in the aggregate principal amount of $72,500,000 (collectively, the "Taxable Loan"), made to the Corporation and certain of its affiliates by Bank of America, N.A.

The Taxable Loan and Refunded Bonds

The proceeds of the Taxable Loan were used to redeem (i) all of the outstanding principal amount of the Authority's Insured Revenue Bonds (San Diego Hospital Association), Series 2003A (the "Series 2003A Bonds") and (ii) a portion of the Authority's Insured Revenue Bonds (San Diego Hospital Association), Series 2003B (the "Series 2003B Bonds") in the aggregate principal amount of $15,100,000, due to the disruption in the market for auction rate indebtedness. The Series 2003B Bonds redeemed with a portion of the Taxable Loan are referred to herein as the "Refunded Series 2003B Bonds" and, together with the Series 2003A Bonds as the "Refunded Bonds." The Corporation redeemed the balance of the Series 2003 Bonds not redeemed with a portion of the Taxable Loan with funds of the Corporation.

Additional Bonds

The Corporation's plan of finance for 2009 currently includes, in addition to the Bonds, the issuance of tax-exempt bonds in an aggregate amount not to exceed approximately $140 million, the proceeds of which would be used to refinance the balance of the Taxable Loan that will remain outstanding after the issuance of the Bonds, and for reimbursement related to various capital expenditures. The Corporation is monitoring market conditions, and there is no assurance that such bonds will be issued on behalf of the Corporation, or if such bonds are issued, the principal amount thereof or the type of interest rate period in which such bonds will bear interest.

THE BONDS

The following is a summary of certain provisions of the Bonds. Reference is made to the Bonds for the complete text thereof and to the Bond Indenture for all of the provisions relating to the Bonds. The discussion herein is qualified by such reference. See APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS - BOND INDENTURE."

This Official Statement describes certain terms of the Bonds applicable while the Bonds bear interest at a Weekly Interest Rate. There are significant changes in the terms of the Bonds while the Bonds accrue interest in another Interest Rate Period. This Official Statement is not intended to provide information with respect to the Bonds in any other Interest Rate Period or if the Bonds are no longer secured by the Letter of Credit.

Description of the Bonds

The Bonds are being issued pursuant to the Bond Indenture in the aggregate principal amount set forth on the cover of this Official Statement. Under the Bond Indenture, the Bonds are variable rate bonds that are authorized to be issued in the Daily Interest Rate Period, Weekly Interest Rate Period, Short-Term Interest Rate Period or Long-Term Interest Rate Period. The Bonds initially will bear interest at a Weekly Interest Rate. Thereafter, the Bonds may be converted in whole to bear interest in another Interest Rate Period. While in a Weekly Interest Rate Period, the Bonds will be delivered in fully registered form without coupons. The Bonds will be dated the date of delivery and are payable as to principal, subject to the redemption provisions described herein, on the date and in the amount set forth on the cover of this Official Statement. The Bonds will be transferable and exchangeable as set forth in the Bond Indenture and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only, in denominations of $100,000 or any integral multiple of $5,000 in excess thereof. See "THE BONDS—Book-Entry System."

The Bonds will bear interest at a Weekly Interest Rate until the Bonds are converted to another Interest Rate Period as described herein or, maturity or prior redemption. While in a Weekly Interest Rate Period, interest on the Bonds is payable on the first Wednesday of each calendar month, commencing March 4, 2009, or, if the first Wednesday is not a Business Day, the next succeeding Business Day (each an "Interest Payment Date"). Interest is payable to the person whose name appears on the bond registration books of the Bond Trustee as the Holder thereof as of the close of business on the Record Date (which is the Business Day immediately preceding an Interest Payment Date) for each Interest Payment Date (except with respect to interest in default, for which a special record date shall be established). So long as Cede & Co. is the registered owner of the Bonds, principal and purchase price of and premium, if any, and interest on the Bonds are payable by wire transfer by the Bond Trustee to Cede & Co., as nominee for DTC, which, in turn, will remit such amounts to DTC Participants (as defined herein) for subsequent disbursement to the Beneficial Owners. See APPENDIX E – "BOOK-ENTRY ONLY SYSTEM."

If the book-entry system for the Bonds is ever discontinued, payment of interest on the Bonds will be made by check mailed by first-class mail on each Interest Payment Date to each Holder at its address as it appears on the bond registration books maintained by the Bond Trustee or, at the written request of any Holder of at least one million dollars ($1,000,000) in aggregate principal amount of Bonds, submitted to the Bond Trustee at least one Business Day prior to the Record Date, by wire transfer in immediately available funds to an account within the United States designated by the Holder and payment of the principal or redemption price of the Bonds will be payable upon presentation and surrender of the Bonds at the designated corporate trust office of the Bond Trustee.

Interest on the Bonds

Weekly Interest Rate Period. While the Bonds are in a Weekly Interest Rate Period, the Bonds will bear interest at the Weekly Interest Rate, which will be determined by the Remarketing Agent no later than 5:00 p.m., New York City time, on each Tuesday, or if such day is not a Business Day, then on the next succeeding Business Day. The first Weekly Interest Rate will be determined by the Remarketing Agent prior to the date of issuance of the Bonds and will apply to the period commencing on the date of issuance of the Bonds and ending on the next succeeding Tuesday (whether or not a Business Day). Thereafter, each Weekly Interest Rate will apply to the period commencing on the first Wednesday on or after the date of determination thereof (whether or not a Business Day) and ending on the next succeeding Tuesday (whether or not a Business Day), unless such Weekly Interest Rate Period ends on a day other than a Tuesday, in which event the last Weekly Interest Rate will apply to the period commencing on the Wednesday (whether or not a Business Day) preceding the last day of such Weekly Interest Rate Period and ending on the last day of such Weekly Interest Rate Period.

Weekly Interest Rate. Interest on the Bonds in a Weekly Interest Rate Period will be computed on the basis of a 365- or 366 day year for the actual number of days elapsed. The Weekly Interest Rate will be the rate of interest per annum determined by the Remarketing Agent to be the minimum interest rate which, if borne by the Bonds, would enable the Remarketing Agent to sell the Bonds on the effective date and at the time of such determination at a price (without regarding accrued interest) equal to the principal amount thereof. In the event that the Remarketing Agent fails to establish a Weekly Interest Rate for any week, then the Weekly Interest Rate for such week will be the same as the Weekly Interest Rate for the immediately preceding week if the Weekly Interest Rate for such preceding week was determined by the Remarketing Agent. In the event that the Weekly Interest Rate for the immediately preceding week was not determined by the Remarketing Agent, or in the event that the Weekly Interest Rate determined by the Remarketing Agent is held to be invalid or unenforceable by a court of law, then the interest rate for such week, as determined by the Remarketing Agent, will be equal to 110% of the SIFMA Index on the day such Weekly Interest Rate would otherwise be determined as provided in the Bond Indenture for such Weekly Interest Rate Period, or if such index is no longer available, 85% of the interest rate on 30 day high grade unsecured commercial paper notes sold through dealers by major corporations as reported in *The Wall Street Journal* on the day such Weekly Interest Rate would otherwise be determined as provided in the Bond Indenture for such Weekly Interest Rate Period. In any case, the Weekly Interest Rate will not exceed the lesser of 12% per annum and the Maximum Lawful Rate (the "Maximum Interest Rate").

Converting Interest Rate Periods

The Corporation may elect to convert the Bonds to another Interest Rate Period (a "Conversion") by providing written notice of its election to the Bond Trustee, the Tender Agent, the Remarketing Agent and the Bank. Such Conversion will be effective on a Business Day not earlier than the tenth (10th) day following the second Business Day after receipt by the Bond Trustee of such notice. Upon Conversion from a Weekly Interest Rate Period, the converted Bonds will accrue interest in a Daily Interest Rate Period, a Short-Term Interest Rate Period or a Long-Term Interest Rate Period. The Bond Trustee shall provide notice by first-class mail of such Conversion to the Holders of the Bonds not less than 10 days prior to the proposed effective date of such Conversion. The Bonds to be converted will be subject to mandatory tender for purchase on the first day of each new Interest Rate Period subject to the terms of the Bond Indenture. If any condition of Conversion described under the Bond Indenture is not satisfied, the Bonds will continue to bear interest in the Weekly Interest Rate Period, and will be subject to mandatory tender for purchase on the proposed date of the Conversion (the "Purchase Date").

The Corporation may rescind its election to convert the Bonds to another Interest Rate Period by delivering a notice to that effect to the Bond Trustee, the Authority, the Tender Agent, the Remarketing Agent and the Bank, on or prior to 10:00 a.m., New York City time, on the Business Day preceding the effective date of the proposed Conversion. If the Corporation rescinds its election to convert the Bonds, then the Bonds will remain in the Weekly Interest Rate Period. However, if at the time the Corporation rescinds its election to convert the Bonds, the Bond Trustee has already mailed a notice of such Conversion to the Holders of the Bonds to be converted, then the Bonds will be subject to mandatory tender for purchase on the proposed date of such Conversion.

Tender of Bonds

Optional Tender. While in a Weekly Interest Rate Period, any Bond, other than Liquidity Facility Bonds or Bonds owned by, for the account of, or on behalf of, the Authority, the Corporation or any Member, or any affiliate of the Corporation or any Member (an "Eligible Bond") shall be purchased from its Holder at the option of the Holder on any Business Day at a purchase price equal to the principal amount thereof plus accrued interest, if any, from and including the Interest Accrual Date immediately preceding the date of purchase through and including the day immediately preceding the date of purchase, unless the date of purchase shall be an Interest Payment Date in which case at a purchase price equal to the principal amount thereof (the "Purchase Price"), payable in immediately available funds, upon delivery to the Tender Agent at its Principal Office for delivery of notices and to the Remarketing Agent of an irrevocable written notice which states the name, the principal amount and the date on which the same shall be purchased, which date shall be a Business Day not prior to the seventh day next succeeding the date of the delivery of such notice to the Tender Agent. Any notice delivered to the Tender Agent after 4:00 p.m., New York City time, shall be deemed to have been received on the next succeeding Business Day. For payment of such Purchase Price on the date specified in such notice, such Bond must be delivered, at or prior to 10:00 a.m., New York City time, on the date specified in such notice, to the Tender Agent at its Principal Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Tender Agent, executed in blank by the Holder thereof or by the Holder's duly-authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange.

Mandatory Tender for Purchase on First Day of Each Interest Rate Period. The Bonds are subject to mandatory tender for purchase at the Purchase Price, payable in immediately available funds, on the first day of each Interest Rate Period or on the day which would have been the first day of an Interest Rate Period in the event that one of the conditions precedent to the adjustment to a new Interest Rate Period shall not be met as described in the Bond Indenture. For payment of such Purchase Price on the date specified in such notice, such Bond must be delivered, at or prior to 10:00 a.m., New York City time, on the date specified in such notice, to the Tender Agent at its Principal Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Tender Agent, executed in blank by the Holder thereof or by the Holder's duly-authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange.

In connection with any such mandatory tender for purchase of Bonds, the Tender Agent shall give notice by first-class mail to the Holders of the Bonds, as part of the notice of Conversion, not less than 10 days prior to the proposed effective date of such Conversion, stating: (1) that the Purchase Price of any Bond so subject to mandatory tender for purchase shall be payable only upon surrender of such Bond to the Tender Agent at its Principal Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Tender Agent, executed in blank by the Holder thereof or by the Holder's duly-authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange; (2) that all Bonds so subject to mandatory tender for purchase shall be purchased on the mandatory purchase date, which shall be explicitly stated; and (3) that in the event that any Holder of a Bond so subject to mandatory tender for purchase shall not surrender such Bond to the Tender Agent for purchase on such mandatory purchase date, then such Bond shall be deemed to be an Undelivered Bond, and that no interest shall accrue thereon on and after such mandatory purchase date and that the Holder thereof shall have no rights under the Bond Indenture other than to receive payment of the Purchase Price thereof.

Mandatory Tender for Purchase Upon Termination, Substitution or Expiration of Liquidity Facility or Credit Facility; Mandatory Credit/Liquidity Tender. If at any time (i) the Bonds cease to be subject to purchase pursuant to the Liquidity Facility or the Credit Facility then in effect as a result of the termination, replacement or expiration of the term, as extended, of that Liquidity Facility or Credit Facility, including but not limited to termination at the option of the Corporation in accordance with the terms of such Liquidity Facility or Credit Facility, or (ii) the Bond Trustee receives notice from the Credit Facility Provider or the Liquidity Facility Provider, as the case may be, that an event with respect to the applicable Reimbursement Agreement, the Credit Facility or the Liquidity Facility has occurred which requires or gives the Credit Facility Provider or Liquidity Facility Provider the option to terminate the Credit Facility or Liquidity Facility or cause a mandatory tender of Bonds upon the designated notice (a "Mandatory Credit/Liquidity Tender"), then the Bonds shall be subject to mandatory tender for purchase at the Purchase Price. Any purchase of Bonds in the case of such a mandatory tender shall occur: (1) on the fifth Business Day preceding any such expiration or termination of such Liquidity Facility or Credit Facility without replacement, (2) on the fifth Business Day following receipt by the Bond Trustee of notice from the Credit Facility Provider or Liquidity Facility Provider of a Mandatory Credit/Liquidity Tender, but in no event later than the second Business Day preceding any expiration of such Credit Facility or Liquidity Facility, and (3) on the proposed date of the replacement of a Liquidity Facility, a Self-Liquidity Arrangement or a Credit Facility, in any case where an Alternate Liquidity Facility is to be delivered to the Tender Agent, a Self-Liquidity Arrangement is to become effective or a Credit Facility or an Alternate Credit Facility is to be delivered to the Bond Trustee. For payment of such Purchase Price on the date specified in such notice, such Bond must be delivered, at or prior to 10:00 a.m., New York City time, on the date specified in such notice, to the Tender Agent at its Principal Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Tender Agent, executed in blank by the Holder thereof or by the Holder's duly-authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange.

The Bond Trustee shall give notice by first-class mail to the Holders of the Bonds on or before (1) the tenth day preceding the expiration or termination of a Credit Facility or Liquidity Facility in accordance with its terms or the proposed replacement of such Credit Facility or Liquidity Facility and (2) the second Business Day after receipt of a notice of Mandatory Credit/Liquidity Tender. Such notice shall, to the extent applicable, (1) state the date of such expiration, termination or proposed replacement of such Credit Facility or Liquidity Facility or Mandatory Credit/Liquidity Tender, (2) state that the Bonds are subject to mandatory tender for purchase as a result of such expiration, termination or proposed replacement or Mandatory Credit/Liquidity Tender, (3) state the date on which such purchase will occur and set forth the Purchase Price and the place of delivery for purchase of the Bonds, and (4) provide any other information necessary to effect a mandatory tender for purchase.

Mandatory Tender for Purchase at the Direction of the Corporation. During any Weekly Interest Rate Period, the Bonds are subject to mandatory tender for purchase on any Business Day designated by the Corporation, with the consent of the Remarketing Agent and the Liquidity Facility Provider, if any, at the Purchase Price, payable in immediately available funds. Such purchase date shall be a Business Day not earlier than the 10th day following the second Business Day after receipt by the Bond Trustee of such designation. The Bond Trustee shall give notice by first-class mail to the Holders of the Bonds subject to mandatory tender not less than 10 days prior to the mandatory tender date. For payment of the Purchase Price on the Purchase Date, Bonds must be delivered at or prior to 10:00 a.m. on the Purchase Date. If delivered after that time, the Purchase Price shall be paid on the next succeeding

Business Day. The Purchase Price shall be payable only upon surrender of the Bonds to the Tender Agent at its Principal Office for delivery of Bonds, accompanied by an instrument of transfer, in form satisfactory to the Tender Agent, executed in blank by the Bondholder or its duly authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange.

Effect of Election to Tender or Mandatory Tender for Purchase of Bonds. The giving of notice by a Holder of a Bond that such Holder elects to have such Bond purchased during a Weekly Interest Rate Period shall constitute the irrevocable tender for purchase of such Bond with respect to which such notice shall have been given, regardless of whether such Bond is delivered to the Tender Agent for purchase on the relevant purchase date. The Tender Agent may refuse to accept delivery of any Bond for which a proper instrument of transfer has not been provided; such refusal, however, shall not affect the validity of the purchase of such Bond as herein described. The Tender Agent for the Bonds shall determine timely and proper delivery of any Bond and the proper endorsement of such Bond. Such determination shall be binding on the Holder of such Bond, the Corporation and the Remarketing Agent, absent manifest error.

In the event that any Holder of a Bond who shall have given notice of tender for purchase or any Holder of a Bond subject to mandatory tender for purchase shall fail to deliver such Bond to the Tender Agent at the place and on the applicable date and time specified, or shall fail to deliver such Bond properly endorsed, such Bond shall constitute an "Undelivered Bond." If funds in the amount of the Purchase Price of any Undelivered Bond are available for payment to the Holder thereof on the date and at the time specified, then from and after the date and time of that required delivery, (i) such Undelivered Bond shall be deemed to be purchased and shall no longer be deemed to be Outstanding under the Bond Indenture; (ii) interest shall no longer accrue thereon; and (iii) funds in the amount of the Purchase Price of the Undelivered Bond shall be held by the Tender Agent for the benefit of the Holder thereof, to be paid upon delivery (and proper endorsement) of the Undelivered Bond to the Tender Agent at its Principal Office. Any such funds held by the Tender Agent for the purchase of Undelivered Bonds shall be held uninvested.

Payment of Purchase Price. Moneys delivered to the Tender Agent on a Purchase Date shall be applied at or before 3:00 p.m., New York City time, on such Purchase Date to pay the Purchase Price of Purchased Bonds in immediately available funds as follows in the indicated order of application and, to the extent not so applied on such date, shall be held in separate and segregated accounts of the Bond Purchase Fund of the Bond Indenture for the benefit of the Holders of the Purchased Bonds which were to have been purchased:

FIRST: Moneys derived from the remarketing of tendered Bonds and deposited in the Remarketing Proceeds Account of the Bond Indenture;

SECOND: Moneys drawn under a Liquidity Facility, including the Letter of Credit, and deposited in the Liquidity Facility Account of the Bond Indenture; and

THIRD: Moneys provided by the Corporation and deposited in the Corporation Purchase Account of the Bond Indenture.

Any moneys held by the Tender Agent in the Corporation Purchase Account of the Bond Indenture remaining unclaimed by the Holders of the Purchased Bonds which were to have been purchased for three years after the respective Purchase Date for the Bonds shall be paid, upon the written request of the Corporation, to the Corporation against written receipt therefor. The Holders of Purchased Bonds who have not yet claimed money in respect of the Bonds shall thereafter be entitled to look only to the Tender Agent, to the extent it shall hold moneys on deposit in the Bond Purchase Fund, or the Corporation, to the extent moneys have been transferred as described above.

Inadequate Funds for Tenders. If sufficient funds are not available for the purchase of all Bonds tendered or deemed tendered and required to be purchased on any Purchase Date, the failure to pay the Purchase Price of all tendered Bonds when due and payable shall constitute an Event of Default pursuant to the Bond Indenture and all tendered Bonds shall be returned by the Tender Agent to their respective Holders and the Bonds shall bear interest at the Maximum Interest Rate from the date of such failed purchase until all the Bonds are purchased as required in accordance with the Bond Indenture. Any moneys deposited with the Remarketing Agent or transferred to the Tender Agent with respect to such failed remarketing shall be returned to the party depositing those moneys. Thereafter, the Bond Trustee shall continue to take all such action available to it to obtain remarketing proceeds from the Remarketing Agent and sufficient other funds from the Liquidity Facility Provider, the Credit Facility Provider or the Corporation to effect a subsequent successful remarketing of any tendered Bonds. See APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS – BOND INDENTURE -- Events of Default."

Tenders of Bonds Are Subject to DTC Procedures. As long as the book-entry only system is in effect with respect to the Bonds, all tenders for purchase and deliveries of the Bonds tendered for purchase or subject to mandatory tender under the provisions of the Bond Indenture shall be made pursuant to DTC's procedures as in effect from time to time, and none of the Authority, the Corporation, the Bond Trustee or the Remarketing Agent shall have any responsibility for or liability with respect to the implementation of such procedures. For a description of the tender procedures through DTC, see APPENDIX E – "BOOK-ENTRY ONLY SYSTEM" hereto.

Special Consideration Relating to the Bonds

The Remarketing Agent is Paid by the Corporation. The Remarketing Agent's responsibilities include determining the interest rate from time to time and remarketing Bonds that are optionally or mandatorily tendered by the owners thereof (subject, in each case, to the terms of the Remarketing Agreement), all as further described in this Official Statement. The Remarketing Agent is appointed by the Corporation and is paid by the Corporation for its services. As a result, the interests of the Remarketing Agent may differ from those of existing holders and potential purchasers of Bonds.

The Remarketing Agent Routinely Purchases Bonds for its Own Account. The Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, routinely purchases such obligations for its own account. The Remarketing Agent is permitted, but not obligated, to purchase tendered Bonds for its own account and, in its sole discretion, routinely acquires such tendered Bonds in order to achieve a successful remarketing of the Bonds (i.e., because there otherwise are not enough buyers to purchase the Bonds) or for other reasons. However, the Remarketing Agent is not obligated to purchase Bonds and may cease doing so at any time without notice. The Remarketing Agent may also make a market in the Bonds by routinely purchasing and selling Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agent is not required to make a market in any of the Bonds. The Remarketing Agent may also sell any Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Bonds. The purchase of Bonds by the Remarketing Agent may create the appearance that there is greater third-party demand for the Bonds in the market than is actually the case. The practices described above also may result in fewer Bonds being tendered in a remarketing.

Bonds May be Offered at Different Prices on Any Date Including an Interest Rate Determination Date. Pursuant to the Bond Indenture and the Remarketing Agreement, the Remarketing Agent is required to determine the applicable rate of interest that, in its judgment, is the lowest rate that would permit the sale of the Bonds bearing interest at the applicable interest rate at par plus accrued interest, if any, on the date on which such interest rate determination is made. The interest rate will reflect, among other factors, the level of market demand for the Bonds (including whether the Remarketing Agent is willing to purchase Bonds for its own account). There may or may not be Bonds tendered and remarketed on the date on which such interest rate determination is made, the Remarketing Agent may or may not be able to remarket any Bonds tendered for purchase on such date at par and the Remarketing Agent may sell Bonds at varying prices to different investors on such date or any other date.

The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third-party buyers for all of the Bonds at the remarketing price. In the event the Remarketing Agent owns any Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer the Bonds on any date, including the date on which an interest rate determination is made, at a discount to par to some investors.

The Ability to Sell the Bonds other than through Tender Process May Be Limited. The Remarketing Agent may buy and sell Bonds other than through the tender process. However, it is not obligated to do so and may cease doing so at any time without notice and may require holders that wish to tender their Bonds to do so through the Tender Agent with appropriate notice. Thus, investors who purchase the Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Bonds other than by tendering the Bonds in accordance with the tender process.

Under Certain Circumstances, the Remarketing Agent May Be Removed or Resign Without a Successor Being Named. Under certain circumstances the Remarketing Agent may be removed or have the ability to resign or cease its remarketing efforts, without a successor having been named, subject to the terms of the Remarketing Agreement and the Bond Indenture.

Redemption

Optional Redemption. While a Weekly Interest Rate is in effect, the Bonds are subject to redemption prior to their stated maturity at the option of the Authority (which option shall be exercised upon the request of the Corporation given to the Bond Trustee (unless waived by the Bond Trustee) at least fifteen (15) days prior to the date fixed for redemption) in whole or in part (in such amounts as may be specified by the Corporation) on any date at a redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest thereon (if any) to the date fixed for redemption, without premium, but only from Available Moneys (as defined in the Bond Indenture) at any time at which there is a Credit Facility in effect with respect to the Bonds.

Extraordinary Optional Redemption. The Bonds are subject to redemption prior to their stated maturity, at the option of the Authority (which option will be exercised as directed by the Corporation, a copy of which direction shall be delivered to the Bond Trustee at least thirty (30) days prior to the date fixed for redemption, or such shorter period as agreed to in writing by the Bond Trustee) in whole or in part (in such amounts as may be specified by the Corporation), on any date, from certain hazard insurance or condemnation proceeds received with respect to the facilities of any of the Members and deposited in the Special Redemption Account (as defined in the Bond Indenture) in accordance with the Loan Agreement, at a redemption price equal to the principal amount thereof, plus accrued interest thereon (if any) to the date fixed for redemption, without premium, but only from Available Moneys at any time at which there is a Credit Facility in effect with respect to the Bonds.

Mandatory Redemption. The Bonds are also subject to redemption prior to their stated maturity (or payment at maturity, as the case may be) in part from Sinking Fund Installments established pursuant to the Bond Indenture in the amounts set forth below on August 1 of the following dates (provided that, except in the case of the maturity date, if any such August 1 is not an Interest Payment Date, the mandatory sinking fund redemption shall occur on the Interest Payment Date immediately succeeding such August 1), at the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium:

Redemption Date	**Sinking Fund Installments**	**Redemption Date**	**Sinking Fund Installments**
2009	$ 2,935,000	2017	$ 3,840,000
2010	3,055,000	2018	3,950,000
2011	3,125,000	2019	4,095,000
2012	3,260,000	2020	4,215,000
2013	3,365,000	2021	1,855,000
2014	3,485,000	2022	4,995,000
2015	3,580,000	2023	5,200,000
2016	3,685,000	2024†	5,360,000

† Final maturity

Notice of Redemption While in a Weekly Interest Rate Period. Notice of redemption will be mailed by first-class mail by the Bond Trustee, not less than 10 days and not more than 60 days prior to the redemption date, to the Holders of any Bonds called for redemption at their addresses appearing on the bond registration books of the Bond Trustee and to the Master Trustee, with a copy to the Authority. Each notice of redemption shall state the date of such notice, the date of issuance of the Bonds, the redemption date, the Redemption Price, the place or places of redemption (including the name and appropriate address or addresses of the Bond Trustee), the maturity, the CUSIP number, if any, and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each notice shall also state that redemption is conditioned upon (i) receipt by the Bond Trustee of sufficient funds on the redemption date (which shall be Available Moneys if required by the Bond Indenture) to pay the Redemption Price of the Bonds to be redeemed and (ii) the legal ability of the Bond Trustee to apply such funds on the redemption date to the Redemption Price of the Bonds to be redeemed. The failure by the Bond Trustee to mail notice of redemption to any one or more of the Holders of any Bonds designated for redemption shall not affect the sufficiency of the proceedings for the redemption of the Bonds with respect to the Holder or Holders to whom such notice was mailed. Notice of redemption having been given in accordance with the Bond Indenture and moneys for payment of the Redemption Price of, together with interest accrued to the redemption date on, the Bonds (or portions thereof) so called for redemption being held by the Bond Trustee, the Bonds (or portions thereof) so called for redemption shall become due and payable at the Redemption Price specified in such notice together with interest thereon to the redemption date, interest on the Bonds shall cease to accrue from and after the redemption date, said Bonds (or portions thereof) shall cease to be entitled to any benefit or security under the Bond Indenture, and the Holders of said Bonds shall have no rights in respect thereof except to receive payment of said Redemption Price and accrued interest to the date fixed for redemption from funds held by the Bond Trustee for such payment.

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

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

Purchase in Lieu of Redemption. Each Holder, by purchase and acceptance of any Bond, irrevocably grants to the Corporation the option to purchase such Bond at any time such Bond is subject to optional redemption. Such Bond is to be purchased at a purchase price equal to the then applicable Redemption Price of such Bond, plus accrued interest. The Corporation may only exercise such option, after the Corporation shall have delivered a Favorable Opinion of Bond Counsel to the Bond Trustee, and shall have directed the Bond Trustee to provide notice of mandatory purchase, as and to the extent applicable, as described above under "Notice of Redemption While in a Weekly Interest Rate Period." Bonds to be so purchased shall be selected by the Bond Trustee in the same manner as Bonds called for redemption pursuant to the Bond Indenture. On the date fixed for purchase of any Bond in lieu of redemption, the Corporation shall pay the purchase price of such Bond to the Bond Trustee in immediately available funds (which funds shall be Available Moneys at any time a Credit Facility is in effect unless the Credit Facility Provider has failed to honor a properly presented and conforming drawing with respect to the Credit Facility) and the Bond Trustee shall pay the same to the Holders of the Bonds being purchased against delivery thereof. No purchase of any Bond in lieu of redemption shall operate to extinguish the indebtedness of the Authority evidenced by such Bond. No Holder or Beneficial Owner may elect to retain a Bond subject to mandatory purchase in lieu of redemption.

Book-Entry System

The Bonds will be issued in book-entry form. DTC 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). One fully-registered Bond will be issued for the Bonds in the total aggregate principal amount due on the Bonds and will be deposited with DTC. See APPENDIX E – "BOOK-ENTRY ONLY SYSTEM."

The Corporation and the Authority cannot and do not give any assurances that DTC will distribute to DTC Participants or that DTC Participants or others will distribute to the Beneficial Owners payments of principal or purchase price of and interest and premium, if any, on the Bonds or any redemption or other notices or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Neither the Corporation nor the Authority is responsible or liable for the failure of DTC or any DTC Participant or DTC Indirect Participant to make any payments or give any notice to a Beneficial Owner with respect to the Bonds or any error or delay relating thereto.

THE LETTER OF CREDIT

The following summarizes certain provisions of the Letter of Credit. Reference is made to the Letter of Credit for the details and provisions thereof.

The Letter of Credit irrevocably authorizes draws in accordance with its terms in an aggregate amount not exceeding $60,690,410.96 (as reduced and reinstated from time to time in accordance with the provisions of the Letter of Credit, the "Stated Amount"), consisting of (i) the amount of $60,000,000, which may be drawn upon with respect to payment of the unpaid principal amount of, or portion of the purchase price corresponding to the principal of, the Bonds and (ii) the amount of $690,410.96, which may be drawn upon with respect to the payment of up to 35 days' accrued interest on the Bonds, in each case assuming a maximum interest rate of 12% per annum and computed on the basis of the actual number of days elapsed over a year of 365 days.

Subject to the provisions contained in the immediately following paragraph, each drawing under the Letter of Credit shall reduce the Stated Amount by the amount of such drawing.

Upon a drawing to pay interest on the Bonds when required under the Bond Indenture, the Stated Amount will be, on the date such drawing is honored, automatically and immediately reinstated by an amount equal to the amount of such drawing. After a drawing in connection with a purchase of Bonds in accordance with the Bond Indenture (a "Liquidity Drawing") and subsequent receipt by the Bank of a certificate from the Bond Trustee notifying the Bank that the Bank has been reimbursed for all of a portion of such Liquidity Drawing, the Stated Amount will automatically and immediately be reinstated in the amounts set forth in such certificate.

The Letter of Credit will expire on the earliest of (i) February 13, 2012 ("Stated Termination Date"), (ii) when any draft accompanied by the Bond Trustee's certification as to a final drawing is honored and paid by the Bank, (iii) the day on which the Letter of Credit is surrendered by the Bond Trustee accompanied by a surrender certificate, (iv) two (2) business days following the first day on which the basis for calculation of the interest rate on the Bonds is converted from a Weekly Interest Rate Period to another Interest Rate Period pursuant to the Bond Indenture, as certified by the Bond Trustee and (v) thirty (30) days after the Bond Trustee receives a certificate from the Bank with respect to an event of default under the Reimbursement Agreement.

THE REIMBURSEMENT AGREEMENT

The following summarizes certain provisions of the Reimbursement Agreement between the Bank and the Corporation, pursuant to which the Letter of Credit is being issued with respect to the Bonds. Reference is made to the Reimbursement Agreement for the details of the provisions thereof.

The Reimbursement Agreement governs obligations of the Obligated Group to the Bank on account of the Bank issuing the Letter of Credit. Pursuant to the Reimbursement Agreement, the Obligated Group agrees, among other things, to reimburse the Bank for funds provided by the Bank under the Letter of Credit and to pay various fees and expenses, in each case as provided in the Reimbursement Agreement. The Reimbursement Agreement also sets forth various affirmative and negative covenants of the Obligated Group.

Set forth below is an abridged or summarized excerpt of the events of default and remedies sections of the Reimbursement Agreement. This excerpt does not purport to be complete or to cover all sections of the Reimbursement Agreement. Reference is made to the Reimbursement Agreement for a complete statement of the rights, duties and obligations of the Bank and the Obligated Group.

Events of Default

Any of the following shall constitute an event of default under the Reimbursement Agreement:

(a) Any Member of the Obligated Group fails to pay (i) when and as required to be paid herein or in any letter of credit document, any amount of principal of any advance, term loan or any obligation or any letter of credit obligation under the Reimbursement Agreement or (ii) within three days after the same becomes due, any interest on any advance or term loan under the Reimbursement Agreement, or any fee due thereunder, or (iii) within three days after the same becomes due, any other amount payable under the Reimbursement Agreement or under any related document; or

(b) Any Member of the Obligated Group shall fail to perform or observe any term, covenant or agreement contained in any of the negative and affirmative covenants contained in the Reimbursement Agreement (other than covenants relating to investments, modifications to the Bond Indenture, the Purchase Contract, the Continuing Disclosure Agreement and the tax agreement, prepayment of the Bonds, purchase of the Bonds, conversion of the Bonds from the Weekly Interest Rate Period, prepayment of the loan under the Loan Agreement and changes or assignments by the Remarketing Agent or any paying agent); or

(c) Any Member of the Obligated Group fails to perform or observe any other covenant or agreement (not specified in subsection (a) or (b) above) contained in the Reimbursement Agreement or any related document on its part to be performed or observed and such failure continues for thirty (30) days; or

(d) Any representation, warranty, certification or statement of fact made or deemed made by or on behalf of any Member of the Obligated Group in the Reimbursement Agreement or any related document, or in any document delivered in connection therewith shall be incorrect or misleading when made or deemed made; or

(e) (i) Any Member of the Obligated Group (A) fails to make any payment when due (whether by scheduled maturity, required prepayment, acceleration, demand, or otherwise) in respect of any liability or guarantee (other than liabilities thereunder and liabilities under swap contracts) having an aggregate principal amount (including undrawn committed or available amounts) in excess of a threshold amount, or (B) fails to observe or perform any other agreement or condition relating to any such liabilities or guarantee or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event occurs, the effect of which default or other event is to cause, or to permit the holder or holders of such liabilities or the beneficiary or beneficiaries of such guarantee in excess of a threshold amount (or a trustee or agent on behalf of such holder or holders or beneficiary or beneficiaries) to cause, with the giving of notice if required, such liabilities to be demanded or to become due or to be repurchased, prepaid, defeased or redeemed (automatically or otherwise), or an offer to repurchase, prepay, defease or redeem such liabilities to be made, prior to its stated maturity, or such guarantee to become payable or cash collateral in respect thereof to be demanded (provided that this clause (i) shall not apply to secured liabilities that become due as a result of the voluntary sale or transfer of the property or assets securing such liabilities); or (ii) there occurs under any swap contract an early termination date (as defined in such swap contract) resulting from (A) any event of default under such swap contract as to which a Member of the Obligated Group is the defaulting party (as defined in such swap contract) or (B) any termination event (as so defined) under such swap contract as to which a member of the Obligated Group is an affected party (as so defined) and, in either event, the swap termination value owed by the Members of the Obligated Group as a result thereof is greater than the threshold amount; or

(f) Any Member of the Obligated Group institutes or consents to the institution of any proceeding under any debtor relief law, or makes an assignment for the benefit of creditors; or apply for or consent to the appointment of any receiver, trustee, custodian, conservator, liquidator, rehabilitator or similar officer for them or for all or any material part of their property; or any receiver, trustee, custodian, conservator, liquidator, rehabilitator or similar officer is appointed without the application or consent of such person and the appointment continues undischarged or unstayed for forty-five (45) calendar days; or any proceeding under any debtor relief law relating to any such person or to all or any material part of its property is instituted without the consent of such person and continues undismissed or unstayed for forty-five (45) calendar days, or an order for relief is entered in any such proceeding; or

(g) (i) Any Member of the Obligated Group becomes unable or admit in writing its inability or fails generally to pay its debts as they become due, or (ii) any writ or warrant of attachment or execution or similar process is issued or levied against all or any material part of the property of any such person and is not released, vacated or fully bonded within thirty (30) days after its issue or levy; or

(h) There is entered against any Member of the Obligated Group (i) a final non-appealable judgment or order for the payment of money in a specified aggregate amount (to the extent not covered by independent third-party insurance as to which the insurer does not dispute coverage), or (ii) any one or more non-monetary final judgments that have, or could reasonably be expected to have, individually or in the aggregate, a material adverse effect and, in the case of either clause (i) or (ii), (A) enforcement proceedings are commenced by any creditor upon such judgment or order, or (B) there is a period of ten

(10) consecutive days during which a stay of enforcement of such judgment, by reason of a pending appeal or otherwise, is not in effect; or

(i) The Reimbursement Agreement, any related document or any bond document at any time after its execution and delivery and for any reason other than as expressly permitted under the Reimbursement Agreement or satisfaction in full of all the obligations of the Obligated Group under the Reimbursement Agreement, ceases to be in full force and effect; or any Member of the Obligated Group or any other person contests in any manner the validity or enforceability of the Reimbursement Agreement, any related document or bond document; or any Member of the Obligated Group denies that it has any or further liability or obligation under the Reimbursement Agreement, any related document or bond document, or purports to revoke, terminate or rescind the Reimbursement Agreement, any related document or bond document; or

(j) Any "event of default" under and as defined in the Loan Agreement, the Bond Indenture, any other bond document or Master Indenture shall have occurred and not been waived; or

(k) There occurs (a) a material adverse change in, or a material adverse effect upon, the operations, business, properties, liabilities (actual or contingent), condition (financial or otherwise) or prospects of the Members of the Obligated Group or the Members of the Obligated Group and their subsidiaries taken as a whole; (b) a material impairment of the rights and remedies of the Bank under the Reimbursement Agreement or any related document, or of the ability of the Members of the Obligated Group to perform their obligations under the Reimbursement Agreement or any related document to which any of them is a party; or (c) a material adverse effect upon the legality, validity, binding effect or enforceability against any Member of the Obligated Group of the Reimbursement Agreement or any related document to which it is a party.

Remedies

If any event of default occurs and is continuing, the Bank may take any or all of the following actions: (a) declare its commitment to issue the Letter of Credit and to make loans or advances to be terminated, whereupon such commitment shall be terminated; (b) require the Obligated Group immediately to prepay to the Bank in immediately available funds an amount equal to the letter of credit obligations (such amounts to be held by the Bank as collateral security); (c) declare all obligations to be, and such amounts shall thereupon become, immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Obligated Group; (d) give notice of the occurrence of an event of default to the Bond Trustee, directing the Bond Trustee immediately to call the Bonds for purchase or to accelerate the Bonds in accordance with the Bond Indenture and cause the Letter of Credit to expire in accordance with its terms; and (e) pursue any rights and remedies it may have under the Master Indenture, the Reimbursement Agreement or any related documents or at law or equity; provided, however, that upon the occurrence of an actual or deemed entry of an order for relief with respect to any member of the Obligated Group under the Bankruptcy Code of the United States, the commitment of the Bank to issue the Letter of Credit or make other extensions of credit to the Obligated Group shall automatically terminate, the unpaid principal amount of all obligations of the Obligated Group to the Bank and all interest and other amounts as aforesaid shall automatically become due and payable and subject to cash collateralization.

THE BANK

The information under this heading has been provided solely by the Bank and is believed to be reliable. This information has not been verified independently by the Authority, the Underwriter or the Obligated Group. None of the Authority, the Underwriter or the Obligated Group make any representation whatsoever as to the accuracy, adequacy or completeness of such information.

The Bank

Bank of America, N.A. is a national banking association organized under the laws of the United States, with its principal executive offices located in Charlotte, North Carolina. The Bank is a wholly-owned indirect subsidiary of Bank of America Corporation (the "Parent") and is engaged in a general consumer banking, commercial banking and trust business, offering a wide range of commercial, corporate, international, financial market, retail and fiduciary banking services. As of December 31, 2008, the Bank had consolidated assets of $1,472 billion, consolidated deposits of $955 billion and stockholder's equity of $133 billion based on regulatory accounting principles.

The Parent is a bank holding company and a financial holding company, with its principal executive offices located in Charlotte, North Carolina. Additional information regarding the Parent is set forth in its Annual Report on Form 10-K for the fiscal year ended December 31, 2007, together with its subsequent periodic and current reports filed with the Securities and Exchange Commission (the "SEC").

Filings can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549, United States, at prescribed rates. In addition, the SEC maintains a website at http://www.sec.gov, which contains reports, proxy statements and other information regarding registrants that file such information electronically with the SEC.

The information concerning the Parent and the Bank is furnished solely to provide limited introductory information and does not purport to be comprehensive. Such information is qualified in its entirety by the detailed information appearing in the documents and financial statements referenced herein.

Simultaneously with the issuance of the Bonds, the Letter of Credit will be issued by the Bank. Moody's Investors Service, Inc. ("Moody's") currently rates the Bank's long-term debt as "Aa2" and short-term debt as "P-1." The outlook is Negative. Standard & Poor's Ratings Services, a Division of The McGraw Hill Companies ("S&P") currently rates the Bank's long-term debt as "AA-" and its short-term debt as "A-1+." The outlook is Negative. Fitch Ratings, Inc. ("Fitch") currently rates long-term debt of the Bank as "A+" and short-term debt as "F1+." The outlook is stable. Further information with respect to such ratings may be obtained from Moody's, S&P and Fitch, respectively. No assurances can be given that the current ratings of the Bank's instruments will be maintained.

The Bank will provide copies of the most recent Bank of America Corporation Annual Report on Form 10-K, any subsequent reports on Form 10-Q, and any required reports on Form 8-K (in each case as filed with the SEC pursuant to the Exchange Act), and the publicly available portions of the most recent quarterly Call Report of the Bank delivered to the Comptroller of the Currency, without charge, to each person to whom this document is delivered, on the written request of such person. Written requests should be directed to:

Bank of America Corporate Communications
100 North Tryon Street, 18th Floor
Charlotte, North Carolina 28255
Attention: Corporate Communication

PAYMENTS OF PRINCIPAL AND INTEREST ON THE BONDS WILL BE MADE FROM DRAWINGS UNDER THE LETTER OF CREDIT. PAYMENTS OF THE PURCHASE PRICE OF THE BONDS WILL BE MADE FROM DRAWINGS UNDER THE LETTER OF CREDIT IF REMARKETING PROCEEDS ARE NOT AVAILABLE. ALTHOUGH THE LETTER OF CREDIT IS A BINDING OBLIGATION OF THE BANK, THE BONDS ARE NOT DEPOSITS OR OBLIGATIONS OF THE PARENT OR ANY OF ITS AFFILIATED BANKS AND ARE NOT GUARANTEED BY ANY OF THESE ENTITIES. THE BONDS ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY AND ARE SUBJECT TO CERTAIN INVESTMENT RISKS, INCLUDING POSSIBLE LOSS OF THE PRINCIPAL AMOUNT INVESTED.

The delivery hereof shall not create any implication that there has been no change in the affairs of the Parent or the Bank since the date hereof, or that the information contained or referred to in this Section is correct as of any time subsequent to its date.

SECURITY FOR THE BONDS

General

In the Loan Agreement, the Corporation agrees to make the Loan Repayments to the Bond Trustee, which payments, in the aggregate, will be in amounts sufficient for the payment in full of all amounts payable with respect to the Bonds, including the total interest payable on the Bonds to the date of maturity of the Bonds or earlier redemption, the principal amount of the Bonds, any redemption premiums, and certain other fees and expenses (the "Additional Payments"), less any amounts available for such payment as provided in the Bond Indenture. The Bonds will also be payable from payments made on the Series 2009 Obligation, proceeds of the Bonds, investment earnings on proceeds of the Bonds, amounts on deposit under the Bond Indenture (except for any amounts on deposit in the Rebate Fund and the Bond Purchase Fund) and proceeds of insurance or condemnation awards, each in the manner and to the extent set forth in the Bond Indenture.

As security for its obligation to make the Loan Repayments, the Corporation, concurrently with the issuance of the Bonds, will issue the Series 2009 Obligation to the Bond Trustee pursuant to which the Corporation and the other Members of the Obligated Group agree to make payments to the Bond Trustee in amounts sufficient to pay, when due, the principal of and premium, if any, and interest on the Bonds.

The Master Indenture

Obligations. Under the Master Indenture, the Corporation may be authorized pursuant to a related Supplemental Master Indenture to issue, for itself and on behalf of the other Members of the Obligated Group, Obligations to evidence or secure indebtedness and other obligations of the Members. All Members of the Obligated Group are jointly and severally liable with respect to the payment of each Obligation issued under the Master Indenture.

The Series 2009 Obligation will be issued by the Corporation under and pursuant to the Original Master Indenture, as supplemented by Supplement No. 22. The Corporation and the other Members of the Obligated Group are required to make payments on the Series 2009 Obligation in an amount sufficient to pay the principal of or premium, if any, and interest on the Bonds when due.

Upon the issuance of the Series 2009 Obligation and after giving effect to the transactions described in "PLAN OF FINANCE" herein, the aggregate principal amount of Obligations related to Indebtedness issued and outstanding under the Master Indenture is expected to be approximately $441 million. See APPENDIX A, "HISTORICAL FINANCIAL INFORMATION - Historic and Pro Forma Capitalization" herein.

Covenants. The Master Indenture includes covenants that limit the Obligated Group's ability to incur indebtedness, dispose of assets or encumber its assets.

Pledge of Gross Revenues. Pursuant to the Master Indenture, the Members of the Obligated Group covenanted that all Obligations issued under the Master Indenture, including the Series 2009 Obligation, will be secured (to the extent permitted by law) by a pledge of and security interest in the Gross Revenue Fund created under the Master Indenture and the Gross Revenues of the Obligated Group. See APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS — Definitions of Certain Terms" and "— MASTER INDENTURE -- Gross Revenue Fund." The foregoing pledge and grant of a security interest will be perfected to the extent, and only to the extent, that such security interest may be perfected under the Uniform Commercial Code of the State of California. See "BONDHOLDERS' RISKS - Security and Enforceability -- Perfection of a Security Interest in Gross Revenues" herein.

Covenant Against Liens; Permitted Senior Indebtedness. Pursuant to the Master Indenture, each Member of the Obligated Group agrees that it will not create, assume or suffer to exist any Lien upon the Gross Revenues or the Property of the Obligated Group, except for Permitted Encumbrances. Each Member further agrees that if a Lien that would not constitute a Permitted Encumbrance is created or assumed by a Member, it will make or cause to be made effective a provision whereby all Obligations will be secured prior to or equally and ratably with any Indebtedness secured by such Lien.

Permitted Encumbrances include Liens on Property of the Obligated Group, including Liens which may be granted to secure additional Obligations and other Indebtedness. Such Liens are not required to secure the Series 2009 Obligation, and the Series 2009 Obligation would be subordinated to such Indebtedness with respect to the Property subject to such Liens. See the definition of "Permitted Encumbrances" in APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS — Definitions of Certain Terms" and "—MASTER INDENTURE — Particular Covenants of the Corporation and Each Member—Against Encumbrances."

Bonds Not General Obligations

None of the Authority, the Association of Bay Area Governments ("ABAG") or the members of the Authority or ABAG shall be directly or indirectly or contingently or morally obligated to use any other moneys or assets of the Authority, ABAG or any of its members to pay all or any portion of debt service due on the Bonds. The Bonds and the obligation to pay principal of and interest thereon and any redemption premium with respect thereto do not constitute an indebtedness or an obligation of the Authority or ABAG, the State of California or any political subdivision thereof, within the meaning of any constitutional or statutory debt limitation, or a charge against the general credit or taxing powers of any of them, but shall be payable solely from the revenues described herein. No owner of the Bonds shall have the right to compel the exercise of the taxing power of the State of California or any political subdivision thereof to pay any principal of, or premium, if any, or interest on the Bonds. Neither the Authority nor ABAG has any taxing power.

DEBT SERVICE REQUIREMENTS*

This table sets forth, for each year ending September 30, the amounts required in each such year for the payment of principal at maturity or by mandatory redemption for the Bonds and the payment of interest on the Bonds, together with amounts required for payment of debt service on other Obligations (excluding Obligations issued by the Corporation in connection with interest rate hedging agreements or to providers of credit or liquidity enhancement) to be outstanding after the issuance of the Bonds.

Year Ending September 30	Principal Series 2009A Bonds	Interest Series 2009A Bonds(1)	Debt Service on other Obligations(2)	Total
2009	$ 2,935,000	$ 1,369,670	$ 23,560,509	$ 27,865,179
2010	3,055,000	2,454,673	31,069,971	36,579,645
2011	3,125,000	2,353,953	28,877,134	34,356,087
2012	3,260,000	2,184,310	23,532,014	28,976,324
2013	3,365,000	2,044,542	23,494,133	28,903,675
2014	3,485,000	1,901,449	23,506,873	28,893,322
2015	3,580,000	1,750,785	23,472,703	28,803,488
2016	3,685,000	1,615,843	23,486,078	28,786,921
2017	3,840,000	1,432,874	23,450,994	28,723,868
2018	3,950,000	1,267,951	23,432,607	28,650,558
2019	4,095,000	1,099,503	23,420,214	28,614,717
2020	4,215,000	922,883	23,404,900	28,542,783
2021	1,855,000	746,382	27,122,088	29,723,470
2022	4,995,000	665,427	10,425,858	16,086,285
2023	5,200,000	439,865	10,422,858	16,062,723
2024	5,360,000	215,302	10,429,775	16,005,077
2025	--	--	19,278,387	19,278,387
2026	--	--	19,292,877	19,292,877
2027	--	--	19,302,798	19,302,798
2028	--	--	19,314,869	19,314,869
2029	--	--	13,332,830	13,332,830
2030	--	--	13,344,858	13,344,858
2031	--	--	13,363,563	13,363,563
2032	--	--	13,372,867	13,372,867
2033	--	--	13,384,391	13,384,391
2034	--	--	11,327,625	11,327,625
2035	--	--	11,346,919	11,346,919
2036	--	--	--	--
2037	--	--	--	--
2038	--	--	--	--
2039	--	--	--	--
Total	$60,000,000	$22,465,412	$519,770,694	$602,236,106

* *De minimis* rounding adjustments. Assumes that all principal payments and mandatory sinking fund payments are due and paid on August 1 of each year.

(1) Assumes interest at an average annual interest rate of 3.21%, which is based on a twenty year average of the SIFMA Index, plus certain additional annual fees. Actual rates will vary from these assumed rates.

(2) Assumes interest average annual interest rates between 3.18% and 3.90%, plus certain additional annual fees, on other outstanding variable rate indebtedness. Also assumes amortization on certain outstanding indebtedness maturing in 2035. Actual rates will vary from these assumed rates.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds related to the Bonds.

Sources of Funds:

Bond Proceeds	$60,000,000
Obligated Group Funds	1,366,190
Total Sources of Funds	$61,366,190

Uses of Funds:

Repay Taxable Loan	$60,000,000
Costs of Issuance[1]	1,366,190
Total Uses of Funds	$61,366,190

(1) Costs of issuance includes legal, printing, rating agency, accounting, Bond Trustee and Authority fees, underwriter's compensation and other miscellaneous costs of issuance, including Letter of Credit fees, all of which will be paid for using funds of the Obligated Group.

BONDHOLDERS' RISKS

The purchase of the Bonds involves investment risks that are discussed throughout this Official Statement. Prospective purchasers of the Bonds should evaluate all of the information presented in this Official Statement. This section on Bondholders' Risks focuses primarily on the general risks associated with hospital or health system operations; whereas APPENDIX A describes the Members of the Obligated Group specifically. These should be read together.

General

Except as described herein under the caption, "SECURITY FOR THE BONDS," the principal of, premium, if any, and interest on the Bonds are payable from Revenues and other amounts payable by the Corporation under the Loan Agreement and by the Obligated Group on the Series 2009 Obligation. No representation or assurance is given or can be made that revenues will be realized by the Obligated Group in amounts sufficient to pay debt service on the Bonds when due and other payments necessary to meet the obligations of the Obligated Group. The risk factors discussed below as well as those factors discussed under "SECURITY FOR THE BONDS" (including the lack of certain covenants) should be considered in evaluating the ability of the Obligated Group to make payments in amounts sufficient to provide for the payment of the principal of, premium, if any, and interest on the Bonds.

The receipt of future revenues by the System will be subject to, among other factors, federal and state policies affecting the health care industry (including changes in reimbursement rates and policies), increased competition from other health care providers, the capability of the management of the System and future economic and other conditions that are impossible to predict. The extent of the ability of the System to generate future revenues has a direct effect upon reimbursement to the Bank for the payment of, principal of, premium, if any, and interest on the Bonds. Neither the Underwriter nor the Authority has made any independent investigation of the extent to which any such factors may have an adverse affect on the revenues of the System.

Letter of Credit and the Bank

While the Bonds bear interest at a Weekly Interest Rate, Holders of the Bonds may tender their Bonds for purchase. See "THE BONDS – Tender of Bonds – Optional Tender" herein. So long as the Bonds bear interest at a Weekly Interest Rate, it is expected that the primary security for the Bonds will be the Letter of Credit delivered by the Bank to the Bond Trustee in order to pay the principal and purchase price of and interest on the Bonds. In the event of insolvency of the Bank or the occurrence of some other event precluding the Bank from honoring its obligations to make payments pursuant to the Letter of Credit, Holders of the Bonds may become general unsecured creditors of the Bank. Under such circumstances, the financial resources of the Obligated Group may be the only source of timely payment on the Bonds on a scheduled interest payment date or upon a Holder's optional tender for purchase. There can be no assurance that, under such circumstances, the financial resources of the Obligated Group would be sufficient to pay the principal or purchase price of, premium, if any, or interest on the Bonds in the event the Bond Trustee seeks recourse against the Obligated Group.

There can be no assurance that the credit ratings of the Bank will continue at their current level. A decline in the credit ratings of the Bank or the issuer of an Alternate Credit Facility could result in a decline in the ratings that may be assigned to the Bonds from time to time. Such a decline could in turn affect the market price and marketability of the Bonds. For information concerning the Bank, see "THE BANK" herein.

Enforceability of the Letter of Credit

Section 105 of the Federal Bankruptcy Code empowers a bankruptcy court to issue such orders as are necessary or appropriate to carry out the provisions of the Bankruptcy Code. Court decisions discussing the enforceability of letters of credit indicate that it is possible that a bankruptcy court acting pursuant to Section 105 or other equitable powers under the Bankruptcy Code could enjoin a drawing by the Bond Trustee to Bondholders of amounts drawn under the Letter of Credit under various circumstances, including the bankruptcy of insolvency of, or of a similar event with respect to, the Obligated Group. The Letter of Credit does not, and is not intended to, protect Bondholders from events affecting the Bank or its creditworthiness including, without limitation, the bankruptcy or insolvency of the Bank.

Utilization of Derivatives Markets

The System utilizes interest rate hedges ("swaps") to manage its exposure to interest rate fluctuations. Swap agreements are subject to periodic "mark-to-market" valuations and may, at any time, have a negative value (which could be substantial) to the Obligated Group. Changes in the market value of such swap agreements could negatively or positively impact the Obligated Group's operating results and financial condition, and such impact could be material. Any of the Obligated Group's swap agreements may be subject to early termination upon the occurrence of certain specified events. If either the Obligated Group or the counterparty terminates such an agreement when the agreement has a negative value to the Obligated Group, the Obligated Group could be obligated to make a termination payment to the counterparty in the amount of such negative value, and such payment could be substantial and potentially materially adverse to the Obligated Group's financial condition. In the event of an early termination of a swap agreement, there can be no assurance that (i) the Obligated Group will receive any termination payment payable to it by the respective swap provider, (ii) the Obligated Group will not be obligated to or will have sufficient monies to make a termination payment payable by it to the applicable swap provider, and (iii) the Obligated Group will be able to obtain a replacement swap agreement with comparable terms. See APPENDIX A, "HISTORICAL FINANCIAL INFORMATION - Interest Rate Swaps" and the audited combined financial statements of the Corporation included in APPENDIX B hereto, including Note 5 for additional information on derivative financial instruments.

There is no guarantee that any floating amount payable by a swap provider under any swap agreement will match the amount payable by the Obligated Group to the owners of the Indebtedness to which such swap agreement relates at all times or at any time. To the extent of a mismatch, the Obligated Group is exposed to "basis risk" in that the floating amount it receives from the swap provider pursuant to each swap agreement will not equal the variable amount it is required to pay on the Indebtedness to which such swap agreement relates.

Impact of Market Turmoil

The System has significant holdings in a broad range of investments. Market fluctuations may affect the value of those investments and those fluctuations may be and historically have been at times material. The current domestic and international financial crisis has had and may continue to have negative repercussions on the national and global economies, including a scarcity of credit, lack of confidence in the financial sector, extreme volatility in the financial markets, increase in interest rates, reduced business activity, increased consumer bankruptcies and increased business failures and bankruptcies. In response, Congress, the Federal Reserve Board and other agencies of the federal government and foreign governments have taken various actions that are designed to enhance liquidity, improve the performance and efficiency of credit markets and generally stabilize securities markets. The market turmoil has caused challenges which may include, but not be limited to, negative investment performance, limitations on access to the credit markets, difficulty obtaining new liquidity facilities or extensions of liquidity facilities, the inability of credit or liquidity providers to meet their obligations, and the inability of remarketing agents to successfully remarket bonds. See APPENDIX A of this Official Statement for specific information about the effects of these factors on the Obligated Group's recent financial performance, financial condition and debt portfolio. In particular, reference is made to information in APPENDIX A under the caption heading, "HISTORICAL FINANCIAL INFORMATION - Management's Discussion of Financial Performance -- Historical Non-operating Performance."

Nonprofit Health Care Environment

The Members of the Obligated Group are each California nonprofit public benefit corporations, exempt from federal income taxation as organizations described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). As nonprofit tax-exempt organizations, the Members of the Obligated Group are subject to federal, state and local laws, regulations, rulings and court decisions relating to their organizations and operations, including their operation for charitable purposes. At the same time, the Members of the Obligated Group each conduct large-scale complex business transactions and are major employers in their geographic areas. There can often be a tension between the rules designed to regulate a wide range of charitable organizations and the day-to-day operations of a complex healthcare business such as the System.

Recently, an increasing number of the operations or practices of healthcare providers have been challenged or questioned to determine if they are consistent with the regulatory requirements for nonprofit tax-exempt organizations. These challenges are broader than concerns about compliance with federal and state statutes and regulations, such as Medicare and Medicaid compliance, and instead in many cases are examinations of core business practices of the healthcare organizations. Areas which have come under examination have included pricing practices, billing and collection practices, charitable care, community benefit, executive compensation, exemption of property from real property taxation, and others. These challenges and questions have come from a variety of sources, including state attorneys general, the Internal Revenue Service (the "IRS"), local and state tax authorities, labor unions, Congress, state legislatures, and patients, and in a variety of forums, including hearings, audits and litigation. These challenges or examinations include the following, among others:

Congressional Hearings. A number of House and Senate Committees, including the House Committee on Energy and Commerce, the House Committee on Ways and Means and the Senate Finance Committee, have conducted hearings and/or investigations into issues related to nonprofit tax-exempt healthcare organizations. These hearings and investigations have included a nationwide investigation of hospital billing and collection practices, charity care and community benefit and prices charged to uninsured patients and possible reforms to the nonprofit sector. These hearings and investigations may result in new legislation. The effect on the nonprofit health care sector or the System of any such legislation, if enacted, cannot be determined at this time.

Internal Revenue Service Examination of Compensation Practices. In August 2004, the IRS initiated an enforcement effort to identify and halt abuses by tax-exempt organizations that pay excessive compensation and benefits to their officers and other insiders. Nearly 2,000 charities and foundations were contacted by the IRS regarding their compensation practices and procedures. No Members of the Obligated Group received the survey request for information. Management of the Obligated Group believes that its compensation practices and procedures are consistent with IRS guidelines and regulations.

IRS Interim Report on Tax-Exempt Hospitals and Community Benefit. In May 2006, the IRS initiated its Hospital Compliance Project to study tax-exempt hospitals and community benefit as well as to determine how these hospitals establish and report executive compensation. The IRS sent compliance questionnaires to hundreds of tax-exempt hospitals across the country, but no Member of the Obligated Group received the questionnaire. The IRS released its Interim Report in July 2007. The Interim Report is a summary of the responses received and information relating primarily to community benefit. A final report from the IRS is expected in early 2009.

Form 990 and Instructions. On June 14, 2007, the IRS released for comment a Discussion Draft of a redesigned Form 990. The Form 990 is the annual information return filed by tax-exempt organizations, including nonprofit exempt healthcare organizations. The IRS released the final 2008 Form 990 on December 20, 2007. The new Form 990 applies to tax years beginning on or after January 1, 2008.

As a result of this new Form 990, healthcare organizations will have significantly increased compliance and reporting obligations, particularly relating to community benefit, collection and billing practices and charity care. These specific reporting obligations generally are set forth in a new schedule to the return (Schedule H) and apply for tax years beginning on or after January 1, 2009.

Nonprofit healthcare organizations also will become subject to additional reporting for tax-exempt bonds, the most significant of which will be required for tax years beginning on or after January 1, 2009. These reporting and recordkeeping requirements go beyond what many hospitals have done historically and will require substantial additional efforts on the part of hospitals with outstanding tax-exempt bonds. A new schedule to the Form 990 return (Schedule K) is intended to address what the IRS believes is significant noncompliance with recordkeeping and record retention requirements. These concerns were reinforced, in the IRS's view, by the results of a bond questionnaire distributed to select hospitals in September 2007, the results of which were released in April 2008. Schedule K also focuses on the investment of bond proceeds that could violate the arbitrage rebate requirements and the private use of bond-financed facilities.

California Attorney General. California nonprofit corporations, including the Members of the Obligated Group, are subject at all times to examination by the California Attorney General to ensure that the purposes of the nonprofit corporations are being carried out.

Financial Assistance and Charity Care. California Health and Safety Code section 127400 *et seq*. ("Section 127400"), requires hospitals to maintain written policies about discount payment and charity care and provide copies of such policies to patients and the Office of Statewide Health Planning and Development ("OSHPD"). California hospitals are also required to follow specific billing and collection procedures.

Class Actions. Hospitals and health systems have long been subject to a wide variety of litigation risks, including liability for care outcomes, employer liability, property and premises liability, and peer review litigation with physicians, among others. In recent years, consumer class action litigation has emerged as a potentially significant source of litigation liability for hospitals and health systems. These class action suits have most recently focused on hospital billing and collections practices, and they may be used for a variety of currently unanticipated causes of action. Since the subject matter of class action suits may involve uninsured risks, and since such actions often involve alleged large classes of plaintiffs, they may have material adverse consequences on hospitals and health systems in the future.

Recently, the California Supreme Court ruled that the practice of emergency room physicians "balance billing" health maintenance organization ("HMO") patients for the difference between the physician's charges for emergency medical services rendered to a HMO patient and the amount that a HMO patient's insurance company paid (or offered to pay) the emergency room physician for those services is illegal. Subsequent to the California Supreme Court's decision, several California hospitals with emergency rooms where independent emergency physician medical groups provide care have been sued (together with the emergency physicians or their medical groups) by plaintiffs who have filed class action lawsuits to recover the amounts that were "balanced billed." While the Members of the Obligated Group themselves do not engage in the practice of "balance billing," the independent emergency room physicians and emergency room physician medical groups that practice in the Obligated Group's hospital emergency rooms may have "balanced billed" patients. Consequently, the Members of the Obligated Group may be sued in actions to recover balance billed amounts. Management of the System is unable to predict the outcome of any such lawsuit or whether adverse rulings or judgments would have a material adverse impact on the System.

Action by Purchasers of Hospital Services and Consumers. Major purchasers of hospital services also could take action to restrain hospital charges or charge increases. In California, the California Public Employees' Retirement System, the nation's third largest purchaser of employee health benefits, has pledged to take action to restrain the rate of growth of hospital charges and has excluded certain California hospitals from serving its covered members. As a result of increased public scrutiny, it is also possible that the pricing strategies of hospitals may be perceived negatively by consumers, and hospitals may be forced to reduce fees for their services. Decreased utilization could result and hospitals' revenues may be negatively impacted. In addition, consumers and groups on behalf of consumers are increasing pressure for hospitals and other health care providers to be transparent and provide information about cost and quality of services that may affect future consumer choices about where to receive health care services.

Challenges to Real Property Tax Exemptions. Real property tax exemptions afforded to certain nonprofit health care providers by state and local taxing authorities have been challenged on the grounds that the health care providers were not engaged in sufficient charitable activities. These challenges have been based on a variety of grounds, including allegations of aggressive billing and collection practices and excessive financial margins. Recently, the California State Board of Equalization (the "Board of Equalization"), a state regulatory agency responsible for, among other things, verifying that organizations qualify for property tax exemption in California, considered a proposal to impose supplemental reporting requirements for nonprofit hospitals regarding their exemption from property taxes. The Board of Equalization is unanimously supportive of the concept, and plans to work with interested parties to refine the proposal, with the goal of implementing supplemental reporting requirements by May 2009. The Corporation and one or more of the Members of the Obligated Group expect to be requested to provide such supplemental reporting should the Board of Equalization's proposal be implemented. While the Members of the Obligated Group are not aware of any current challenge to the tax exemption afforded to any of their material properties, there can be no assurance that these types of challenges will not occur in the future, and no assurance can be given as to what actions the Board of Equalization may take in the future with regard to such property tax exemption.

The foregoing are some examples of the challenges and examinations facing nonprofit health care organizations. They are indicative of a greater scrutiny of the billing, collection and other business practices of these organizations and may indicate an increasingly difficult operating environment for health care organizations, including the Members of the Obligated Group. The challenges and examinations, and any resulting legislation, regulations, judgments, or penalties, could have a material adverse effect on hospitals and health care providers, including the Members of the Obligated Group, and, in turn, the Corporation's ability to make payments under the Loan Agreement and Obligated Group's ability to make payments on the Series 2009 Obligation.

Healthcare Reform Initiatives

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

Other developments affecting hospitals and providers as major employers include: (1) imposing higher minimum or living wages; (2) enhancing occupational health and safety standards; and (3) penalizing employers of undocumented immigrants. Legislation or regulation on any of the above or related topics could have a material adverse effect on the Members of the Obligated Group and, in turn, the Corporation's ability to make payments under the Loan Agreement and Obligated Group's ability to make payments on the Series 2009 Obligation.

Patient Service Revenues

Third-Party Payment Programs. Most of the net patient service revenues of the Obligated Group are derived from third-party payors that reimburse or pay for the services and items provided to patients covered by such third parties for such services, including the federal Medicare program, state Medicaid program and private health plans and insurers, HMOs, preferred provider organizations ("PPOs") and other managed care payors. Many of these third-party payors make payments to the Obligated Group at rates other than the direct charges of the Obligated Group, which rates may be determined on a basis other than the actual costs incurred in providing services and items to patients. Accordingly, there can be no assurance that payments made under these programs will be adequate to cover the Obligated Group's actual costs of furnishing health care services and items. In addition, the financial performance of the System could be adversely affected by the insolvency of, or other delay in receipt of payments from, third-party payors, which provide coverage for services to their patients.

Medicare and Medicaid Programs. Medicare and Medicaid are the commonly used names for health care reimbursement or payment programs governed by certain provisions of the federal Social Security Act. Medicare is an exclusively federal program and Medicaid is a combined federal and state program. Medicare provides certain health care benefits to beneficiaries who are 65 years of age or older, disabled or qualify for the End Stage Renal Disease Program. Medicare Part A covers inpatient services and certain other services, and Medicare Part B covers outpatient services, medical supplies and durable medical equipment. Medicaid is designed to pay providers for care given to the medically indigent and others who receive federal aid. Medicaid is funded by federal and state appropriations and is administered by state agencies. The Centers for Medicare & Medicaid Services ("CMS") administers the Medicare program and works with the states regarding the Medicaid program, as well as other health care programs.

Health care providers have been and continue to be affected significantly by changes made in the last several years in federal and state health care laws and regulations, particularly those pertaining to Medicare and Medicaid. The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "MMA"), among other things described below, generally increased reimbursement levels. The Deficit Reduction Act of 2005 (the "DRA"), contained, among other things, a number of provisions to slow the pace of spending growth in the Medicare and Medicaid programs while increasing health care providers' focus on quality and efficient delivery of health care services. Diverse and complex statutory and regulatory mechanisms, the effect of which is to limit the amount of money paid to health care providers under both the Medicare and Medicaid programs, have been enacted and approved in recent years, some of which are being implemented and some of which will be or may be implemented in the future. Management of the System is unable to predict what effect, if any, current and future legislative initiatives related to Medicare and Medicaid may have on operations of the System.

Medicare. Approximately 32.7% of the net patient service revenues of the System were derived from the Medicare program for the fiscal year ended September 30, 2008. As a consequence, any adverse development or change in Medicare reimbursement could have a material adverse effect on the financial condition and results of operations of the System. See APPENDIX A - "HISTORICAL FINANCIAL INFORMATION - Revenue Sources."

Medicare Part A pays acute care hospitals for most inpatient services under a payment system known as the "Prospective Payment System" or "PPS." Separate PPS payments are made for inpatient operating costs and inpatient capital-related costs.

Inpatient Operating Costs. Acute care hospitals such as those owned by the Obligated Group are paid a specified amount toward their operating costs based on the Diagnosis Related Group ("DRG") to which each Medicare service is assigned, which is determined by the diagnosis and procedure and other factors for each particular inpatient stay. The amount paid for each DRG is established prospectively by CMS, an agency of the United States Department of Health and Human Services ("HHS"), based on the estimated intensity of hospital resources necessary to furnish care for each principal diagnosis and is not related directly to a hospital's actual costs. For certain Medicare beneficiaries who have unusually costly hospital stays ("outliers"), CMS will provide additional payments above those specified for the DRG. Outlier payments cease to be available upon the exhaustion of such patient's Medicare benefits or a determination that acute care is no longer necessary, whichever occurs first. There is no assurance that any of these payments will cover the actual costs incurred by a hospital. In addition, recent revisions to the outlier regulations, implemented in order to curb outlier payment abuse, may adversely affect hospitals' ability to receive such subsidies. In addition to outlier payments, DRG payments are adjusted for area wage differentials. These change on a yearly basis.

DRG payments are adjusted each federal fiscal year (which begins October 1) based on the hospital "market basket" index, or the cost of providing health care services. For nearly every year since 1983, Congress has modified the increases and given substantially less than the increase in the "market basket" index. CMS has also implemented a documentation and coding adjustment to account for changes in payments under the new MS-DRG system that are not related to changes in case mix. The documentation and coding adjustments for federal fiscal years 2008 and 2009 are reductions to the base payment rate of 0.6% and 0.9% respectively. CMS has been given the authority to retrospectively determine if the documentation and coding adjustments for these years were adequate to account for changes in payments not related to changes in case mix. This may result in additional adjustments for federal fiscal years 2010, 2011 and 2012. Changes in the payments received for all services, including specialty services, could have an adverse effect on the System.

Under the MMA, hospitals will continue to receive the full increase in the "market basket" index in federal fiscal years 2005-2009 so long as they participate in CMS's Hospital Quality Initiative. Pursuant to the DRA, for federal fiscal year 2007 and thereafter, there will be a 2% reduction from the market basket update (3.4% in federal fiscal year 2007, 3.3% in federal fiscal year 2008 and 3.0% in federal fiscal year 2009) for non-participating hospitals. The System's hospitals participate in the Hospital Quality Initiative. CMS has added new quality measures that hospitals must report during calendar year 2008 in order to qualify for the full market basket update in federal fiscal year 2009. There is no assurance that future increases in the DRG payments will keep pace with the increases in the cost of providing hospital services.

The Secretary of HHS is required to review annually the DRG categories to take into account any new procedures, reclassify DRGs, and recalibrate the DRG relative weights that reflect the relative hospital resources used by hospitals with respect to discharges classified within a given DRG category. During federal fiscal years 2007 and 2008, CMS created new DRGs and revised or deleted others in order to better recognize the severity of illness for each patient. There is no assurance that the Obligated Group will be paid amounts that will adequately reflect changes in the cost of providing health care or in the cost of health care technology being made available to patients. CMS may only adjust DRG weights on a budget-neutral basis.

Rehabilitation. CMS reimburses inpatient rehabilitation facilities ("IRFs") on a PPS basis. Under IRF PPS, patients are classified into case mix groups based on impairment, age, comorbidities and functional capability. IRFs are paid a predetermined amount per discharge that reflects the patient's case mix group and is adjusted for area wage levels, low-income patients, rural areas and high-cost outliers. For federal fiscal years 2006 and 2007, CMS updated the PPS rate for rehabilitation hospitals and units by market baskets of 3.6% and 3.3% respectively. However, CMS also applied reductions to the standard payment amount of 1.9% and 2.6% for federal fiscal years 2006 and 2007, respectively, to account for coding changes that do not reflect real changes in case mix. For federal fiscal year 2008, CMS has updated the PPS rate for IRFs by the market basket of 3.2%. The Medicare, Medicaid and SCHIP Reauthorization Act of 2007 ("MMSEA"), signed into law on December 29, 2007, eliminated the market basket update as of April 2008 and continues the zero increase through federal fiscal year 2009.

On July 31, 2008, CMS finalized its April 21, 2008 proposed rule (the "CMS Final IRF Rule") that recalculates the weights assigned to the case mix groups using more recent data from rehabilitation hospitals about the types of patients they are treating and the resources required. However, as required by MMSEA, the final rule sets the inflation update for the standard federal rate at zero percent for federal fiscal year 2009. Additionally, as required by the MMSEA, the CMS Final IRF Rule retains the requirement that at least 60 percent of a facility's patient population have one of 13 qualifying conditions specified in Medicare regulations. At the same time, the CMS Final IRF Rule implements provisions in the MMSEA that allow facilities to continue to count patients whose principal reason for needing inpatient rehabilitation services is not one of the qualifying conditions, but whose treatment is complicated by the presence of one or more of these conditions as a secondary diagnosis.

Psychiatric. On November 15, 2004, CMS published a final rule to implement the conversion of inpatient psychiatric services to PPS, as mandated by the Medicare, Medicaid and SCHIP Balanced Budget Refinement Act of 1999. The new inpatient psychiatric facility PPS system ("IPF PPS") applies to both freestanding psychiatric hospitals and certified psychiatric units in general acute care hospitals, and became effective for cost reporting periods beginning on or after January 1, 2005. The IPF PPS rates were phased in over a three year period. The transition to a PPS payment methodology has not had a materially adverse impact on the Obligated Group's finances and operations.

Capital Costs. Hospitals are reimbursed on a fully prospective basis for capital costs (including depreciation and interest) related to the provision of inpatient services to Medicare beneficiaries. Thus, capital costs are reimbursed exclusively on the basis of a standard federal rate (based on average national costs), subject to certain adjustments (such as for disproportionate share, indirect medical education and outlier cases) specific to the hospital. Hospitals are reimbursed at 100% of the standard federal rate for all capital costs. This applies to the standard federal rate before the application of the adjustment factors for outliers, exceptions, and budget neutrality.

There can be no assurance that the prospective payments for capital costs will be sufficient to cover the actual capital-related costs of the Obligated Group allocable to Medicare patient stays or to provide adequate flexibility in meeting the future capital needs of the Obligated Group.

Costs of Outpatient Services. Hospital outpatient services, including hospital operating and capital costs, are reimbursed on a PPS basis. Several Part B services are specifically excluded from this rule, including certain physician and non-physician practitioner services, ambulance, clinical diagnostic laboratory services and nonimplantable orthotics and prosthetics, physical and occupational therapy, and speech language pathology services.

Under the hospital outpatient PPS ("OPPS"), predetermined amounts are paid for designated services furnished to Medicare beneficiaries. CMS classifies outpatient services and procedures that are comparable clinically and in terms of resource use into ambulatory payment classification ("APC") groups. Using hospital outpatient claims data from the most recent available hospital cost reports, CMS determines the median costs for the services and procedures in each APC group. Subsequently, a payment rate is established for each APC. Depending on the services provided, a hospital may be paid for more than one APC for a patient visit.

OPPS rates are adjusted annually based on the hospital inpatient market basket percentage increase. The APC adjustment is the full market basket increase of 3.3% for calendar year 2008, and CMS has proposed a 3.0% increase for calendar year 2009. There can be no assurance that the hospital OPPS rate, which bases payment on APC groups rather than on individual services, will be sufficient to cover the actual costs of the Obligated Group allocable to Medicare patient care. Hospitals that fail to report certain required quality data will have their market basket percentage increase reduced by two percentage points.

In addition to the APC rate, there is a predetermined beneficiary coinsurance amount for each APC group. There can be no assurance that the beneficiary will pay this amount.

Physician Payments. Certain physician services are reimbursed on the basis of a national fee schedule called the "resource based-relative value scale" ("RB-RVS"). The RB-RVS fee schedule establishes payment amounts for all physician services, including services of provider-based physicians, and is subject to annual updates. In the RB-RVS system, payments for physician services are determined by the resource costs needed to provide them. The cost of providing each service is divided into three components: physician work, practice expense and professional liability insurance, each of which is resource-based. These factors are translated into relative value units ("RVU") and payments are calculated by multiplying the combined RVUs of a service by a conversion factor (a monetary amount that is determined by CMS). Payments are also adjusted for geographical differences in resource costs. The Sustainable Growth Rate ("SGR"), which is a limit on the growth of Medicare payments for physician services, is linked to changes in the U.S. Gross Domestic Product over a ten-year period. SGR targets are compared to actual expenditures in order to determine subsequent physician fee schedule updates. Although the underlying conversion factor used to calculate payment amounts to physicians under the RB-RVS fee schedule decreased by 4.4% from 2005 to 2006, the DRA restored payments to physicians at 2005 levels, which restoration is effective as of January 1, 2006. For 2007, the final rule issued by CMS provided for a 5.0% reduction to such underlying conversion factor, but such reduction was eliminated by Congress pursuant to the Tax Relief and Health Care Act of 2006, instead freezing payments at their current levels. MMSEA, signed into law by President Bush on December 29, 2007, provided, among other things, a temporary 0.5% increase to the underlying conversion factor through June 30, 2008, eliminating an estimated 10.1% reduction that was to have become effective January 1, 2008. The temporary 0.5% increase terminated, and the 10.1% reduction became effective July 1, 2008. Congress subsequently passed the Medicare Improvements for Patients and Providers Act of 2008 over a presidential veto that, among other things, eliminates the 10.1% reduction, restores the 0.5% increase for calendar year 2008 and provides a 1.1% increase for calendar year 2009.

Skilled Nursing Care. Medicare Part A reimburses on a PPS basis for certain post-acute inpatient skilled nursing and rehabilitation care for up to 100 days during the same spell of illness. Medicare Part A reimburses for certain post-hospital inpatient skilled nursing and rehabilitation care for up to 100 days during the same spell of illness. For skilled nursing facilities ("SNFs"), the federal government has implemented a PPS for Medicare reimbursement, which utilizes prospective, case-mix adjusted per diem rates applicable to all covered SNF services. Reimbursement under PPS also incorporates adjustments to account for facility case-mix using the Resource Utilization Groups ("RUGs") system. Effective January 1, 2006, nine new RUGs were added to a refined RUGs classification system, for a total of 53, and additional payments for certain existing RUGs were eliminated. CMS expanded the number of RUGs to achieve budget neutrality, but the expansion has resulted in increased Medicare expenditures. In May 2008, CMS proposed a recalibration of the case-mix weights to reestablish budget neutrality that is expected in federal fiscal year 2009 to result in a decrease of $770 million in payments, or 3.3%. The SNF PPS payments are adjusted annually based on the skilled nursing facility "market basket" index, or the cost of providing SNF services. For federal fiscal years 2007 and 2008, SNFs received the full market basket increase of 3.1% and 3.3%, respectively, and CMS has proposed a 3.1% market basket increase for federal fiscal year 2009. On July 31, 2008, CMS published its final rules related to nursing home payment rates. CMS implemented a 3.4% market basket increase for federal fiscal year 2009. CMS expects the market basket increase will yield an increase of $780 million in increased Medicare payments. A recalibration of the payment categories, intended to correct a previous error, which had been proposed for federal fiscal year 2009, has been delayed while CMS continues to evaluate data.

Home Health Care. CMS pays home health agencies for 60-day episodes of care based on PPS and reimburses agencies at higher rates for beneficiaries with greater needs. The system uses national payment rates that vary with the level of care required by each beneficiary, adjusted to reflect area wage differences. Additional payments may be made to the 60-day case-mix adjusted episode payments for beneficiaries who incur unusually large costs. Total national outlier payments for home health services annually will be no more than five percent of estimated total payments under home health PPS. CMS provided for a 3.3% market basket update for calendar year 2007 and 3.0% for calendar year 2008. As required by the DRA, agencies that do not submit data to CMS relating to ten quality indicators will have their market basket update percentage reduced by two percent.

Provider-Based Standards. CMS made significant changes to the provider-based regulation included in the final OPPS rulemaking for federal fiscal year 2003. Generally, CMS eliminated a few requirements for on-site provider-based facilities and clarified some of the provisions of the prior provider-based rules. CMS clarified that prior approval of provider-based status by CMS is not required for an entity to bill as provider-based. Rather, a provider may provide an optional attestation of its status as a provider-based entity. Although such attestation is not required to bill as a provider-based entity, it may provide some overpayment protection in the event that CMS subsequently makes a determination that an entity is not provider-based, assuming accurate representation by the provider to CMS. Any reclassification by CMS may adversely affect the entity's reimbursement under the Medicare program. Based on current regulations, the Obligated Group believes all of its current facilities that bill for services as provider-based entities qualify as "provider-based" entities under the current regulations.

Medicare Advantage. Medicare beneficiaries may obtain Medicare coverage through a managed care Medicare Advantage plan (formerly known as a "Medicare+Choice" plan). A Medicare Advantage plan may be offered by a coordinated care plan (such as an HMO or PPO), a provider sponsored organization ("PSO") (a network operated by health care providers rather than an insurance company), a private fee-for-service plan, or a combination of a medical savings account ("MSA") and contributions to a Medicare Advantage plan. Each Medicare Advantage plan, except an MSA plan, is required to provide benefits approved by the Secretary of HHS. A Medicare Advantage plan will receive a monthly capitated payment from HHS for each Medicare beneficiary who has elected coverage under the plan. Health care providers such as the Obligated Group must contract with Medicare Advantage plans to treat Medicare Advantage enrollees at agreed upon rates or may form a PSO to contract directly with HHS as a Medicare Advantage plan. Covered inpatient and emergency services rendered to a Medicare Advantage beneficiary by a hospital that is an out-of-plan provider (i.e., that has not entered into a contract with a Medicare Advantage plan) will be paid at Medicare fee-for-service payment rates as payment in full.

The MMA made several substantive changes to Medicare Advantage in addition to renaming the program. These changes are designed to improve Medicare Advantage by providing increased payments to providers and by offering more health plan choices, including expanded rural coverage through the inclusion of regional plans, beginning in 2006. Increased payments to Medicare Advantage providers were effective as of March 2004. There can be no assurance, however, that rates negotiated for the treatment of Medicare Advantage enrollees will be sufficient to cover the cost of providing services to such patients of the Obligated Group.

Medicare Audits. The Obligated Group receives payments for various services provided to Medicare patients based upon charges or other reimbursement methodologies that are then reconciled annually based upon the preparation and submission of annual cost reports. Estimates for the annual cost reports are reflected as amounts due to/from third-party payors and represent several years of open cost reports due to time delays in the fiscal intermediary's audits and the basic complexity of billing and reimbursement regulations. These estimates are adjusted periodically based upon correspondence received from the fiscal intermediary. Medicare regulations also provide for withholding Medicare payment in certain circumstances if it is determined that an overpayment of Medicare funds has been made. In addition, under certain circumstances, payments may be determined to have been made as a consequence of improper claims subject to the federal False Claims Act (the "Federal False Claims Act") or other federal statutes, subjecting the Obligated Group to civil or criminal sanctions. Management of the System is not aware of any situation whereby a material Medicare payment is being withheld from the System.

The System, like other hospital systems throughout the country, are subject from time to time to audits and other investigations relating to various aspects of their operations. Medicare participating hospitals are subject to audits and retroactive audit adjustments with respect to reimbursement claimed under the Medicare program. Medicare regulations also provide for withholding Medicare payment in certain circumstances. Although management of the System does not anticipate or have reason to believe that a substantial withholding or audit adjustment will be made with respect to the System, there can be no assurance that, if such withholdings or audit adjustments were to be assessed, they would not have a material adverse effect on the financial position of the System. Management of the System does not believe that any other type of audit or investigation would result in a liability that would have a material adverse effect on the business, operations, or financial condition of System.

RAC Audits. In accordance with the MMA and the Tax Relief and Health Care Act of 2006 (the "2006 Tax Act"), CMS designated the use of recovery audit contractors ("RAC") to search for improper Medicare payments in Arizona, Florida, California, Massachusetts, New York and South Carolina. While originally part of a demonstration program that was set to expire in 2008, the provisions of the 2006 Tax Act make the RAC program permanent and require CMS to expand the program to all 50 states by no later than 2010. CMS released a report in July 2008 stating that more than $693 million had been deposited in the Medicare Trust Funds between 2005 and March 2008 as part of the RAC program. Government officials have expressed concerned that current payment integrity efforts are insufficient to identify and seek recovery of Medicare overpayments that are estimated currently to be in excess of $20 billion per year. The audit contractors have scrutinized provider payments made during a current federal fiscal year and the four previous federal fiscal years. Requests for information from the audit contractors to hospitals in California have commenced. The System has had several RAC audits conducted for payment years between 2003 and 2007, none of which resulted in a material adjustment to the System's Medicare payments for such periods. Management cannot anticipate the amount or volume of future Medicare claims that will be reviewed by the recovery audit contractors or what the results of any such audits may be.

Medicaid Program. Medicaid is a program of medical assistance, funded jointly by the federal government and the states, for certain needy individuals and their dependants. Under Medicaid, the federal government provides limited funding to states that have medical assistance programs that meet federal standards. Attempts to balance or reduce federal and state budgets will likely negatively impact Medicaid spending and other state healthcare program spending. The Bush administration proposed a $13 billion cut in Medicaid spending over the next five years. This reduction in federal funding, and any reduction in state funding, will likely negatively impact provider reimbursement under the various programs.

For the fiscal year ended September 30, 2008, the Obligated Group received approximately 9.0% of net patient service revenues from Medi-Cal, California's Medicaid program. See APPENDIX A - "HISTORICAL FINANCIAL INFORMATION - Revenue Sources."

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

Disproportionate Share Payments. Under Medicare PPS and the California Medi-Cal programs, hospitals that serve a disproportionate share of low-income patients may receive an additional disproportionate share hospital adjustment ("DSH"). A hospital may be classified as a DSH hospital based upon any of several circumstances related to the number of beds, the hospital's location, and its disproportionate patient percentage. The DSH adjustment is calculated under one of several methods, depending upon the basis for the hospital's classification as a DSH hospital. For the fiscal year ended September 30, 2008, the Obligated Group received State DSH payments totaling approximately $4.8 million for two of the System's hospitals, and federal DSH payments totaling approximately $26.8 million for four of the System's hospitals. There is no assurance that any of the System's hospitals will receive DSH payments in the future. There also can be no assurance that payments for disproportionate share will not be decreased or eliminated in the future, particularly under the Medi-Cal program. Disproportionate share payments are frequently the target of proposed Medi-Cal payment reductions.

California State Budget. Many states, including California, face severe financial challenges, including erosion of general fund tax revenues, falling real estate values, slowing economic growth and higher unemployment, which may continue or worsen over the coming years. Shortfalls between state revenues and spending demands have in the past and may in the future result in cutbacks to government health care programs. California currently faces a budget deficit, estimated to be more than $41 billion over the next 18 months, prompting the State legislature to consider reductions in State payments to hospitals and other healthcare providers. The Governor of California has also proposed increasing the frequency with which Medi-Cal beneficiaries must verify their eligibility in order to achieve savings by reducing the number of enrollees in the Medi-Cal program. Changes to reimbursement rates and program enrollment might negatively affect the System in a number of ways, including, but not limited to, reduced revenue and an increase in uninsured and underinsured patients.

The financial challenges facing states may negatively affect hospitals in a number of ways, including, but not limited to, a greater number of indigent, uninsured or underinsured patients who are unable to pay for their care or access primary care facilities and a greater number of individuals who qualify for Medicaid and/or reductions in Medicaid reimbursement rates.

Commercial Insurance and Other Third-Party Plans

Many commercial insurance plans, including group plans, reimburse their customers or make direct payments to the System for charges at rates established by agreement. Generally, these plans pay per diem rates plus ancillary service charges, which are subject to various limitations and deductibles depending on the plan. To the extent allowed by law, patients carrying such coverage are responsible to the hospital for any deficiency between the commercial insurance proceeds and total billed charges.

Managed Care and Integrated Delivery Systems. Many hospitals and health systems, including the System, are pursuing strategies with physicians in order to offer an integrated package of health care services, including physician hospital services, to patients, health care insurers, and managed care providers. These integration strategies take many forms, several of which are discussed below. Further, many of these integration strategies are capital intensive and may create certain business and legal liabilities for the System. These types of alliances are generally designed to respond to trends in the delivery of medicine to better integrate hospital and physician care, to increase physician availability to the community and/or to enhance the managed care capability of the affiliated hospitals and physicians. However, these goals may not be achieved, and an unsuccessful alliance may be costly and counterproductive to all of the above-stated goals.

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

The Members of the Obligated Group have entered into contractual arrangements with PPOs, HMOs, and other similar managed care organizations ("MCOs"), pursuant to which they agree to provide or arrange to provide certain health care services for these organizations' eligible enrollees. Revenues received under such contracts are expected to be sufficient to cover the variable cost of the services provided. There can, however, be no assurance that revenues received under such contracts will be sufficient to cover all costs of services provided. Failure of the revenues received under such contracts to cover all costs of services provided may have a material adverse effect on the operations or financial condition of the System.

Medicare law states that MCO and provider contracts may include a physician incentive plan only if (1) no specific payment is made directly or indirectly under the plan to a physician or physician group as an inducement to reduce or limit medically necessary services furnished to an individual enrollee; and (2) the stop-loss protection, enrollee survey and disclosure requirements of this section are met. If an MCO and provider enter into an agreement that does not meet these requirements, the IRS may apply intermediate sanctions or HHS, through the Office of Inspector General ("OIG"), may apply civil money penalties.

MCOs in general reimburse participating providers on the basis of capitation for services rendered to enrollees. A capitated payment does not fluctuate with the frequency of patient visits. Rather, an MCO typically negotiates with the provider a flat fee per patient regardless of the extent of covered medical services required by that patient. Therefore, there is a risk that the provider may need to furnish the enrollee with additional services whose cost will not be covered by the capitated rate paid by the MCO. See "Capitated Payments" below for more information.

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

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

For the fiscal year ended September 30, 2008, managed care payments (excluding capitated contracts) constituted approximately 44.8% of net patient service revenues of the Obligated Group. See APPENDIX A - "HISTORICAL FINANCIAL INFORMATION - Revenue Sources."

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

Some HMOs employ a "capitation" payment method under which hospitals are paid a predetermined periodic rate for each enrollee in the HMO who is "assigned" or otherwise directed to receive care at a particular hospital. The hospital may assume financial risk for the cost and scope of institutional care given. If payment is insufficient to meet the hospital's actual costs of care, or if utilization by such enrollees materially exceeds projections, the financial condition of the hospital could erode rapidly and significantly. For the fiscal year ended September 30, 2008, capitated managed care contracts constituted approximately 10.8% of net patient service revenue of the Obligated Group. See APPENDIX A - "HISTORICAL FINANCIAL INFORMATION - Revenue Sources."

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

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

Physician Contracting and Relations. The System has contracted with physician organizations ("POs") (e.g., independent physician associations) to arrange for the provision of physician and ancillary services. Because POs are separate legal entities with their own goals, obligations to shareholders, financial status and personnel, there are risks involved in contracting with the POs. See APPENDIX A for more information regarding the System's PO relationships.

The success of the System will be partially dependent upon its ability to attract physicians to join the POs and to attract POs to participate in its network, and upon the physicians' abilities to perform their obligations and deliver high-quality patient care in a cost-effective manner. There can be no assurance that the POs will be able to attract and retain the requisite number of physicians, or that such physicians will deliver high-quality health care services. Without impaneling a sufficient number of providers and requisite specialties, the System could fail to be competitive, could fail to keep or attract payor contracts, or could be prohibited from operating until its panel provided adequate access to patients. Such occurrences could have a material adverse effect on the business or operations of the System.

State Laws. States are increasingly regulating the delivery of health care services. Much of this increased regulation has centered around the managed care industry. State legislatures have cited their right and obligation to regulate and oversee health care insurance and have enacted sweeping measures that aim to protect consumers and, in some cases, providers. For example, a number of states have enacted laws mandating a minimum of 48-hour hospital stays for women after delivery; laws prohibiting "gag clauses" (contract provisions that prohibit providers from discussing various issues with their patients); laws defining "emergencies," which provide that a health care plan may not deny coverage for an emergency room visit if a layperson would perceive the situation as an emergency; and laws requiring direct access to obstetrician-gynecologists without the requirement of a referral from a primary care physician.

Due to this increased state oversight, the System could be subject to a variety of state health care laws and regulations, affecting both managed care organizations and health care providers. In addition, the System could be subject to state laws and regulations prohibiting, restricting, or otherwise governing PPOs, third-party administrators, physician-hospital organizations, independent practice associations or other intermediaries; fee-splitting; the "corporate practice of medicine"; selective contracting ("any willing provider" laws and "freedom of choice" laws); coinsurance and deductible amounts; insurance agency and brokerage; quality assurance, utilization review, and credentialing activities; provider and patient grievances; mandated benefits; rate increases; and many other areas.

California Health Care Proposal. California Governor Schwarzenegger proposed a plan to enact health insurance coverage in California, later contained in ABX1 1, which failed in the Senate on January 28, 2008. Other health care proposals, including universal health care coverage in various forms, have been proposed. It is anticipated that health care reform will continue to be a leading issue in the near future. Legislation or regulation concerning health care reform could have a material adverse effect on the System and its operations.

Regulation of the Health Care Industry

General. The health care industry is highly dependent on a number of factors that may limit the ability of the Corporation to meet its obligations under the Loan Agreement and the Obligated Group and any future Member of the Obligated Group to meet their respective obligations under the Master Indenture and the Series 2009 Obligation. Among other things, participants in the health care industry (such as the System) are subject to significant regulatory requirements of federal, state and local governmental agencies and independent professional organizations and accrediting bodies, technological advances and changes in treatment modes, various competitive factors and changes in third-party reimbursement programs. Discussed below are certain of these factors that could have a significant effect on the future operations and financial condition of the System.

Balanced Budget Act of 1997. As described below, the Balanced Budget Act of 1997 (the "BBA") contains a number of provisions that may affect the System in addition to those previously referenced. The System has taken operational steps to address the impact of the BBA.

Conviction of health care-related crimes can result in either mandatory or permissive exclusion from participation in federal and certain state health care programs for various periods of time depending on the nature of such crimes. Under the BBA, those convicted of three health care-related crimes for which mandatory exclusion is the penalty will be permanently excluded from participation. Those convicted of two health care-related crimes for which mandatory exclusion is the penalty will be excluded for a minimum of ten years. The Secretary of HHS will be able to deny entry into Medicare or Medicaid or deny renewal to any provider or supplier convicted of any felony that the Secretary deems to be "inconsistent with the best interests" of the program's beneficiaries.

Health Insurance Portability and Accountability Act. The Health Insurance Portability and Accountability Act of 1996 ("HIPAA") added two prohibited practices, the commission of which may lead to civil monetary penalties: (1) the practice or pattern of presenting a claim for an item or service on a reimbursement code that the person knows or should know will result in greater payment than appropriate, i.e., upcoding, and (2) engaging in a practice of submitting claims for payment for medically unnecessary services. Violation of such prohibited practices could amount to civil monetary penalties of up to $10,000 for each item or service involved. Management of the System does not expect that the prohibited practices provisions of HIPAA will affect the System in a material respect.

HIPAA also includes administrative simplification provisions intended to facilitate the processing of health care payments by encouraging the electronic exchange of information and the use of standardized formats for health care information. Congress recognized, however, that standardization of information formats and greater use of electronic technology presents additional privacy and security risks due to the increased likelihood that databases of personally identifiable health care information will be created and the ease with which vast amounts of such data can be transmitted. Therefore, HIPAA requires the establishment of distinct privacy and security protections for individually identifiable health information.

HHS promulgated privacy regulations under HIPAA that protect patient medical records and other personal health information maintained by health care providers, hospitals, health plans, health insurers, and health care clearinghouses. Compliance with the privacy regulations was required as of April 14, 2003. Management of the System believes that its operations and information systems comply with the HIPAA privacy regulations in all material respects.

Security regulations have also been promulgated under HIPAA. These security regulations were issued in final form on February 20, 2003, with a compliance date of April 21, 2005 (the "Security Regulations"). Additionally, HHS promulgated regulations to standardize the electronic transfer of information pursuant to certain enumerated transactions (the "Code Set Transactions"), with a compliance deadline of October 16, 2003. Management of the System believes that all of its health care facilities are in substantial compliance with the Security Regulations and the Code Set Transactions.

Violations of HIPAA could result in civil penalties of up to $25,000 per type of violation in each calendar year and criminal penalties of up to $250,000 per violation.

Federal "Fraud and Abuse" Laws and Regulations. The Federal Medicare/Medicaid Anti-Fraud and Abuse Amendments to the Social Security Act (the "Anti-Kickback Law") make it a felony offense to knowingly and willfully offer, pay, solicit, or receive remuneration in order to induce business for which reimbursement is provided under the Medicare or Medicaid programs. In addition to criminal penalties, including fines of up to $25,000 and five years' imprisonment, violations of the Anti-Kickback Law can lead to civil monetary penalties ("CMP") and exclusion from Medicare, Medicaid and certain other state and federal health care programs. The scope of prohibited payments in the Anti-Kickback Law is broad and includes economic arrangements involving hospitals, physicians and other health care providers, including joint ventures, space and equipment rentals, purchases of physician practices and management and personal services contracts. HHS has published regulations which describe certain "safe harbor" arrangements that will not be deemed to constitute violations of the Anti-Kickback Law. The safe harbors described in the regulations are narrow and do not cover a wide range of economic relationships which many hospitals, physicians and other health care providers consider to be legitimate business arrangements not prohibited by the statute. Because the regulations describe safe harbors and do not purport to describe comprehensively all lawful or unlawful economic arrangements or other relationships between health care providers and referral sources, hospitals and other health care providers having these arrangements or relationships may be required to alter them in order to ensure compliance with the Anti-Kickback Law.

The BBA provides for CMP in the case of violations of the Anti-Kickback Law in which a person contracts with an excluded provider for the provision of health care items or services where the person knows or should know that the provider has been excluded from participation in a federal health care program. Violations will result in damages three times the remuneration involved as well as a penalty of $50,000 per violation.

Management of the System has and is taking steps it believes are reasonable to ensure that its contracts with physicians and other referral sources are in material compliance with the Anti-Kickback Law. However, in light of the narrowness of the safe harbor regulations and the scarcity of case law interpreting the Anti-Kickback Law, there can be no assurances that the System will not be found to have violated the Anti-Kickback Law, and if so, whether any sanction imposed would have a material adverse effect on the operations of the System.

The Federal False Claims Act. The Federal False Claims Act provides that an individual may bring a civil action for a violation of the Act on behalf of the government alleging that the defendant has defrauded the federal government. These actions are referred to as *qui tam actions* or whistleblower suits. If the federal government intervenes and proceeds with an action brought by an individual, then he/she could receive as much as 25% of any money recovered. Even if the federal government does not intervene and proceed with an action, the employee could still proceed and receive a portion of any money recovered.

The government may use the Federal False Claims Act to prosecute Medicare and other government program fraud in areas such as coding errors, billing for services not provided and submitting false cost reports. When a defendant is determined by a court of law liable under the Federal False Claims Act, the defendant may be required to pay three times the actual damages sustained by the government, plus civil penalties of between $5,500 and $11,000 for each separate false claim. Liability under the Federal False Claims Act often arises when an entity "knowingly" submits a false claim for reimbursement to the federal government. "Knowingly" is defined to include reckless disregard.

Restrictions on Referrals. Current federal law (known as the "Stark" law provisions) prohibits providers of "designated health services" from billing Medicare or Medicaid when the patient is referred by a physician, or an immediate family member, with a financial relationship with the provider, with limited exceptions. "Designated health services" include the following: clinical laboratory services; physical therapy services; occupational therapy services; radiology services, including magnetic resonance imaging, computerized axial tomography scans, and ultrasound services; radiation therapy services and supplies; durable medical equipment and services; parenteral and enteral nutrients, equipment and supplies; prosthetics, orthotics, and prosthetic devices and supplies; home health services; outpatient prescription drugs; and inpatient and outpatient hospital services. The sanctions under the Stark law include denial and refund of payments, civil monetary penalties of up to $15,000 per prohibited service provided and exclusions from the Medicare and Medicaid programs. The statute also provides for a penalty of up to $100,000 for a circumvention scheme.

Like the Anti-Kickback Law, and as highlighted below, there are exceptions to the self-referral prohibitions for many of the customary financial arrangement between physicians and providers, including employment contracts, leases and recruitment agreements. Unlike the safe harbors under the Anti-Kickback Law with which compliance is voluntary, an arrangement must comply with every requirement of a Stark law exception or the arrangement is in violation of the Stark law.

On January 4, 2002, Phase I of a final regulation interpreting Stark law provisions as they relate to designated health services became effective. Phase I covers the general prohibition on certain referrals, the general exemption to both the ownership and compensation arrangement prohibition, and related definitions.

On March 26, 2004, CMS published the Phase II Interim Final Stark II regulations, with an effective date of July 26, 2004. The Phase II regulations cover those parts of the Stark law that were not covered by Phase I, namely the ownership and investment exceptions to the general prohibition, the compensation arrangement exceptions to the general prohibition and the Stark law's reporting provisions. Phase II also includes additional regulatory exceptions, definitions and CMS's response to public comments regarding the Phase I regulations.

On September 5, 2007, CMS published the Phase III Final Stark II regulations, with an effective date of December 4, 2007. The Phase III regulations finalize and respond to public comments regarding the Phase II regulations, as well as providing revisions to the definitions of compensation arrangements and other regulatory modifications.

CMS continues to revise, supplement and update the Stark law. On July 31, 2008, CMS published final changes to the regulations that further restrict the types of arrangements that facilities and physicians may enter, including additional restrictions on certain leases, percentage compensation arrangements, and agreements under which a hospital purchases services under arrangements.

Management of the System believes that the System is currently in material compliance with the Stark law provisions. However, in light of the scarcity of case law interpreting the Stark law provisions and the breadth and complexity of these provisions, there can be no assurances that the System will not be found to have violated the Stark law provisions, and if so, whether any sanction imposed would have a material adverse effect on the operations of the System or the financial condition of the System.

State "Fraud" and "False Claims" Laws. Hospital providers in California also are subject to a variety of State laws related to false claims (similar to the Federal False Claims Act or that are generally applicable false claims laws), anti-kickback (similar to the federal Anti-Kickback Law or that are generally applicable anti-kickback or fraud laws), and physician referral (similar to Stark). These prohibitions, while similar in public policy and scope to the federal laws, have not in all instances been vigorously enforced to date. Management of the System believes the System is currently in material compliance with these State laws. However, in the future their enforcement could have a material adverse impact on the operations or financial condition of the System.

Compliance/Investigations. Medicare requires that extensive financial information be reported on a periodic basis and in a specific format or content. These requirements are numerous, technical and complex and may not be fully understood or implemented by billing or reporting personnel. With respect to certain types of required information, the Federal False Claims Act and the Social Security Act may be violated by mere recklessness in the submission of information to the government even without any intent to defraud. New billing systems, new medical procedures and procedures for which there are no clear guidance from CMS may all result in liability. The penalties for violation include criminal or civil liability and may include, for serious or repeated violations, exclusion from participation in the Medicare program.

The OIG conducts national investigations of Medicare billings for certain services. The focus of these investigations varies annually according to the OIG Workplan. While the Obligated Group makes every effort to be in compliance with Medicare billing requirements, there can be no assurance that the Obligated Group will not be subject to an investigation.

Both federal and state government agencies have increased their investigative and enforcement initiatives. Such initiatives relate to a wide-range of health care operations including billing practices, arrangements between providers and physicians, outliers and cost reports.

Patient Transfers. In response to concerns regarding inappropriate hospital transfers of emergency patients based on the patient's inability to pay for the services provided, Congress has enacted the Emergency Medical Treatment and Active Labor Act ("EMTALA"). Among other things, EMTALA imposes certain requirements that must be met before transferring a patient to another facility or refusing to accept a patient, including conducting a medical screening examination of all patients that present on hospital property and request examination and treatment for an emergency medical condition, or have a request made on his or her behalf. While failure to comply with EMTALA can result in exclusion from the Medicare and/or Medicaid programs as well as imposition of civil and criminal penalties, noncompliance with the requirements of EMTALA, specifically the treatment of uninsured patients, could also affect the financial condition of the System.

Accreditation. The System and its operations are subject to regulation and certification by various federal, state and local government agencies and by certain nongovernmental agencies such as The Joint Commission. No assurance can be given as to the effect on future operations of the System of existing laws, regulations and standards for certification or accreditation or of any future changes in such laws, regulations and standards.

Environmental Laws and Regulations. Health care providers are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations that address, among other things, hospital operations, facilities and properties owned or operated by hospitals. Among the type of regulatory requirements faced by hospitals are (a) air and water quality control requirements, (b) waste management requirements, (c) specific regulatory requirements regarding asbestos, polychlorinated biphenyls and radioactive substances, (d) requirements for providing notice to employees and members of the public about hazardous materials handled by or located at the hospital, (e) requirements for training employees in the proper handling and management of hazardous materials and wastes, and (f) other requirements.

In their role as the owner and operator of properties or facilities, the Members of the Obligated Group, may be subject to liability for investigating and remedying any hazardous substances that may have migrated off their property. Typical hospital operations include, but are not limited to, in various combinations, the handling, use, storage, transportation, disposal and discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants or contaminants. As such, hospital operations are particularly susceptible to the practical, financial and legal risks associated with compliance with such laws and regulations. Such risks may (a) result in damage to individuals, property or the environment, (b) interrupt operations and increase their cost, (c) result in legal liability, damages, injunctions or fines and (d) result in investigations, administrative proceedings, penalties or other governmental agency actions. There is no assurance that the Obligated Group will not encounter such risks in the future, and such risks may result in material adverse consequences to the operations or financial condition of the System.

At the present time, management of the System is not aware of any pending or threatened claim, investigation or enforcement action regarding such environmental issues which, if determined adversely to the System, would have a material adverse effect on the System's operations or financial condition.

Corporate Compliance Program

The Corporation has developed and implemented a compliance program for itself and its affiliates that includes a compliance plan to assist all employees in understanding and adhering to the legal and ethical standards that govern the provision of patient care (the "Compliance Plan"). The Compliance Plan has been designed to (i) comply with the standards set forth in the Federal Sentencing Guidelines for Organizational Defendants and (ii) help assure that the System acts in accordance with its mission, values and known legal duties. Amendments to the Federal Sentencing Guidelines, effective November 1, 2004, recommend an effective compliance and ethics program with knowledgeable and reasonable oversight by the governing authority of an organization.

Antitrust

Enforcement of the antitrust laws against health care providers is becoming more common, and antitrust liability may arise in a wide variety of circumstances, including medical staff privilege disputes, third-party contracting, physician relations, and joint venture, merger, affiliation and acquisition activities. In some respects, the application of federal and state antitrust laws to health care is still evolving, and enforcement activity by federal and state agencies appears to be increasing. At various times, health care providers may be subject to an investigation by a governmental agency charged with the enforcement of antitrust laws, or may be subject to administrative or judicial action by a federal or state agency or a private party. Violators of the antitrust laws could be subject to criminal and civil enforcement by federal and state agencies, as well as by private litigants.

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

Issues Related to the Health Care Market of the System

Affiliation, Merger, Acquisition and Divestiture. Significant numbers of affiliations, mergers, acquisitions and divestitures have occurred in the health care industry. As part of its ongoing planning process, the System considers potential affiliations and acquisition of operations or properties that may become affiliated with or become part of the System in the future. As a result, it is possible that the organizations and assets that currently comprise the Obligated Group may change from time to time. See APPENDIX C - "SUMMARY OF PRINCIPAL DOCUMENTS - MASTER INDENTURE - Particular Covenants of the Corporation and Each Member -- Consolidation, Merger, Sale or Conveyance" hereto.

Possible Increased Competition. The System could face increased competition in the future from other hospitals, from skilled nursing facilities and from other forms of health care delivery that offer health care services to the populations which the System currently serves. This could include the construction of new or the renovation of existing hospitals and skilled nursing facilities, HMO facilities, ambulatory surgery centers, freestanding emergency facilities, private laboratory and radiological services, skilled and specialized nursing facilities, home care, intermediate nursing home care, preventive care and drug and alcohol abuse programs.

In addition, competition could result from forms of health care delivery that are able to offer lower priced services to the population served by the System. These services could be substituted for some of the revenue-generating services currently offered by the System. The services that could serve as substitutes for hospital services include skilled and specialized nursing facilities, diagnostics, home care, intermediate nursing home care, preventive care, and drug and alcohol abuse programs. Competition may also come from specialty hospitals or organizations, particularly those facilities providing specialized services in areas with high visibility and strong margins, such as cardiac services and surgical services, and having specialty physicians as investors.

Specialty hospital developments that attract away an important segment of an existing hospital's admitting specialists and/or services that generate a significant source of revenue may be particularly damaging. For example, some large hospitals may have significant dependence on heart surgery programs, as revenue streams from those programs may cover significant fixed overhead costs. If a significant component of such a hospital's heart surgeons develop their own specialty heart hospital (alone or in conjunction with a growing number of specialty hospital operators and promoters), taking with them their patient base, the hospital could experience a rapid and dramatic decline in net revenues that is not proportionate to the number of patient admissions or patient days lost. It is also possible that the competing specialty hospital, as a for-profit venture, would not accept indigent patients or other payors and government programs, leaving low-pay patient populations in the full-service hospital. In certain cases, such an event could be materially adverse to the hospital. A variety of proposals have been advanced recently to permanently prohibit such investments. Nonetheless, specialty hospitals continue to represent a significant competitive challenge for full-service hospitals.

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

Tax-Exempt Status and Other Tax Matters

<u>**Maintenance of the Tax-Exempt Status of the Members of the Obligated Group**</u>. The tax-exempt status of the Bonds presently depends upon maintenance by the Members of the Obligated Group of their respective status as organizations described in Section 501(c)(3) of the Code. The maintenance of such status is contingent on compliance with general rules promulgated in the Code and related regulations regarding the organization and operation of tax-exempt entities, including their operation for charitable and other permissible purposes and their avoidance of transactions that may cause their earnings or assets to inure to the benefit of private individuals. As these general principles were developed primarily for public charities that do not conduct large-scale technical operations and business activities, they often do not adequately address the myriad of operations and transactions entered into by a modern health care organization. Although traditional activities of health care providers, such as medical office building leases, have been the subject of interpretations by the IRS in the form of Private Letter Rulings, many activities or categories of activities have not been fully addressed in any official opinion, interpretation or policy of the IRS.

The Members of the Obligated Group participate in a variety of transactions with physicians either directly or indirectly. Management believes that the transactions to which the Members of the Obligated Group are a party are consistent with the requirements of the Code as to tax-exempt status, but, as noted above, there is uncertainty as to the state of the law.

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

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

In some cases, the IRS has imposed substantial monetary penalties on tax-exempt hospitals in lieu of revoking their tax-exempt status. In those cases, the IRS and exempt hospitals entered into settlement agreements requiring the hospital to make substantial payments to the IRS. Given the size of operations of the Obligated Group, the wide range of complex transactions its Members enter into, and potential exemption risks, the Obligated Group could be at risk for incurring monetary and other liabilities imposed by the IRS.

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

State Tax Exemption. It is possible that legislation may be proposed to strengthen the role of the California Franchise Tax Board and the California Attorney General in supervising nonprofit health systems. It is likely that the loss by the Members of the Obligated Group of federal tax exemption would also trigger a challenge to their state tax-exemption. Depending on the circumstances, such event could be material and adverse.

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

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

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

Other Risk Factors

Earthquakes. Many hospitals in California are in close proximity to active earthquake faults. A significant earthquake in California could destroy or disable the hospital facilities of the Members of the Obligated Group.

California law requires each acute care hospital in the State to either comply with new hospital seismic safety standards or cease acute care operations by January 1, 2008. The California law allows three types of extensions beyond the January 1, 2008 deadline.

First, the compliance deadline can be extended to January 1, 2013 if a hospital shows that capacity lost in the closure of a facility cannot be provided by another facility in the area or if a hospital agrees that, on or before January 1, 2013, designated services will be provided by moving into an existing conforming building, relocating to a newly built building or continuing in the building as retrofitted to comply with the standards.

The second type of extension allows the 2013 deadline to be extended for up to two years to January 1, 2015, in limited cases. To qualify for the extension, such hospital must have (i) begun construction when the extension is requested; (ii) submitted construction plans to OSHPD before January 1, 2009; (iii) obtained a building permit for construction by January 1, 2011; (iv) submitted to state officials a timetable for construction; and (v) made reasonable progress in meeting this timetable. The Obligated Group will assess the need for and the benefit of this second extension over time if circumstances warrant.

The third type of extension allows an acute care hospital that has obtained a compliance extension to 2013 to extend its compliance deadline to 2020. This extension is meant for hospitals that cannot afford to retrofit existing facilities by 2013, and gives them an opportunity to forego retrofitting and instead construct replacement facilities by 2020. To qualify for this extension, the hospital must (i) certify that it lacks financial capacity to comply with applicable seismic safety standards by 2013 using statutory criteria; (ii) show that it serves otherwise underserved communities; (iii) submit its facility master plan to OSHPD before January 1, 2010; (iv) comply with statutory construction planning timeline; and (v) document its progress on the project. The Obligated Group will assess the need for and the benefit of this third extension over time if circumstances warrant. See APPENDIX A, "ORGANIZATIONAL STRUCTURE - Capital Planning and Seismic Upgrade Activities" for further information regarding the Obligated Group's seismic upgrades.

Risks Related to Variable Rate Indebtedness. Indebtedness outstanding under the Master Indenture in the principal amount of $84.6 million, including the Bonds, is subject to variable interest rate exposure, which amount does not include variable rate bonds which are subject to Financial Product Agreements. Such interest rates vary from time to time and may be converted to fixed interest rates. This protection against rising interest rates is limited, however, because the Obligated Group would be required to continue to pay interest at the applicable variable rate until it is permitted to either convert the obligation to a fixed rate pursuant to the terms of the applicable transaction documents or terminate any related swap agreement. Recent credit market turmoil in the auction rate markets and downgrades of the credit ratings of various bond insurers triggered suddenly high interest costs to many healthcare organizations.

Markets for the Bonds. Subject to prevailing market conditions, the Underwriter intends, but is not obligated, to make a market in the Bonds.

Bond Ratings. There is no assurance that the ratings assigned to the Bonds at the time of issuance will not be lowered or withdrawn at any time, the effect of which could adversely affect the market price for, and marketability of, the Bonds. See "RATINGS" herein.

Labor Matters. Not-for-profit health care providers and their employees are under the jurisdiction of the National Labor Relations Board ("NLRB"). As of September 30, 2008, the Obligated Group had approximately 10,802 full-time equivalent employees, 2,553 of whom are represented by unions. Such unionized employees are represented by Sharp Professional Nurses Network, United Nurses of California, National Union of Hospital and Health Care Employees, American Federation of State, County and Municipal Employees, AFL-CIO ("UNAC"). While management of the Obligated Group believes that its overall employee relations are good, and that a direct relationship between the Members of the Obligated Group and its employees is more beneficial for both the Members of the Obligated Group and the employees than a union relationship, unionization continues for the Obligated Group. See APPENDIX A - "ORGANIZATIONAL STRUCTURE - Employees" for further information regarding the System's collective bargaining agreement with UNAC.

Cost and Availability of Insurance. In the past few years, the insurance market for casualty and professional liability insurance has tightened significantly with respect to both cost and availability of coverage, resulting in escalating fees and premiums and in some cases a lack of adequate coverage. See APPENDIX A – "ORGANIZATIONAL STRUCTURE - Insurance" hereto for additional information regarding insurance coverage of the System.

Nursing, Technician and Specialty Physician Shortage. In recent years, the healthcare industry, including the Obligated Group, has experienced a shortage of nurses, technicians, physicians in certain specialties and other related staff, which has resulted in increased costs and lost revenues due to the need to hire agency nursing personnel at higher rates, to increased compensation levels, and to the inability to use otherwise available beds as a result of staffing shortages. Competition for physicians and employees, coupled with increased recruiting and retention costs will increase hospital operating costs, possibly significantly. The Obligated Group has incurred increased employment costs at certain of its facilities. This ongoing shortage will continue to adversely affect the Obligated Group's operations. See APPENDIX A, "ORGANIZATIONAL STRUCTURE - Nurse Staffing" for more information on the nursing shortage and Obligated Group initiatives in response to the shortage.

California imposes mandatory nurse staffing ratios for all hospital patient care areas. The nurse to patient ratio standards increased as of January 1, 2008. The impact on California hospitals will vary by facility, but the required staffing, in aggregate, is more costly than prior staffing patterns.

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

(a) Adoption of legislation that would establish a national or statewide single-payor health program or that would establish national, statewide or otherwise regulated rates applicable to hospitals and other health care providers.

(b) Reduced demand for the services of the Obligated Group that might result from decreases in population or loss of market share to competitors.

(c) Bankruptcy of an indemnity/commercial insurer, managed care plan or other payor.

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

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

(f) The occurrence of a natural or man-made disaster, a pandemic or an epidemic, or terrorist actions, that could damage the Obligated Group's facilities, interrupt utility service to the facilities, result in an abnormally high demand for health care services or otherwise impair the Obligated Group's operations and the generation of revenues from the facilities.

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

Security and Enforceability

Certain Matters Relating to Security for the Bonds. See "SECURITY FOR THE BONDS" for a discussion of certain factors including the absence of certain covenants in the Master Indenture. The facilities of the Obligated Group are not pledged as security for the Bonds. The Obligated Group's facilities are not comprised of general purpose buildings and generally would not be suitable for industrial or commercial use and consequently, it could be difficult to find a buyer or lessee for such facilities. If it were necessary to proceed against such facilities, whether pursuant to a judgment, if any, against the Obligated Group or otherwise, upon any default which results in the acceleration of the Bonds, an amount may not be realized sufficient to pay in full the Obligations, including the Series 2009 Obligation, from the sale or lease of such facilities.

Certain amendments to the Bond Indenture may be made without the consent of any Holders of the outstanding Bonds and certain other amendments to the Bond Indenture may be made with the consent of the Holders of not less than a majority of the principal amount of the outstanding Bonds. Certain amendments to the Master Indenture may be made with the consent of the Holders of not less than a majority of the principal amount of Obligations Outstanding under the Master Indenture. Such amendments may adversely affect the security of the Bondholders. With respect to amendments to the Master Indenture, the Holders of the requisite percentage of Outstanding Obligations may be composed wholly or partially of the Holders of additional Obligations. Such amendments may adversely affect the security of the Bondholders. See "APPENDIX C – SUMMARY OF PRINCIPAL DOCUMENTS."

Perfection of a Security Interest in Gross Revenues. Each Member of the Obligated Group has granted a security interest in all of the Gross Revenues of the Obligated Group and has agreed to perfect the grant of a security interest in the Gross Revenues to the extent, and only to the extent, that such security interest may be perfected under the Uniform Commercial Code of the State of California. The effectiveness of the security interest in the Gross Revenues may be limited by a number of factors, including (i) the absence of an express provision permitting assignment of receivables due any Member of the Obligated Group under the Medicare and Medi-Cal programs or under capitated risk contracts, and present or future prohibitions against assignment contained in any federal statutes or regulations; (ii) certain judicial decisions that cast doubt upon the right of the Master Trustee, in the event of the bankruptcy or any Member of the Obligated Group, to collect and retain accounts receivable from Medicare, Medi-Cal, general assistance and other governmental programs; (iii) statutory liens; (iv) rights arising in favor of the United States of America, the State of California or any agency thereof; (v) constructive trusts, equitable or other rights impressed or conferred by a federal or state court in the exercise of its equitable jurisdiction; (vi) federal bankruptcy laws which may affect the priority of claims against the assets of the Obligated Group and the enforceability of the Bond Indenture or the security interest in the Gross Revenues which are earned by any Member of the Obligated Group within 90 days preceding and after any effectual institution of bankruptcy proceedings by or against such Member, (vii) rights of third parties in the Obligated Group's revenues converted to cash and not in the possession of the Bond Trustee or the Master Trustee; and (viii) claims that might gain priority if appropriate financing or continuation statements are not filed in accordance with the California Uniform Commercial Code as from time to time in effect.

Enforceability of the Master Indenture, the Loan Agreement and the Series 2009 Obligation. The state of the insolvency, fraudulent conveyance and bankruptcy laws relating to the enforceability of guaranties or obligations issued by one corporation in favor of the creditors of another or the obligations of an Obligated Group Member to make debt service payments on behalf of an Obligated Group Member is unsettled, and the ability to enforce the Master Indenture and the Obligations against any Obligated Group Member that would be rendered insolvent thereby could be subject to challenge. In particular, such obligations may be voidable under the Federal Bankruptcy Code or applicable state fraudulent conveyance laws if the obligation is incurred without "fair" and/or "fairly equivalent" consideration to the obligor and if the incurrence of the obligation thereby renders the Obligated Group Member insolvent. The standards for determining the fairness of consideration and the manner of determining insolvency are not clear and may vary under the Federal Bankruptcy Code, state fraudulent conveyance statutes and applicable cases.

The joint and several obligation described herein of each Member of the Obligated Group to pay debt service on the Series 2009 Obligation may not be enforceable under any of the following circumstances:

(i) to the extent payments on the Series 2009 Obligation are requested to be made from assets of a Member which are donor-restricted or which are subject to a direct, express or charitable trust that does not permit the use of such assets for such payments;

(ii) if the purpose of the debt created and evidenced by the Series 2009 Obligation is not consistent with the charitable purposes of the Member from which such payment is requested or required, or if the debt was incurred or issued for the benefit of an entity other than a nonprofit corporation that is exempt from federal income taxes under Sections 501(a) and 501(c)(3) of the Code and is not a "private foundation" as defined in Section 509(a) of the Code;

(iii) to the extent payments on the Series 2009 Obligation would result in the cessation or discontinuation of any material portion of the health care or related services previously provided by such Member; or

(iv) if and to the extent payments are requested to be made pursuant to any loan violating applicable usury laws.

These limitations on the enforceability of the joint and several obligations of the Members of the Obligated Group on the Series 2009 Obligation also apply to their obligations on all Obligations. If the obligation of a particular Member of the Obligated Group to make payment on an Obligation is not enforceable and payment is not made on such Obligation when due in full, then Events of Default will arise under the Master Indenture.

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

The legal right and practical ability of the Bond Trustee to enforce its rights and remedies against the Corporation under the Loan Agreement and related documents and of the Master Trustee to enforce its rights and remedies against the Members of the Obligated Group under the Series 2009 Obligation may be limited by laws relating to bankruptcy, insolvency, reorganization, fraudulent conveyance or moratorium and by other similar laws affecting creditors' rights. In addition, the Bond Trustee's and the Master Trustee's ability to enforce such terms will depend upon the exercise of various remedies specified by such documents which may in many instances require judicial actions that are often subject to discretion and delay or that otherwise may not be readily available or may be limited.

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

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

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

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

In addition, the obligations of the Corporation under the Loan Agreement and of the Members of the Obligated Group and any future Members under the Master Indenture are not secured by a lien on or security interest in any assets or revenues of the Members, other than the pledge of Gross Revenues. In the event of a bankruptcy of the Members of the Obligated Group or any future Members, Bondholders would be considered unsecured creditors on a parity with all unsecured creditors of the Members of the Obligated Group. The Bondholders would have a subordinate interest to any creditor of the Members of the Obligated Group that holds a security interest in the Obligated Group Member's property.

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

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings in calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in APPENDIX D hereto.

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

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

In addition, Bond Counsel has relied, among other things, on the opinion of Hooper, Lundy & Bookman, Inc., special counsel to the Members of the Obligated Group, regarding the current qualification of the Members of the Obligated Group as organizations described in Section 501(c)(3) of the Code. Such opinion is subject to a number of qualifications and limitations. Bond Counsel has also relied upon representations of the Corporation concerning the Members' of the Obligated Group "unrelated trade or business" activities as defined in Section 513(a) of the Code. Neither Bond Counsel nor special counsel to the Members of the Obligated Group has given any opinion or assurance concerning Section 513(a) of the Code and neither Bond Counsel nor special counsel to the Members of the Obligated Group can give or has given any opinion or assurance about the future activities of the Members of the Obligated Group, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the resulting changes in enforcement thereof by the IRS. Failure of the Members of the Obligated Group to be organized and operated in accordance with the IRS's requirements for the maintenance of their status as organizations described in Section 501(c)(3) of the Code, or to operate the facilities refinanced by the Bonds in a manner that is substantially related to the Members' of the Obligated Group charitable purpose under Section 513(a) of the Code, may result in interest payable with respect to the Bonds being included in federal gross income, possibly from the date of the original issuance of the Bonds.

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

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

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

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority, the Members of the Obligated Group or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority, the Members of the Obligated Group and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in, the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority or the Members of the Obligated Group legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the Authority, the Members of the Obligated Group or the Beneficial Owners to incur significant expense.

CONTINUING DISCLOSURE

So long as the Bonds are operating in the Daily Interest Rate Period or Weekly Interest Rate Period, the Bonds are exempt from the continuing disclosure requirements under the Rule (as hereinafter defined), and the Obligated Group may cease, with respect to the Bonds, providing the disclosure described in this Section at any time.

General

The Corporation, acting on behalf of itself and the other Members of the Obligated Group, has covenanted for the benefit of Holders and Beneficial Owners of the Bonds to provide certain financial information and operating data relating to the Obligated Group for each of the Obligated Group's fiscal years in accordance with the requirements of Rule 15c2-12 promulgated by the Securities and Exchange Commission (the "Rule"). The covenants of the Obligated Group are in an agreement (the "Master Continuing Disclosure Agreement") with The Bank of New York Mellon Trust Company, N.A., as successor Dissemination Agent (the "Dissemination Agent"), dated as of April 1, 1998, as amended. The Corporation will execute a Continuing Disclosure Certificate (together with the Master Continuing Disclosure Agreement, the "Continuing Disclosure Agreement") concurrently with the issuance of the Bonds, designating the Master Continuing Disclosure Agreement as the Obligated Group's written undertaking under the Rule, to provide or cause to be provided to the Dissemination Agent, for dissemination (a) certain financial information and operating data relating to the Obligated Group by not later than five months following the end of the Corporation's fiscal year (which fiscal year currently ends on September 30) (the "Annual Report"), commencing with the report for the fiscal year ended September 30, 2008, (b) to provide certain unaudited financial information relating to the Obligated Group by not later than 60 days after the end of each of the first three fiscal quarters of the Corporation, commencing with the fiscal quarter ending March 31, 2009, and (c) to provide notices of the occurrence of certain enumerated events, if material. "Beneficial Owners" means, under this caption only, any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of directly or indirectly, to vote or consent with respect to, or to dispose of ownership of the Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

The Annual Report will be filed by or on behalf of the Obligated Group with each Nationally Recognized Municipal Securities Information Repository ("NRMSIR") and with the State Information Depositories ("SIDs"), if any, in each case as designated from time to time by the SEC. The notices of material events will be filed with the Municipal Securities Rulemaking Board ("MSRB") or each NRMSIR, and with the SIDs, if any, in each case as designated from time to time by the SEC. These covenants have been made in order to assist the Underwriter and registered brokers, dealers and municipal securities dealers in complying with the requirements of Rule 15c2-12 (the "Rule"), as applicable, promulgated by the SEC pursuant to the Securities Exchange Act of 1934, as amended. In addition, the Corporation has agreed to cause to be filed with the NRMSIRs and any SID copies of the Obligated Group's unaudited quarterly financial information containing a statement of revenues and expenses and a balance sheet prepared by management for each of the first three fiscal quarters of each year within 60 days of the end of each such fiscal quarter. All such information (commencing with the fiscal year ended September 30, 2008) will also be available electronically at no cost from Digital Assurance Certification LLC ("DAC"). There is no assurance that the Corporation will continue to make information available from DAC for the life of the Bonds. Any filing under the Continuing Disclosure Agreement may be made solely by transmitting such filing to the Municipal Advisory Council of Texas (the "MAC") as provided at http://www.disclosureusa.org unless the SEC has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004. The Corporation has never failed to comply in all material respects with any previous undertaking with regard to the Rule to provide financial information and data, operating data or notices of material events.

Notice of Certain Events, if Material

The Corporation covenants to provide, or cause to be provided, notice of the occurrence of any of the following events with respect to the Bonds, if material, in a timely manner and in accordance with the Rule:

(1) Principal and interest payment delinquencies;

(2) Non-payment related defaults;

(3) Unscheduled draws on debt service reserves reflecting financial difficulties;

(4) Unscheduled draws on credit enhancements reflecting financing difficulties;

(5) Substitution of credit or Credit Facility or Liquidity Facility providers, or their failure to perform;

(6) Adverse tax opinions or events adversely affecting the tax-exempt status of the Bonds or any other outstanding bonds issued on behalf of the Obligated Group and subject to the continuing disclosure requirements under the Rule;

(7) Modifications to rights of bondholders;

(8) Bond calls;

(9) Defeasances;

(10) Release, substitution, or sale of property securing repayment of the securities; and

(11) Rating changes.

Annual Report

The Annual Report will contain or incorporate by reference at least the following items:

(a) The audited financial statements of the Obligated Group for the fiscal year immediately preceding the due date of the Annual Report; provided, however, that if such audited financial statements are not available by the deadline for filing the Annual Report, they shall be provided as soon as practicable after they have been approved by the governing body of the Corporation, and unaudited financial statements shall be included in the Annual Report. The financial statements shall be audited and prepared pursuant to accounting and reporting policies conforming in all material respects to GAAP or accompanied by a quantified explanation of material deviations from GAAP, if possible, or a full explanation of the accounting principles used.

(b) An update of the material financial information and material operating data of the same general nature as that contained in APPENDIX A under the captions "HEALTH CARE OPERATIONS OF THE OBLIGATED GROUP - Utilization," "HISTORICAL FINANCIAL INFORMATION – Revenue Sources (table only), – Historic and Pro Forma Liquidity (historic only), – Debt Service Coverage Ratio (historic only) and – Historic and Pro Forma Capitalization (historic only)."

Any or all of the items listed above may be included by specific reference to other documents which previously have been provided to each of the repositories described above or filed with the SEC. If the document included by reference is a final official statement, it must be available from the MSRB. The Corporation shall clearly identify each such other document as included by reference.

Failure to Comply

In the event of a failure of the Corporation to comply with any provision of the Continuing Disclosure Agreement, any Bondholder or Beneficial Owner may seek specific performance by court order to cause the Corporation to comply with the obligations under the Continuing Disclosure Agreement. A failure to comply with the Continuing Disclosure Agreement shall not be deemed an Event of Default under the Master Indenture or the Bond Indenture. The sole remedy under the Continuing Disclosure Agreement in the event of any failure of the Corporation to comply with the Continuing Disclosure Agreement shall be an action to compel performance, and no person or entity shall be entitled to recover monetary damage thereunder under any circumstances.

Amendment of the Continuing Disclosure Agreement

The provisions of the Continuing Disclosure Agreement, including but not limited to the provisions relating to the accounting principles pursuant to which the financial statements are prepared, may be amended as deemed appropriate by the Corporation; but any such amendment must be adopted procedurally and substantively in a manner consistent with the Rule, including any interpretation thereof made from time to time by the SEC. Such interpretations currently include the requirements that (a) the amendment may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of any Obligated Person or the type of activities conducted thereby, (b) the undertaking, as amended, would have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, and (c) the amendment does not materially impair the interests of Bondholders, as determined by parties unaffiliated with the Corporation (such as independent legal counsel). The foregoing interpretations may be changed in the future.

Because the Bonds are limited obligations of the Authority, payable solely from amounts received from the Corporation or other Members of the Obligated Group, financial or operating data concerning the Authority is not material to an evaluation of the offering or to any decision to purchase, hold or sell the Bonds. Accordingly, the Authority will not provide any such information. The Corporation, acting on behalf of itself and the other Members of the Obligated Group, has undertaken all responsibilities for continuing disclosure to Holders of the Bonds as described above, and the Authority shall have no liability to the Holders or any other person with respect to the Rule.

APPROVAL OF LEGALITY

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority. A complete copy of the proposed form of Bond Counsel opinion is contained in APPENDIX D hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain other legal matters will be passed upon for the Authority by Chapman and Cutler LLP, San Francisco, California, for the Obligated Group by its special counsel, Hooper, Lundy & Bookman, Inc., San Diego, California, for the Bank by Morrison & Foerster LLP, Los Angeles, California, and for the Underwriter by its special counsel, Sonnenschein Nath & Rosenthal LLP, Chicago, Illinois, which also undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement.

INDEPENDENT AUDITORS

The combined financial statements of the Corporation as of September 30, 2007 and 2008 and for the years then ended, included in APPENDIX B, have been audited by Ernst & Young LLP, independent auditors, as stated in their report included in APPENDIX B.

FINANCIAL ADVISOR

Ponder & Co. has served as financial advisor (the "Financial Advisor") to the Corporation for purposes of assisting with the development and implementation of a bond structure in connection with the Bonds. Ponder & Co. is not obligated to undertake, and has not undertaken, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. Ponder & Co. is an independent advisory firm and is not engaged in the business of underwriting or distributing municipal securities or other public securities.

LITIGATION

The Members of the Obligated Group

There is no controversy or litigation of any nature now pending against the Members of the Obligated Group or, to the knowledge of its respective officers, threatened, seeking to restrain or enjoin the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds, any proceedings of the Members of the Obligated Group taken concerning the issuance or sale thereof, the pledge or application of any moneys or security provided for the payment of the Bonds.

As with most health care providers, the Members of the Obligated Group are subject to certain legal actions that, in whole or in part, are not or may not be covered by insurance because of the type of action or amount or types of damages requested (e.g., punitive damages), because of a reservation of rights by an insurance carrier, or because the action has not proceeded to a stage that permits full evaluation. There are certain legal actions currently pending against the Members of the Obligated Group known to management of the Members of the Obligated Group and for which insurance coverage is uncertain for the above reasons. Except as described in Note 9 to the audited combined financial statements of the Corporation included in APPENDIX B ("Note 9"), Management of the Members of the Obligated Group does not anticipate that any such suits will ultimately result in punitive damage awards or judgments in excess of applicable insurance limits, or if such awards or judgments were to be entered, that they would have a material adverse impact on the financial condition of the Members of the Obligated Group. In the event the verdict described in Note 9 is ultimately upheld, the amount of such verdict would be adverse to the financial condition of the Members of the Obligated Group. Other than as described above, there is no litigation of any nature now pending against the Members of the Obligated Group or, to the knowledge of its officers, threatened, which, if successful, would materially adversely affect the operations or financial condition of the Members of the Obligated Group.

Other than as described above, there is no litigation of any nature now pending against the Members of the Obligated Group or, to the knowledge of its officers, threatened, which, if successful, would materially adversely affect the operations or financial condition of the Members of the Obligated Group.

The Authority

To the knowledge of the officers of the Authority, there is no litigation of any nature now pending or threatened against the Authority, restraining or enjoining the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds, any proceedings of the Authority taken concerning the issuance or sale thereof, the pledge or application of any moneys or security provided for the payment of the Bonds, or the existence or powers of the Authority relating to the issuance of the Bonds.

RATINGS

S&P and Moody's have assigned long-term ratings of "AAA" and "Aaa" and short-term ratings of "A-1+" and "VMIG 1", respectively, for the Bonds. Such ratings are conditioned on the issuance of the Letter of Credit by the Bank and reflect a combined analysis of the long-term ratings of the Bank and the Obligated Group. S&P and Moody's have assigned underlying long-term ratings on the Bonds of "A-" and "A3", respectively, based on the senior long-term unenhanced debt of the Obligated Group and without regard to the Letter of Credit. The Obligated Group has furnished to S&P and Moody's certain information and materials concerning the Bonds and itself. No application was made to any other rating agency for the purpose of obtaining additional ratings on the Bonds. Any explanation of the significance of such ratings may only be obtained from the rating agency furnishing the same. Generally, rating agencies base their ratings on such information and materials and on investigations, studies and assumptions made by the rating agencies themselves. There is no assurance that the ratings mentioned above will remain in effect for any given period of time or that they might not be lowered or withdrawn entirely by the rating agencies, if in their judgment circumstances so warrant. Any such downward change in or withdrawal of the ratings might have an adverse effect on the market price or marketability of the Bonds.

UNDERWRITING

The Bonds are being purchased by Citigroup Global Markets Inc. (the "Underwriter"). Pursuant to the Purchase Contract for the Bonds, the Underwriter has agreed to purchase the Bonds at a purchase price of $60,000,000. The Obligated Group has agreed to pay the Underwriter underwriting compensation of $300,000 with respect to the Bonds. The Purchase Contract for the Bonds provides that the Underwriter will purchase all of the Bonds, if any are purchased, and contains the agreements of the Obligated Group to indemnify the Underwriter and the Authority against certain liabilities.

MISCELLANEOUS

The foregoing and subsequent summaries or descriptions of provisions of the Bonds, the Bond Indenture, the Loan Agreement, the Master Indenture, Supplement No. 22 and the Series 2009 Obligation and all references to other materials not purporting to be quoted in full are only brief outlines of some of the provisions thereof and do not purport to summarize or describe all of the provisions thereof, and reference is made to said documents for full and complete statements of their provisions. The Appendices attached hereto are a part of this Official Statement. Following the issuance and sale of the Bonds, copies, in reasonable quantity, of the Bond Indenture, the Loan Agreement, the Master Indenture, Supplement No. 22 and the Series 2009 Obligation may be obtained upon request directed to the corporate trust office of the Bond Trustee.

It is anticipated that CUSIP identification numbers will be printed on the Bonds, but neither the failure to print such numbers on any Bonds nor any error in the printing of such numbers shall constitute cause for a failure or refusal by the purchaser thereof to accept delivery of and pay for any Bonds.

The information contained in this Official Statement has been compiled or prepared from information obtained from the Members of the Obligated Group and official and other sources deemed to be reliable and, while not guaranteed as to completeness or accuracy, is believed to be correct as of the date of this Official Statement. The Authority furnished only the information contained under the headings "THE AUTHORITY" and "LITIGATION—The Authority" and, except for such information, makes no representation as to the adequacy, completeness or accuracy of this Official Statement or the information contained herein. Any statements involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

This Official Statement has been delivered by the Authority and approved by the Corporation. The Bond Trustee has not participated in the preparation of this Official Statement. This Official Statement is not to be construed as a contract or agreement among any of the Authority, the Corporation and the purchasers or Holders of the Bonds.

ABAG FINANCE AUTHORITY FOR
NONPROFIT CORPORATIONS

By: /s/ Joseph K. Chan
Chief Financial Officer

Approved:

SHARP HEALTHCARE, on behalf of
the Obligated Group

By: /s/ Alison Fleury
Senior Vice President Business Development

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APPENDIX A

INFORMATION CONCERNING SHARP HEALTHCARE AND THE OBLIGATED GROUP

TABLE OF CONTENTS

SHARP®

Malcolm Baldrige National Quality Award
2007 Award Recipient

Sharp HealthCare*
including Sharp Rees-Stealy Medical Centers

- **Hospitals**
  - Sharp Memorial Hospital* including the Donald N. Sharp Memorial Hospital, Sharp Mary Birch Hospital for Women, Sharp Mesa Vista Hospital, Sharp Vista Pacifica Hospital, Sharp Memorial Outpatient Pavilion, and Sharp Cabrillo Skilled Nursing Center
  - Sharp Chula Vista Medical Center*
  - Grossmont Hospital Corporation*
  - Sharp Coronado Hospital and Healthcare Center
- **Other Affiliated Entities**
  - Sharp Health Plan
  - Continuous Quality Insurance, Segregated Portfolio Corporation
  - Sharp HealthCare Foundation
  - Grossmont Hospital Foundation

* Member of the Obligated Group

APPENDIX A

OVERVIEW OF THE SHARP HEALTHCARE SYSTEM

General

Sharp HealthCare (the "Corporation") is a California nonprofit public benefit corporation with its corporate offices in San Diego, California. The Corporation is the member or sole shareholder of the affiliated entities discussed below, which together constitute a regional integrated health care system known as Sharp HealthCare ("Sharp HealthCare"). The Corporation and its affiliated entities currently own or lease and operate a variety of facilities and programs throughout San Diego County (the "County"), which contains a population of approximately 3.0 million[1]. Sharp HealthCare is comprised of:

- Four acute care hospitals
- Three specialty hospitals
- Twenty outpatient clinics operated in conjunction with one of its two affiliated medical groups
- Five urgent care centers
- Four skilled nursing facilities
- Two inpatient rehabilitation programs
- Home health, hospice, and home infusion programs
- Numerous outpatient facilities and programs
- A nonprofit health maintenance organization

As of September 30, 2008, Sharp HealthCare operated 1,848 licensed beds, had approximately 2,600 physicians on medical staffs and in affiliated medical groups, employed more than 14,000 people, and reported approximately $1.5 billion in assets.

The Corporation's affiliated entities include Sharp Memorial Hospital ("Sharp Memorial"), Sharp Chula Vista Medical Center ("Sharp Chula Vista"), Grossmont Hospital Corporation ("Sharp Grossmont"), Sharp Health Plan ("Sharp Health Plan"), Sharp Coronado Hospital and Healthcare Center ("Sharp Coronado"), Continuous Quality Insurance, Segregated Portfolio Corporation ("Continuous Quality Insurance"), Sharp HealthCare Foundation ("Sharp Foundation"), and Grossmont Hospital Foundation ("Grossmont Foundation"). The Corporation is the sole member of the aforementioned affiliated entities with the exception of Grossmont Foundation, whose sole member is Sharp Grossmont, and Continuous Quality Insurance, where the Corporation is the sole shareholder. The Corporation operates the Sharp Rees-Stealy Medical Centers ("Sharp Rees-Stealy") as a division of the Corporation. Sharp Memorial includes the Donald N. Sharp Memorial Community Hospital ("Memorial Hospital"), Sharp Mary Birch Hospital for Women ("Sharp Mary Birch"), Sharp Mesa Vista Hospital ("Sharp Mesa Vista"), Sharp Vista Pacifica Hospital ("Sharp Vista Pacifica"), Sharp Cabrillo Skilled

[1] Source: Thomson-Reuters Market Expert; Claritas, Inc.; US Census Bureau.

Nursing Center ("Sharp Cabrillo")[2], and Sharp Memorial Outpatient Pavilion ("Sharp Outpatient Pavilion"). The Obligated Group (as defined herein) is comprised of the Corporation, Sharp Memorial, Sharp Chula Vista, and Sharp Grossmont. The other affiliated entities have no repayment obligation with respect to the Bonds.

Awards and Honors

In 2007, Sharp HealthCare was named a Malcolm Baldrige National Quality Award recipient, the nation's highest Presidential honor for quality and organizational performance excellence. The Baldrige award is presented to businesses — manufacturing and service, small and large — and to education, health care, and nonprofit organizations judged to be outstanding in seven areas, including leadership; strategic planning; customer and market focus; measurement, analysis, and knowledge management; human resource focus; process management; and results. Since inception of the award in 1987, Sharp HealthCare is the only health care provider in California and one of only nine health care organizations nationally to receive the award.

The American Nurses Credentialing Center ("ANCC") awarded Sharp Grossmont and Sharp Memorial with the prestigious Magnet designation for their excellence in nursing practices and quality patient care in 2006 and 2008, respectively. Sharp HealthCare has been named the top integrated health care network in California in an annual survey conducted by Verispan, a leading health care data analyst. This is the 10th consecutive year that Sharp HealthCare has placed among the top in the state survey, which was nationally announced by *Modern Healthcare* magazine in February 2008. The Verispan ranking is based on Sharp HealthCare's achievements in the areas of hospital utilization, financial stability, services and access, outpatient utilization, technology integration, contractual capabilities, physician participation, and overall system integration. Also in 2008, readers of *The San Diego Union-Tribune* recognized Sharp HealthCare as San Diego's "Best Health Care Provider" and "Best Hospital" in the newspaper's "Best of San Diego" Readers' Poll.

Modern Healthcare magazine ranked Sharp HealthCare 47th in its national ranking of the "100 Best Places to Work" in 2008. This new awards and honors program recognizes workplaces in health care that enable employees to perform at their optimum level to provide patients and customers with the best possible care and services. Also in 2008, Sharp HealthCare won a crystal Workplace Excellence Award from the San Diego Society for Human Resource Management. The Workplace Excellence Awards recognize small and large companies from various industries that implement cutting-edge human resource practices that lead to employee satisfaction and company performance. Additionally, IDG's *Computerworld* magazine ranked Sharp HealthCare third in its annual "Best Places to Work in IT" survey for 2007.

Sharp HealthCare was named one of the nation's "Most Wired" health care systems in 2008 for the 10th consecutive year by *Hospitals & Health Networks* magazine in the annual "Most Wired Survey and Benchmark Study". "Most Wired" hospitals are committed to using

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[2] Sharp Cabrillo is scheduled to close on April 3, 2009. See "ACQUISITION AND DISPOSITION ACTIVITIES" herein.

technology to enhance quality of care for both patients and staff. *InformationWeek* magazine selected Sharp HealthCare as one of the nation's 250 most innovative users of information technology ("IT") for its 2007 "InformationWeek 500" list. Sharp HealthCare earned the rank of No. 129 overall and was the only California-based health care provider represented in the top half of the 500-member list. Sharp HealthCare's Web site, Sharp.com, was awarded two eHealthcare Leadership Awards in 2007: platinum for best consumer health Web site design and silver for best quality communication. Judges selected winners from more than 1,100 Web site entries by comparing the sites to others in their organization's classification. Also in 2007, Sharp HealthCare was named a W^3 silver award winner for creative Web excellence in the health care services category. The W^3 awards honor Web creativity and function — from the biggest advertising agencies to local nonprofits — and are judged by the International Academy of the Visual Arts.

The American Heart Association/American Stroke Association's Get With The Guidelines Program honored Sharp Grossmont with the Triple Performance Achievement Award, as well as gold and silver awards, for its quality care in treating cardiac patients for heart attacks. Sharp Memorial was also recognized with both the Gold Sustained Performance Award and the Bronze Initial Performance Award. These recognitions were announced in the July 21, 2008, edition of *U.S. News & World Report*. Based on results from the Leapfrog Hospital Quality and Safety Survey, Sharp Memorial and Sharp Grossmont were also among 22 California hospitals recognized for their outstanding commitment to health care quality and patient safety in May 2006. Issued only in 2006, this first-time award was presented by four of the state's leading health plans: Aetna, Blue Shield of California, CIGNA HealthCare of California, and United Healthcare. In addition, Sharp Coronado was one of just five hospitals nationwide to receive the Planetree Patient-Centered Hospital Designation. It was also the only hospital in California to have met the stringent criteria developed by Planetree, a nonprofit organization committed to improving medical care from the patient's perspective. Sharp Rees-Stealy Medical Group, Inc. ("SRSMG"), an independently owned professional medical corporation affiliated with Sharp HealthCare and providing the professional medical services at Sharp Rees-Stealy, was named California's top performing physician group by two different health plans. Anthem Blue Cross and Aetna recognized SRSMG for its leading performance among participating medical groups across the state in clinical quality, patient satisfaction, and IT. CIGNA and PacifiCare have also recognized SRSMG as one of the top performing groups in California.

Obligated Group

A substantial portion of the Corporation's debt is secured under a Master Indenture of Trust, dated as of June 1, 1988, as supplemented and amended to date (the "Master Indenture"), which is summarized in part in Appendix C to this Official Statement. Pursuant to the Master Indenture, the Corporation, Sharp Memorial, Sharp Chula Vista, and Sharp Grossmont (collectively, the "Obligated Group" and each individually a "Member" or an "Obligated Group Member") have agreed to be jointly and severally liable for debt secured by obligations issued under the Master Indenture (each an "Obligation").

The Obligated Group Members are all California nonprofit public benefit corporations domiciled in the County. The Obligated Group Members accounted for 93.2% of Sharp

HealthCare's revenues, 100.9% of income from operations, and 96.6% of its net assets, as of and for the fiscal year ended September 30, 2008. See "HEALTH CARE OPERATIONS OF THE OBLIGATED GROUP" and "HISTORICAL FINANCIAL INFORMATION" herein.

The affiliated entities of the Corporation that are not Obligated Group Members (collectively, "Non-Obligated Affiliates") include Sharp Coronado, Sharp Health Plan, Sharp Foundation, and Grossmont Foundation, all of which are California nonprofit public benefit corporations, and Continuous Quality Insurance, an off-shore captive insurance company. Measured in terms of annual revenues, the largest of the Corporation's Non-Obligated Affiliates is Sharp Health Plan, which accounted for 7.8% of Sharp HealthCare's revenues for the year ended September 30, 2008. See "NON-OBLIGATED AFFILIATES" herein.

The Members of the Obligated Group are the only entities that are obligated to make payments on the Obligations issued under the Master Indenture, including Obligation No. 22, and, therefore, with respect to the Bonds.

Mission, Goals, and Vision

Sharp HealthCare's mission is "to improve the health of those it serves with a commitment to excellence in all that it does. Sharp HealthCare's goal is to offer quality care and services that set community standards, exceed patients' expectations, and are provided in a caring, convenient, cost-effective, and accessible manner." Sharp HealthCare's vision is "to transform the health care experience through a culture of caring, quality, service, innovation, and excellence and be recognized as the best place to work, the best place to practice medicine, and the best place to receive care."

Sharp HealthCare's programs and services support its mission by providing a full continuum of integrated care. This continuum includes prevention and wellness programs, an array of outpatient and clinical programs, primary through quaternary acute inpatient care, acute inpatient and outpatient rehabilitation, acute inpatient and outpatient behavioral health programs, and home, hospice, and skilled nursing care. See "HEALTH CARE OPERATIONS OF THE OBLIGATED GROUP" and "NON-OBLIGATED AFFILIATES" herein for details.

Historical Perspective

The Corporation (formerly known as San Diego Hospital Association) was formed in 1946 to raise funds for hospital facilities in the San Diego area. In 1949, the P.L. Gildred family donated 12.5 acres of land in the Kearny Mesa area of San Diego to the Corporation as a proposed hospital site. The following year, Thomas E. Sharp, a rancher and radio communications pioneer, gave $500,000 to the Corporation in memory of his son, United States Army Air Corps Lt. Donald N. Sharp, a World War II pilot who perished at the age of 22 while saving his crew. Ground was broken in 1953 for Memorial Hospital, which opened in 1955 as a nonprofit, non-sectarian, charitable institution providing general hospital care for the people of San Diego. Memorial Hospital was dedicated at the Sharp family's request to all the servicemen who sacrificed their lives in World War II. Since 1982, Memorial Hospital has been operated by Sharp Memorial.

In 1960, the "Stork Club," a $1.5 million maternity wing, opened at Memorial Hospital and eventually evolved into Sharp Mary Birch, offering gynecological and obstetric/perinatal services. In 1962, a long-term care unit was dedicated at Memorial Hospital, one of the first of its kind in California. The unit has subsequently grown into the Sharp Rehabilitation Center, the only regionally accredited comprehensive rehabilitation center serving San Diego and specializing in care for patients with spinal cord, stroke, and brain injuries. In 1967, the Corporation received more than $1 million from Thomas E. Sharp's estate. The Corporation then began a program to develop Memorial Hospital into a comprehensive medical center. This program led to medical and technological innovations and further campus investments through the 1970s.

In the early 1980s, the Corporation's management reevaluated the role of the traditional, freestanding acute care hospital in the health care marketplace and embarked on a strategy to develop a vertically integrated network of health care facilities and providers throughout the County. Since that time, Sharp HealthCare has developed an extensive network of physicians, hospitals, clinics, and other facilities and programs located throughout the County. In addition to creating a network that integrates facilities and providers, Sharp HealthCare has included the payor and financing mechanism into its network through Sharp Health Plan, a nonprofit health maintenance organization ("HMO") created in 1992, which is licensed pursuant to California's Knox-Keene Health Care Service Act of 1975 ("Knox-Keene").

In September 2001, Sharp HealthCare launched an initiative to enhance the organization's culture. The initiative involves changing the way the organization interacts with and serves its patients and their families, its physicians, and its employees. This initiative is called *The Sharp Experience* and it embraces many aspects of the organization and the organization's renewed determination to achieve a high level of employee, patient, and physician engagement and satisfaction. *The Sharp Experience* centers on six pillars of performance: Quality, Service, People, Finance, Growth, and Community. The organization's efforts to achieve excellence in these areas are the basis for attaining its stated vision to be "the best place to work, the best place to practice medicine, and the best place to receive care".

RECENTLY COMPLETED AND CURRENT PROJECTS

Listed below are brief summaries of recently completed projects affecting the Corporation's operations, as well as certain projects the Corporation currently is undertaking as part of its overall strategic plan. For a detailed review of the results of day-to-day operations, see "HISTORICAL FINANCIAL INFORMATION - Management's Discussion of Financial Performance" herein.

- In August 2003, the Corporation's Board of Directors ("Board") approved the construction of a new patient tower on the Sharp Memorial campus and renovation of existing clinical space at Memorial Hospital. The new tower, referred to as the Stephen Birch Healthcare Center at Sharp Memorial Hospital ("Stephen Birch Center"), is a seven-story, 315,000 square foot structure, with 334 private inpatient beds, 10 operating suites, 37 emergency bays, 10 emergency observation beds, a new entry lobby, and a family care pavilion on each patient care floor. The Stephen Birch Center includes future inpatient bed and surgical suite expansion capabilities of 32 beds and 2 suites, respectively. The Stephen Birch Center opened for patients on January 14, 2009. The total cost of the project is approximately $200 million, which has been and is being funded by the Bonds, previously issued bonds, philanthropic donations, and cash reserves.

- In 2004, Sharp Grossmont completed construction of a new $62.2 million five-story Emergency and Critical Care Center designed to meet the needs of the rapidly growing East County. The new tower, funded by philanthropic donations and cash reserves, includes expanded emergency services on the first floor of the facility. The emergency department consists of 43 beds separated into three areas designed specifically for minor, acute, and critical care services. The second floor of the facility houses 24 critical care beds. In 2004, the remaining three floors were shelled for future expansion. Such expansion is currently in process, as discussed below.

- In 2006, Grossmont Healthcare District (formerly Grossmont Hospital District) (the "District") received approval from voters to issue $247 million of general obligation bonds ("GO Bonds") for the purpose of financing the expansion, improvement, and renovation of facilities on the Sharp Grossmont campus, including the completion of the three shelled floors in the Emergency and Critical Care Center. The District leases the acute care facilities of Grossmont Hospital to Sharp Grossmont pursuant to a thirty-year lease (see "HEALTH CARE OPERATIONS OF THE OBLIGATED GROUP – Sharp Grossmont" herein). In July 2007, $85.5 million in District bonds were issued. Additional GO Bonds will be issued as they are needed, with the next issuance planned for 2010. All building construction and renovation costs will be funded through the GO Bonds. Sharp Grossmont has no principal and interest payment obligations on the GO Bonds. Sharp HealthCare's Five-Year Operating, Cash, and Capital Plan ("Five-Year Plan") includes $29.1 million to equip and furnish the new and renovated spaces funded through the proceeds of the GO Bonds. The first phase will provide an additional 90 licensed acute care beds for Sharp Grossmont, consisting of a new 24-bed medical intensive care unit and two 33-bed telemetry units, and is expected to be available for patient care in fiscal 2009. One of the new telemetry units will be used to accept patients from one of Sharp Grossmont's existing towers (the "East Tower"), to allow for infrastructure improvement and remodel of the East Tower. GO Bond proceeds will also fund the construction of a Diagnostic and Treatment Center, which will provide up to nine new multipurpose procedural rooms with the flexibility to support a wide range of specialties, including general surgery, minimally invasive surgery, image guided surgery, catheterization procedures, and endovascular interventional procedures. Concurrently, planning is underway for the expansion of the central utility plant. Proceeds from future borrowings will fund additional infrastructure improvements and facility renovations.

- In August 2006, Sharp HealthCare entered into a contract with Cerner Corporation ("Cerner') to implement the Cerner Millennium electronic medical records ("EMR") information systems product in Sharp HealthCare hospitals.

The EMR system allows physicians to electronically enter their physician orders for patient treatment and is expected to provide significant benefits to Sharp HealthCare, including reduced adverse drug events, reduced hospitalization costs, increased patient and employee satisfaction, and increased quality of care. The Memorial Hospital implementation was completed in January 2008, and all Sharp HealthCare hospitals are expected to implement the Cerner Millennium products by the end of 2011. The total cost of the EMR system is expected to be $19.8 million, which has been and is being funded through cash reserves.

- In November 2004, Sharp Rees-Stealy selected the Allscripts Healthcare Solutions' ambulatory electronic health record ("EHR") information system, at the time called TouchWorks, but recently rebranded as Allscripts Enterprise. The Allscripts Enterprise system applications include charge capture, document scanning, electronic chart documentation, automated testing results, online dictation, electronic prescribing, and computerized physician order entry ("CPOE"). The system is implemented at all Sharp Rees-Stealy physician office and urgent care locations and utilized by nursing, support staff, and physicians. Devices have been installed in all exam rooms, which allows all care providers to access a patient's medical information, as well as complete ordering, prescribing, documenting, and charging tasks during a patient's visit. All system applications have been implemented, with the exception of electronic chart documentation and CPOE, which will be completed by the end of 2009. The total cost of the EHR system is expected to be $16.8 million, which has been and is being funded through cash reserves.

- In April 2008, Sharp HealthCare began leasing 41,800 square feet for Sharp Rees-Stealy in a new two-story medical office building in inland North County to provide a stronger presence in this growing community. The new facility includes family practice, internal medicine, pediatrics, allergy, laboratory, radiology, and obstetrics/gynecology services, as well as a variety of other specialty services. Equipment and tenant improvements for the facility totaled $3.6 million, which was funded by cash reserves.

- In March 2003, 50 years after philanthropic support launched Memorial Hospital, Sharp Foundation introduced a fundraising campaign to raise $50 million from the San Diego community to support Sharp HealthCare's strategic initiatives. As part of Sharp HealthCare's vision to transform health care in San Diego, the campaign supported capital improvements for emergency and critical care centers, outpatient services, new hospital towers, and medical and information technologies. As of September 30, 2008, Sharp Foundation completed the campaign with a total of $60.5 million raised, including a $10 million donation from the Stephen and Mary Birch Foundation, the largest single gift in Sharp HealthCare's history, to support and name the Stephen Birch Center.

- In 2008, construction of a new medical office building and parking structure on the Sharp Grossmont campus was completed. Sharp Grossmont leases approximately 17,000 square feet in the medical office building for outpatient imaging and more than half of the 750-space parking structure is utilized for Sharp Grossmont campus parking needs. Parking structure, equipment, and tenant improvements totaled $12.2 million, which was funded by cash reserves.

- In 2008, construction of a new 1,000-space parking structure on the Sharp Memorial campus was completed to provide additional parking in preparation for the opening of the Stephen Birch Center in January 2009. The parking structure cost totaled $13.9 million, which was funded by cash reserves.

ACQUISITION AND DISPOSITION ACTIVITIES

The Corporation continually evaluates various business opportunities as part of the Corporation's overall strategy of enhancing its position in its market. Such opportunities range from the addition of or affiliation with existing health-related entities to the divestiture of enterprises that it currently owns and operates. Such transactions could involve changes to the composition of the Obligated Group (defined herein) but would be subject to the terms of the Master Indenture.

In October 2004, Sharp Health Plan entered into an agreement with Molina Healthcare of California ("Molina") to transfer Sharp Health Plan's Medi-Cal and Healthy Families members to Molina through assignment of Sharp Health Plan's existing provider contracts. The transaction received regulatory approval and was finalized in May 2005, resulting in a $17.5 million gain on sale for Sharp Health Plan. Sharp HealthCare maintains provider contracts with Molina to provide health care services to the Medi-Cal and Healthy Families members. Sharp Health Plan continues to provide commercial managed care products to HMO enrollees.

In 1992, Sharp HealthCare entered into an affiliation agreement with Sharp Mission Park Medical Group ("SMPMG"), an independent professional medical corporation. As part of the affiliation, Sharp HealthCare acquired SMPMG's equipment and facilities and began operating the Sharp Mission Park Medical Centers ("Sharp Mission Park"), located in the North Coastal area of the County, with SMPMG providing the professional medical services at Sharp Mission Park pursuant to a services agreement that was scheduled to expire in 2013. Sharp Mission Park was included as a division within the Corporation. In April 2008, the Corporation's Board approved the sale of Sharp Mission Park to Scripps Health ("Scripps"). The transaction was completed on August 1, 2008, the services agreement between Sharp HealthCare and SMPMG was terminated, and all Sharp Mission Park assets and employees were transferred to Scripps.

Sharp Memorial operates a 76-bed skilled nursing facility at Sharp Cabrillo, located approximately six miles from the Memorial Hospital campus. In December 2008, Sharp HealthCare announced plans to discontinue operations and close the facility when its seven-year facility lease expires on April 3, 2009. The operation of Sharp Cabrillo has resulted in financial losses in the last several years due to a variety of factors, including the age and maintenance of the ten-story building, high utility costs, low reimbursements associated with skilled nursing facility services, increasing medical supply costs, and the facility's lease expense. Sharp

Memorial patients requiring skilled nursing care will access services through other Sharp HealthCare or community skilled nursing facilities.

ORGANIZATIONAL STRUCTURE

Corporate Governance

Board of Directors. The Corporation is governed by a 25-member Board, including two *ex officio* members. *Ex officio* members of the Board serve by virtue of their positions within the Corporation or with certain of its affiliated corporations. All Board members have the right to vote on matters considered by the Board, subject to the Corporation's conflict of interest policy. Regular meetings of the Board are held monthly.

In addition to the *ex officio* members, one director from each of the following affiliated entities is designated (each such director a "Designated Director" and collectively "Designated Directors") by their respective boards: Sharp Memorial, Sharp Chula Vista, Sharp Grossmont, and Sharp Coronado. Additionally, a physician member is appointed by SRSMG and Sharp Community Medical Group, Inc. ("SCMG"), a multi-specialty medical group operating as an Independent Practice Association ("IPA"). The remaining members are elected by the Board for three-year terms from a slate of nominees presented. Up to one-third of the members of the Board may be physicians. At present a total of six members of the Board are physicians.

Current Board members, their occupations, and the expiration dates of their respective terms are set forth in the following table. The terms of all elected members expire on May 31 of the year indicated. Except as denoted by an asterisk in the table below, all current members are eligible to serve at least one additional three-year term. *Ex officio* members and Designated Directors are not subject to the three-year term limit. There currently are two vacancies on the Board.

NAME/TITLE	OCCUPATION	TERM EXPIRATION
Stephen C. Cushman, Chairman *	Community Leader	2009
Henry M. Killmar, Vice Chairman	Investment Management	2011
Yvonne W. Larsen, Secretary	Community Leader	2009
Ronald C. Burgess, Treasurer	Retired Certified Public Accountant	2009
Michael W. Murphy, President	President and Chief Executive Officer, Sharp HealthCare	*Ex Officio*
Deirdre Alpert	Retired Legislator, Community Leader	2010
Donald C. Balfour, M.D.	Physician	*Designated Director*
Timothy Considine	Partner, Certified Public Accounting Firm	2010
VAdm. Walter J. Davis, Jr., USN (ret)	Retired United States Navy Admiral	2009
Margaret Elizondo, M.D	Physician	2009
Sergio Flores, M.D.	Physician	*Designated Director*
Philip T. Gildred	Information Technology Consultant	2010
Peter Hanson, M.D.	Physician	*Designated Director*
Jose A Lira, M.D.	Physician	*Designated Director*
L. Daniel Malcolm	Attorney, Commercial Real Estate Services	*Designated Director*
L. Robert Payne	Real Estate Investment	2010
Regina Petty	Attorney, Law Firm Partner	2009
Kenneth Roth, M.D. *	Physician	2009

NAME/TITLE	OCCUPATION	TERM EXPIRATION
JoAnne Sawyer Knoll	Attorney	2010
James B. Smith, III	Business Consultant	2010
James B. Wiesler	Retired Banker	*Designated Director*
Gordon L. Witter, Jr.	Retired Airline Pilot, Community Leader	*Ex Officio*
Simon Wong *	President Engineering Firm	2010

Executive Committee. The Executive Committee of the Board meets on an ad hoc basis and consists of the five elected officers of the Board and, unless one of the elected officers is a physician, an additional physician member of the Board. The Executive Committee has the power to transact all business of the Corporation between Board meetings (subject to specific limitations imposed by the Board, the Corporation's bylaws, and California law). The Executive Committee (excluding physician members) also serves as the Personnel Committee of the Board.

Audit and Compliance Committee. The Audit and Compliance Committee of the Board meets bi-monthly and consists of a minimum of five Board members. The Audit and Compliance Committee reviews the annual financial reports prepared by the Corporation's external auditors, approves the Corporation's annual internal audit and compliance plans, and monitors the internal audit and compliance functions of the Corporation to assure adequate reviews and audits of Sharp HealthCare's internal controls.

Finance Committee. The Finance Committee of the Board meets monthly and consists of a minimum of five Board members and one Sharp Grossmont board member designated by the District. At least one member of the Finance Committee is required to be a physician member of the Board. The Finance Committee reviews the combined financial statements of the Corporation and provides recommendations to the Board regarding significant financial transactions.

Other Committees. Other committees of the Board include a Governance/Nominating and Bylaws Committee, a Future Directions Committee, an Advocacy Committee, a Quality Committee, a Marketing and Advertising Committee, a Construction Committee, a Litigation Committee, an Investment Committee, and an Information Technology Committee.

Affiliated Entities Governance

The Corporation's Board elects the members of the governing bodies (other than Designated Directors or those serving *ex officio*) of certain affiliated corporations, including the Obligated Group Members, and generally may replace such members at its sole discretion. Each governing body is responsible for overseeing day-to-day operations of its respective facilities and coordinating its strategic initiatives, budget preparation, and capital expenditures with the Corporation. In aggregate, approximately 150 members serve on the boards of directors of Sharp HealthCare affiliated entities.

Management

Each Member's governing body delegates day-to-day management of such Member to an executive management team. The Corporation provides various centralized management services to its affiliated entities including IT, finance, strategic planning, marketing, business development, facility management, public affairs, legal, risk management, human resources, patient financial services, clinical effectiveness, managed care contracting, materiel management, nurse call center, and other services. Michael W. Murphy serves as President and Chief Executive Officer of the Corporation and utilizes a senior executive team to manage day-to-day activities and to generate strategic opportunities for the Corporation and its affiliated entities. Following are the members of Sharp HealthCare's executive team:

Michael W. Murphy (51), President and Chief Executive Officer. Mr. Murphy's career in health care spans more than 25 years. He began his career with Sharp HealthCare in 1991 as Chief Financial Officer of Sharp Grossmont. He later assumed Sharp HealthCare's system-wide role for managing financial services as Vice President of Financial Accounting and Reporting, then rose to the position of Senior Vice President of Business Development and Legal Affairs. In 1996, he was appointed to his current position. Before joining the Sharp HealthCare organization, Mr. Murphy was a partner at Deloitte & Touche, an international public accounting and consulting firm, specializing in health care. Mr. Murphy is a member and past Chair of the board of directors of the Greater San Diego Regional Chamber of Commerce, member of the Anthem Blue Cross Hospital Relations Committee, member of the Health Management Academy, member of the San Diego Rotary Club, member of the Executive Partners Group of Community Health Improvement Partners ("CHIP"), which works to improve health care in San Diego, and an adjunct professor in the graduate School of Public Health at San Diego State University ("SDSU"). Mr. Murphy received his Bachelor of Science Degree in Business and Accounting from California State University at Long Beach in 1979. Mr. Murphy is a Certified Public Accountant.

Chris Boyd (53), Sharp Chula Vista Chief Executive Officer. Mr. Boyd's career in health care spans more than 25 years. Prior to joining Sharp HealthCare in September 2000, Mr. Boyd held various senior administrative positions in hospitals in Louisiana, Washington, Illinois, Oregon, and California. During his career, he has worked for Hospital Corporation of America, HealthTrust, Columbia, and Universal Health Services. Mr. Boyd was named 2006 Businessman of the Year by the Chula Vista Chamber of Commerce and currently serves as President of the Chula Vista Chamber of Commerce board. He serves as a board member for the South County Economic Development Council, is a board member and current Vice President for Economic Development for the Chula Vista Chamber of Commerce, is a board member for the YMCA, serves as President of the Friends of the Chula Vista Parks and Recreation, and serves as the Sharp HealthCare Corporate Chair for the March of Dimes. Mr. Boyd received his Bachelor of Science Degree in 1977 from St. John's University in Collegeville, Minnesota, and his Master's of Public Health Degree in 1984 from Tulane University in New Orleans, Louisiana. Mr. Boyd is a former Peace Corps Volunteer, having served from 1977 to 1980 in Liberia, Africa.

Melissa Hayden Cook (46), Sharp Health Plan President and Chief Executive Officer. Ms. Hayden Cook has more than 20 years of experience in the health care industry and has served in her current role since 2005. She previously worked for Sharp HealthCare from 1994 to 2000 as Senior Vice President of Marketing and served on the Sharp Health Plan Board of Directors for three years. Prior to joining Sharp HealthCare, Ms. Hayden Cook held key management positions with HealthNet and Cigna, where she was responsible for managed care strategy, sales and management, revenue growth, product development, and broker development.

Ms. Hayden Cook has a Bachelor's Degree in Business Administration from the University of San Diego ("USD"). In 1996 she received the YWCA Tribute to Women in Industry ("TWIN") Award and was Chair of the March of Dimes WalkAmerica in 1998 and 1999. In 2000, she was named one of San Diego's "40 under Forty" by *San Diego Metropolitan* magazine. Ms. Hayden Cook is a member of CHIP and serves on the boards of the California Association of Health Plans, the Health Plan Alliance, a national association of nonprofit health plans, and Health Sciences High and Middle College ("HSHMC"), a charter school focused on developing health care leaders for the future.

Alison Fleury (46), Senior Vice President Business Development. Ms. Fleury has more than 20 years of experience in the health care industry. She joined Sharp HealthCare in 1991 and has held several system-wide financial leadership positions, including Vice President of Finance. Ms. Fleury was promoted to her current position in 1997. She is responsible for Sharp HealthCare's strategic planning and financing initiatives, as well as the purchase and sale of health-related businesses and the formation of partnership arrangements involving physicians and other health care organizations. Prior to joining Sharp HealthCare, she was a manager and firm-designated health care specialist at Deloitte & Touche. Ms. Fleury received her Bachelor of Science Degree in Business Administration from SDSU in 1985, graduating Summa Cum Laude, and was named the 1985 Outstanding Accounting Graduate. She received the YWCA TWIN Award in 2000 and was named one of San Diego's "40 Under Forty" by *San Diego Metropolitan magazine* in 2001. Ms. Fleury serves on the Board of Directors of Sharp Health Plan. Ms. Fleury is a Certified Public Accountant.

Daniel Gross (53), Executive Vice President Hospital Operations. Mr. Gross has been involved in the health care field for more than 25 years and has been associated with Sharp HealthCare since 1979. He began his career with Sharp HealthCare as a clinical nurse in the Memorial Hospital surgical intensive care unit, and progressively advanced from this position to a variety of key leadership roles in both patient and non-patient areas of hospital management, including serving as Memorial Hospital Chief Executive Officer for 12 years. Mr. Gross was promoted to his current position in 2006 and oversees the operations of Sharp HealthCare's acute care and specialty hospitals. Mr. Gross is immediate past Chair of the board of directors of California Hospital Association ("CHA"), past Chair and current Treasurer of the board of directors of Healthcare Association of San Diego and Imperial Counties ("HASDIC"), a member of the board of directors of the American Heart Association, San Diego Chapter, a member of the American Hospital Association ("AHA") Regional Policy Board, and a member of the adjunct faculty at SDSU and USD. In 1998, he received the Sigma Theta-Tau Gamma Gamma Chapter Administrative Leadership Award and in 1999 he received the SDSU Alumnus of Distinction Award for the College of Health and Human Services and the USD Author E. Hughes Career Achievement Award. Mr. Gross received the HASDIC Health Care Leadership Award in 1998 and 2007. Mr. Gross received his Bachelor of Science Degree in Nursing from Wichita State University in 1979, his Master's Degree in Nursing Systems Administration, Business, and Leadership from SDSU in 1988, and his Doctorate in Nursing Science from USD in 1997.

Marcia Hall (60), Sharp Coronado Chief Executive Officer. Ms. Hall has more than 30 years of experience in the health care industry. She began her career with Sharp HealthCare in 1987 as the Director of Pharmacy for Sharp Cabrillo. Ms. Hall subsequently was promoted to Associate Administrator of the facility in 1989 and to Vice President of Clinical Services and

Quality Systems for Memorial Hospital and Sharp Cabrillo in 1991. In 1995, she was promoted to her current position. Ms. Hall led Sharp Coronado to an affiliation with Planetree and the hospital was honored in 2008 as one of only five hospitals nationwide to be selected as a Planetree Designated Patient Centered Care Hospital. Ms. Hall received the YWCA TWIN Award in 1998. Ms. Hall received her Bachelor of Science Degree in Pharmacy from Oregon State University in 1971 and is a Registered Pharmacist.

Mary Henrikson (54), Sharp Mary Birch Chief Executive Officer. Ms. Henrikson has more than 30 years of health care experience. She began her career at Sharp HealthCare in 2000 as Sharp Mary Birch Chief Operating Officer and was promoted to her current position in 2006. Prior to joining Sharp HealthCare, she was the Director of Prentice Women's Hospital of Northwestern Hospital in Chicago. Ms. Henrikson is a member of the Executive Committee for the Council of Women's and Infants Specialty Hospitals, a member of the Board of Directors for the AHA Regional Policy Board 9, and the chair of the March of Dimes San Diego & Imperial County Division. Ms. Henrikson received her Bachelor of Science Degree in Nursing from Montana State University and a Master's of Science Degree from the University of Washington. In 1981, she received her nurse practitioner certificate from Harbor-UCLA Medical Center. Ms. Henrikson is a Registered Nurse.

John Jenrette, M.D. (54), SCMG Chief Executive Officer. Dr. Jenrette began his career at Sharp HealthCare in 1993 as Residency Program Director for Memorial Hospital's Family Practice Residency program before joining SCMG and assuming the position of Medical Director for Quality Assurance later the same year. In 1995, he became the Medical Director and was subsequently promoted to Chief Medical Officer, a position that gave him day-to-day responsibility for operating health services and quality management, along with serving as provider and health plan liaison and initiating and overseeing the credentialing and physician models. In August 2007, he became SCMG Chief Executive Officer. Dr. Jenrette became involved with academic medicine in 1987, and as faculty to Northeastern Ohio University's College of Medicine, he created and ran a leadership and management fellowship for faculty of residency training programs. Dr. Jenrette received his Bachelor's degree in Science and completed his medical education at Ohio State University. He is board certified in Family Medicine and Geriatrics.

John ("Rick") LeMoine, M.D. (60), Chief Medical Information Officer. Dr. LeMoine, who joined Sharp HealthCare in 1982 and assumed his current role in 2003, is responsible for providing medical direction and physician input primarily for the clinical effectiveness and information systems department initiatives. A graduate of Dalhousie Medical School in Nova Scotia, Canada, Dr. LeMoine completed his Fellowship program in Pulmonary and Critical Medicine at the University of California at San Diego. Dr. LeMoine has served on the faculty of medicine at both Dalhousie University and the University of California at San Diego. In addition, he has held leadership roles with the Executive Director for Insured Programs and Clinical Rationalization for the Government of Nova Scotia. Dr. LeMoine is the incoming Chair of the Center for Hospital Medical Executives of the CHA and a member of the Board of Trustees of the CHA.

Kathi Lencioni (55), Sharp Mesa Vista and Sharp Vista Pacifica Chief Executive Officer. Ms. Lencioni joined Sharp HealthCare in 2002 as Vice President of Clinical Services and Operations at Sharp Grossmont and was selected for her current position in 2006. Prior to joining Sharp HealthCare, she served as the Vice President of Ambulatory and Clinical Services at Sarasota Memorial HealthCare System in Florida. Ms. Lencioni has over 25 years of health care industry experience. Ms. Lencioni is a Fellow with the American College of Healthcare Executives and serves on the Regents Advisory Committee for San Diego/Imperial County. She is a member of the Board of Trustees for the National Association of Psychiatric Health Systems and the San Diego Organization for Healthcare Leaders. Ms. Lencioni received her Bachelor of Science Degree in Medical Technology from Illinois State University and her Master's Degree in Public Health in Health Organization Management from the University of South Florida.

Carlisle ("Ky") C. Lewis, III (52), Senior Vice President and General Counsel. Mr. Lewis joined Sharp HealthCare in 1991 as Legal Counsel. Currently, Mr. Lewis serves as General Counsel for all Sharp HealthCare entities on a wide variety of matters. Additionally, he has management responsibilities for the human resources, facility management, and risk management functions for Sharp HealthCare. Prior to joining Sharp HealthCare, Mr. Lewis was Vice President and Counsel for Great American Bank, a large financial institution based in San Diego. Mr. Lewis received his Bachelor of Arts Degree from the University of Puget Sound in 1978 and his Juris Doctorate from USD in 1985. He has been an active member of the California State Bar since 1986. Mr. Lewis is President Elect of the California Society for Health Care Attorneys and a member of the California Bar Association's Health Care subcommittee.

William S. Littlejohn (50), Senior Vice President and Sharp Foundation Chief Executive Officer. Mr. Littlejohn joined Sharp in 2002 and has more than two decades of health care philanthropy experience. During his tenure, Sharp has generated more than $100 million in philanthropy, including the recently concluded $60 million campaign for Sharp HealthCare, the largest philanthropic effort in Sharp HealthCare's history. Prior to joining Sharp HealthCare, Mr. Littlejohn worked for 10 years with The Greenwood Company, a professional fundraising firm, where he supervised and directed more than 40 fundraising projects for health care institutions throughout the United States. Mr. Littlejohn is a 1980 graduate of the University of Virginia with a Bachelor of Arts Degree in Economics. He serves as regional director of the Association for Healthcare Philanthropy and is a charter advisor to The Advisory Board Company's Philanthropy Leadership Council. He serves on several boards and committees for nonprofit institutions in San Diego and has spoken and written extensively on all aspects of fundraising.

Todd Miller (43), Senior Vice President, Marketing and Communications. Mr. Miller has more than 20 years of marketing experience and has been with Sharp HealthCare since 2003. He is responsible for Sharp's brand strategy, advertising, internal and external corporate communications, public relations, special events, multicultural services, Web strategy, consumer information services, and consumer research. In addition, he oversees *the Sharp Experience*, an expansive organizational improvement initiative designed to transform the health care experience and make Sharp HealthCare the best place to work, practice medicine, and receive care. Prior to joining Sharp HealthCare, he held leadership positions at advertising agencies on the East and West coasts including Matthews/Evans/Albertazzi in San Diego, Deutsch in New York City, and Loeffler/Ketchum/Mountjoy in Charlotte, North Carolina. Mr. Miller received his Bachelor of Arts Degree in Journalism in 1987 from the University of North Carolina at Chapel Hill.

Donna Mills (64), Sharp Rees-Stealy Chief Executive Officer. Ms. Mills' career in health care spans more than 30 years. She began her career at Sharp HealthCare with Mission Park Medical Clinics in 1986, which was a part of Sharp HealthCare from 1993 to 2008. Since 1998, Ms. Mills has served as the Chief Executive Officer for Sharp Rees-Stealy and Sharp Mission Park. Prior to joining Sharp HealthCare, she held the position of Director of Programs with University of California San Diego Medical Center ("UCSD"). Ms. Mills is an American College of Medical Practice executive, a Medical Group Management Association Fellowship candidate, and has been honored as one of the "Women Who Mean Business" in health care by the *San Diego Business Journal*. In 1997, she received the YWCA TWIN Award. Ms. Mills also serves on the YWCA board of directors of San Diego and previously was the presiding officer for the Greater San Diego and Desert Cities chapter of the Crohn's and Colitis Foundation of America. Ms. Mills received her Bachelor of Science Degree in Business Administration in 1982 and her Master's Degree in Business Administration in 1984 from National University, San Diego.

Nancy Pratt (51), Senior Vice President Clinical Effectiveness. Ms. Pratt has worked in the health care field for over 25 years. She is responsible for quality, patient safety, service lines, research, and clinical decision support. Prior to joining Sharp HealthCare in 2002, Ms. Pratt was Vice President of Clinical Data Services for MEDai, Inc., a national computer information services company that assists health care providers in the measurement of quality. She has worked in the clinical effectiveness field for nearly 15 years and is a noted national speaker. Ms. Pratt has prior experience as a Manager in Cardiovascular Care and Trauma. Additionally, she has more than 20 years experience as a critical care nurse in a variety of settings including positions at Sharp HealthCare from 1983 to 1986. Ms. Pratt has a Bachelor's Degree in Nursing from the State University of New York, a Master's Degree in Nursing Administration from SDSU, and is an American Society of Quality certified Six Sigma Black Belt. She served as a member of the 2006, 2007, and 2008 Board of Examiners for the Malcolm Baldrige National Quality Award and led the initiative resulting in Sharp HealthCare's recognition as a recipient of the 2007 Malcolm Baldrige National Quality Award. Ms. Pratt is a Registered Nurse. She received the YWCA TWIN Award in 2008.

Ann Pumpian (53), Senior Vice President and Chief Financial Officer. Ms. Pumpian has more than 25 years of experience in the health care field, specializing in accounting and health care financial management. She joined Sharp HealthCare in 1984 as Government and Contracts Manager and has been in her current role since 1993. She is responsible for strategic financial planning, management service organization programs, capitation management, patient financial services, materiel management, contracting, budgeting, payroll, accounts payable, accounting, and cash management functions. Prior to joining Sharp HealthCare, she was employed as a health care specialist in audit and consulting for Ernst & Whinney, an international public accounting and consulting firm. Ms. Pumpian serves on the Health Management Academy Committee for Chief Financial Officers, CHA Chief Financial Officer Committee, Premier Group Purchasing and Member Relations Committee, and is a member of the San Diego County Health Safety Net Committee. She is a past recipient of the YWCA TWIN Award and the Healthcare Financial Management Association's service award. Ms. Pumpian received her Bachelor of Science Degree in 1977 and her Master's in Science in Health Care Finance and Master's in Business Administration in 1981 from the University of Wisconsin, Madison. Ms. Pumpian is a Certified Public Accountant.

Tim Smith (51), Memorial Hospital Chief Executive Officer. Mr. Smith joined Sharp HealthCare in 2007 and has more than 25 years of health care industry experience. Prior to joining Sharp HealthCare, he served as interim Chief Operating Officer at University of California Irvine Medical Center for two years and as Chief Executive Officer for two Tenet Healthcare Hospitals in California, Fountain Valley Regional Hospital and Garden Grove Hospital, for 11 years. Mr. Smith is a Diplomat of the American College of Healthcare Executives, serves on the Lifesharing Executive Advisory Board, and is a past corporate cabinet Chair of the American Heart Association. Mr. Smith earned a Bachelor of Arts Degree in Business Economics from the University of California, Santa Barbara in 1979 and a Master of Public Health Degree in Health Services Management from the University of California, Los Angeles in 1983.

William Spooner (63), Senior Vice President and Chief Information Officer. Mr. Spooner has worked in the health care field for more than 30 years and has been associated with Sharp HealthCare since 1981. In addition to holding responsibility for IT, telecommunications, and transcription services, he oversees Sharp HealthCare's system-wide clinical, financial, and administrative computer systems. Mr. Spooner has led the team directing the strategic planning and implementation of integrated information systems and the EMR initiatives for the Sharp HealthCare enterprise, resulting in Sharp HealthCare being named to the Hospitals and Health Networks 100 Most Wired list in all 10 years since its inception. He is a member of the Healthcare Information Services Executive Association, College of Healthcare Information Management Executives ("CHIME"), and Healthcare Information and Management Systems Society. Mr. Spooner served as a CHIME Board member from 2004 to 2007, including as Chair in 2006. He also has served on CHIME's Advocacy Leadership Team since its inception in 2004, providing education and promoting measures to facilitate the adoption of electronic health records. He serves on the CHA Health Informatics and Technology Committee, the California Health Care Foundation e-Prescribing Advisory Group, and previously served on the Microsoft Healthcare Users Group and the CalRHIO Technology Advisory Group. Mr. Spooner received his Bachelor of Science Degree in Business Administration from California State University, Chico in 1976.

Michele Tarbet (56), Sharp Grossmont Chief Executive Officer. Ms. Tarbet joined Sharp HealthCare in 1995 as Chief Administrative Officer of Sharp Grossmont and advanced to her current position in 1996. She has more than 30 years of progressive health care management experience, including both nursing management and hospital operations in both the for-profit and nonprofit sectors. Prior to joining Sharp HealthCare, Ms. Tarbet held several Chief Nursing Officer and Chief Operating Officer positions in the Los Angeles area, including Woodruff Community Hospital in Long Beach and Memorial Hospital of Gardena. Ms. Tarbet serves on the Boards of Directors for the San Diego East County Chamber of Commerce, La Mesa Parks Foundation, and the East County Boys and Girls Club, and is a member of the La Mesa Rotary Club. In addition, she serves on the Board of Managers of the University of Virginia Alumni Association. Ms. Tarbet was recognized as a San Diego Community Health Hero by the Council of Community Clinics in 2007, received the YWCA TWIN Award in 1999, and the East County Chamber of Commerce's Women in Leadership Award in 2004. She received her Bachelor of Science Degree in Nursing from the University of Virginia in 1974 and her Master's of Science Degree from the University of La Verne in 1985. Ms. Tarbet is a Registered Nurse.

Medical Staff

Each Member of the Obligated Group (other than the Corporation) has the responsibility for appointments to its medical staff. The Corporation assists these organizations and certain other Non-Obligated Affiliates in credentialing, continuing education programs, and other medical staff activities. The table below provides a summary of each Obligated Group Member's medical staff, with data presented as of September 30, 2008.

	Sharp Memorial	Sharp Chula Vista	Sharp Grossmont
Total Providers	961	487	701
% Board Certified	80.6%	74.3%	88.7%
Average Age	49.2	50.3	49.6

Source: Corporation records.

Medical Groups

Sharp HealthCare has two affiliated medical groups, which are key elements in Sharp HealthCare's integrated delivery system. Listed below are brief descriptions of each affiliated medical group as of September 30, 2008.

SRSMG. Initially founded as the Rees-Stealy Medical Group, Inc. in 1923, SRSMG is San Diego's oldest multi-specialty medical group and is nationally known for superior clinical practices and leading-edge research. SRSMG is composed of 111 primary care physicians who are supported by 272 specialists and sub-specialists representing virtually every medical specialty. SRSMG contracts with the Corporation to provide outpatient health care services within the Sharp Rees-Stealy facilities. The contract between the Corporation and SRSMG expires in 2015 and can be extended by mutual agreement.

SCMG. SCMG is an association of private practice primary care physicians and specialists in the County operating as an IPA. SCMG was formed in 1989 and today is San Diego's largest IPA. SCMG is composed of over 220 primary care physicians and 785 specialists. SCMG leases space within the Corporation's administrative offices and contracts with the Corporation for administrative services including management, contracting, claims processing, utilization management, payroll, human resources, marketing, internal audit, compliance, credentialing, and information services.

Employees

As of September 30, 2008, Sharp HealthCare employed approximately 14,300 people, which calculates to be 11,370 full-time equivalent employees, approximately 10,800 of whom were full-time equivalent employees of the Obligated Group. All Sharp HealthCare employees are provided compensation and fringe benefits believed by management to be competitive with those offered by other health care providers in the County.

Effective June 30, 2007, Sharp Professional Nurses Network, United Nurses of California, National Union of Hospital and Health Care Employees, American Federation of

State, County and Municipal Employees, AFL-CIO ("UNAC") extended the collective bargaining agreement with Sharp HealthCare that has been in effect since February 1997. Sharp HealthCare's current collective bargaining agreement with UNAC expires June 30, 2010. The union represents approximately 3,500 registered nurses employed by Sharp HealthCare in the hospital and outpatient facilities. The 2007 agreement provides guaranteed wage changes on each October 1 of the contract period. The yearly wage changes include general wage increases and flat rate per diem wage increases. The contract includes a "no-strike" clause during the term of the collective bargaining agreement. The compensation and benefit provisions mandated by the agreement are generally consistent with those offered to non-unionized employees of Sharp HealthCare.

Nurse Staffing

The County is experiencing nursing shortages consistent with the nursing shortages across the nation. The key factors influencing the shortage include population growth, an older population, an aging nursing population, and an inability for the education system to keep up with the demand for nursing education. Retention of nurses is a top priority for Sharp HealthCare and turnover rates are considerably lower than state and national averages. Competitive salary and benefit packages, professional development opportunities, a positive working environment, and nurse mentoring programs are a focus of employee retention. Sharp HealthCare has a dedicated nurse recruiting program, maintains an emphasis on support systems for new graduates, and offers economic incentive programs for hard-to-fill nursing positions.

To address the nursing shortage in the County, Sharp HealthCare collaborates with local colleges and universities to expand the supply of nurses. Since 2000, Sharp HealthCare has been one of eight local hospitals providing financial support to the Nurses Now program at SDSU. The faculty-expanding partnership increased enrollment opportunities for 300 additional nursing students and supported overall efforts of the County's largest registered nursing school. Sharp HealthCare also recently committed to donate $1.0 million to SDSU in support of a patient-care simulation lab to aide students in their clinical practice. Additionally, Sharp HealthCare, along with Kaiser Permanente and several skilled-nursing facilities, is a partner in the San Diego Community College Health Care Career Ladder Grant. The program provides support for employees to advance up the nursing career ladder. Sharp HealthCare also partnered with the University of Oklahoma ("OU") to offer a nine-month Bachelor of Science in Nursing ("BSN") program for existing registered nurses and a 14-month accelerated BSN program for individuals with a bachelor's degree in a non-nursing area. Various other community collaborations exist with high schools, community college nursing programs, and the development of HSHMC, which was created through a collaboration of Sharp HealthCare, area community colleges, and several professors from SDSU.

In 2004, the State of California ("State") implemented regulations mandating specific nurse staffing ratios for all acute patient care areas. The proposed ratios were the first-ever attempt by any state in the nation to establish a predetermined ratio of nurses to patients in various services of acute care hospitals. California hospitals were initially required to comply with the staffing ratios by January 1, 2004. The ratios were updated in January 2005 to require one nurse for every five patients on medical surgical units. The last phase of the legislation was effective January 1, 2008, and required telemetry units to maintain one nurse for every four patients. The mandated ratios must be maintained at all times, even when licensed staff take meal and other breaks, and daily tracking of the actual staffing is required to be documented. Measures taken by Sharp HealthCare include staffing based on the acuity of each patient's condition, innovative recruitment and retention efforts, and the use of nurse registries and traveling nurses. Sharp HealthCare currently provides what management believes is adequate nurse staffing to meet the needs of its patients.

Insurance

The Corporation currently maintains comprehensive general liability and professional liability insurance coverage for Sharp Memorial, Sharp Chula Vista, and Sharp Grossmont, including comprehensive general liability and professional liability through a policy issued by Continuous Quality Insurance, an affiliated entity of the Corporation. The Continuous Quality Insurance policy provides coverage with a per occurrence limit of $3,000,000 and an aggregate limit of $13,500,000. Excess insurance through a commercial carrier provides limits to $40,000,000. Coverage for workers' compensation, property, network risk, and corporate liability is provided through the commercial insurance market.

Community Benefit

Enacted in September 1994, California Senate Bill 697 requires nonprofit hospitals to file a report annually with the Office of Statewide Health Planning and Development ("OSHPD") on activities undertaken to address community needs, within its mission and financial capacity. In addition, nonprofit hospitals are, to the extent practicable, to assign and report the economic value of community benefits provided. Sharp HealthCare's Community Benefits Plan is prepared in accordance with the requirements of Senate Bill 697 and represents the community benefit activities for all Sharp HealthCare nonprofit entities, summarized in the following four categories:

- **Medical Care Services** include unreimbursed costs of public programs such as Medi-Cal (Medicaid), Medicare, San Diego County Indigent Medical Services, and TRICARE (formerly known as the Civilian Health and Medical Program of the Uniformed Services, or CHAMPUS); uncompensated care for patients who are unable to pay for services; and physician emergency room backup services to cover the cost of physicians on call for uninsured and under-insured patients.

- **Other Services for Vulnerable Populations** include transportation for seniors and disabled people to and from medical appointments; financial and other support to community clinics to assist in providing health services and improving access to health services; financial support for onsite workers to process Medi-Cal eligibility forms; funds to assist patients with transportation, medication, and other medical needs; volunteers delivering meals to homebound seniors; community-wide efforts to ensure the safety of seniors in their homes (Project C.A.R.E.); and collection and donations of items to the needy.

- **Other Services for the Broader Community** include health education, screenings, flu shots, counseling and support groups, information and referral services, and participation in community health fairs addressing the unique needs of the community. Sharp HealthCare facilities are available for use by community groups at no charge. Also, executive leadership and staff are involved in numerous community organizations, committees, and coalitions to improve the health of the community.

- **Health Research, Education, and Training Programs** include education and training programs for medical, nursing, and other health professionals. To increase the pool of nursing graduates, Sharp HealthCare and other hospitals continued sponsorship of health-related programs, classes, and professors at SDSU and the University of California, San Diego. Sharp HealthCare also partnered with Southwestern College, SDSU, and OU to provide clinical experience in San Diego County for students enrolled in the OU Accelerated Second Degree Bachelor of Science in Nursing Program. The new program is designed to help ease the nursing shortage by providing students with greater program access and flexibility, and by graduating new nurses. Additionally, Sharp HealthCare initiated a five-year agreement with SDSU for financial support of the Sharp HealthCare Human Patient Simulation Center, to provide specialized education to nursing students. Sharp HealthCare continued its collaboration with Rady Children's Hospital and Health Center ("Rady Children's") and Scripps Health in support of Partnership for Smoke-Free Families, a program designed to benefit mothers and their families by focusing on reducing tobacco exposure. In addition, Sharp HealthCare provided a financial grant to California Regional Health Information Exchange to support development of a statewide health information exchange utility.

In its fiscal year ended September 30, 2007, Sharp HealthCare provided $257.5 million in community benefit programs and services that were unreimbursed. The following table summarizes the estimated net cost to Sharp HealthCare of providing programs and services for the poor and for the broader community in fiscal year 2007:

Economic Value of Community Benefits	**Estimated Fiscal 2007 Unreimbursed Costs**
Medical Care Services	$248,316,100
Other Benefits for Vulnerable Populations	1,716,400
Other Benefits for the Broader Community	5,932,000
Health Research, Education, and Training Programs	1,585,000
Total Community Benefits	**$257,549,500**

Source: Sharp HealthCare's Fiscal Year 2007 Community Benefits Report.

Strategic Plan

In 1999, Sharp HealthCare initiated a strategic planning effort to refocus Sharp HealthCare's direction, ensure its success as a stand-alone integrated health care delivery system, and enhance its position as San Diego's health care leader. Sharp HealthCare leaders engaged in numerous best-practice site visits to transform the organization from a good health care system to a great one. This good-to-great focus became the cornerstone of Sharp HealthCare's strategic planning process.

Sharp HealthCare's strategic plan is focused on each of its six pillars – Quality, Service, People, Finance, Growth, and Community – and the following goals have been established for each:

- **Quality**. Demonstrate and improve clinical excellence and patient safety to set community standards and exceed patient expectations.

- **Service**. Create exceptional experiences at every touch point for customers, physicians, and partners by demonstrating service excellence.

- **People**. Create a workforce culture that attracts, retains, and promotes the best and brightest people who are committed to Sharp HealthCare's mission, vision, and values.

- **Finance**. Achieve financial results to assure Sharp HealthCare's ability to provide quality health care services, new technology, and investment in the organization.

- **Growth**. Achieve consistent net revenue growth to enhance market dominance, sustain infrastructure improvements, and support innovative development.

- **Community**. Be an exemplary community citizen.

The strategic planning process involves "top-down" direction-setting and identification of system goals, as well as "bottom-up" planning founded on environmental analyses and the identification of issues and opportunities for each entity. This process incorporates strategic, financial, technology, human resource, philanthropic, marketing, facility, and quality planning to ensure Sharp HealthCare's strength and viability and enhance its market position. Departments, entities, and the Corporation prepare integrated plans, including a five-year (long-term) horizon and an annual (short-term) focus. Measurable objectives are established for each of Sharp HealthCare's six pillars – Quality, Service, People, Finance, Growth, and Community – for each year of the long-term planning horizon. Annual targets are defined and published in system and entity report cards, which are measured and analyzed monthly. The capital and operating impact of each entity's strategies and action plans is forecasted in the Five-Year Plan.

Capital Planning and Seismic Upgrade Activities

Sharp HealthCare's capital plan reflects the strategic initiatives of Sharp HealthCare and is part of an ongoing strategic and community need planning process. Management assesses near-term and long-term capital requirements for each entity including both growth opportunities and replacement needs. Management also assesses strategic opportunities beyond the existing facilities for growth and to improve access to care in the communities Sharp HealthCare serves.

The State issued seismic safety standards, which call for more stringent structural building standards to be in place for buildings providing acute care services, with an initial compliance date of January 1, 2008. This deadline has been extended to 2013 for all of Sharp HealthCare's hospitals. An additional two-year extension may be granted for facilities that are under construction but unable to meet the 2013 deadline due to circumstances beyond the facilities' control.

OSHPD was directed to review the previously established seismic performance categories for acute care hospital buildings using a software program, HAZUS, developed by the Federal Emergency Management Agency ("FEMA"). This evaluation takes into account the earthquake hazard in specific locations and also vulnerabilities of different building structure types in order to predict stability of a building after an earthquake. Sharp HealthCare is evaluating its hospital buildings under HAZUS and management anticipates that this review will result in certain buildings being recategorized so that they will not be required to be modified to meet seismic standards applicable by 2013. Sharp HealthCare management also expects that the HAZUS review, when completed, will result in fewer and less costly renovations required for those Sharp HealthCare buildings not currently meeting the 2013 seismic standards. Current estimates included in the Five-Year Plan are that the minimum remediation costs to meet the standards will be approximately $52.4 million over the next five years, although actual costs may vary.

In the event Sharp HealthCare facilities do not meet required seismic standards by a regulatory required date, Sharp HealthCare may be precluded by OSHPD from using such facilities to care for patients, which could materially adversely affect Sharp HealthCare's operations.

Sharp HealthCare's capital plan is approximately $522 million, including seismic upgrade costs, for fiscal years 2009 through 2013. It contemplates that certain seismic issues will be addressed by a combination of retrofit, replacement, or withdrawal from use. Before any individual project is commenced or significant capital costs are incurred, it is evaluated internally to determine financial feasibility. For capital projects contemplated in the Five-Year Plan, Sharp HealthCare's management expects that the sources of funding for capital projects for fiscal years 2009 through 2013 will be cash from operations, investment earnings, and philanthropic donations. To the extent that available funds are not sufficient to pay for projected capital and seismic improvement expenditures through 2013, capital projects will be postponed or reduced in scope.

MARKET CHARACTERISTICS AND COMPETITION

General

Sharp HealthCare defines its primary market area to include substantial portions of the County. As can be seen from the map on page A-24, through its subsidiaries and affiliated entities, the Corporation provides a variety of inpatient and outpatient services at sites located throughout the County. The penetrations of specific geographic areas within the County by each of the Sharp HealthCare hospitals vary due to a variety of factors including the range of programs and services offered, each facility's location, and the locations and services of competing acute care providers.

Market Characteristics

Estimates indicate the County's population increased by approximately 7.2% between 2006 and 2008, and will increase by 13.4% to more than 3.1 million by 2013.

San Diego County Population

	2006 (US Census)	2008 (Estimated)	2013 (Projected)
Total Population	2,801,943	3,003,325	3,176,973
% Change from 2006	--	7.2%	13.4%

Source: US Census Bureau, 2006; Claritas, Inc., 2008 and 2013.

According to Claritas, Inc., current estimates for 2008 indicate the median household income in the County is $64,542, which is 10.5% higher than the median for the State as a whole and 28.7% greater than the nation's median household income.

Market Share and Competition

As of June 30, 2008, there were 25 general acute care hospitals operating in the County, including those operated by Sharp HealthCare. The table on page A-26 compares the consolidated market share of the Corporation's affiliated hospitals with that of competing locally-based hospitals and health care systems with facilities in the County for the year ended December 31, 2007. Reported data include all inpatient types, except for normal newborns.

General. The Obligated Group Members compete with other area hospitals located both within and outside of their respective service areas for patients residing within their service area and in the County as a whole. The table on page A-25 presents information about acute care hospitals located within the County for the year ended December 31, 2007.

SHARP.

SAN DIEGO COUNTY MAP

Sharp has approximately 2,600 affiliated physicians on medical staffs and in medical groups. They provide quality medical services in a variety of settings, ranging from primary care in private offices or clinics to outpatient surgery and inpatient care at Sharp hospitals.

HOSPITALS

1 Sharp Chula Vista Medical Center
2 Sharp Coronado Hospital
3 Sharp Grossmont Hospital
4 Sharp Mary Birch Hospital for Women
5 Sharp Memorial Hospital
6 Sharp Mesa Vista Hospital
7 Sharp Vista Pacifica Hospital

SKILLED NURSING LOCATIONS

1 Birch-Patrick Convalescent Center
2 Sharp Cabrillo Skilled Nursing Center
3 Villa Coronado Skilled Nursing Facility
3 Sharp Grossmont Hospital Transitional Care Unit

MEDICAL OFFICE LOCATIONS

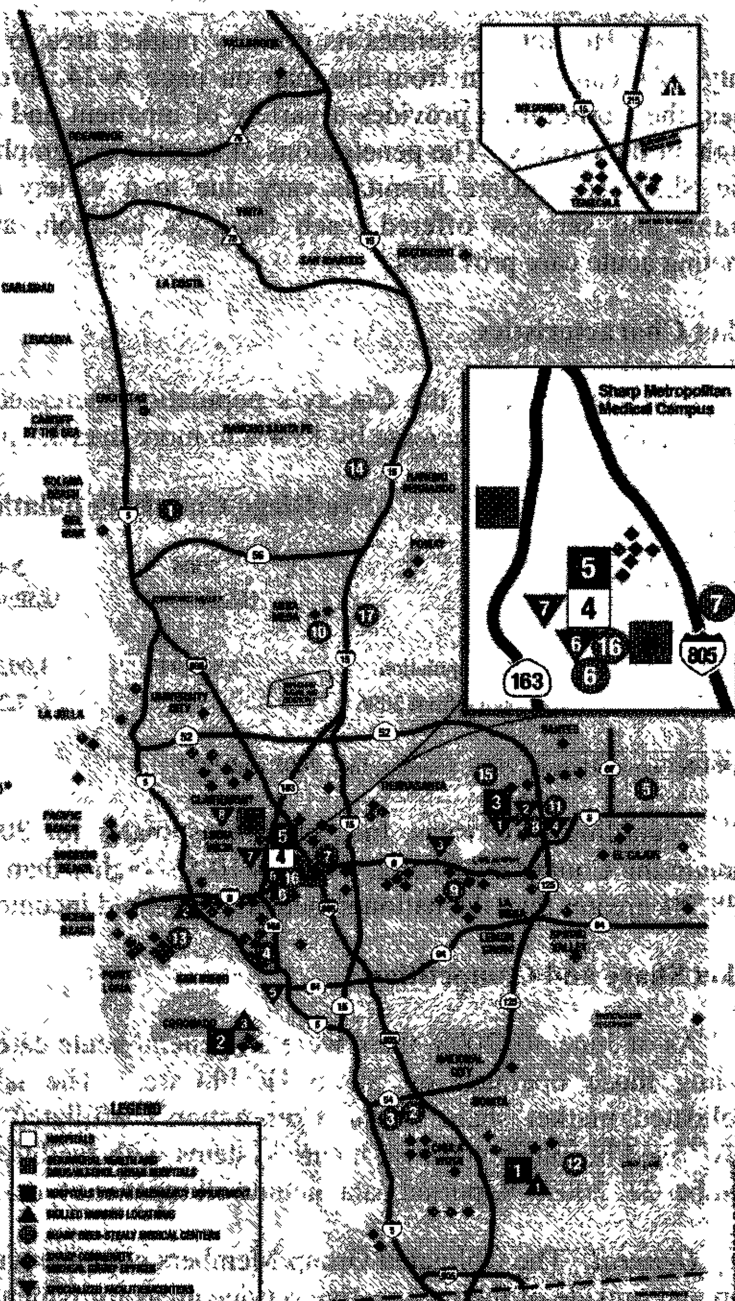
* *Urgent Care services available.*

1 Sharp Rees-Stealy Medical Center • Carmel Valley/Del Mar
2 Sharp Rees-Stealy Medical Center • Chula Vista*
3 Sharp Rees-Stealy Medical Center • Chula Vista Physical Therapy
4 Sharp Rees-Stealy Medical Center • Downtown San Diego*
5 Sharp Rees-Stealy Medical Center • El Cajon
6 Sharp Rees-Stealy Medical Center • Genesee
7 Sharp Rees-Stealy Medical Center • Kearny Villa
8 Sharp Rees-Stealy Medical Center • La Mesa*
9 Sharp Rees-Stealy Medical Center • La Mesa West
10 Sharp Rees-Stealy Medical Center • Mira Mesa*
11 Sharp Rees-Stealy Medical Center • Mt. Helix
12 Sharp Rees-Stealy Medical Center • Otay Ranch
13 Sharp Rees-Stealy Medical Center • Point Loma
14 Sharp Rees-Stealy Medical Center • Rancho Bernardo*
15 Sharp Rees-Stealy Medical Center • San Carlos
16 Sharp Rees-Stealy Medical Center • San Diego
17 Sharp Rees-Stealy Medical Center • Scripps Ranch
◆ Sharp Community Medical Group offices

SPECIALIZED FACILITIES/CENTERS

1 Sharp Grossmont David and Donna Long Center for Cancer Treatment
2 Sharp Grossmont Hospital Rehabilitation Center
3 Sharp HospiceCare ParkView Home
4 Sharp HospiceCare LakeView Home
5 Sharp Memorial Senior Health Center – Downtown
6 Sharp Memorial Hospital Rehabilitation Center
7 Sharp Memorial Outpatient Pavilion
8 Sharp Memorial Senior Health Center – Clairemont

For more information, call 1-800-82-SHARP (1-800-827-4277) or visit www.sharp.com.



San Diego County Hospitals Market Share Information [1]

	Year Ended December 31, 2007					
	Discharges	Inpatient Market Share	Patient Days	Average Length of Stay (days)	Available Beds	Occupancy Rate [2]
Sharp HealthCare						
Sharp Chula Vista Medical Center	15,057	5.5%	93,762	6.2	330	81.6%
Sharp Coronado Hospital and Healthcare Center	2,517	0.9%	33,298	13.2	204	48.3%
Sharp Grossmont Hospital	24,823	9.0%	113,835	4.6	445	74.7%
Sharp Memorial Hospital	14,374	5.2%	74,835	5.2	333	69.6%
Sharp Mary Birch Hospital for Women	11,333	4.1%	48,767	4.3	169	89.6%
Sharp Mesa Vista Hospital	4,900	1.8%	34,863	7.1	149	73.1%
Sharp Vista Pacifica	202	0.1%	3,423	16.9	14	73.3%
Sharp Cabrillo Skilled Nursing Center [4]	1,151	0.4%	20,896	18.2	76	80.9%
Total Sharp HealthCare	74,357	27.1%	423,679	5.7	1,720	73.5%
Scripps Health						
Scripps Green Hospital	8,884	3.2%	30,719	3.5	173	59.4%
Scripps Memorial Hospital - Encinitas	7,933	2.9%	37,564	4.7	134	82.7%
Scripps Memorial Hospital - La Jolla	16,316	5.9%	68,229	4.2	351	61.0%
Scripps Mercy Hospital [3]	18,105	6.6%	87,715	4.8	495	55.3%
Scripps Mercy Hospital - Chula Vista [3]	10,311	3.8%	43,852	4.3	165	77.2%
Total Scripps Health	61,549	22.4%	268,079	4.4	1,318	62.9%
Palomar Pomerado Health						
Palomar Medical Center	21,176	7.7%	99,733	4.7	420	69.8%
Pomerado Hospital	7,401	2.7%	60,016	8.1	236	74.2%
Total Palomar Pomerado Health	28,577	10.4%	159,749	5.6	656	71.4%
UCSD Healthcare						
UCSD Healthcare (both campuses)	19,869	7.2%	114,214	5.7	517	74.5%
Total UCSD Healthcare	19,869	7.2%	114,214	5.7	517	74.5%
All Other Hospitals						
Alvarado Hospital	7,570	2.8%	42,334	5.6	133	97.1%
Alvarado Parkway Institute B.H.S.	1,883	0.7%	17,408	9.2	66	87.5%
Aurora San Diego	2,219	0.8%	19,227	8.7	80	77.1%
Continental Rehab. Hospital of San Diego	837	0.3%	18,934	22.6	110	51.3%
Fallbrook Hospital District	2,083	0.8%	18,340	8.8	140	55.8%
Kaiser Foundation Hosp - San Diego	26,844	9.8%	110,287	4.1	392	79.8%
Kindred Hospital - San Diego	344	0.1%	10,792	31.4	70	48.1%
Paradise Valley Hospital	10,171	3.7%	48,766	4.8	301	48.2%
Promise Hospital of San Diego	1,500	0.5%	20,764	13.8	100	69.0%
Rady Children's Hospital San Diego	11,621	4.2%	65,552	5.6	313	71.5%
San Diego County Psychiatric Hospital	889	0.3%	54,391	61.2	369	48.7%
San Diego Hospice & Palliative Care	916	0.3%	7,684	8.4	24	89.7%
Tri-City Medical Center	17,934	6.5%	76,025	4.2	397	54.5%
out-migration of SDC residents to non-SDC hospitals	5,466	2.0%	35,179	6.4	-	-
Total All Other Hospitals	90,277	32.9%	545,683	6.0	-	-
TOTAL, SAN DIEGO COUNTY RESIDENTS	274,629	100.0%	1,511,404	5.5	6,706	67.6%

(1) Figures for Discharges, Market Share, and Patient Days are limited to San Diego County (SDC) residents. Non-SDC residents discharged from these hospitals are not included in the totals. All patient types are included, except for Normal Newborns.
(2) Occupancy Rate is based upon available beds. The calculation uses the hospital's total patient days, excluding Normal Newborns (includes in-migrating patients).
(3) Available bed figures for Scripps Mercy Hospital and Scripps Mercy Hospital - Chula Vista are estimates. A total of 660 available beds is reported for the two campuses which operate under a consolidated license.
(4) In December 2008, Sharp HealthCare announced plans to discontinue operations and close Sharp Cabrillo on April 3, 2009.

Source: 2007 Office of Statewide Health Planning and Development Annual Hospital Discharge Data.

Market Share Trends. The service area market share is based upon the number of inpatient discharges of County residents from hospitals located in California. Excluded from this analysis are non-County residents discharged from hospitals located in the County.

The table below presents market share of County residents and Sharp HealthCare's historical competitive position relative to other providers in the service area.

Hospital/System[(1)]	2004	2005	2006	2007
Sharp HealthCare	26.1%	26.3%	26.7%	27.1%
Scripps Health	22.0%	22.3%	22.4%	22.4%
Palomar Pomerado Health	10.3%	10.3%	10.5%	10.4%
Kaiser Foundation Hospital – San Diego	9.8%	9.8%	9.4%	9.8%
UCSD Healthcare (both campuses)	7.2%	6.9%	7.1%	7.2%
Tri-City Medical Center	6.3%	6.7%	6 7%	6.5%
Rady Children's Hospital - San Diego	4.1%	4.3%	4.3%	4.2%
Paradise Valley Hospital	4.6%	4.4%	4.1%	3.7%
Alvarado Hospital	2.9%	2.9%	2.8%	2.8%
Aurora San Diego	0.9%	0.8%	0.8%	0.8%
Fallbrook Hospital District	0.8%	0.8%	0.8%	0.8%
Alvarado Parkway Institute B.H.S.	0.7%	0.7%	0.7%	0.7%
Promise Hospital of San Diego	1.4%	1.0%	0.7%	0.5%
San Diego Hospice	0.3%	0.3%	0.3%	0.3%
San Diego County Psychiatric Hospital	0.3%	0.3%	0.3%	0.3%
Continental Rehab. Hospital of San Diego	0.3%	0.3%	0.3%	0.3%
Kindred Hospital - San Diego	0.1%	0.1%	0.1%	0.1%
out-migration to non-SDC hospitals	1.9%	1.9%	2.0%	2.0%

(1) Market Share figures are based on all inpatient discharges of San Diego County (SDC) residents from any California hospital. All patient types are included, except for Normal Newborns.

Source: 2004 - 2007 Office of Statewide Health Planning and Development Annual Hospital Discharge Data.

HEALTH CARE OPERATIONS OF THE OBLIGATED GROUP

This section provides an overview of the acute care services and programs offered by each of the Members of the Obligated Group. The section below entitled "Non-Obligated Affiliates" discusses other major subsidiaries and affiliated entities of the Corporation.

Utilization

The following table presents selected utilization statistics for the Obligated Group by entity and in total for the three most recent fiscal years.

	Year Ended September 30,		
	2006	2007	2008
SHARP MEMORIAL			
Licensed Beds	855	855	855
Maintained Beds	657	722	741
Patient Days[(1)]	198,388	203,597	205,820
Discharges [(1)]	32,569	33,901	34,184
Average Length of Stay [(1)]	6.09	6.01	6.02
Occupancy [(2)]	82.7%	77.3%	75.9%
Outpatient Registrations	245,864	263,825	255,440
Emergency Room Visits	45,163	46,525	47,137
SHARP CHULA VISTA			
Licensed Beds	330	330	343
Maintained Beds	326	330	343
Patient Days[(1)]	101,546	103,680	101,026
Discharges [(1)]	14,378	15,448	15,464
Average Length of Stay [(1)]	7.06	6.71	6.53
Occupancy [(2)]	85.3%	86.1%	80.5%
Outpatient Registrations	78,804	80,181	85,591
Emergency Room Visits	45,456	45,504	47,935
SHARP GROSSMONT			
Licensed Beds	481	481	446
Maintained Beds	457	457	434
Patient Days [(1)]	118,909	121,406	116,637
Discharges [(1)]	25,222	25,802	26,226
Average Length of Stay [(1)]	4.40	4.71	4.45
Occupancy [(2)]	71.3%	72.8%	73.4%
Outpatient Registrations	196,975	195,979	191,341
Emergency Room Visits	77,461	80,112	81,307
SHARP REES-STEALY			
Average Enrollment	142,761	140,557	142,105
Visits	990,199	1,002,546	1,045,918
Physician Offices	16	18	20
Urgent Care Facilities	5	5	5
Primary Care Physicians	117	115	111
Specialist Physicians	203	245	272
TOTAL – OBLIGATED GROUP			
Licensed Beds	1,666	1,666	1,644
Maintained Beds	1,440	1,509	1,518
Patient Days (1)	418,843	428,683	423,483
Discharges (1)	72,169	75,151	75,874
Average Length of Stay (1)	5.80	5.70	5.58
Occupancy (2)	79.7%	77.8%	76.2%
Outpatient Registrations	521,643	539,985	532,372
Emergency Room Visits	168,080	172,141	176,379

(1) Includes acute care, skilled nursing, psychiatric, and rehabilitation.
(2) Occupancy is calculated on maintained beds.
Source: Sharp HealthCare Administrative Statistical Reports and Financial Ratio Analysis Reports.

Sharp Memorial

General. The collective Sharp HealthCare facilities operated by Sharp Memorial include the 341-bed quaternary care Memorial Hospital, the 169-bed women's hospital Sharp Mary Birch, the 149-bed psychiatric facility Sharp Mesa Vista, the 16-bed chemical dependency recovery hospital Sharp Vista Pacifica, and the approximately 122,500 square foot Sharp Outpatient Pavilion. The 76-bed skilled nursing facility at Sharp Cabrillo, which is located approximately six miles from the Memorial Hospital campus and also includes 104 acute beds, 10 of which are currently available but not in use, is scheduled to close on April 3, 2009. See "ACQUISITION AND DISPOSITION ACTIVITIES" herein. Memorial Hospital is the largest non-university, quaternary care hospital campus in the County. It provides a comprehensive range of primary, secondary, and specialized quaternary medical/surgical care to a diverse geographic distribution of patients residing in the City of San Diego and surrounding communities in the County. Memorial Hospital is a County-designated trauma center.

Programs and Services. Sharp Memorial provides a broad range of programs and services to patients in its service area and is a Magnet hospital as designated by ANCC. Listed below are descriptions of selected major programs and services provided at Sharp Memorial facilities.

- *Cancer Treatment.* Memorial Hospital is one of three Sharp HealthCare hospitals to achieve the American College of Surgeons Commission on Cancer ("ACoSCoC") Accreditation for cancer surgery and care in an inpatient setting. Memorial Hospital also has the ability to provide chemotherapy, radiation therapy, and surgery.

- *Cardiac Care.* In 1957, the first cardiac catheterization in San Diego was performed at Memorial Hospital, followed by the County's first open-heart surgery a year later. Since that time, the Cardiac Center at Memorial Hospital, with four cardiac catheterization laboratories, has treated patients with heart conditions such as congestive heart failure, heart attacks, hypertension, angina/chest pain, and other cardiac diseases. Every year Sharp HealthCare physicians and staff perform more than 7,000 cardiac catheterizations and 1,200 open-heart surgeries. Memorial Hospital has the largest vascular center in the County and the fifth largest in the State, providing the full spectrum of care including multimodality intervention, electrophysiology, noninvasive diagnosis, acute care, cardiac rehabilitation, and prevention and education. Memorial Hospital has the largest mechanical assist device program on the West Coast. Memorial Hospital is established as a County-designated STEMI center, providing streamlined and optimized treatment for heart attack patients.

- *Transplant Services.* The cardiac program was expanded in 1985 with the successful implementation of a heart transplant program, the first in San Diego. Since its inception, this program's success rate at 12 months post-transplant has been significantly higher than the national average. In 1987, Memorial Hospital was the first hospital on the West Coast to use the mechanical Jarvik-7 heart for patients awaiting a transplant. Memorial Hospital has become nationally known for its mechanical assist device program and is one of two centers on the west coast that participates in national research for this procedure. Memorial Hospital is the only heart transplant program in the County. In addition to heart transplant, Memorial Hospital has certification to perform kidney and kidney-pancreas transplants, as well as bone marrow transplants through a joint program with UCSD.

- *Trauma Services.* Memorial Hospital is part of the San Diego Regional Trauma Program, comprised of five County adult centers and one pediatric center, and is certified by the San Diego County Emergency Medical System and the American College of Surgeons. Currently, approximately 1,600 adult trauma patients are evaluated and treated annually at Memorial Hospital.

- *Women's Health.* In order to provide for the continued growth of perinatal services, the six-story Sharp Mary Birch was opened in October 1992 as a division of Sharp Memorial. Sharp Mary Birch is the largest and most extensive freestanding center for women's health in Southern California, offering a variety of alternatives for the birthing experience including conventional delivery, labor/delivery/recovery, and Cesarean delivery. The Level III, 61-bed neonatal intensive care unit at Sharp Mary Birch provides care for premature and seriously ill infants, including special ventilatory management to infants with severe respiratory distress syndrome. Aside from obstetrical care, Sharp Mary Birch offers a full range of inpatient and outpatient gynecological services, plastic surgery, extensive health education, and prevention and support services.

- *Chemical Dependency Treatment.* The 16-bed freestanding Alcohol and Drug Treatment Center at Sharp Vista Pacifica is the only medically supervised chemical dependency recovery hospital in the County and offers one of the most comprehensive recovery programs in Southern California. A variety of recovery options are offered including medically monitored detoxification and rehabilitation, a 30-day residential program, and outpatient treatment.

- *Behavioral Health.* With 149 beds, Sharp Mesa Vista is the largest psychiatric hospital in the County and has been a provider of psychiatric and substance abuse recovery services for the past 40 years. The hospital provides behavioral health care services to all persons in the County in need of emergency psychiatric acute care. Sharp Mesa Vista provides a full continuum of behavioral health services, including inpatient, outpatient, and partial hospital programs, with specialized services designed for children, adolescents, and older adults.

- *Rehabilitative Services.* The 40-bed Rehabilitation Center at Memorial Hospital was dedicated in 1962 and was the first comprehensive rehabilitation center south of Los Angeles. Today Memorial Hospital's Rehabilitation Center includes the County's largest brain and spinal injury treatment program. The Rehabilitation Center addresses the unique needs of individuals affected by catastrophic injury or debilitating illness by focusing on their abilities, not disabilities, and preparing them to live as independently as possible.

- *Outpatient Services.* The Sharp Outpatient Pavilion, which opened on the Sharp Memorial campus in April 2003, is a comprehensive, multidisciplinary outpatient facility providing access for patients to services including diagnostic imaging, surgical and endoscopy services, cancer treatment, a women's outpatient imaging center, ophthalmology and vision laser centers, a wellness center, and a variety of other specialty services. The facility houses 12 surgery suites, 24 chemotherapy treatment areas, radiation therapy, 16-slice computed tomography ("CT") body scanning, and computerized radiology, including a picture archival and communication system ("PACS"), which provides the infrastructure for a film-less radiology system. Additionally, Sharp Memorial provides positron emission tomography CT ("PETCT") services, and magnetic resonance imaging ("MRI") services are provided on the Sharp Memorial campus through a joint venture between Sharp HealthCare, Rady Children's, and physician radiologists.

- *Home Health Services.* Sharp Home Care provides an extensive array of medical, nursing, rehabilitation, social, and educational services. Sharp Home Care is a licensed and Medicare-certified home health agency serving the County as an operating division of Sharp Memorial. Its services include specialty nursing care, comprehensive rehabilitative care, support services, diabetes instruction, and senior behavioral health services.

Sharp Chula Vista

General. Sharp Chula Vista operates a 243-bed acute care hospital, including a 35-bed intensive care unit, and the adjacent 100-bed Birch-Patrick Skilled Nursing Facility, which provides short- and long-term care for individuals requiring daily living assistance, respite care, and post-surgical rehabilitation. The hospital was founded in 1944 as Chula Vista Hospital to operate a nursing home and became licensed to operate an acute care hospital the following year. The hospital was moved to its present location in 1975. In 1989, the Corporation became affiliated with the Chula Vista Hospital (then known as the Community Hospital of Chula Vista), which was subsequently renamed Sharp Chula Vista. Sharp Chula Vista has the largest inpatient market share in the South Bay area of the County.

Programs and Services. Sharp Chula Vista operates in the South Bay region of the County and offers a full complement of programs and services, including emergency services, intensive care, medical/surgical inpatient care, surgery, cancer treatment, cardiac services, obstetrics, neonatal intensive care, orthopedics, a bloodless surgery and medicine program, and a broad range of outpatient services, and has the largest inpatient market share in the South Bay region of the County. A heliport allows immediate access for patients critically in need of treatment. Sharp Chula Vista also provides a variety of community education programs on topics such as diabetes, cardio pulmonary resuscitation, nutrition, smoking cessation, first aid, and stress management. Listed below are descriptions of selected major programs and services provided at Sharp Chula Vista.

- *Cancer Treatment.* Sharp Chula Vista is the only hospital in the South Bay region of the County with certification from the ACoSCoC to provide cancer surgery and inpatient care. The cancer treatment program offers a full range of cancer services, including surgery, oncology, infusion therapy, nuclear medicine, and radiation therapy.

- *Cardiac Care.* Sharp Chula Vista cardiac services include open-heart surgery, cardiac catheterization, angioplasty, coronary stents, vascular surgery, and rehabilitation, as well as mechanical assist devices for the support of the heart and lungs. Sharp Chula Vista was the first hospital in the South Bay region to provide endoscopic vein harvesting, a minimally invasive procedure that assists with bypass surgery, and has two state-of-the-art cardiac catheterization laboratories. Sharp Chula Vista is established as a County-designated STEMI center, providing streamlined and optimized treatment for heart attack patients.

- *Women's Health.* Sharp Chula Vista's 19-bed obstetrics unit provides a full range of labor and delivery services. Care for premature and ill infants is provided in the nine-bed, Level II neonatal intensive care unit.

- *Outpatient Services.* A full complement of outpatient programs and services are offered at Sharp Chula Vista. In December 2001, Sharp Chula Vista opened an approximately 24,000 square foot Outpatient Surgery and Diagnostic Imaging Center. The Outpatient Surgery Center is operated by Sharp Chula Vista and provides surgical, endoscopy, and special procedures. The Diagnostic Imaging Center, operated through a joint venture between Sharp Chula Vista and physician radiologists, provides MRI, CT, PETCT, ultrasound, mammography, general radiography, fluoroscopy, and bone densitometry services, and includes a PACS. The enhancement of outpatient services was designed to assist Sharp Chula Vista in meeting the growing and diverse needs of the communities it serves, where population growth is estimated to exceed 10% in its primary service area over the next five years[1].

Sharp Grossmont

General. Sharp Grossmont was formed by the Corporation in 1991 and operates and leases a 446-bed acute care facility ("Grossmont Hospital") located in the East County, which includes the 48-bed Sharp Grossmont Women's Health Center and a 30-bed skilled nursing unit. Sharp Grossmont is a Magnet hospital as designated by ANCC.

Hospital Lease. Grossmont Hospital is owned by the District, which leases Grossmont Hospital to Sharp Grossmont pursuant to a thirty-year lease, as amended as of January 3, 2007 (the "Lease"), that commenced on May 29, 1991 and expires on May 29, 2021. Any extension or renewal of the Lease beyond the current term would require the Lease to be subject to provisions of State law that were enacted after the date the Lease began. Further, any extension or renewal of the Lease must be submitted to the voters of the District and must receive the approval of the majority of those voting. The District, Sharp Grossmont, and the Corporation each have passed resolutions acknowledging their intent to extend the term of the Lease.

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[1] Source: Thompson-Reuters Market Expert; Claritas, Inc.; U.S. Census Bureau.

Pursuant to the terms of the Lease, Sharp Grossmont is obligated to make lease payments equal to the payments due on the long-term, tax-exempt debt assumed by Sharp Grossmont from the District (the "District Debt"). In 1992, with the issuance of the California Health Facilities Financing Authority Insured Hospital Revenue Refunding Bonds (San Diego Hospital Association), Series 1992A Bonds, which were subsequently refunded, Sharp Grossmont became a Member of the Obligated Group and the District Debt was refunded and defeased. The refunding and defeasance of the District Debt was considered to be a prepayment of rent under the Lease, and, in accordance with the terms of the Lease, the annual rent now paid by Sharp Grossmont to the District is $1. Sharp Grossmont is not obligated to make payments of principal or interest on the GO Bonds issued or to be issued by the District to fund renovations and expansion of Grossmont Hospital. See "RECENTLY COMPLETED AND CURRENT PROJECTS".

Upon the occurrence of certain events of default under the Lease, the District may pursue a variety of remedies including the termination of the Lease. At termination or expiration of the Lease, the revenues derived by Sharp Grossmont from Grossmont Hospital will cease to be available to make payments with respect to the Obligations issued under the Master Indenture, including Obligation No. 22. Furthermore, the long-term debt allocated to Sharp Grossmont will become the responsibility of the District. As of September 30, 2008, Sharp Grossmont constituted 25.0% of the Obligated Group's total assets, 34.4% of the Obligated Group's net assets, and 28.2% of the Obligated Group's cash, cash equivalents, short-term investments, and total assets limited as to use. Sharp Grossmont has 14.1% of the Obligated Group's long-term debt. For the year ended September 30, 2008, Sharp Grossmont generated 24.2% of the Obligated Group's total revenues and 7.2% of its excess of revenues over expenses.

Programs and Services. Sharp Grossmont provides a comprehensive range of primary, secondary, and specialized medical/surgical care and has the largest inpatient market share in the East County region of the County. Services provided at Sharp Grossmont include emergency, women's services, psychiatry, cardiology, cancer treatment, physical rehabilitation, hyperbaric oxygen therapy, behavioral health, and a full spectrum of outpatient services. Sharp Grossmont operates one of the busiest emergency departments in the County, where each year approximately 80,000 people receive treatment[1]. It also offers a variety of specialty services that include skilled nursing, home infusion, and hospice services. In 2009, Sharp Grossmont will complete construction of the three shelled floors in the Emergency and Critical Care Center, which will provide an additional 90 licensed acute care beds. Listed below are descriptions of selected major programs and services provided at Sharp Grossmont.

- *Cancer Treatment*. When Sharp Grossmont's David and Donna Long Center for Cancer Treatment ("Long Cancer Center") opened in July 1993, it was the first comprehensive outpatient center for cancer screening, diagnosis, treatment, and educational resources in San Diego County. Today, the Long Cancer Center is accredited by ACoSCoC as a comprehensive cancer center, providing cancer surgery, inpatient care, radiation therapy, chemotherapy, and hematology.

[1] Source: OSHPD Emergency Department Encounters by Facility Report, Calendar Year 2007.

- *Cardiac Care*. The cardiac program at Sharp Grossmont offers minimally invasive, noninvasive, and surgical procedures designed to treat a number of heart conditions. Services include open-heart surgery, cardiac catheterization, angioplasty, coronary stents, vascular surgery, and cardiac rehabilitation, as well as mechanical assist devices for the support of the heart and lungs. Sharp Grossmont is established as a County-designated STEMI center, providing streamlined and optimized treatment for heart attack patients.

- *Women's Health*. The 48-bed women's center specializes in gynecology, obstetrics, and neonatology, and includes a 24-bed Level II neonatal intensive care unit.

- *Hospice Services*. Sharp HospiceCare provides comprehensive end-of-life care and compassionate support for people with a life-limiting illness that have decided, with the support of their physician and family members, to forego further curative treatment in favor of comfort measures. Sharp HospiceCare is a licensed and Medicare-certified hospice agency serving the County as an operating division of Sharp Grossmont.

- *Pediatrics*. In 2008, Sharp Grossmont entered into an agreement with Rady Children's to lease 11 pediatric beds to Rady Children's to operate within Grossmont Hospital. Under the three-year agreement, Rady Children's licensed the 11 beds as part of their hospital license and is responsible for billing for services and providing physician and nurse staffing for the unit. Sharp Grossmont provides the pediatric space, ancillary services, and support services. The agreement expires May 11, 2011.

- *Outpatient Services*. A full complement of outpatient programs and services are offered at Sharp Grossmont, including surgical, cardiac, interventional radiology, vascular, endoscopy services, radiation oncology, laboratory, physical therapy, wound care, hyperbaric oxygen therapy, and a sleep center, as well as imaging services, including general diagnostic radiography, MRI, CT, PETCT, ultrasound, fluoroscopy, and nuclear medicine. In 2008, Sharp Grossmont began leasing 17,000 square feet in a newly constructed medical office building on the Sharp Grossmont campus to provide fully digital outpatient diagnostic imaging services. In 2006, Sharp Grossmont entered into a joint venture arrangement with physician radiologists to provide imaging services at an off-campus location, including general radiography, ultrasound, open air MRI, CT, and digital mammography.

Corporation

The Corporation provides the centralized administrative and management functions of Sharp HealthCare and also provides health care services through the Sharp Rees-Stealy operating division.

Sharp Rees-Stealy

General. The Corporation contracts with SRSMG to provide outpatient health care services. These services are provided through 20 multi-specialty medical clinics throughout the County, which are owned or leased by the Corporation and managed by the Corporation. Outpatient visits totaled nearly 1,046,000 for the year ended September 30, 2008. See "HISTORICAL FINANCIAL INFORMATION – Revenue Sources – Physician Network and Managed Care". See also "BONDHOLDERS' RISKS – Tax-Exempt Status and Other Tax Matters" in this Official Statement. In 1999, the Corporation and SRSMG extended the term of their contract to December 31, 2015.

Programs and Services. The Corporation operates the multi-specialty medical clinics and five urgent care centers throughout the County doing business as Sharp Rees-Stealy. Services include primary care, specialty care, urgent care, laboratory, radiology, physical therapy, and pharmacy services. In addition, the occupational health program provides a full range of services including injury and illness treatment, rehabilitation, physical examinations, and other programs designed to evaluate, treat, and prevent work-related injuries. SRSMG is accredited by the Accreditation Association for Ambulatory Health Care ("AAAHC"), an industry benchmark for measuring quality. In April 2006, SRSMG was surveyed by AAAHC and earned the highest rating of "substantial compliance," receiving a three-year accreditation that expires in April 2009.

Accreditations, Licenses, and Memberships

The Joint Commission surveyed Memorial Hospital in February 2006 and Sharp Chula Vista and Sharp Grossmont in April 2006. Each hospital received full accreditation along with the Joint Commission's Gold Seal of Approval and a three-year accreditation. During 2008, Sharp Vista Pacifica, Sharp Mary Birch, and Sharp Mesa Vista were surveyed by the Joint Commission in March, June, and July, respectively, receiving full accreditation along with The Joint Commission's Gold Seal of Approval. Each of these hospitals received a three year accreditation.

Sharp Memorial, Sharp Mary Birch, Sharp Mesa Vista, Sharp Vista Pacifica, Sharp Chula Vista, and Sharp Grossmont are each licensed to conduct and provide health care services by the State of California Department of Public Health Licensing and Certification Program, and have each been approved as eligible health care providers by Medicare, Medi-Cal, Blue Cross, and various commercial insurance programs. In addition, each of these hospitals maintain memberships in HASDIC, CHA, and AHA.

NON-OBLIGATED AFFILIATES

With the exception of Grossmont Foundation, the Corporation is the sole member or the sole shareholder of each of the Non-Obligated Affiliates listed below. None of the following entities is a Member of the Obligated Group. As discussed under "HISTORICAL FINANCIAL INFORMATION – Management's Discussion of Financial Performance" herein, Members of the Obligated Group have significant organizational and financial relationships with each of the entities listed below. **None of the following entities is obligated with respect to Obligation No. 22 and therefore they are not obligated with respect to the Bonds.**

- *Sharp Health Plan* is a California nonprofit public benefit corporation formed by the Corporation in September 1992. Sharp Health Plan received its Knox-Keene license in September 1992 from the California Department of Corporations. Such license, now under the jurisdiction of the California Department of Managed Health Care, enables Sharp Health Plan to offer managed care products through an HMO. Sharp Health Plan enhances Sharp HealthCare's ability to provide affordable and available health care coverage to its employees and the communities it serves. As of September 30, 2008, Sharp Health Plan had more than 44,600 commercial enrollees, including more than 19,600 employees of Sharp HealthCare and their dependents. Sharp Health Plan provides services to its enrollees though a number of providers, including SRSMG and SCMG. Sharp Health Plan also contracts with Sharp Memorial, Sharp Chula Vista, Sharp Grossmont, and Sharp Coronado for inpatient and certain other institutional services.

- *Sharp Coronado* (formerly known as The Coronado Hospital) became affiliated with the Corporation in July 1994. Sharp Coronado operates a 204-bed hospital consisting of 59 acute care beds and a 145-bed sub-acute and skilled nursing facility. The hospital facilities are owned by the Coronado Hospital Foundation ("Coronado Foundation"), which leases them to Sharp Coronado pursuant to a 30-year lease that commenced July 1, 1994 and that expires June 30, 2024. Services offered by Sharp Coronado include emergency care, general acute inpatient care, intensive care, ambulatory surgery, diagnostic imaging, sub-acute, and skilled nursing care to meet the needs of the population of Coronado and Imperial Beach, where Sharp Coronado has the largest inpatient market share. Sharp Coronado is affiliated with Planetree and was one of just five hospitals nationwide to receive the Planetree Patient-Centered Hospital Designation. It was also the only hospital in California to have met the stringent criteria developed by Planetree, a nonprofit organization committed to improving medical care from the patient's perspective. The Coronado Foundation has a matching grant with the City of Coronado to provide $10.0 million to Sharp Coronado for facility upgrades and renovations. The Joint Commission surveyed Sharp Coronado in February 2006 and the hospital received its Gold Seal of Approval and a three-year accreditation. Sharp Coronado is licensed to conduct and provide health care services by the State of California Department of Public Health Licensing and Certification Program, and is an eligible health care provider by Medicare, Medi-Cal, Blue Cross, and various commercial insurance programs.

- *Continuous Quality Insurance* is an offshore captive insurance company of the Corporation domiciled in Grand Cayman. It provides various professional and commercial general liability insurance services to the Corporation, as well as certain affiliated entities of the Corporation.

- *Sharp Foundation* is a California nonprofit public benefit corporation formed in October 1979 and exists solely for the purpose of raising funds for Sharp HealthCare. The use of these funds is for capital expenditures, program support, and endowment. Unrestricted gifts are expended at the discretion of Sharp Foundation's Board of Directors (within guidelines established by the Corporation).

- *Grossmont Foundation* is a California nonprofit public benefit corporation formed in 1985 and exists solely for the purpose of raising funds for Grossmont Hospital. The use of these funds is for capital expenditures, program support, and endowment. Unrestricted gifts are expended at the discretion of Grossmont Foundation's Board of Governors.

HISTORICAL FINANCIAL INFORMATION

Financial and statistical information relating solely to the Obligated Group is included in this Section. The Obligated Group Members accounted for 93.2% of Sharp HealthCare's revenues, 100.9% of income from operations, and 96.6% of its net assets, as of and for the fiscal year ended September 30, 2008. The Non-Obligated Affiliates included in the Sharp HealthCare audited combined financial statements have no obligation to make any payments on the Bonds or the Series 2009 Obligation or any other Obligations outstanding under the Master Indenture.

Summary of Revenues and Expenses

The following Summary Statements of Revenues and Expenses of the Obligated Group for the years ended September 30, 2006, 2007, and 2008 have been derived from unaudited Other Financial Information to Sharp HealthCare's Audited Combined Financial Statements for the years then ended. The following summary should be read in conjunction with the Audited Combined Financial Statements for the years ended September 30, 2007 and 2008, related notes, and unaudited Other Financial Information that appear in Appendix B. The Audited Combined Financial Statements include information concerning the Obligated Group Members and Non-Obligated Affiliates. For purposes of the remainder of this section, the years ended September 30, 2006, 2007, and 2008 are referred to as Fiscal 2006, Fiscal 2007, and Fiscal 2008, respectively.

Summary Statements of Revenues and Expenses of the Obligated Group (in thousands)

	Year ended September 30,		
	2006	2007	2008
Revenues:			
Net Patient Service	$1,045,154	$1,125,021	$1,178,335
Premium	554,157	597,434	558,927
Other [1]	42,417	56,793	65,503
Total Revenues	1,641,728	1,779,248	1,802,765
Expenses:			
Operating Expenses	1,516,933	1,632,821	1,652,924
Depreciation/Amortization	64,654	68,953	68,532
Interest Expense	16,639	15,204	12,550
Total Expenses	1,598,226	1,716,978	1,734,006
Income from Operations	43,502	62,270	68,759
Other Income (Loss) [1] [2]	7,634	27,763	(8,955)
Income from Continuing Operations	51,136	90,033	59,804
Gain on Discontinued Operations	0	0	7,262
Excess of Revenues Over Expenses	51,136	90,033	67,066
Change in Minimum Pension Liability	(20,461)	9,580	(22,610)
Foundation Donations	6,826	9,227	8,615
Other Changes in Net Assets [3]	5,505	(7,157)	21,626
Increase in Unrestricted Net Assets	$ 43,006	$ 101,683	$ 74,697

(1) Fiscal 2006 adjusted to transfer investment income from Other Revenues to Other Income (Loss) to be consistent with the accounting change implemented beginning in Fiscal 2007.

(2) Other Income (Loss) includes investment income. Fiscal 2006 also includes a $10.1 million loss on the previous EMR system that has been or is currently being replaced by the Cerner EMR system (see "RECENTLY COMPLETED AND CURRENT PROJECTS" herein).

(3) Fiscal 2008 includes $22.0 million from the District to reimburse Sharp Grossmont for facility improvements funded through the GO Bonds.

Source: Derived from the Other Financial Information to the Audited Combined Financial Statements for the years ended September 30, 2006, 2007, and 2008. Fiscal 2008 is included in Appendix B.

Revenue Sources

Payments on behalf of certain patients are made to the Obligated Group by the federal government under the Medicare program, by the State and the federal government under the Medicaid program, known as Medi-Cal in California, by commercial insurance carriers, and by other third-party payors, including HMOs and preferred provider organizations ("PPOs"). Sharp HealthCare conducts centralized contracting and contract management for third party payor contracts and Medi-Cal inpatient hospital services.

Governmental Payors. For a discussion of government payment programs, refer to subsections "The Medicare Program," "The Medicaid Program," and "Medi-Cal" in the section "BONDHOLDERS' RISKS" in this Official Statement.

Physician Network and Managed Care. The Members of the Obligated Group have numerous contracts with HMOs, PPOs, and other managed care providers. Some of these providers also contract with Non-Obligated Affiliates of the Corporation, as well as SCMG. The Members and the medical groups are paid under the managed care contracts pursuant to a variety of mechanisms, including: discounted fee-for-service, negotiated case-rate-per-procedure, negotiated fixed-rate-per-day-of-care, and capitation. For Fiscal 2008, revenue from capitated contracts represented 18.9% of total net patient revenues, with 66% of Sharp HealthCare's capitated revenue generated through contracts with PacifiCare, covering both commercial and senior enrollees. See "BONDHOLDERS' RISKS – Commercial Insurance and Other Third-Party Plans" in this Official Statement.

Disproportionate Share Payments. Certain Sharp HealthCare hospitals qualify for and have received additional funding as "disproportionate share hospitals" due to their relative proportions of low-income patients. The amounts received from the State disproportionate share hospital program for Fiscals 2006, 2007, and 2008 were $1.1 million, $1.0 million, and $4.8 million, respectively. These amounts are included in net patient revenue and represent payments made to Sharp Mary Birch in all three fiscal years and Sharp Chula Vista in Fiscal 2008. The amounts received from the federal disproportionate share hospital program for Fiscals 2006, 2007, and 2008 were $26.7 million, $25.7 million, and $26.8 million, respectively. These amounts are included in net patient revenue and represent payments made to Sharp Memorial, Sharp Mary Birch, Sharp Chula Vista, and Sharp Grossmont in all three fiscal years. The disproportionate share hospital programs are generally thought to be vulnerable to being cut or substantially reduced, and therefore there is no certainty that these payments will be continued in the future.

The following table presents a comparison of net revenues by payor source on a combined basis for the Obligated Group. The composition of revenues for each Member varies from these overall averages based on the characteristics of their specific service area and the programs and services provided at each site.

	Year Ended September 30,		
	2006	2007	2008
Medicare Fee-for-Service and HMO	24.6%	24.4%	24.6%
Capitated Medicare	8.1	7.6	8.1
Medi-Cal Fee-for-Service and HMO	9.0	9.2	9.0
Commercial Contracts – Capitated	10.8	10.6	10.8
Commercial Contracts – Fee-for-Service [1]	44.8	46.3	44.8
County Medical Services [2]	0.6	0.7	0.6
All Other [3]	2.1	1.2	2.1
	100.0%	100.0%	100.0%

(1) Commercial contracts are negotiated on a per diem, per discharge, or percent discount basis.
(2) Sponsored by the County of San Diego for medically indigent adults.
(3) Includes indemnity, private pay, bad debt, and charity care.
Source: Corporation records.

Summary Balance Sheets

The following Summary Balance Sheets of the Obligated Group as of September 30, 2006, 2007, and 2008 have been derived from unaudited Other Financial Information to Sharp HealthCare's Audited Combined Financial Statements for the years then ended. The following summary should be read in conjunction with the Audited Combined Financial Statements for the years ended September 30, 2007 and 2008, related notes, and unaudited Other Financial Information that appear in Appendix B.

Summary Balance Sheets of the Obligated Group
(in thousands)

	As of September 30,		
	2006	2007	2008
ASSETS			
Current Assets:			
Cash, Cash Equivalents and Short-term Investments	$ 198,398	$ 196,932	$ 196,347
Accounts Receivable – Net	149,336	156,125	155,289
Other Current Assets	52,652	114,318	68,709
Total Current Assets	400,386	467,375	420,345
Assets Limited as to Use – Net	214,210	212,282	231,355
Property, Plant and Equipment – Net	555,237	625,595	701,832
Other Assets	90,016	77,188	79,980
Total Assets	$1,259,849	$1,382,440	$1,433,512
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Current Portion of Long-term Debt	$ 19,115	$ 19,598	$ 19,980
Other Current Liabilities	183,628	250,175	199,557
Total Current Liabilities	202,743	269,773	219,537
Long-term Liabilities	83,723	51,565	87,168
Long-term Debt – Net	444,930	424,357	409,777
Total Net Assets	528,453	636,745	717,030
Total Liabilities and Net Assets	$1,259,849	$1,382,440	$1,433,512

Source: Derived from the Other Financial Information to the Audited Combined Financial Statements as of September 30, 2006, 2007, and 2008. Fiscal 2008 is included in Appendix B.

Historic and Pro Forma Liquidity

The following table sets forth the days cash on hand of the Obligated Group as of September 30, 2008. The pro forma column provides for an adjustment to the Fiscal 2008 amounts to give effect to the issuance of the Bonds and up to an additional $140 million of bonds, currently anticipated to be issued later in 2009 (the "Additional Series 2009 Bonds"), each as if such issuance had occurred as of September 30, 2008, and the refunding and redemption of the Refunded Bonds (as defined in the forepart to this Official Statement). For further information related to the proposed issuance of the Additional Series 2009 Bonds, see "PLAN OF FINANCE - Additional Bonds" in the forepart of this Official Statement.

	As of September 30, 2008	
	Historic	Pro Forma
Days Cash on Hand	91.5	115.8

Debt Service Coverage Ratio

The following table sets forth income available for debt service of the Obligated Group for each of the three most recent fiscal years and the coverage of maximum annual debt service pertaining to Obligations issued under the Master Indenture (other than the guarantees secured by Obligations issued thereunder) and other indebtedness for each of these periods. The pro forma column provides for an adjustment to the Fiscal 2008 amounts to give effect to the issuance of the Bonds and the Additional Series 2009 Bonds, each as if such issuance had occurred as of September 30, 2008, the refunding and redemption of the Refunded Bonds and the refinancing of the Taxable Loan.

	Year Ended September 30, ($ in thousands)			
	2006	2007	2008	
			Historic	Pro Forma
Excess of Revenues Over Expenses	$ 51,136	$ 90,033	$ 67,066	$ 67,066
Depreciation/Amortization	64,654	68,953	68,532	68,532
Interest Expense	16,639	15,204	12,550	12,550
Income Available for Debt Service	$132,429	$174,190	$148,148	$148,148
Maximum Annual Debt Service Requirements	$ 47,878	$ 47,878	$ 47,227	$ 45,737
Coverage Ratio	2.77x	3.64x	3.14x	3.24x

Source: Derived from the Other Financial Information to the Audited Combined Financial Statements for the years ended September 30, 2006, 2007, and 2008. Fiscal 2008 is included in Appendix B.

Historic and Pro Forma Capitalization

The following table sets forth the capitalization of the Obligated Group as of September 30, 2008, including capitalized leases and other indebtedness. The pro forma column provides for an adjustment to the Fiscal 2008 amounts to give effect to the issuance of the Bonds and the Additional Series 2009 Bonds, each as if such issuance had occurred as of September 30, 2008, and the refunding and redemption of the Refunded Bonds.

	As of September 30, 2008	
	Historic	Pro Forma
	($in thousands)	
Series 1988A Bonds	$ 14,400	$ 14,400
1998 Certificates of Participation	90,045	90,045
Series 2001A Bonds	63,880	63,880
Series 2003 A and B Bonds	89,725	--
Series 2003 C Bonds	27,820	27,820
Series 2007A and B Bonds	99,880	99,880
Series 2009A and Additional 2009 Bonds	--	200,000
Other Long-term Debt	44,007	44,007
Total Long-term Debt	429,757	540,032
Less: Current Portion of Long-Term Debt	19,980	19,980
Net Long-term Debt (A)	409,777	520,052
Unrestricted Net Assets	669,208	669,208
Total Capitalization (B)	$1,078,985	$1,189,260
Capitalization Ratio (A/B)	38.0%	42.8%

Management's Discussion of Financial Performance

The Obligated Group's financial results for its three most recently completed fiscal years reflect increasing profitability from operations. These operating results were obtained through a combination of factors, including specific management initiatives, certain organizational changes, and a continued emphasis on pursuing operating efficiencies at all levels of the organization.

The balance of this section discusses each of these general premises in greater detail and describes certain financial relationships between Members of the Obligated Group and Non-Obligated Affiliates.

Historical Operating Performance. As depicted in the table on page A-37, the Obligated Group generated income from operations in Fiscal 2006, Fiscal 2007, and Fiscal 2008. The operating results of the Obligated Group demonstrate strong operating performance each year.

Patient activity increased for the Members of the Obligated Group from Fiscal 2006 to Fiscal 2008. As depicted in the table on page A-27, total discharges increased by 4.1% in Fiscal 2007 and 0.9% in Fiscal 2008. Outpatient registrations increased by 3.5% in Fiscal 2007 and decreased 1.4% in Fiscal 2008, due primarily to the sale of Sharp Mission Park effective August 1, 2008. In comparison, total revenues increased by 8.4% in Fiscal 2007 and 1.3% in Fiscal 2008. The increase in total revenues can be attributed to increased patient activity and successful contracting strategies by management, as further discussed below.

Operating expenses (other than interest, depreciation, and amortization) increased by 7.6% in Fiscal 2007 and 1.2% in Fiscal 2008. The cost increases in Fiscal 2007 and Fiscal 2008 reflect the increased patient activity, offset by savings generated by a decrease in the average length of stay of 1.7% and 2.1% in Fiscal 2007 and Fiscal 2008, respectively. The costs of maintaining a competitive compensation and benefits program for employees, along with growth in the number of employees to provide care to patients, resulted in increased salary and employee benefit expenses of 9.5% and 7.0% in Fiscals 2007 and 2008, respectively. For Fiscal 2008, salary and employee benefit costs represent 48.4% of total revenues, an increase from 45.4% in Fiscal 2006. Despite the failure of the auction rate market and upheaval in the capital markets during 2008, the Obligated Group's interest expense for Fiscal 2008 declined by 17.5% due to favorable maximum rate formulas on all auction rate securities, an optimal capital structure of fixed and variable rate debt, and the positive hedging effects from the Corporation's interest rate swaps (as discussed herein).

In general, management attributes the strong operating results to the ability of management at all levels to implement various cost reduction programs and revenue enhancement activities while maintaining and enhancing the quality of care being provided at Sharp HealthCare's health facilities. Among the major cost reduction and revenue enhancement activities were:

- Successful implementation of contracting strategies focusing on improved HMO, PPO, and Medi-Cal reimbursement. Throughout Fiscals 2006, 2007, and 2008, management continued an aggressive contracting strategy with respect to its capitated, PPO, and Medi-Cal contracts. The renegotiation of Sharp HealthCare's capitated contracts yielded premium revenue increases in excess of 7% annually. The PPO contracting strategy focused on changing the reimbursement methodology from per diem rates to a percentage discount from charges, which more reasonably compensates the hospitals for the care provided to patients under such contracts. These negotiations obtained percentage discount on all PPO contracts. The renegotiation of its Medi-Cal contracts with the California Medical

Assistance Commission resulted in increases greater than 10% for the Sharp HealthCare hospital facilities.

- A focus by management at all levels of the organization to maintain a safe environment for employees has resulted in a reduction in workers' compensation claims and medical costs in each of the three fiscal years.

- Commitment to *The Sharp Experience* resulted in increased employee satisfaction scores and decreased employee turnover, which was a key factor in reducing registry and traveler staff expenses and contributed to continued improvement in operations during Fiscals 2006 through 2008.

- Supply chain efficiency improvements, including physician preference standardization, distribution agreement reductions, remanufacturing efforts, and pharmacy management, provided supply expense reductions during a period of rising costs.

- Negotiation of long-term fixed price agreements contributed to reduced utility costs.

- Implementation of Lean-Six Sigma methods throughout Sharp HealthCare provided a myriad of cost reduction and efficiency results. One project, whose objective was to reduce out-of-network claims expenses related to Sharp HealthCare's capitated patients by moving patients into a Sharp HealthCare facility to receive their inpatient care, provided annual savings of $5.0 to $6.0 million in Fiscals 2006 through 2008. Several other Lean-Six Sigma projects have been implemented and resulted in decreased staff turnover, improved work efficiency, increased turnaround time of available inpatient beds, reduced length of stay, and created staff and cost efficiencies through centralization of services.

- Cooperative support from physicians and other professionals in implementing clinical effectiveness initiatives designed to improve the quality of care in certain specialty areas through improved patient outcomes. Such initiatives, while improving quality, also resulted in decreased operating costs.

- Implementation of niche programs and services to meet specific community needs and opportunities such as a bariatrics program, a radiation surgery program, a surgical robotics program, wound care programs, and CT lung and body scanning.

Management believes its continued focus on operations and its ability to identify and act upon operating and strategic initiatives have resulted in positive operating results during periods of rising costs. Additionally, management believes that the market strength of Sharp HealthCare and the quality of its services has allowed the organization to obtain favorable increases in its HMO, PPO, and Medi-Cal contract rates.

Historical Non-operating Performance. Fiscal 2006 includes non-operating income of \$7.6 million, consisting of a \$10.1 million loss related to the impairment of the CPOE module of the previous hospital EMR system and a loss of \$3.3 million related to funding Sharp Foundation operating costs, offset by investment income of \$20.8 million and a \$200,000 gain related to disposal of assets. In Fiscal 2007, non-operating income of \$27.8 million is comprised of \$31.3 million in investment income, offset by a loss of \$3.6 million related to funding Sharp Foundation operating costs. The loss of \$9.0 million in Fiscal 2008 is related to unrealized losses in Sharp's investment portfolio as a result of a downturn in the equity markets.

Historical Financial Position. The Obligated Group has been investing in its infrastructure, medical equipment, and information systems during the past three years. Property, plant, and equipment, net of accumulated depreciation and amortization, increased \$70.4 million in Fiscal 2007 and an additional \$76.2 million in Fiscal 2008. In addition to routine replacement acquisitions, investments have consisted of significant facility expenditures, as well as information system infrastructure improvements, application acquisitions, and planning and design costs related to the EMR and EHR systems. Management believes that these initiatives will have a favorable financial and strategic impact on the Obligated Group's future operations as the facility enhancements and information systems applications and infrastructure improvements become operational. The property, plant, and equipment acquisitions have been funded primarily by the Obligated Group's cash flow from operations and available bond proceeds, which are included in assets limited as to use in the table on page A-39. Sharp HealthCare's significant strategic capital acquisitions and improvements are described in "RECENTLY COMPLETED AND CURRENT PROJECTS" herein.

Accounts receivable, net of allowances, increased \$6.8 million, or 4.5%, in Fiscal 2007, primarily due to increased patient activity. During this time, net patient service revenue increased 7.6%, which caused a corresponding increase in accounts receivable, but was offset by a decrease in the collection period. In Fiscal 2008, net accounts receivable decreased \$836,000, or (0.5%), while net patient service revenue increased 4.7%. Management believes that improvement in the collection period for accounts receivable had a favorable impact on the cash balances of the Obligated Group during Fiscals 2007 and 2008. Days in accounts receivable were 52.2, 50.7 and 48.2 as of September 30, 2006, 2007, and 2008, respectively.

Retirement Plan

Sharp HealthCare sponsors a voluntary retirement plan (the "Sharp\$aver"), which consists of a defined benefit cash balance plan and a defined contribution plan. A participating Sharp HealthCare employee has the opportunity to invest up to 6% of his or her salary into the Sharp\$aver on an after-tax basis, and Sharp HealthCare will match the employee's contribution up to 4.5% of the employee's salary for employees with less than 20 years of service or 5.0% for employees with 20 or more years of service. The first 1% of the employee's contribution is placed into the defined benefit plan, and Sharp HealthCare matches at 2% and provides the employee a guaranteed 6% return on his or her account balance. For every additional 1% an employee contributes up to the 6% maximum, Sharp HealthCare matches the employee's contribution at .5%, with the exception of employees with 20 or more years of service where Sharp HealthCare matches .5% for every 1% of employee contribution thereafter up to 5% and a 1% match on the 6% maximum employee contribution. Funds are placed in the defined contribution plan and are invested at the direction and risk of the employee. The defined contribution plan is 100% funded, including any non-vested employer contributions. As of September 30, 2008, the defined benefit cash balance plan was 77% funded.

Employee Retirement Income Security Act of 1974 ("ERISA") Plans and Audits

The Corporation maintains several employee welfare plans that are subject to various laws and regulations including ERISA. The Corporation's employee welfare plans are occasionally audited or examined by regulatory agencies including the Internal Revenue Service and the Department of Labor ("DOL"). Currently the DOL is auditing the Corporation's ERISA health care plan and a Voluntary Employees' Beneficiary Association ("VEBA") that the Corporation maintained to fund employee health care plan expenditures. The Corporation terminated the VEBA on August 1, 2006. The DOL has not completed its audit and the Corporation is unaware of any findings the DOL has or may make. The Corporation believes that it has substantially complied with laws and regulations applicable to its employee welfare plans but adverse findings by the DOL could result in significant fines, penalties, or actions, which could materially adversely affect the Obligated Group.

Investment Policy

The Corporation's Board sets the investment strategy for cash and investments that are designated as long-term, in that they are not expected to be required for near-future operating or capital expenditures. Long-term investments exclude retirement funds and funds held under bond indentures. The investment policy issued by the Board defines investment objectives, establishes investment guidelines, outlines criteria and procedures for the on-going operation and evaluation of the Corporation's investment program, and provides a formal written document of the Corporation's expectations regarding its investment program. An independent company provides investment management services within the constraints provided by the Corporation's investment policy objectives and guidelines. The Corporation's Investment Committee reviews the strategy and performance of the various funds on a quarterly basis, and makes recommendations to the Board as determined prudent from such review. The Corporation's investment policy provides for a targeted long-term investment mix of 60% fixed income investments and 40% equity investments. The Corporation's equity investments, which totaled $63 million at September 30, 2008, are invested in indexed funds.

Interest Rate Swaps

On May 1, 2002, the Corporation entered into an interest rate swap (the "Lehman Swap") with Lehman Brothers Special Financing, Inc. ("Lehman") with respect to the County of San Diego, California Certificates of Participation issued in 1998 (the "1998 Bonds"). The Lehman Swap hedged an initial notional amount of $80.0 million at a fixed receiver rate of 4.66% for the entire swap term, amortized in accordance with the amortization of the 1998 Bonds, and was scheduled to expire on August 15, 2028. Under the Lehman Swap, the Corporation paid Lehman a fixed Securities Industry and Financial Markets Association ("SIFMA", previously the Bond Market Association index, or BMA) municipal swap index rate of 1.5% through December 31, 2002 and then reverted to the floating SIFMA rate, for the remaining term of the Lehman Swap. The Lehman Swap generated cash flow of $1.1 million, $799,000, and $1.6 million in Fiscals

2006, 2007, and 2008, respectively. As a result of the bankruptcy filing by Lehman Brothers Holdings, Inc., the guarantor on the Lehman Swap, Sharp HealthCare issued a notice of termination to Lehman on September 25, 2008. The early termination payment due Sharp HealthCare is $1.8 million, which is recorded as a receivable in Fiscal 2008 with a corresponding 100% allowance for doubtful accounts as the Corporation has no assurance it will receive such amount from Lehman.

In June 2003, the Corporation entered into a $109.7 million floating-to-fixed rate swap with Citibank, N.A. New York ("Citibank") on the Refunded Bonds (the "Citibank Swap"). This swap was structured as a cash flow hedge and was intended to offset the variability of cash flows on the underlying bonds. The Citibank Swap was transferred as a hedge against the Series 2007A and 2007B Bonds with the refunding of the Refunded Bonds in October 2008 (See Note 12. Subsequent Events of the Audited Combined Financial Statements included in Appendix B).

In February 2004, the Corporation entered into an $80.0 million fixed-spread basis swap with Citibank (the "Citibank Basis Swap"). The Citibank Basis Swap was entered into to reduce interest expense on a portion of Sharp HealthCare's outstanding fixed rate debt by assuming tax risk on this debt. This swap is non-amortizing and was not structured as a hedge on any specific debt instrument.

In August 2006, the Corporation entered into an $80.0 million Yield Curve Swap with Citibank (the "Citibank Yield Curve Swap") with an effective date of August 3, 2007. The Citibank Yield Curve Swap was entered into as an overlay to the existing Citibank Basis Swap. Given the flatness of the yield curve at execution of the Citibank Yield Curve Swap, it provided an opportunity to potentially increase cash flow associated with the Citibank Basis Swap when the yield curve steepened and returned to a historically upward sloping curve. The Citibank Yield Curve Swap is non-amortizing and was not structured as a hedge on any specific debt instrument. However, a benefit of this swap is its hedge against the economics of the Citibank Basis Swap during low interest rate environments.

See Note 5 to the Audited Combined Financial Statements included in Appendix B for additional information regarding the Corporation's interest rate swaps.

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APPENDIX B

FINANCIAL STATEMENTS OF THE CORPORATION

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Audited Combined Financial Statements and Other Financial Information

Sharp HealthCare
Years Ended September 30, 2008 and 2007

Sharp HealthCare

Combined Financial Statements and Other Financial Information

Years Ended September 30, 2008 and 2007

Contents

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Report of Independent Auditors

Board of Directors
Sharp HealthCare

We have audited the accompanying combined balance sheets of Sharp HealthCare (the Company) as of September 30, 2008 and 2007, and the related combined statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and 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 combined financial position of Sharp HealthCare at September 30, 2008 and 2007, and the combined results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note 8 to the combined financial statements, as of September 30, 2007, the Company changed its method of accounting for its defined benefit pension plan.

Ernst + Young LLP

December 18, 2008

Sharp HealthCare

Combined Balance Sheets

	September 30 2008	2007
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 126,077	$ 92,783
Short-term investments	94,911	130,086
Accounts receivable, net of allowance for doubtful accounts of $130,063,000 in 2008 and $136,334,000 in 2007	164,535	163,275
Estimated settlements receivable from government programs, ne	1,463	15,801
Inventories	28,976	27,297
Prepaid expenses and othe	25,158	16,101
Total current assets	441,120	445,343
Assets limited as to use:		
Designated for propert	220,206	201,159
Under bond indentures	11,149	11,123
Other restricted investments	29,832	28,969
Under self-insurance programs	6,946	6,573
Total assets limited as to use	268,133	247,824
Property and equipment, ne	715,529	634,523
Unamortized financing costs	10,714	11,407
Other assets	55,015	50,177
Total assets	$ 1,490,511	$ 1,389,274
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 131,467	$ 135,424
Accrued compensation and benefits	81,433	79,679
Current portion of long-term deb	20,199	19,843
Accrued interest	1,861	1,698
Discontinued operations	704	1,350
Total current liabilities	235,664	237,994
Long-term liabilities	89,116	56,566
Reserves for professional liability	13,100	9,000
Long-term debt	410,137	424,937
Total liabilities	748,017	728,497
Net assets:		
Unrestricted	691,654	615,748
Temporarily restricted	45,245	40,575
Permanently restricted	5,595	4,454
Total net assets	742,494	660,777
Total liabilities and net assets	$ 1,490,511	$ 1,389,274

See accompanying notes.

Sharp HealthCare

Combined Statements of Operations

	Years Ended September 30	
	2008	**2007**
	(In Thousands)	
Revenues:		
Net patient service	**$ 1,228,538**	$ 1,162,896
Premium	**646,427**	606,280
Other	**60,092**	49,279
Total revenues	**1,935,057**	1,818,455
Expenses:		
Salaries and wages	**756,880**	700,916
Employee benefits	**155,945**	133,101
Medical fees	**222,118**	216,158
Purchased services	**238,945**	211,530
Supplies	**247,789**	225,889
Maintenance, utilities and rentals	**85,795**	76,407
Depreciation and amortization	**70,634**	69,935
Business insurance	**13,913**	8,313
Interest	**12,528**	16,579
Provision for doubtful accounts	**35,080**	77,995
Other	**27,257**	27,732
Total expenses	**1,866,884**	1,764,555
Income from operations	**68,173**	53,900
Other non-operating loss	**(7,245)**	(1,570)
Investment (loss) income	**(1,024)**	33,810
Income from continuing operations	**59,904**	86,140
Income from discontinued operations	**7,703**	6,314
Excess of revenues over expenses	**67,607**	92,454
Net assets transferred from related party	**22,021**	937
Net assets released from restrictions used for purchase of property, plant and equipment	**8,615**	8,290
Pension-related changes other than net periodic pension cost	**(23,419)**	–
Change in minimum pension liability	–	9,666
Cumulative effect of a change in accounting principle	–	(7,979)
Other changes in net assets	**1,082**	1,306
Increase in unrestricted net assets	**$ 75,906**	$ 104,674

See accompanying notes.

Sharp HealthCare

Combined Statements of Changes in Net Assets

	Years Ended September 30	
	2008	**2007**
	(In Thousands)	
Unrestricted net assets:		
Excess of revenues over expenses	**$ 67,607**	$ 92,454
Net assets transferred from related party	**22,021**	937
Net assets released from restrictions used for purchase of property, plant and equipment	**8,615**	8,290
Pension-related changes other than net periodic pension cost	**(23,419)**	–
Change in minimum pension liability	**–**	9,666
Cumulative effect of a change in accounting principle	**–**	(7,979)
Other changes in net assets	**1,082**	1,306
Increase in unrestricted net assets	**75,906**	104,674
Temporarily restricted net assets:		
Contributions	**19,580**	15,060
Investment income	**939**	1,375
Change in net unrealized (losses) gain on investments	**(4,370)**	1,178
Net assets released from restrictions	**(11,702)**	(11,404)
Other	**223**	442
Increase in temporarily restricted net assets	**4,670**	6,651
Permanently restricted net assets:		
Contributions	**1,141**	400
Increase in permanently restricted net assets	**1,141**	400
Increase in net assets	**81,717**	111,725
Net assets, beginning of the year	**660,777**	549,052
Net assets, end of the year	**$ 742,494**	$ 660,777

See accompanying notes.

Sharp HealthCare

Combined Statements of Cash Flows

	Years Ended September 30	
	2008	**2007**
	(In Thousands)	
Operating activities		
Increase in net assets	$ **81,717**	$ 111,725
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Income from discontinued operations	**(7,703)**	(6,314)
Foundation capital conversions for discontinued operations	**(72)**	(9)
Net assets transferred from related party	**(22,021)**	(937)
Cumulative effect of a change in accounting principle	**–**	7,979
Provision for doubtful accounts	**35,080**	77,995
Non-cash (gains) losses	**(2,432)**	3
Depreciation of operating and nonoperating facilities	**70,584**	69,920
Amortization, including deferred financing costs	**743**	1,102
Change in fair value of interest and basis rate swaps	**5,451**	(1,253)
Restricted contributions and investment income, net	**(21,660)**	(16,835)
Change in minimum pension liability	**–**	(9,666)
Pension-related changes other than net periodic pension cost	**23,419**	–
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	**(36,340)**	(82,892)
Inventories	**(1,679)**	(2,669)
Estimated settlements receivable from government programs, net	**14,338**	(3,867)
Short-term investments	**35,175**	(82,394)
Assets limited to use	**(20,309)**	(3,017)
Prepaid expenses and other	**(9,057)**	181
Increase (decrease) in:		
Accounts payable and accrued liabilities, long-term liabilities and other liabilities	**9,437**	(3,910)
Accrued compensation and benefits	**1,754**	10,532
Net cash provided by operating activities of continued operations	**156,425**	65,674
Net cash provided by operating activities of discontinued operations	**4,088**	7,380
Net cash provided by operating activities	**160,513**	73,054
Investing activities		
Acquisition of property and equipment, net of retirements	**(127,137)**	(138,047)
Increase in other assets	**(4,888)**	(9,338)
Net cash used in investing activities of continued operations	**(132,025)**	(147,385)
Net cash provided by (used in) investing activities of discontinued operations	**3,041**	(1,543)
Net cash used in investing activities	**(128,984)**	(148,928)
Financing activities		
Current maturities and payments on long-term debt	**(19,131)**	(18,476)
Payments under capital lease obligations	**(764)**	(1,301)
Restricted contributions and investment income, net	**21,660**	16,835
Net cash provided by (used in) financing activities of continued operations	**1,765**	(2,942)
Net increase (decrease) in cash and cash equivalents	**33,294**	(78,816)
Cash and cash equivalents, beginning of the year	**92,783**	171,599
Cash and cash equivalents, end of the year	$ **126,077**	$ 92,783
Supplemental disclosures of cash flow information:		
Capital lease obligations for building and equipment	$ **–**	$ 700
Cash paid for interest	$ **19,750**	$ 22,126
Repayment of Series 2005 A and B Sweep Commercial Paper: Revenue Notes by incurring Series 2007 A and B Sweep Debt	$ **–**	$ 99,880
Net assets transferred from related party	$ **22,021**	$ 937

See accompanying notes.

1. Summary of Significant Accounting Policies

Organization

Sharp HealthCare (SHC) is a California nonprofit public benefit corporation with corporate offices in San Diego, California. SHC, together with its affiliated entities (collectively Sharp), constitute a regional integrated health care delivery system which does business as Sharp HealthCare, primarily serving the residents of San Diego County. The combined financial statements of Sharp include the accounts of the following:

- Sharp Memorial Hospital (SMH), including Sharp Mary Birch Hospital for Women, Sharp Cabrillo, Sharp Outpatient Pavilion, Sharp Mesa Vista Hospital and Sharp Vista Pacifica
- Sharp Chula Vista Medical Center (SCVMC)
- Sharp Grossmont Hospital (SGH)
- Sharp Coronado Hospital and HealthCare Center (SCHHC)
- Sharp Health Plan (SHP)
- Continuous Quality Insurance SPC (CQI SPC)
- Sharp HealthCare Foundation (SHF)
- Grossmont Hospital Foundation (GHF)

SHC, SMH, SCVMC and SGH are collectively the "Obligated Group" under certain bond indentures (see Note 5).

SHC has certain contractual obligations with its affiliates that govern its operations and the use of certain assets. All significant transactions among Sharp's combined entities have been eliminated in the accompanying combined financial statements.

Use of Estimates

The preparation of Sharp's combined financial statements in conformity with accounting principles generally accepted in the United States 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.

1. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with original maturities of three months or less. Sharp routinely invests its surplus operating funds in money market mutual funds. These funds generally invest in highly liquid U.S. government and agency obligations.

Short-Term Investments

Short-term investments are classified as trading and include corporate and government obligation securities, which are included in professionally managed portfolios, and are measured at fair value in the balance sheet. The maturities of these securities do not exceed one year. Investment income or loss (including unrealized and realized gains and losses) is included in the combined excess of revenues over expenses.

Inventories

Inventories, consisting principally of supplies, are stated at the lower of average cost or market value.

Derivative and Hedging Instruments

Sharp recognizes all derivatives on its combined balance sheets at fair value. Derivatives that are not hedges are adjusted to fair value through the combined statements of operations. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair values of the derivatives are offset against either the change in fair value of assets or liabilities. The ineffective portion of a derivative's change in fair value, if any, is immediately recognized in the excess of revenues over expenses.

In 2003, Sharp entered into a floating-to-fixed interest rate swap on the 2003A and 2003B Insured Hospital Revenue Bonds (see Note 5). The interest rate swap is designed to hedge the variability of the cash flows under the Bonds. In 2004, Sharp entered into a fixed-spread basis swap (see Note 5). The interest rate swap is designed to improve Sharp's cash position through the term of the contract. In 2006, Sharp entered into a fixed-spread yield curve swap (see Note 5). The yield curve swap is designed to hedge the variability of cash flows on Sharp's variable rate bonds and variable rate swap agreements in exchange for improved cash position through the term of the contract.

1. Summary of Significant Accounting Policies (continued)

Assets Limited as to Use

Assets limited as to use invested in equity securities with readily determined fair values and investments in debt securities are measured at fair value in the balance sheet and are classified as trading. Investment income or loss (including unrealized and realized gains and losses) is included in the combined excess of revenues over expenses unless the income or loss is restricted by donor or law.

Assets limited as to use primarily include amounts held by trustees under indenture agreements and designated assets set aside by Sharp's Board of Directors (the Board) for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes. Assets limited as to use consist of the following:

Designated for property – The Board has designated cash resources not required for operations as funded depreciation to be used for future capital improvements. With Board approval, this designation may be changed and such funds used for other purposes – $26,474,000 at September 30, 2008 and $42,930,000 at September 30, 2007, of such assets are pledged as collateral for notes payable and other liabilities.

Under bond indentures – In accordance with the terms of Sharp's various bond indentures, certain bond proceeds and principal and interest payments have been deposited with a trustee and are limited as to use in accordance with the related indentures.

Other restricted investments – Certain cash and investments are limited as to use for future community benefit and under Sharp's professional liability self-insurance program and for other purposes.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset from three to 40 years and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the combined financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

1. Summary of Significant Accounting Policies (continued)

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

Unamortized Financing Costs

Costs incurred in obtaining long-term financing are amortized over the terms of the related obligations using the interest method.

Temporarily and Permanently Restricted Net Assets

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

Accounting for the Impairment or Disposal of Long-Lived Assets

Sharp accounts for the impairment or disposal of long-lived assets under Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, for long-lived assets other than goodwill (FAS 144), and SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of* (FAS 121), for goodwill. Both FAS 121 and FAS 144 use a future cash flow model to determine whether assets have been impaired. Sharp regularly reviews long-lived assets for circumstances which could indicate carrying values may not be recoverable.

Income from Operations

Sharp's primary purpose is to provide diversified health care services to the community served by its affiliates. Only those activities directly associated with the furtherance of this purpose are considered operating activities and classified as operating revenues and expenses. Items excluded from income from operations consist of investment income, gains and losses on disposition of property, plant and equipment, changes in the fair value of interest rate swaps, and net income (loss) from the foundations.

1. Summary of Significant Accounting Policies (continued)

Excess of Revenues over Expenses

The statement of operations includes excess of revenues over expenses and other changes in unrestricted net assets. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, long-lived assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets, and pension-related changes other than net periodic pension cost.

Net Patient Service Revenues

Sharp has agreements with third-party payors that provide for payments to Sharp at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. In the opinion of management, adequate provision has been made for such adjustments.

Premium Revenues

Sharp has agreements with various employers and health maintenance organizations to provide medical services to subscribing participants. Under these agreements, Sharp receives monthly capitation payments based on the number of participants who have selected Sharp, regardless of services actually performed by Sharp.

Other Revenues

Other revenues include unrestricted donations, retail pharmacy gross profits, management services and joint venture income.

1. Summary of Significant Accounting Policies (continued)

Health Care Service Costs

Sharp contracts with certain health care providers for the provision of medical services to eligible members. These services include primary care and specialty physician services, inpatient and outpatient facility services, pharmacy, and other medical services. Providers are paid on capitated, per diem, and structured fee-for-service bases.

Health care service costs (included in medical fees in the accompanying combined statements of operations) are accrued in the period in which the services are provided to enrollees, based in part on estimates, including estimates of medical services provided but not yet reported to Sharp.

Charity Care

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

Effective October 1, 2007, Sharp re-evaluated and refined its charity care policy and the process it uses to determine the amounts of charity care it provides. As a result of these efforts, prospective changes were made in the classifications of unpaid care which increased charity care and decreased the provision for doubtful accounts in 2008 compared to the classifications that would have resulted from the Sharp charity care policy and process in effect in 2007.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to Sharp are reported at fair value at the date the promise is received. Conditional promises to give and indications or intentions to give are reported at fair value at the date the gift becomes unconditional. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the combined statements of operations as other operating revenues. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the combined financial statements.

1. Summary of Significant Accounting Policies (continued)

Income Taxes

The principal operations of Sharp are exempt from taxation pursuant to Section 501(c)(3) of the Internal Revenue Code and related California provisions.

Adoption of New Accounting Pronouncements

In September 2006, SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)* (FAS 158) was issued. FAS 158 requires plan sponsors of defined benefit pensions to recognize the funded status of their defined benefit plans in the balance sheets, measure fair value of plan assets and benefit obligations as of the date of the fiscal year-end balance sheets, and provide additional disclosures. FAS 158 was adopted by Sharp in 2007 and the effect of adoption has been included in the accompanying financial statements.

The Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* (FIN 48) in 2008. FIN 48 clarifies the accounting for uncertainty in income taxes and prescribes a recognition threshold and measurement attribute for financial statement recognition threshold and measurement of a tax position taken or expected to be taken in a tax return. Based on guidance in FIN 48, management of the Company believes that the outcome of these uncertainties should not have a material adverse effect on the financial condition, cash flows, or operating results of Sharp and accordingly, the adoption of FIN 48 had no impact on the 2008 financial statements. No liability has been recorded at September 30, 2008.

New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. FAS 157 applies under other accounting pronouncements that require or permit fair value measurements and, accordingly, FAS 157 does not require any new fair value measurements. FAS 157 is effective for fiscal years beginning after November 15, 2007. Sharp is currently evaluating the impact that adopting this standard will have on the financial statements.

1. Summary of Significant Accounting Policies (continued)

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159). FAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. FAS 159 is effective for the fiscal years beginning after November 15, 2007. Sharp is currently evaluating the impact that adopting this standard will have on the financial statements.

Reclassifications

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

2. Net Patient Service Revenue

Sharp has agreements with third-party payors that provide for payments to Sharp at amounts different from its established rates.

The Medicare program reimburses Sharp at prospectively determined rates for the major portion of inpatient and outpatient services rendered to patients, primarily on the basis of Medicare severity diagnosis related groups (MS-DRGs) and Ambulatory Payment Classification Groups (APCs), respectively.

Nonacute inpatient services, defined capital costs, and certain outpatient costs are paid based on a cost reimbursement methodology. When paid under cost reimbursement, Sharp is reimbursed at the interim rate with final settlement determined after submission of annual cost reports and audits by the fiscal intermediaries. The Medi-Cal program reimburses Sharp primarily on prospectively determined rates for inpatient and outpatient services.

Revenue from the Medicare and Medi-Cal programs accounted for approximately 29% and 13%, respectively, of Sharp's gross patient charges for the year ended September 30, 2008, and 28% and 13%, respectively, of Sharp's gross patient charges for the year ended September 30, 2007. Laws and regulations governing Medicare and Medi-Cal programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue includes $10,216,000 in 2008 and $7,619,000 in 2007 relating to favorable settlements of prior years' reimbursement from Medicare, Medi-Cal and Champus programs.

2. Net Patient Service Revenue (continued)

Sharp also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to Sharp under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Sharp grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from significant payors was as follows:

	September 30	
	2008	**2007**
Medicare	**14%**	13%
Medi-Cal	**15%**	15%
Blue Cross	**15%**	16%
Private Pay	**25%**	25%

3. Assets Limited as to Use

The composition of assets limited as to use at September 30, 2008 and 2007, is set forth in the following table. Investments are stated at fair value.

	September 30	
	2008	**2007**
	(In Thousands)	
Designated for property:		
Cash and short-term investments	**$ 696**	$ 1,206
Equities	**52,692**	60,581
U.S. Treasury obligations	**82,975**	82,142
Corporate bonds	**48,945**	32,996
U.S. government agencies	**31,952**	22,026
Commercial paper	**1,873**	1,270
Interest receivable	**1,073**	938
Total	**220,206**	201,159

3. Assets Limited as to Use (continued)

	September 30 2008	September 30 2007
	(In Thousands)	
Under bond indentures:		
Cash and short-term investments	**$ 110**	$ 285
U.S. Treasury obligations	**1,389**	1,859
Corporate bonds	**672**	774
U.S. government agencies	**841**	441
Commercial paper	**8,109**	7,679
Interest receivable	**28**	85
Total	**11,149**	11,123
Other restricted investments:		
Cash and short-term investments	**3,640**	4,406
Equities	**17,148**	15,987
U.S. Treasury obligations	**2,136**	3,903
Corporate bonds	**4,103**	2,365
U.S. government agencies	**1,620**	1,363
Mortgage-backed securities	**508**	449
Asset-backed securities	**92**	59
Interest receivable	**585**	437
Total	**29,832**	28,969
Under self-insurance programs:		
Cash and short-term investments	**100**	–
U.S. Treasury obligations	**2,137**	3,783
Corporate bonds	**3,196**	–
U.S. government agencies	**1,513**	2,790
Total	**6,946**	6,573
	$ 268,133	$ 247,824

3. Assets Limited as to Use (continued)

Investment (loss) income for assets limited as to use, short-term investments and cash equivalents are comprised of the following.

	Years Ended September 30 2008	2007
	(In Thousands)	
Interest income	**$ 17,989**	$ 20,909
Unrealized (losses) gains	**(19,981)**	11,896
Realized gains	**968**	1,005
Investment (loss) income	**$ (1,024)**	$ 33,810

4. Property and Equipment

Property and equipment consists of the following:

	September 30 2008	2007
	(In Thousands)	
Land and improvements	**$ 49,005**	$ 48,747
Buildings and improvements	**585,524**	551,664
Equipment and furniture	**626,380**	572,769
Construction-in-progress	**252,474**	196,320
	1,513,383	1,369,500
Less accumulated depreciation and amortization	**(797,854)**	(734,977)
	$ 715,529	$ 634,523

Depreciation and amortization expense for the years ended September 30, 2008 and 2007 amounted to approximately $70,634,000 and $69,935,000, respectively. Included in these amounts is amortization for buildings and equipment under capital lease obligations. Sharp has approximately $7,711,000 at September 30, 2008 and 2007 of buildings and equipment under capital lease, at cost. Sharp has outstanding commitments to complete construction-in-progress totaling approximately $22,809,000 at September 30, 2008.

4. Property and Equipment (continued)

On May 29, 1991, Sharp leased the Grossmont Hospital (the Hospital) existing campus land, buildings and equipment from the Grossmont Healthcare District (the District). The lease provides for a 30-year term ending May 29, 2021, at $1 per year. Buildings, improvements and equipment acquired by the Hospital since the inception of the lease will revert to the District at the end of the lease term.

The Hospital and the District initiated, in 2006, a project for the construction of three shelled floors in the Emergency and Critical Care Center, central plant upgrades, infrastructure improvements, and facility renovations (the Project). The Project is funded using the proceeds of general obligation (GO) bonds. In July 2007, $85,500,000 in GO bonds were issued. The next offering is expected in 2010.

The Hospital will not be required to make any payments to the District with respect to the contribution to the Project of assets constructed using the GO bond proceeds. Therefore, the GO bonds have not been included in the financial statements as a liability of Sharp. The portion of the Project funded with the GO bonds is being recognized as a transfer of net assets from the District as the Project is completed. In fiscal 2008 and 2007, the Hospital recorded $22,021,000 and $937,000, respectively, of construction in progress and a related transfer of net assets for the portion of the Project completed during the year with proceeds of the GO bonds.

5. Long-Term Debt

Long-term debt consists of the following:

	September 30	
	2008	**2007**
	(In Thousands)	
Series 2007A and B Variable Rate Revenue Refunding Bonds (Series 2007A and B Bonds), Statewide Easy Equipment Program (SWEEP) collateralized by a three-year direct-pay letter of credit reimbursement agreement between Obligated Group and Citibank. Principal due in 2035. Letter of Credit is renewable in 2010. Interest payable weekly at a variable rate (7.66% at September 30, 2008).	**$ 99,880**	$ 99,880

5. Long-Term Debt (continued)

	September 30 2008	2007
	(In Thousands)	
County of San Diego Certificates of Participation issued in 1998 collateralized by revenues of the Obligated Group. Principal due in annual installments ranging from $3,345,000 in 2009 to $5,705,000 in 2028. Interest payable semiannually at rates ranging from 4.70% to 5.25% through 2028.	**$ 90,045**	$ 93,230
Series 2003A and 2003B Insured Hospital Revenue Bonds collateralized by revenues of the Obligated Group. Principal due in annual amounts ranging from $4,375,000 in 2009 to $8,025,000 in 2024. Interest payable weekly at a variable rate (7.85% at September 30, 2008). (Note 12)	**89,725**	93,975
Series 2001A Revenue Bonds collateralized by revenues of the Obligated Group. Principal due in annual amounts ranging from $3,780,000 in 2009 to $7,225,000 in 2020. Interest payable annually at rates ranging from 5.50% to 6.125% through 2020.	**63,880**	67,465
Series 2003C Revenue Bonds collateralized by revenues of the Obligated Group. Principal due in annual amounts ranging from $675,000 in 2009 to $16,265,000 in 2021. Interest payable annually at rates ranging from 5.125% to 5.375% through 2021.	**27,820**	28,445
CitiCapital Tax-Exempt Financing collateralized by equipment. Interest and principal paid in monthly installments at a rate of 3.86% through 2011.	**19,138**	25,610
Citigroup Reverse Repurchase Agreement collateralized by U.S. Treasury securities. Principal due in October 2010. Interest payable quarterly at a variable rate (3.17% at September 30, 2008).	**15,500**	15,500

5. Long-Term Debt (continued)

	September 30 2008	2007
	(In Thousands)	
Series 1988A Insured Hospital Revenue Bonds collateralized by revenues of the Obligated Group. Principal due in annual amounts ranging from $1,000,000 in 2009 to $1,900,000 in 2018. Interest payable every 35 days at a variable rate (2.72% at September 30, 2008).	**$ 14,400**	$ 15,400
Capital lease obligations at a 6.00% imputed rate of interest collateralized by leased building or equipment.	**7,028**	7,792
Other debt including the fair value of interest rate swaps	**2,920**	(2,517)
Total	**430,336**	444,780
Less current portion	**(20,199)**	(19,843)
	$ 410,137	$ 424,937

In 2007, Sharp entered into a SWEEP financing transaction to refund the Series 2005A and Series 2005B Sweep Commercial Paper Revenue Notes (the Bonds). In 2007, the SWEEP provided $99,880,000 in financing to Sharp through two series of debt, Series A in the amount of $57,065,000 and Series B totaling $42,815,000. The interest rates on the Bonds are established weekly by the Remarketing Agent (Citigroup) and interest is computed on the basis of a 365- or 366-day year for the actual number of days elapsed.

Under the terms of the 2001A and 2003C Revenue Bonds, Sharp is required to maintain certain deposits with a trustee. Such deposits are included with assets limited as to use. Sharp's loan agreements include, among other things, certain financial covenants, limitations on additional indebtedness, and limitations on sales/leaseback transactions. Sharp was in compliance with such covenants and limitations at September 30, 2008 and 2007.

5. Long-Term Debt (continued)

Scheduled principal payments on long-term debt and payments on capital lease obligations for years ending September 30 are as follows (in thousands):

	Long-Term Debt	Capital Lease Obligations
2009	$ 19,901	$ 298
2010	20,755	175
2011	35,332	161
2012	15,060	171
2013	15,740	182
Thereafter	316,520	6,041
Total	$ 423,308	$ 7,028

A summary of interest cost on borrowed funds follows:

	Years Ended September 30	
	2008	**2007**
	(In Thousands)	
Interest cost:		
Capitalized	**$ 7,386**	$ 5,492
Charged to operations	**12,528**	16,579
	$ 19,914	$ 22,071

Interest Rate Swaps

During 2002, Sharp entered into a fixed-to-floating interest rate swap on the County of San Diego Certificates of Participation. The swap agreement hedges an initial notional amount of $80,000,000 at a fixed receiver rate of 4.66% for the entire swap term which expires on August 15, 2028. The swap agreement initially paid a fixed Bond Market Association (BMA) rate of 1.15% through December 31, 2002. Subsequent to December 31, 2002, the swap agreement pays the current Securities Industry and Financial Markets Association (SIFMA) rate for the remaining term of the swap. Settlements are made monthly. Cash received on the interest rate swap was $1,601,000 in 2008 and $799,000 in 2007, which reduced Sharp's overall cost of borrowing and was offset against interest expense. The change in fair value of the swap was included in non-operating income and was an increase of $342,000 in 2008 and a decrease of $233,000 in 2007. This swap was terminated on September 25, 2008. The termination of the swap did not result in any significant gain or loss.

5. Long-Term Debt (continued)

During 2003, Sharp entered into a floating-to-fixed interest rate swap on the 2003A and 2003B Insured Hospital Revenue Bonds. The swap agreement hedges an initial notional amount of $109,650,000 at a fixed payer rate of 3.01% for the entire swap term which expires on August 1, 2024, and will receive 59% of one-month LIBOR plus 0.14%, for the remaining term of the swap. Settlements are made weekly. Cash paid on the interest rate swap was $782,000 in 2008 and cash received was $328,000 in 2007, which reduced Sharp's overall cost of borrowing and was offset against interest expense. The change in fair value of the swap was included in non-operating income and was a decrease of $3,005,000 in 2008.

During 2004, Sharp entered into a fixed-spread basis swap with Citibank. The swap arrangement hedges an initial notional amount of $80,000,000 at a payor rate of one-month BMA for the entire swap term which expires on February 3, 2024, and will receive 67% of one-month LIBOR plus 0.55%. Settlements are made quarterly. Cash received on the interest rate swap was $456,000 in 2008 and $496,000 in 2007, which reduced Sharp's overall cost of borrowing and was offset against interest expense. The change in fair value of the swap was included in non-operating income and was a decrease of $3,060,000 in 2008 and an increase of $597,000 in 2007.

During 2006, Sharp entered into fixed-spread yield curve swap with Citibank. The yield curve transaction entails Sharp paying Citibank 67% of one-month LIBOR and receiving 67% of ten-year LIBOR less a market determined fixed spread. During 2006, Sharp executed a forward agreement to delay the start of the cash flows from the swap transaction to August 3, 2007, to avoid the potentially negative cash flows from market conditions. Under the terms of the agreement, Sharp may terminate the swap at any time. Cash received on the interest rate swap was $177,000 in 2008 and cash paid was $23,000 in 2007, which reduced Sharp's overall cost of borrowing and was offset against interest expense. The change in fair value of the swap was included in non-operating income and was an increase of $272,000 in 2008 and $999,000 in 2007.

6. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	September 30 2008	September 30 2007
	(In Thousands)	
Purchase of equipment	**$ 21,148**	$ 12,654
Hospital programs	**6,691**	10,979
Hospital departments	**8,395**	8,478
Research	**3,565**	3,743
Health education	**5,344**	4,637
Indigent care	**102**	84
Total	**$ 45,245**	$ 40,575

Permanently restricted net assets of $5,595,000 and $4,454,000 at September 30, 2008 and 2007, respectively, represent investments to be held in perpetuity, the income from which is expendable to support health care services.

7. Functional Expenses

Sharp provides general health care services to residents within its geographic locations. Expenses related to providing these services are as follows:

	Years Ended September 30 2008	Years Ended September 30 2007
	(In Thousands)	
Hospital patient services	**$ 1,253,762**	$ 1,195,894
Clinic patient services	**265,612**	240,365
General and administrative	**224,944**	215,689
Purchased services under capitated agreements	**122,566**	112,607
	$ 1,866,884	$ 1,764,555

8. Pension Plans

Sharp sponsors a defined benefit cash balance plan, The Sharp Saver Retirement Plan (the Plan), which covers substantially all employees of Sharp. Under the defined contribution element of the Plan, Sharp made matching contributions of $10,336,000 in 2008 and $9,464,000 in 2007.

On September 30, 2007, Sharp adopted the recognition and disclosure provisions of FAS 158. FAS 158 required Sharp to recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligation) of its defined benefit plan in the balance sheet, with a corresponding adjustment to net assets. The adjustment to net assets at adoption represents the net unrecognized actuarial losses and unrecognized prior service costs, which were previously netted against the plan's funded status in Sharp's balance sheet pursuant to the provisions of SFAS No. 87, *Employers' Accounting for Pensions* (FAS 87). These amounts will be subsequently recognized as net periodic pension cost pursuant to Sharp's historical accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic pension cost in the same periods will be recognized as a component of net assets. Those amounts will be subsequently recognized as a component of net periodic pension cost on the same basis as the amounts recognized in net assets upon adoption of FAS 158. The cumulative effect of the adoption of FAS 158 was to increase unrestricted net assets at September 30, 2007 by $7,979,000.

The adoption of FAS 158 had no effect on Sharp's excess of revenue over expenses for any period presented, and it will not affect Sharp's operating results in future periods. Had Sharp not adopted FAS 158 at September 30, 2007, it would have recognized an additional minimum liability pursuant to the provisions of FAS 87.

The following sets forth the funded status of the Sharp's defined benefit pension plan at September 30:

	2008	2007
	(In Thousands)	
Change in benefit obligation:		
Benefit obligation at beginning of year	$ **145,874**	$ 134,269
Service cost	**5,722**	4,029
Interest cost	**9,597**	9,111
Actuarial (gain) loss	**(4,379)**	8,539
Benefits paid	**(9,072)**	(10,074)
Benefit obligation at end of year	**147,742**	145,874

8. Pension Plans (continued)

	2008	2007
	(In Thousands)	
Change in plan assets:		
Fair value of plan assets at beginning of year	**$ 140,122**	$ 111,891
Actual (loss) return on plan assets	**(24,574)**	18,527
Plan participants' contributions	**4,771**	3,412
Employer contributions	**2,445**	16,366
Benefits paid	**(9,072)**	(10,074)
Fair value of plan assets at end of year	**113,692**	140,122
Funded status	**$ (34,050)**	$ (5,752)

The net liability, recognized in the balance sheet in long-term liabilities, was $34,050,000 and $5,752,000 at September 30, 2008 and 2007, respectively.

Included in unrestricted net assets at September 30 are the following amounts that have not yet been recognized in net periodic pension cost:

	2008	2007
	(In Thousands)	
Prior service cost	**$ 8,070**	$ 8,963
Transition asset	–	(397)
Net actuarial loss	**52,492**	28,633
	$ 60,562	$ 37,199

Additional information for the plan:

	September 30 2008	2007
	(In Thousands)	
Projected benefit obligation	**$ 147,742**	$ 145,874
Accumulated benefit obligation	**132,887**	142,127
Fair value of plan assets	**113,692**	140,122

8. Pension Plans (continued)

Net periodic pension cost includes the following components for the years ended September 30:

	2008	2007
	(In Thousands)	
Service cost	**$ 5,722**	$ 4,029
Interest cost	**9,597**	9,111
Expected return on plan assets	**(10,959)**	(9,111)
Amortization of transition asset	**(397)**	(376)
Recognized net actuarial loss	**2,515**	3,184
Amortization of prior service cost	**893**	595
Net periodic pension cost	**$ 7,371**	$ 7,432

Weighted-average assumptions used to determine benefit obligations were:

	September 30	
	2008	**2007**
Discount rate	**7.87%**	6.40%
Rate of compensation increase	**5.00%**	3.50%

Weighted-average assumptions used to determine net periodic pension cost were:

	September 30	
	2008	**2007**
Discount rate	**6.40%**	6.40%
Expected return on plan assets	**8.00%**	8.00%
Rate of compensation increase	**3.50%**	3.50%

The expected rate of return on plan assets is updated annually, taking into consideration the plan's asset allocation, historical returns on the types of assets held in the pension trust, and the current economic environment.

8. Pension Plans (continued)

Plan Assets

The plan's asset allocations by asset category are as follows:

	September 30	
	2008	**2007**
Asset category:		
Equity securities	**64%**	66%
Debt securities	**36%**	34%
Total	**100%**	100%

Contributions

Sharp expects to contribute $7,335,000 to the plan in 2009.

Estimated Future Benefit Payments

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

2009	$ 12,822
2010	11,386
2011	12,070
2012	14,731
2013	15,039
2014 – 2018	92,300

9. Commitments and Contingencies

Leases

Sharp leases various equipment and facilities under operating leases expiring at various dates through 2017. Total rental expense in 2008 and 2007 for all operating leases was $29,740,000 and $30,432,000, respectively.

9. Commitments and Contingencies (continued)

The following is a schedule by year of future minimum lease payments (in thousands) under operating leases as of September 30, 2008, that have initial or remaining lease terms in excess of one year.

2009	$ 16,612
2010	15,055
2011	11,731
2012	10,509
2013	10,159
Thereafter	36,519
	$ 100,585

Legal Matters

On December 5, 2008 a San Diego County Superior Court jury issued a verdict against Sharp Mary Birch Hospital for Women (a licensed acute care hospital operated by Sharp Memorial Hospital) (Mary Birch) in connection with a lawsuit filed on behalf of two parents seeking damages related to the death of their child at birth against Mary Birch and two physicians. The jury determined that an independent contractor physician was an ostensible agent of Mary Birch, and awarded the mother $16.0 million in damages against Mary Birch on claims that that physician had misrepresented and concealed important facts from her in connection with an autopsy of the child that was performed by the physician (the Ostensible Agency Claims). A judgment based on the jury's verdict is expected to be entered in the near future.

The Company, based in part on advice from trial counsel strongly believes that the jury's findings and award of damages with respect to the Ostensible Agency Claims were erroneous. At such time as the judgment on the jury's verdict is entered, the Company will file post trial motions seeking to have the court (i) vacate the jury's findings, (ii) grant a new trial or (iii) reduce the jury's damage award. In the event the trial court does not grant the Company's post trial motions, the Company will appeal the matter to the California Court of Appeal. Should the matter be appealed, the Company will be obligated to post an appeal bond equal to 150% of the amount of the judgment against the Company. Interest at the legal rate of 10% will accrue on the judgment amount during the appeal period.

9. Commitments and Contingencies (continued)

Although the ultimate outcome of this litigation is subject to the inherent uncertainties of any legal proceedings, based on the Company's analysis of the facts and circumstances in this case and the advice of trial counsel, management believes that it is probable that the Company's ultimate liability for damages associated with the Ostensible Agency Claims will not exceed $1.0 million. Accordingly, the Company has not accrued any liability associated with this litigation. However, management's and trial counsel's evaluation of the likely outcome of this litigation could change in the future and if the verdict is upheld at the trail court level or on appeal, such an unfavorable outcome could have an adverse impact on the Company's results of operations or cash flows of a future period.

During 2003, SHC, SGH and SMH (collectively, the CIA Parties) entered into a Corporate Integrity Agreement (CIA) with the Office of Inspector General (OIG). The CIA expired in February 2008. Sharp continues to support an active Compliance Program. Management believes the Compliance Program is effective.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations are subject to ongoing government review and interpretations, and include matters such as licensure, accreditation, and reimbursement for patient services. Compliance with these laws and regulations is required for participation in government health care programs. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of regulations by health care providers, which could result in the imposition of significant fines and penalties as well as significant repayment of previously billed and collected revenues for patient services. Sharp believes it is in compliance with current laws and regulations.

Professional Liability and Stop-Loss Insurance

CQI SPC is a wholly owned captive insurance company which insures a portion of the medical malpractice (professional liability) claims of certain affiliates of Sharp. Malpractice losses are accrued based on estimates of the ultimate costs for both reported claims and claims incurred but not reported. Sharp's liability is limited to $3,000,000 per individual claim and $13,500,000 in the aggregate each year, as Sharp has obtained excess loss insurance covering claims up to $40,000,000.

General and professional liability costs have been accrued based upon an actuarial determination. Accrued malpractice losses have been discounted at 3.0% and 4.5% at September 30, 2008 and 2007 respectively.

9. Commitments and Contingencies (continued)

Sharp is involved in litigation arising in the ordinary course of business. Claims, including alleged malpractice, have been asserted against Sharp and are currently in various stages of litigation. Additional claims may be asserted against Sharp arising from services provided to patients through September 30, 2008. In management's opinion, however, the estimated liability accrued at September 30, 2008 is adequate to provide for potential losses resulting from pending or threatened litigation. It is management's opinion that the ultimate disposition of such litigation will not have a material adverse effect on the combined financial position, results of operations, or cash flows of Sharp.

Sharp Health Plan

SHP is required to meet certain financial responsibility regulations of the California Department of Managed Healthcare (DMHC). Pursuant to these regulations, SHP maintains a reserve totaling $300,000 on deposit with various financial institutions. In addition, SHP is required to maintain two times the normal requirement of tangible net equity, as defined in regulations of the DMHC. At September 30, 2008 and 2007, SHP was required to maintain tangible net equity totaling $6,154,000 and $5,719,000, respectively. SHP's tangible net equity was $22,922,000 at September 30, 2008 and $21,165,000 at September 30, 2007. Management believes they are in compliance with these requirements at September 30, 2008 and 2007.

Other Self-Insurance Programs

Sharp has elected to self-insure for unemployment claims through various group plans. Prior to January 1, 1996, Sharp was also self-insured for workers' compensation claims. Since 1996, Sharp has been responsible for workers' compensation claims up to amounts covered by insurance policies (Sharp was responsible for claims up to $1,000,000 in 2008 and 2007). For workers' compensation, Sharp accrues for the unpaid portion of claims that have been reported and estimates of claims that have been incurred but not reported, based on an actuarial study. Accrued workers' compensation losses have been discounted at 2.35% and 4.5% at September 30, 2008 and 2007 respectively.

9. Commitments and Contingencies (continued)

Seismic Standards

Sharp is assessing, and has made progress toward meeting, earthquake retrofit requirements for its health care facilities under a State of California law. Sharp received an extension for compliance with seismic standards for its hospitals through January 1, 2013 and expects to apply for additional extensions as permitted by law. In addition to amounts already expended or committed to (see Note 4), management expects that Sharp will make significant additional capital expenditures through 2013 on infrastructure improvements that will address operational issues and seismic standards.

Line of Credit

Sharp has a $50,000,000 line of credit with Sharp's bank which expires on September 30, 2011, of which $12,500,000 and $26,800,000 was available at September 30, 2008 and 2007, respectively. There are no amounts outstanding as of September 30, 2008 and 2007.

Letter of Credit

As part of the workers' compensation insurance agreement, letters of credit have been provided as collateral. The total letters of credit used as collateral totaled $37,500,000 and $23,200,000 as of September 30, 2008 and 2007, respectively. These letters of credit are each considered a decrease in the available $50,000,000 line of credit with Sharp's bank.

10. Fair Value of Financial Instruments

The following methods and assumptions were used by Sharp in estimating fair value of its financial instruments:

Cash and cash equivalents: The carrying amount reported in the balance sheet for cash and cash equivalents approximates fair value.

Estimated settlements receivable from government programs: The carrying amount reported in the balance sheet for estimated third-party payor settlements approximates its fair value.

Short-term investments and assets limited as to use: Fair values, which are the amounts reported in the balance sheet, are based on quoted market prices.

10. Fair Value of Financial Instruments (continued)

Accounts payable and accrued expenses: The carrying amount reported in the balance sheet for accounts payable and accrued expenses approximates its fair value.

Accrued compensation and benefits: The carrying amount reported in the balance sheet for accrued compensation and benefits approximates its fair value.

Long-term debt: Fair values are computed using an estimated pricing analysis based on the individual bond terms.

The carrying amounts and fair values of Sharp's financial instruments are as follows (in thousands):

	September 30, 2008		September 30, 2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	**$ 126,077**	**$ 126,077**	$ 92,783	$ 92,783
Short-term investments	**94,911**	**94,911**	130,086	130,086
Estimated settlements receivable from government programs, net	**1,463**	**1,463**	15,801	15,801
Assets limited as to use	**268,133**	**268,133**	247,824	247,824
Accounts payable and accrued liabilities	**131,467**	**131,467**	135,424	135,424
Accrued compensation and benefits	**81,433**	**81,433**	79,679	79,679
Long-term debt	**430,336**	**429,653**	444,780	453,669

11. Discontinued Operations

On July 31, 2008, Sharp sold Sharp Mission Park Medical Centers (SMP) to Scripps Health (Scripps), an unrelated healthcare provider. Scripps paid Sharp $10,000,000 related to the sale. Scripps and Sharp agreed to a purchase price reconciliation related to various components to be mutually agreed. The gain recorded as of September 30, 2008 reflects Sharp's estimate of the purchase price reconciliation. Sharp will record any additional purchase price reconciliation as an adjustment to gain/loss on the sale at the time of adjustment. However, any such adjustments are not expected to be material to Sharp's operations.

11. Discontinued Operations (continued)

As of September 30, 2008, SMP qualified for treatment as discontinued operations under FAS 144. Accordingly, the operating results and gain on disposal of SMP have been classified as discontinued operations in the statements of operations for all years presented. In addition, net assets and liabilities of SMP were considered discontinued operations in the balance sheet and have been segregated into "discontinued operations" in the current liabilities section of the balance sheet.

Assets and liabilities of SMP are presented in the following table (in thousands):

	September 30	
	2008	**2007**
Assets of discontinued operations	**$ 279**	$ 4,037
Liabilities of discontinued operations	**(983)**	(5,387)
Total net liabilities	**$ (704)**	$ (1,350)

Operating results of SMP are presented in the following table (in thousands):

	Years Ended September 30	
	2008	**2007**
Premium revenue	**$ 62,817**	$ 73,849
Other revenue	**12,306**	12,382
Total revenues	**$ 75,123**	$ 86,231
Medical fees	**$ 40,573**	$ 47,080
Salaries	**14,452**	16,286
Other expense	**14,479**	16,551
Total expenses	**$ 69,504**	$ 79,917

11. Discontinued Operations (continued)

	September 30 2008	2007
Income from discontinued operations:		
Operating gain of discontinued operations	**$ 5,619**	$ 6,314
Gain on sale of discontinued operations	**1,643**	–
Total Income from discontinued operations	**$ 7,262**	$ 6,314

On November 22, 2004, Molina Healthcare of California (Molina) and SHP executed definitive agreements to sell certain SHP's contracts (Medi-Cal, Healthy Families and AIM collectively known as the Government Lines of Business) to Molina, a leading California managed care organization. The DMHC approved the transaction in February 2005, and the transaction became effective on June 1, 2005. In connection with the sale to Molina, the Government Lines of Business qualified as discontinued operations under FAS 144. At September 30, 2007, SHP had a liability of discontinued operations of approximately $433,000 with no related assets. During 2008, Sharp recorded a change in estimate to eliminate the remaining liability and recorded income from discontinued operations of $441,000 as management believes that there are no longer any significant remaining liabilities related to these operations.

12. Subsequent Events

On October 7, 2008, Sharp HealthCare drew $60.0 million from a new term loan, with an expiration of January 1, 2010, to refund the 2003A Insured Hospital Revenue Bonds and a portion of the 2003B Insured Hospital Revenue Bonds. Sharp refunded the remaining portion of the 2003B Bonds with the proceeds of a $12,500,000 draw on Sharp's line of credit and with $17,225,000 of cash. Due to the refunding of the 2003A and B Insured Hospital Revenue Bonds, Sharp wrote-off $5,400,000 of unamortized costs of issuance.

As of December 9, 2008, the fair value of plan assets of Sharp's defined benefit pension plan decreased $21,432,000 from September 30, 2008.

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Report of Independent Auditors on Other Financial Information

Board of Directors
Sharp HealthCare

Our audit was conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The combining balance sheet, combining statement of operations, combining statement of changes in net assets, combining balance sheet – obligated group, combining statement of operations – obligated group, and combining statement of changes in net assets – obligated group are presented for the purpose of additional analysis and are not a required part of the combined financial statements. Such information has been subjected to the auditing procedures applied in our audit of the combined financial statements and, in our opinion, is fairly presented in all material respects in relation to the combined financial statements taken as a whole.

Ernst + Young LLP

December 18, 2008

Sharp HealthCare

Combining Balance Sheet

As of September 30, 2008
(In Thousands)

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Grossmont Hospital Corporation	Sharp Coronado Hospital and HealthCare Center	Sharp Health Plan	Continuous Quality Insurance	Sharp HealthCare Foundation	Grossmont Hospital Foundation	Combined Totals	Combining Eliminations	Totals
Assets												
Current assets:												
Cash and cash equivalents	$ 81,278	$ 467	$ 156	$ 20,570	$ 92	$ 20,121	$ 220	$ 1,009	$ 2,164	$ 126,077	$ –	$ 126,077
Short-term investments	66,702	–	–	27,174	–	–	–	1,035	–	94,911	–	94,911
Accounts receivable, net	7,020	83,532	24,615	40,122	7,794	1,518	100	42	431	165,174	(639)	164,535
Estimated settlements receivable from government programs, ne	–	1,426	(1,271)	3,369	(2,061)	–	–	–	–	1,463	–	1,463
Intercompany receivables	–	364,950	91,683	–	–	–	–	26	34	456,693	(456,693)	–
Inventories	4,021	10,856	5,251	7,763	1,085	–	–	–	–	28,976	–	28,976
Prepaid expenses and other	19,307	2,384	983	1,904	324	221	4	31	–	25,158	–	25,158
Total current assets	178,328	463,615	121,417	100,902	7,234	21,860	324	2,143	2,629	898,452	(457,332)	441,120
Assets limited as to use:												
Designated for property	147,216	–	–	72,990	–	–	–	–	–	220,206	–	220,206
Under bond indentures	2	9,207	1,913	27	–	–	–	–	–	11,149	–	11,149
Other restricted investments	–	–	–	–	–	3,207	–	19,940	6,685	29,832	–	29,832
Under self-insurance programs	–	–	–	–	–	–	6,946	–	–	6,946	–	6,946
Total assets limited as to use	147,218	9,207	1,913	73,017	–	3,207	6,946	19,940	6,685	268,133	–	268,133
Property and equipment, net	160,642	328,336	40,963	171,891	12,837	845	–	15	–	715,529	–	715,529
Unamortized financing costs	289	6,802	1,164	2,457	2	–	–	–	–	10,714	–	10,714
Other assets	16,790	672	1,107	632	4,020	8,720	4,416	28,217	1,356	65,930	(10,915)	55,015
Beneficial interest in foundations	39,897	–	–	10,170	–	–	–	–	–	50,067	(50,067)	–
Total assets	$ 543,164	$ 808,632	$ 166,564	$ 359,069	$ 24,093	$ 34,632	$ 11,686	$ 50,315	$ 10,670	$ 2,008,825	$ (518,314)	$ 1,490,511

Sharp HealthCare

Combining Balance Sheet (continued)

As of September 30, 2008
(In Thousands)

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Grossmont Hospital Corporation	Sharp Coronado Hospital and HealthCare Center	Sharp Health Plan	Continuous Quality Insurance	Sharp HealthCare Foundation	Grossmont Hospital Foundation	Combined Totals	Combining Eliminations	Totals
Liabilities and net assets												
Current liabilities:												
Accounts payable and accrued liabilities	$ 84,293	$ 15,039	$ 8,566	$ 11,738	$ 1,716	$ 9,776	$ 56	$ 279	$ 4	$ 131,467	$ –	$ 131,467
Intercompany payable	440,650	–	–	3,296	12,196	508	10	–	–	456,660	(456,660)	–
Accrued compensation and benefits	22,139	26,915	10,001	18,272	3,035	774	–	243	51	81,430	3	81,433
Current portion of long-term debt	2,511	10,541	3,093	3,835	219	–	–	–	–	20,199	–	20,199
Accrued interest	172	1,244	345	100	–	–	–	–	–	1,861	–	1,861
Discontinued operations	704	–	–	–	–	–	–	–	–	704	–	704
Total current liabilities	550,469	53,739	22,005	37,241	17,166	11,058	66	522	55	692,321	(456,657)	235,664
Long-term liabilities	53,736	11,513	2,742	17,577	850	652	–	9,896	444	97,410	(8,294)	89,116
Reserves for professional liability	1,600	–	–	–	–	–	11,500	–	–	13,100	–	13,100
Long-term debt	41,900	252,804	57,189	57,884	1,035	–	–	–	–	410,812	(675)	410,137
Total liabilities	647,705	318,056	81,936	112,702	19,051	11,710	11,566	10,418	499	1,213,643	(465,626)	748,017
Net assets (deficit):												
Unrestricted net assets (deficit)	(143,398)	490,576	84,628	237,402	1,023	22,922	120	2,041	1,206	696,520	(4,866)	691,654
Temporarily restricted net assets	34,561	–	–	7,665	4,019	–	–	33,560	7,666	87,471	(42,226)	45,245
Permanently restricted net assets	4,296	–	–	1,300	–	–	–	4,296	1,299	11,191	(5,596)	5,595
Total net assets (deficit)	(104,541)	490,576	84,628	246,367	5,042	22,922	120	39,897	10,171	795,182	(52,688)	742,494
Total liabilities and net assets	$ 543,164	$ 808,632	$ 166,564	$ 359,069	$ 24,093	$ 34,632	$ 11,686	$ 50,315	$ 10,670	$ 2,008,825	$ (518,314)	$ 1,490,511

Sharp HealthCare

Combining Statement of Operations

As of September 30, 2008
(In Thousands)

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Grossmont Hospital Corporation	Sharp Coronado Hospital and HealthCare Center	Sharp Health Plan	Continuous Quality Insurance	Sharp HealthCare Foundation	Grossmont Hospital Foundation	Combined Totals	Combining Eliminations	Totals
Revenues												
Net patient service	$ 76,861	$ 658,950	$ 238,443	$ 428,892	$ 59,025	$ –	$ -	$ –	$ –	$ 1,462,171	$ (233,633)	$ 1,228,538
Premium	558,927	–	–	–	–	151,517	–	–	–	710.444	(64,017)	646,427
Other	199,332	7,737	2,536	6,526	2,823	–	11,469	–	–	230,423	(170,331)	60,092
Total revenues	835,120	666,687	240,979	435,418	61,848	151,517	11.469	–	–	2,403,038	(467,981)	1,935,057
Expenses												
Salaries and wages	182,790	265,545	96,839	178,627	28,484	4,595	–	–	–	756,880	–	756,880
Employee benefits	41,284	52,827	18,607	36,126	6,015	1,086	–	–	–	155.945	–	155,945
Medical fees	138,244	9,468	3,756	8,294	393	134,923	–	–	–	295,078	(72,960)	222,118
Purchased services	124,276	47,105	21,939	37,779	5,237	5,088	119	–	–	241,543	(2,598)	238,945
Supplies	23,738	105,015	38,519	70,000	10,419	98	-	–	–	247,789	–	247,789
Maintenance, utilities and rentals	42,904	21.882	6,961	13,650	2,608	727	–	–	–	88,732	(2,937)	85,795
Depreciation and amortization	34,995	26,343	10,382	19,788	2,812	409	4	–	–	94,733	(24,099)	70,634
Business insurance	831	5,706	2,303	4,321	632	120	11.461	–	–	25,374	(11,461)	13,913
Interest	564	6,150	2,960	3,109	23	2	–	–	–	12,808	(280)	12,528
Provision for doubtful accounts	–	7,943	11.155	14,973	1,009	–	–	–	–	35,080	–	35.080
Purchased services from affiliate	231,658	52,359	19.759	37,554	5,290	1,565	27	–	–	348,212	(348.212)	–
Other	12,283	6.539	2,023	3,971	895	1,503	43	–	–	27,257	–	27,257
Total expenses	833,567	606,882	235,203	428,192	63,817	150,116	11,654	–	–	2,329,431	(462,547)	1,866,884
Income (loss) from operations	1,553	59,805	5,776	7,226	(1,969)	1,401	(185)	–	–	73,607	(5,434)	68,173
Other non-operating income (loss)	(5,591)	(1,247)	(20)	(944)	922	59	–	(329)	(243)	(7,393)	148	(7,245)
Investment income (loss`	939	123	(1,416)	(1,487)	247	(26)	185	148	(110)	(1,397)	373	(1,024)
Income (loss) from continuing operations	(3,099)	58,681	4,340	4,795	(800)	1,434	–	(181)	(353)	64,817	(4,913)	59,904
Income from discontinued operations	2,349	–	–	–	–	441	–	–	–	2,790	4,913	7,703
Excess (deficit) of revenues over expenses	(750)	58,681	4,340	4,795	(800)	1,875	–	(181)	(353)	67,607	–	67,607
Net assets transferred from related party	–	–	–	22,021	–	–	–	–	–	22,021	–	22,021
Net assets released from restrictions used for purchase of property, plan and equipment	97	5,019	903	2,596	–	–	–	–	–	8,615	–	8,615
Pension-related changes other than net periodic pension cost	(6,530)	(9,104)	(2,253)	(4,723)	(691)	(118)	–	–	–	(23,419)	–	(23,419)
Other changes in net assets	(94)	52	–	(353)	943	–	–	–	–	548	534	1,082
Increase (decrease) in unrestricted net assets	$ (7,277)	$ 54,648	$ 2,990	$ 24,336	$ (548)	$ 1,757	$ –	$ (181)	$ (353)	$ 75,372	$ 534	$ 75,906

Sharp HealthCare

Combining Statement of Changes in Net Assets

Year Ended September 30, 2008
(In Thousands)

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Grossmont Hospital Corporation	Sharp Coronado Hospital and HealthCare Center	Sharp Health Plan	Continuous Quality Insurance	Sharp HealthCare Foundation	Grossmont Hospital Foundation	Combined Totals	Combining Eliminations	Totals
Unrestricted net assets (deficit):												
Excess (deficit) of revenues over expenses	$ (750)	$ 58,681	$ 4,340	$ 4,795	$ (800)	$ 1,875	$ –	$ (181)	$ (353)	$ 67,607	$ –	$ 67,607
Net assets transferred from related party	–	–	–	22,021	–	–	–	–	–	22,021	–	22,021
Net assets released from restrictions used for purchase of property, plan and equipment	97	5,019	903	2,596	–	–	–	–	–	8,615	–	8,615
Pension-related changes other than net periodic pension cost	(6,530)	(9,104)	(2,253)	(4,723)	(691)	(118)	–	–	–	(23,419)	–	(23,419)
Other changes in net assets	(94)	52	–	(353)	943	–	–	–	–	548	534	1,082
Increase (decrease) in unrestricted net assets	(7,277)	54,648	2,990	24,336	(548)	1,757	–	(181)	(353)	75,372	534	75,906
Temporarily restricted net assets:												
Contributions	–	–	–	–	–	–	–	15,658	3,922	19,580	–	19,580
Investment income	–	–	–	–	–	–	–	545	394	939	–	939
Change in net unrealized gains (losses) on other than trading securities	–	–	–	–	–	–	–	(3,135)	(1,235)	(4,370)	–	(4,370)
Net assets released from restrictions	–	–	–	–	–	–	–	(8,304)	(3,398)	(11,702)	–	(11,702)
Other	4,764	–	–	(317)	223	–	–	–	–	4,670	(4,447)	223
Increase (decrease) in temporarily restricted net assets	4,764	–	–	(317)	223	–	–	4,764	(317)	9,117	(4,447)	4,670
Permanently restricted net assets:												
Contributions	–	–	–	–	–	–	–	944	197	1,141	–	1,141
Other	944	–	–	197	–	–	–	–	–	1,141	(1,141)	–
Increase in permanently restricted net assets	944	–	–	197	–	–	–	944	197	2,282	(1,141)	1,141
Increase (decrease) in net assets	(1,569)	54,648	2,990	24,216	(325)	1,757	–	5,527	(473)	86,771	(5,054)	81,717
Net assets (deficit), beginning of the year	(102,972)	435,928	81,638	222,151	5,367	21,165	120	34,370	10,644	708,411	(47,634)	660,777
Net assets (deficit), end of the year	$ (104,541)	$ 490,576	$ 84,628	$ 246,367	$ 5,042	$ 22,922	$ 120	$ 39,897	$ 10,171	$ 795,182	$ (52,688)	$ 742,494

Sharp HealthCare

Combining Balance Sheet – Obligated Group

Year Ended September 30, 2008
(In Thousands)

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Grossmont Hospital Corporation	Combined Totals	Combining Eliminations	Totals
Assets							
Current assets:							
Cash and cash equivalents	$ 81,278	$ 467	$ 156	$ 20,570	$ 102,471	$ –	$ 102,471
Short-term investments	66,702	–	–	27,174	93,876	–	93,876
Accounts receivable, net	7,020	83,532	24,615	40,122	155,289	–	155,289
Estimated settlements receivable from government programs, net	–	1,426	(1,271)	3,369	3,524	–	3,524
Intercompany receivables	–	364,950	91,683	–	456,633	(443,917)	12,716
Inventories	4,021	10,856	5,251	7,763	27,891	–	27,891
Prepaid expenses and other	19,307	2,384	983	1,904	24,578	–	24,578
Total current assets	178,328	463,615	121,417	100,902	864,262	(443,917)	420,345
Assets limited as to use:							
Designated for property	147,216	–	–	72,990	220,206	–	220,206
Under bond indentures	2	9,207	1,913	27	11,149	–	11,149
Other restricted investments	–	–	–	–	–	–	–
Under self-insurance programs	–	–	–	–	–	–	–
Total assets limited as to use	147,218	9,207	1,913	73,017	231,355	–	231,355
Property and equipment, net	160,642	328,336	40,963	171,891	701,832	–	701,832
Unamortized financing costs	289	6,802	1,164	2,457	10,712	–	10,712
Other assets	16,790	672	1,107	632	19,201	–	19,201
Beneficial interest in foundations	39,897	–	–	10,170	50,067	–	50,067
Total assets	$ 543,164	$ 808,632	$ 166,564	$ 359,069	$ 1,877,429	$ (443,917)	$ 1,433,512

Sharp HealthCare

Combining Balance Sheet – Obligated Group (continued)

Year Ended September 30, 2008
(In Thousands)

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Grossmont Hospital Corporation	Combined Totals	Combining Eliminations	Totals
Liabilities and net assets							
Current liabilities:							
Accounts payable and accrued liabilities	$ 84,293	$ 15,039	$ 8,566	$ 11,738	$ 119,636	$ –	$ 119,636
Intercompany payable	440,650	–	–	3,296	443,946	(443,917)	29
Accrued compensation and benefits	22,139	26,915	10,001	18,272	77,327	–	77,327
Current portion of long-term debt	2,511	10,541	3,093	3,835	19,980	–	19,980
Accrued interest	172	1,244	345	100	1,861	–	1,861
Discontinued operations	704	–	–	–	704	–	704
Total current liabilities	550,469	53,739	22,005	37,241	663,454	(443,917)	219,537
Long-term liabilities	53,736	11,513	2,742	17,577	85,568	–	85,568
Reserves for professional liability	1,600	–	–	–	1,600	–	1,600
Long-term debt	41,900	252,804	57,189	57,884	409,777	–	409,777
Total liabilities	647,705	318,056	81,936	112,702	1,160,399	(443,917)	716,482
Net assets (deficit):							
Unrestricted net assets (deficit)	(143,398)	490,576	84,628	237,402	669,208	–	669,208
Temporarily restricted net assets	34,561	–	–	7,665	42,226	–	42,226
Permanently restricted net assets	4,296	–	–	1,300	5,596	–	5,596
Total net assets (deficit)	(104,541)	490,576	84,628	246,367	717,030	–	717,030
Total liabilities and net assets	$ 543,164	$ 808,632	$ 166,564	$ 359,069	$ 1,877,429	$ (443,917)	$ 1,433,512

Sharp HealthCare

Combining Statement of Operations – Obligated Group

Year Ended September 30, 2008
(In Thousands)

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Grossmont Hospital Corporation	Combined Totals	Combining Eliminations	Totals
Revenues:							
Net patient service	$ 76,861	$ 658,950	$ 238,443	$ 428,892	$ 1,403,146	$ (224,811)	$ 1,178,335
Premium	558,927	–	–	–	558,927	–	558,927
Other	199,332	7,737	2,536	6,526	216,131	(150,628)	65,503
Total revenues	835,120	666,687	240,979	435,418	2,178,204	(375,439)	1,802,765
Expenses:							
Salaries and wages	182,790	265,545	96,839	178,627	723,801	–	723,801
Employee benefits	41,284	52,827	18,607	36,126	148,844	–	148,844
Medical fees	138,244	9,468	3,756	8,294	159,762	(5,233)	154,529
Purchased services	124,276	47,105	21,939	37,779	231,099	(1,946)	229,153
Supplies	23,738	105,015	38,519	70,000	237,272	–	237,272
Maintenance, utilities and rentals	42,904	21,882	6,961	13,650	85,397	(2,937)	82,460
Depreciation and amortization	34,995	26,343	10,382	19,788	91,508	(22,976)	68,532
Business insurance	831	5,706	2,303	4,321	13,161	–	13,161
Interest	564	6,150	2,960	3,109	12,783	(233)	12,550
Provision for doubtful accounts	–	7,943	11,155	14,973	34,071	–	34,071
Purchased services from affiliate	231,658	52,359	19,759	37,554	341,330	(336,513)	4,817
Other	12,283	6,539	2,023	3,971	24,816	–	24,816
Total expenses	833,567	606,882	235,203	428,192	2,103,844	(369,838)	1,734,006
Income (loss) from operations	1,553	59,805	5,776	7,226	74,360	(5,601)	68,759
Other non-operating income (loss)	(5,591)	(1,247)	(20)	(944)	(7,802)	67	(7,735)
Investment income (loss)	939	123	(1,416)	(1,487)	(1,841)	621	(1,220)
Income (loss) from continuing operations	(3,099)	58,681	4,340	4,795	64,717	(4,913)	59,804
Income from discontinued operations	2,349	–	–	–	2,349	4,913	7,262
Excess (deficit) of revenues over expenses	(750)	58,681	4,340	4,795	67,066	–	67,066
Net assets transferred from related party	–	–	–	22,021	22,021	–	22,021
Net assets released from restrictions used for purchase of property, plant and equipment	97	5,019	903	2,596	8,615	–	8,615
Pension-related changes other than net periodic pension cost	(6,530)	(9,104)	(2,253)	(4,723)	(22,610)	–	(22,610)
Other changes in net assets	(94)	52	–	(353)	(395)	–	(395)
Increase (decrease) in unrestricted net assets	$ (7,277)	$ 54,648	$ 2,990	$ 24,336	$ 74,697	$ –	$ 74,697

Sharp HealthCare

Combining Statement of Changes in Net Assets – Obligated Group

Year Ended September 30, 2008
(In Thousands)

	Sharp HealthCare	Sharp Memorial Hospital	Sharp Chula Vista Medical Center	Grossmont Hospital Corporation	Combined Totals	Combining Eliminations	Totals
Unrestricted net assets (deficit):							
Excess (deficit) of revenues over expenses	$ (750)	$ 58,681	$ 4,340	$ 4,795	$ 67,066	$ –	$ 67,066
Net assets transferred from related party	–	–	–	22,021	22,021		22,021
Net assets released from restrictions used for purchase of property, plant and equipment	97	5,019	903	2,596	8,615	–	8,615
Pension-related changes other than net periodic pension cost	(6,530)	(9,104)	(2,253)	(4,723)	(22,610)	–	(22,610)
Other changes in net assets	(94)	52	–	(353)	(395)	–	(395)
Increase (decrease) in unrestricted net assets	(7,277)	54,648	2,990	24,336	74,697	–	74,697
Temporarily restricted net assets:							
Other	4,764	–	–	(317)	4,447	–	4,447
Increase (decrease) in temporarily restricted net assets	4,764	–	–	(317)	4,447	–	4,447
Permanently restricted net assets:							
Other	944	–	–	197	1,141		1,141
Increase in permanently restricted net assets	944	–	–	197	1,141	–	1,141
Increase (decrease) in net assets	(1,569)	54,648	2,990	24,216	80,285	–	80,285
Net assets (deficit), beginning of the year	(102,972)	435,928	81,638	222,151	636,745	–	636,745
Net assets (deficit), end of the year	$ (104,541)	$ 490,576	$ 84,628	$ 246,367	$ 717,030	$ –	$ 717,030

APPENDIX C

SUMMARY OF PRINCIPAL DOCUMENTS

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APPENDIX C

SUMMARY OF PRINCIPAL DOCUMENTS

The following is a summary of certain provisions of the Master Indenture, Supplement No. 22, the Bond Indenture and the Loan Agreement which are not described elsewhere in this Official Statement. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of each of said documents.

Definitions of Certain Terms

The following is a summary of certain terms used in this Summary of Principal Documents. All capitalized terms not defined herein or elsewhere in this Official Statement have the meanings set forth in the Master Indenture or the Bond Indenture.

Act means Chapter 5, Division 7, Title 1 of the Government Code of the State of California (commencing with Section 6500) and as from time to time amended or supplemented.

Additional Indebtedness means any Indebtedness (including all Obligations) incurred subsequent to the issuance of the first Obligation issued under the first Related Supplement executed pursuant to the Master Indenture.

Alternate Credit Facility means a replacement irrevocable direct-pay letter of credit containing administrative provisions reasonably satisfactory to the Bond Trustee, issued and delivered to, and accepted by, the Bond Trustee in accordance with the Loan Agreement; provided, however, that any amendment, extension, renewal or substitution of the Credit Facility then in effect for the purpose of extending the Expiration Date of such Credit Facility or modifying such Credit Facility pursuant to its terms shall not be deemed to be an Alternate Credit Facility for purposes of the Bond Indenture.

Alternate Liquidity Facility means a replacement line of credit, letter of credit, standby purchase agreement or similar liquidity facility issued by a commercial bank or financial institution delivered or made available to, and accepted by, the Tender Agent in accordance with the Loan Agreement which replaces the Liquidity Facility then in effect; provided, however, that any amendment, extension, renewal or substitution of the Liquidity Facility then in effect for the purpose of extending the Expiration Date of such Liquidity Facility or modifying such Liquidity Facility pursuant to its terms shall not be deemed to be an Alternate Liquidity Facility for purposes of the Bond Indenture.

Available Moneys means (i) moneys drawn under the Credit Facility which at all times since their receipt by the Bond Trustee were held in a separate segregated account or accounts or subaccount or subaccounts in which no moneys (other than those drawn under the Credit Facility) were at any time held, (ii) moneys which have been paid to the Bond Trustee and have been on deposit with the Bond Trustee for at least 124 days (or, if paid to the Bond Trustee by an "affiliate," as defined in Bankruptcy Code §101(2), of the Corporation or any Member, 366 days) during and prior to which no Event of Bankruptcy shall have occurred, (iii) any other moneys, if, in the opinion of nationally recognized counsel experienced in bankruptcy matters (which opinion shall be acceptable to each Rating Agency then rating the Bonds), the application of such moneys will not constitute a voidable preference in the event of the occurrence of an Event of Bankruptcy, and (iv) investment earnings on any of the moneys described in clauses (i), (ii) and (iii) of this definition.

Bank means Bank of America, N.A., as issuer of the Letter of Credit, or its successors.

Bankruptcy Code means Title 11 of the United States Code, as amended, and any successor statute.

Beneficial Owner means any Person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any of the Bonds (including any Person holding Bonds through nominees, depositories or other intermediaries).

Bond Counsel means Orrick, Herrington & Sutcliffe LLP or another attorney-at-law, or firm of such attorneys, of nationally recognized standing in matters pertaining to the tax-exempt nature of interest on obligations issued by states and their political subdivisions and acceptable to the Issuer and the Bond Trustee.

Business Day means any day other than a Saturday, Sunday or a day on which banks located in (a) the State of California or the State of New York, (b) the city or cities in which the Principal Office of the Bond Trustee and the Tender Agent is located, (c) the city or cities in which the office of the Credit Facility Provider and/or Liquidity Facility Provider at which drawings under the Credit Facility and/or Liquidity Facility are to be presented is located, and (d) the city in which the principal office of each Remarketing Agent is located, are required or authorized to remain closed or on which The New York Stock Exchange is closed.

Capitalization means, as of any date of calculation, the principal amount of all Indebtedness then Outstanding plus the fund balances (including any shareholder equity) of the Obligated Group for the last Fiscal Year for which audited financial statements are available, determined in accordance with generally accepted accounting principles.

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

Corporate Bonds means Bonds owned by the Corporation or any Member or any affiliate of the Corporation or any Member.

Credit Facility means initially the Letter of Credit or, in the event of the delivery or availability of any Alternate Credit Facility, such Alternate Credit Facility.

Credit Facility Provider means initially the Bank, and, upon the effectiveness of any Alternate Credit Facility with respect to the Bonds, shall mean the bank or banks or other financial institution or financial institutions or other entity that is then a party to such Alternate Credit Facility. The initial Credit Facility Provider is also the initial Liquidity Facility Provider under the Bond Indenture.

Credit Facility Provider Failure means a failure of a Credit Facility Provider to pay a properly presented and conforming draw or request for advance under the related Credit Facility.

Eligible Account means an account that is either (a) maintained with a federal or state-chartered depository institution or trust company that has a Standard & Poor's short-term debt rating of at least 'A-2' (or, if no short-term debt rating, a long-term debt rating of 'BBB+'); or (b) maintained with the corporate trust department of a federal depository institution or state-chartered depository institution subject to regulations regarding fiduciary funds on deposit similar to Title 12 of the U.S. Code of Federal Regulation Section 9.10(b), which, in either case, has corporate trust powers and is acting in its fiduciary capacity. If a fund or account required to be an "Eligible Account" no longer complies with the requirements listed above, the Bond Trustee shall promptly (and, in any case, within not more than 30 calendar days) move such fund or account to another financial institution such that the Eligible Account requirements described above will again be satisfied.

Eligible Bonds means any Bonds other than Liquidity Facility Bonds, Corporate Bonds or Bonds owned by, for the account of, or on behalf of, the Issuer or any Member.

Event of Bankruptcy means any of the following events:

(i) the Corporation (or any Member or other Person obligated, as guarantor or otherwise, to make payments on the Bonds or under the Loan Agreement, the Master Indenture or Obligation No. 22, or an "affiliate" of the Corporation as defined in Bankruptcy Code § 101(2)) or the Issuer shall (a) apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee, liquidator or the like of the Corporation (or such other Member or Person) or the Issuer or of all or any substantial part of their respective property, (b) commence a voluntary case under the Bankruptcy Code, or (c) file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts; or

(ii) a proceeding or case shall be commenced, without the application or consent of the Corporation (or any Member or other Person obligated, as guarantor or otherwise, to make payments on the Bonds or under the Loan Agreement, the Master Indenture or Obligation No. 22, or an "affiliate" of the Corporation as defined in Bankruptcy Code § 101(2)) or the Issuer in any court of competent jurisdiction, seeking (a) the liquidation, reorganization, dissolution, winding-up, or composition or adjustment of debts, of the Corporation (or any such other Member or Person) or the Issuer, (b) the appointment of a trustee, receiver, custodian, liquidator or the like of the Corporation (or any such other Member or Person) or the Issuer or of all or any substantial part of their respective property, or (c) similar relief in respect of the Corporation (or any such other Member or Person) or the Issuer under any law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts.

Expiration Date means (*i*) the date upon which a Credit Facility or a Liquidity Facility is scheduled to expire (taking into account any extensions of such Expiration Date by virtue of extensions of a particular Credit Facility or a particular Liquidity Facility, from time to time) in accordance with its terms, including without limitation termination upon the effective date of an Alternate Credit Facility or an Alternate Liquidity Facility delivered in accordance with the Loan Agreement, as applicable and (ii) the date upon which a Credit Facility or a Liquidity Facility terminates following voluntary termination by the Corporation pursuant to the Loan Agreement in connection with the commencement of a Self-Liquidity Arrangement.

Favorable Opinion of Bond Counsel means an opinion of Bond Counsel, addressed to the Issuer, the Remarketing Agent (if any), the Corporation, the Credit Facility Provider and the Bond Trustee to the effect that the action proposed to be taken is authorized or permitted by the laws of the State of California and the Bond Indenture and will not result in the inclusion of interest on the Bonds in gross income for federal income tax purposes.

Financing means a borrowing pursuant to any Obligation authorized by the Master Indenture.

Fiscal Year means that period adopted by the Corporation as its annual accounting period and which shall also be the Fiscal Year adopted by all other Members (unless any such Member is prevented by law or regulation from adopting such a fiscal year).

Fitch means Fitch, Inc., dba FitchRatings, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Corporation by notice in writing to the Issuer and the Bond Trustee.

Fixed Rate Conversion Date means the date on which the Bonds begin to bear interest for a Long-Term Interest Rate Period which extends to the Maturity Date.

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

Gross Revenues means all revenues, income, receipts and money received by or on behalf of the Obligated Group from all sources, including (a) gross revenues derived from their operation and possession of each Member's facilities, including, but not limited to, the Property, Plant and Equipment, (b) gifts, grants, bequests, donations and contributions, exclusive of any gifts, grants, bequests, donations and contributions to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of Required Payments, (c) proceeds derived from (i) condemnation proceeds, (ii) accounts receivable, (iii) securities and other investments, (iv) inventory and other tangible and intangible property, (v) medical reimbursement programs and agreements, (vi) insurance proceeds (other than insurance proceeds the application of which is limited pursuant to an agreement entered into in compliance with the provisions of the Master Indenture) and (vii) contract rights and other rights and assets now or hereafter owned by each Member and (d) rentals received from the lease of any Property.

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

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

Holder whenever used with respect to an Obligation, means the registered owner of any Obligation in registered form or the bearer of any Obligation in coupon form which is not registered or is registered to bearer.

Indebtedness means 25% of any Guaranty (other than any Guaranty by any Member of Indebtedness of any other Member) if such Guaranty has not been drawn upon within the preceding two years, or 100% of any Guaranty (other than any Guaranty by any Member of Indebtedness of any other Member) if such Guaranty has been drawn upon within the preceding two years, and any indebtedness or obligation of any Member of the Obligated Group (other than accounts payable and accruals) for borrowed money, as determined in accordance with generally accepted accounting principles, including obligations under conditional sales contracts or other title retention contracts, rental obligations under leases which are considered capital leases under generally accepted accounting principles, except for obligations of a Member to another Member; provided, however, that if more than one Member shall have incurred or assumed a Guaranty of a Person other than a Member, or if more than one Member shall be obligated to pay any obligation, for purposes of any computations or calculations under the Master Indenture, such Guaranty or obligation shall be included only one time.

Insurance Consultant means a person or firm (which may be an insurance broker or agent of a Member) who is not, and no member, director, officer or employee of which is, an officer or employee of any Member, designated by the Authorized Representative of the Corporation and qualified to survey risks and to recommend insurance coverage for hospitals, health-related facilities and services and organizations engaged in such operations.

Interest Accrual Date means for any Weekly Interest Rate Period, the first day thereof and, thereafter, the first Wednesday of each calendar month during such Weekly Interest Rate Period (whether or not a Business Day).

Letter of Credit *means that certain irrevocable direct-pay letter of credit issued by the Bank pursuant to* the initial Reimbursement Agreement. The Letter of Credit shall constitute both the initial Liquidity Facility and the initial Credit Facility for the Bonds.

Lien means any mortgage or pledge of, or security interest in, or lien or encumbrance on, any Property or Gross Revenues of any Member (a) which secures any Indebtedness or any other obligation of any Member or (b) which secures any obligation of any Person other than the Corporation or any other Member, and excluding liens applicable to Property in which any Member has only a leasehold interest unless the lien secures Indebtedness of any Member.

Liquidity Facility means initially the Letter of Credit or, in the event of the delivery or availability of any Alternate Liquidity Facility, such Alternate Liquidity Facility.

Liquidity Facility Bonds means Bonds purchased with moneys drawn under (or otherwise obtained pursuant to the terms of) a Liquidity Facility (including, without limitation, "Bank Bonds" as defined in the initial Reimbursement Agreement), but excluding Bonds no longer considered to be Liquidity Facility Bonds in accordance with the terms of the applicable Reimbursement Agreement or Liquidity Facility.

Liquidity Facility Provider means initially the Bank, and, upon the effectiveness of any Alternate Liquidity Facility with respect to the Bonds, shall mean the bank or banks or other financial institution or financial institutions or other entity that is then a party to such Alternate Liquidity Facility. The initial Liquidity Facility Provider is also the initial Credit Facility Provider under the Bond Indenture.

Long-term Indebtedness means Indebtedness having an original maturity greater than one year or renewable at the option of a Member for a period greater than one year from the date of original incurrence or issuance thereof unless, by the terms of such Indebtedness, no Indebtedness is permitted to be outstanding thereunder for a period of at least 20 consecutive days during each calendar year.

Mandatory Credit/Liquidity Tender means the mandatory tender of the Bonds pursuant to the Bond Indenture upon receipt by the Bond Trustee of written notice from the Credit Facility Provider or the Liquidity Facility Provider, as the case may be, that an event with respect to the applicable Reimbursement Agreement, the Credit Facility or the Liquidity Facility has occurred which requires or gives the Credit Facility Provider or Liquidity Facility Provider the option to terminate the Credit Facility or Liquidity Facility or cause a mandatory tender of Bonds upon the designated notice. Mandatory Credit/Liquidity Tender shall not include circumstances, if any, where the Liquidity Facility Provider may suspend or terminate its obligations to purchase securities without notice, in which case there will be no mandatory tender.

Maximum Interest Rate means (a) with respect to Bonds other than Liquidity Facility Bonds, the lesser of 12% per annum and the Maximum Lawful Rate, and (b) with respect to Liquidity Facility Bonds, the Maximum Lawful Rate, in each case calculated in the same manner as interest is calculated for the particular interest rate on the Bonds.

Maximum Lawful Rate means the maximum rate of interest on the relevant obligation permitted by applicable law.

Members means the Corporation, Sharp Memorial Hospital, Sharp Chula Vista Medical Center and Grossmont Hospital Corporation and each other Person that is then obligated under the Master Indenture.

Moody's means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Corporation by notice in writing to the Issuer and the Bond Trustee.

Obligated Group means all Members.

Obligation means any obligation of the Obligated Group issued under the Master Indenture, as a joint and several obligation of the Corporation and each other Member, which may be in any form set forth in a Related Supplement, including, but not limited to, bonds, obligations, debentures, loan agreements or leases. Reference to a Series of Obligations or to Obligations of a Series shall mean Obligations or Series of Obligations issued pursuant to a single Related Supplement.

Opinion of Bond Counsel means a written opinion signed by a nationally recognized attorney or firm of attorneys acceptable to the Master Trustee and experienced in the field of public finance whose opinions are generally accepted by purchasers of bonds issued by or on behalf of a Government Issuer.

Opinion of Counsel whenever used with respect to the Master Indenture or Obligations, means a written opinion signed by an attorney or firm of attorneys, who may be counsel for the Corporation, acceptable to the Master Trustee and, whenever used with respect to the Bonds, the Bond Indenture or the Loan Agreement, means a written opinion of counsel selected by the Corporation and not objected to by the Bond Trustee or the Issuer.

Outstanding, when used as of any particular time with reference to Bonds, means (subject to the Bond Indenture) all Bonds theretofore, or thereupon being, authenticated and delivered by the Bond Trustee under the Bond Indenture except (1) Bonds theretofore canceled by the Bond Trustee or surrendered to the Bond Trustee for cancellation; (2) Bonds with respect to which all liability of the Issuer shall have been discharged in accordance with the Bond Indenture; and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Bond Trustee pursuant to the Bond Indenture.

Permitted Encumbrances means and includes:

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

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

(c) Any Lien or encumbrance described in Exhibit A to the Master Indenture which was existing on the date of execution thereof;

(d) Any Lien in favor of the Master Trustee securing all Obligations other than Subordinated Indebtedness;

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

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

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

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

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

(j) Liens on Property or Gross Revenues securing Indebtedness not evidenced by Obligations;

(k) Statutory rights of the United States of America by reason of federal funds made available under 42 U.S.C. Section 291 et seq. and similar rights under other federal and state statutes;

(l) Liens on Property acquired by any Member which Liens existed on such Property prior to the time of its acquisition by such Member;

(m) Liens granted by any Member to any other Member;

(n) The Lien created by the pledge of Gross Revenues under the Master Indenture;

(o) Liens on Property existing at the time a Person becomes a Member pursuant to the Master Indenture or existing at the time a Person is merged into a Member pursuant to the Master Indenture;

(p) The lease or license of the use of a part of Property in connection with the proper and economical use of such Property in accordance with customary and prudent business practice;

(q) Liens on Property due to rights of third-party payors for recoupment of amounts paid to any Member;

(r) Liens on accounts receivable, which liens shall be prior to the security interest created pursuant to the Master Indenture, securing Short-term Indebtedness; and

(s) Liens arising by virtue of a lease and leaseback or similar arrangements entered into by any Member with a Related Bond Issuer to the extent required in connection with the issuance of a series of Related Bonds.

Property means any and all right, title and interest in and to any and all property of the Obligated Group whether real or personal, tangible or intangible and wherever situated.

Property, Plant and Equipment means all Property of the Obligated Group which is considered property, plant and equipment of such Members under generally accepted accounting principles.

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

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

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

Related Bonds means the revenue bonds or other obligations or evidences of indebtedness issued or incurred by any Governmental Issuer, pursuant to a single Related Bond Indenture, the proceeds of which are loaned or otherwise made available to the Corporation or any other Member in consideration of the execution, authentication and delivery of an Obligation or Obligations to or for the order of such Government Issuer.

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

Related Bond Issuer means the Government Issuer of any issue of Related Bonds.

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

Reimbursement Agreement means (i) that certain Letter of Credit and Reimbursement Agreement, dated as of February 12, 2009, between the Corporation, individually and as agent for the other Members, and the Bank, and (ii) if an Alternate Credit Facility and/or an Alternate Liquidity Facility is issued with respect to the Bonds, any reimbursement agreement, credit agreement, line of credit agreement, standby purchase agreement or other agreement relating to such Alternate Credit Facility and/or Alternate Liquidity Facility.

Reimbursement Obligations means all obligations owed to any Credit Facility Provider and/or any Liquidity Facility Provider with respect to draws under the related Credit Facility and/or Liquidity Facility, including interest thereon as set forth in the applicable Reimbursement Agreement. "Reimbursement Obligations" include all "Obligations" as defined in the Reimbursement Agreement with the Bank.

Required Payment means any payment whether at maturity, by acceleration, upon proceeding for redemption or otherwise, required of any Member under the Master Indenture, any Related Supplement, any Obligation or otherwise in connection with a Financing, including, but not limited to, the payment of principal, interest, premium and lease payments.

Required Stated Amount means with respect to a Credit Facility or a Liquidity Facility, at any time of calculation, an amount equal to the aggregate principal amount of all Bonds then Outstanding together with interest accruing thereon (assuming an annual rate of interest equal to the Maximum Interest Rate) for the period specified in a Certificate of the Corporation to be the minimum period specified by the Rating Agencies then rating the Bonds as necessary to obtain (or maintain) a specified long-term and/or short-term rating of the Bonds. As of the Date of Issuance of the Bonds, the minimum period specified by the Rating Agencies is thirty-five (35) days.

Revenues means all amounts received by the Issuer or the Bond Trustee for the account of the Issuer pursuant or with respect to the Loan Agreement or Obligation No. 22, including, without limiting the generality of the foregoing, Loan Repayments (including both timely and delinquent payments and any late charges, and whether paid from any source), prepayments, insurance proceeds, condemnation proceeds and all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Bond Indenture, but not including any Administrative Fees and Expenses or any moneys required to be deposited in the Rebate Fund.

S&P means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Corporation by notice in writing to the Issuer and the Bond Trustee.

Secured Indebtedness means Indebtedness (including Obligations and Guaranties) secured by a Lien which is a Permitted Encumbrance pursuant to clause (c), (j), (l), (n), (o) or (r) of the definition of Permitted Encumbrances (above), other than a Lien securing Subordinated Indebtedness.

Self-Liquidity Arrangement means termination of a Liquidity Facility upon the undertaking by the Corporation of the obligation to purchase Bonds tendered for purchase pursuant to the Bond Indenture or subject to mandatory tender for purchase pursuant to the Bond Indenture in accordance with the Loan Agreement.

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

Short-term Indebtedness means all Indebtedness having an original maturity less than or equal to one year and not renewable at the option of a Member for a term greater than one year from the date of original incurrence or issuance unless, by the terms of such Indebtedness, no Indebtedness is permitted to be Outstanding thereunder for a period of at least 20 consecutive days during each calendar year.

Subordinated Indebtedness means Indebtedness incurred by a Member which by its terms is specifically subordinated with respect to any security therefor and with respect to right of payment to all Outstanding Obligations and all other obligations of a Member not containing such subordination provision.

United States Government Obligations means (i) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of Treasury of the United States of America) and obligations the timely payment of the principal of and interest on which are fully guaranteed by the United States of America, and, (ii) certificates or other instruments that evidence ownership of the right to the payment of the principal of and interest on obligations described in clause (i) provided that such obligations are held in the custody of a bank or trust company in a special account separate from the general assets of such custodian or (iii) municipal obligations the timely payment of the principal of and interest on which is fully provided for by the deposit in trust or escrow of cash or obligations described in clauses (i) or (ii).

MASTER INDENTURE

The following is a summary of certain provisions of the Master Indenture. Other provisions of the Master Indenture are summarized in this Official Statement under the caption "SECURITY FOR THE BONDS – The Master Indenture." This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Master Indenture.

Authorization, Issuance and Form of Obligations

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

Particular Covenants of the Corporation and Each Member

Payment of Principal and Interest. Each Member jointly and severally covenants to pay or cause to be paid promptly all Required Payments, including the principal of, premium, if any, and interest on each Obligation issued under the Master Indenture at the place, on the dates and in the manner provided in the Master Indenture, in any Related Supplement and in said Obligations whether at maturity, upon proceedings for redemption, by acceleration or otherwise, and that each Member of the Obligated Group shall faithfully observe and perform all of the conditions, covenants and requirements of the Master Indenture and any Related Supplement, and that the time of such payment and performance is of the essence of the obligations under the Master Indenture.

Insurance Required. The Corporation and each Member, respectively, covenants and agrees that, it will keep the Property, Plant and Equipment and all of its operations adequately insured at all times and carry and maintain such insurance in amounts which are customarily carried, subject to customary deductibles, and against such risks as are customarily insured against by other corporations in connection with the ownership and operation of facilities of similar character and size, including medical malpractice insurance. Insurance requirements of the Corporation and the Members shall be subject to the review of an Insurance Consultant at least every two years. The Corporation agrees that it will follow recommendations, in whole or in part, of such Insurance Consultant, subject to a good faith determination of the Corporation's Governing Body that such recommendations are in the best interests of the Corporation. In lieu of maintaining insurance coverage, the Members shall have the right to adopt alternative risk management programs which the Governing Body of the Corporation determines to be reasonable and which shall not have a material adverse impact on reimbursement from third party payors, all as may be approved, in writing, as reasonable and appropriate risk management by the Insurance Consultant and reviewed each year thereafter. Each Member, respectively, further covenants and agrees at all times to maintain worker's compensation coverage as required by the laws of the State of California.

Against Encumbrances. Each Member, respectively, covenants and agrees that it will not create, assume or suffer to exist any Lien upon Gross Revenues of the Obligated Group or the Property of the Obligated Group and each Member, respectively, further covenants and agrees that, subject to the provisions of the Master Indenture described in the next paragraph, if such a Lien is created or assumed by any Member, it will obtain the written consent of the Governing Body of the Corporation and make or cause to be made effective a provision whereby all Obligations will be secured prior to or equally and ratably with any such Indebtedness or other obligation secured by such Lien; provided, however, that notwithstanding the provisions of the Master Indenture described in this paragraph, each Member may, subject to the provisions of the Master Indenture described in the next paragraph, create, assume or suffer to exist Permitted Encumbrances.

Each Member, respectively, covenants that Secured Indebtedness Outstanding will not in any event exceed 30% of combined unrestricted fund balances of the Obligated Group as of the end of the most recent Fiscal Year for which audited financial statements are available (including any shareholder equity).

The Master Trustee and the Members do not intend by any provision of the Master Indenture to create an equitable or legal lien or interest on or in any Property, Plant and Equipment of the Members or any of them.

Limitations on Indebtedness. Each Member, respectively, agrees that it will not incur any Additional Indebtedness except as follows (and provided, in each case, that no Event of Default under the Master Indenture shall have occurred and be continuing):

(1) Long-term Indebtedness, which may (but need not) be evidenced by Obligations; and

(2) Short-term Indebtedness, which may be evidenced by Obligations; provided that for 20 consecutive days in any twelve-month period, the aggregate amount of Outstanding Short-term Indebtedness shall be no greater than 5% of Capitalization.

Indebtedness may be secured to the extent permitted by the provisions of the Master Indenture described above under the heading "Against Encumbrances."

Each Member, respectively, agrees that the principal amount of all Indebtedness Outstanding shall not exceed 65% of Capitalization, and that the aggregate principal amount of all Short-term Indebtedness Outstanding shall not exceed 25% of Capitalization.

Gross Revenue Fund. Each Member, respectively, agrees that, so long as any of the Obligations remain Outstanding, all of the Gross Revenues of the Obligated Group shall be deposited as soon as practicable upon receipt in a fund designated as the "Gross Revenue Fund" which the Members shall establish and maintain in one or more accounts at such banking institution or institutions as the Corporation shall from time to time designate in writing to the Master Trustee for such purpose (the "Depository Bank(s)"). Subject only to the provisions of the Master Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, each Member, respectively, pursuant to the Master Indenture, pledges, and to the extent permitted by law grants a security interest to the Master Trustee in, the Gross Revenue Fund and all of the Gross Revenues of the Obligated Group to secure the payment of Required Payments and the performance by the Members of their other obligations under the Master Indenture. Amounts in the Gross Revenue Fund may be used and withdrawn by any Member at any time for any lawful purpose, except as provided in the Master Indenture.

Sale, Lease or Other Disposition of Property. Each Member, respectively, covenants and agrees that (i) it will not sell, lease or otherwise dispose of any of its Property (other than to another Member), if, after taking into account any such disposition, the principal amount of all Indebtedness Outstanding exceeds 55% of Capitalization, and (ii) if such sale, lease or other disposition of Property is of more than 55% of the Property of such Member, such Member shall file with the Master Trustee an Officer's Certificate to the effect that the Corporation consents to such sale, lease or other disposition.

Consolidation, Merger, Sale or Conveyance. Each Member, respectively, covenants that it will not merge or consolidate with any other corporation not a Member or sell or convey all or substantially all of its assets to any Person not a Member unless:

(a) after giving effect to the merger, consolidation, sale or conveyance, the successor or surviving corporation (hereinafter, the "Surviving Corporation") will be the Member, or, if not, the Surviving Corporation shall be a corporation organized and existing under the laws of the United States of America or a state thereof and such Surviving Corporation shall become a Member pursuant to the Master Indenture and shall expressly assume in writing the due and punctual payment of all Required Payments of the disappearing Person under the Master Indenture, according to their tenor, and the due and punctual performance and observance of all of the covenants and conditions of the Master Indenture by the execution of a Related Supplement satisfactory to the Master Trustee, delivered to the Master Trustee by such Surviving Corporation;

(b) there shall have been delivered to the Master Trustee an Officer's Certificate to the effect that no Member, immediately after the date of the proposed merger, consolidation, sale or conveyance, would be in default in the performance or observance of any covenant or condition of the Master Indenture;

(c) so long as any Related Bonds are Outstanding, there shall have been delivered to the Master Trustee an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that, under then existing law, the consummation of such merger, consolidation, sale or conveyance whether or not contemplated on any date of the issuance of such Related Bonds, would not adversely affect the exclusion from gross income for federal income tax purposes of the interest payable thereon and that such merger, consolidation, sale or conveyance, and the assumption of rights and obligations thereafter, complies with the provisions of the Master Indenture;

(d) there shall have been delivered to the Master Trustee an Officer's Certificate to the effect that after such merger, consolidation, sale or conveyance, the principal amount of all Indebtedness Outstanding will not exceed 65% of Capitalization;

(e) in case of any such consolidation, merger, sale or conveyance, and upon such assumption of obligations, the Surviving Corporation shall be substituted for its predecessor in interest in all agreements, indentures and Obligations then in effect which affect or relate to any Financing, and the Surviving Corporation shall, upon the request of the Master Trustee, execute and deliver to the Master Trustee such documents and endorsements as the Master Trustee may reasonably require in order to effect such substitution including, without limitation, an Opinion of Counsel regarding compliance with the provisions of the Master Indenture. From and after the effective date of such substitution as determined by the Master Trustee, the Surviving Corporation shall, subject to the terms, conditions and limitations prescribed in the Master Indenture, be treated as though it were a Member of the Obligated Group as at the date of the execution of the Master Indenture and shall thereafter have the right to participate in Financings pursuant to the Master Indenture to the same extent as the Members of the Obligated Group; and all Financings undertaken on behalf of a Surviving Corporation in all respects have the same legal rank and benefit under the Master Indenture as though undertaken by the Obligated Group in the absence of such merger, consolidation, sale or conveyance; and

(f) if such consolidation, merger, sale or conveyance is with the Corporation, whether or not the Corporation is the Surviving Corporation, such transaction shall have been approved by a majority of the members of the Governing Body of the Corporation in office at the time that such merger or consolidation is considered.

Membership in Obligated Group. Additional Members may be added to the Obligated Group from time to time provided that:

(a) there shall have been delivered to the Master Trustee a copy of a resolution of the proposed new Member which authorizes the execution of the Master Indenture or a Related Supplement and compliance with the terms of the Master Indenture;

(b) there shall have been delivered to the Master Trustee a Related Supplement pursuant to which the proposed new Member agrees to become a Member, to be bound by the terms and restrictions imposed by the Master Indenture, to pledge its Gross Revenues pursuant to the Master Indenture, and to be bound by Indebtedness represented by the Obligations;

(c) there shall have been delivered to the Master Trustee an irrevocable power of attorney authorizing the execution of Obligations by the Corporation;

(d) there shall be delivered to the Master Trustee a written Opinion of Counsel to the proposed new Member, which opinion states that the proposed new Member has taken all necessary action to become a Member, and upon execution of a Related Supplement, such proposed new Member will be bound by the terms of the Master Indenture;

(e) there shall be delivered to the Master Trustee a description of any existing Long-Term Indebtedness of the proposed new Member and any Indebtedness which the proposed new Member plans to incur simultaneously with the execution of the Related Supplement;

(f) there shall be delivered to the Master Trustee an Opinion of Bond Counsel to the effect that the addition of such Member will not adversely affect the tax-exempt status of any Related Bonds, nor cause the Master Indenture nor the Obligations issued under the Master Indenture to be subject to registration under federal or state securities laws or the Trust Indenture Act of 1939, as amended (unless such registration, if required, has occurred), nor cause a default under the Master Indenture; and

(g) there shall have been delivered to the Master Trustee an Officer's Certificate to the effect that no Member, immediately after the addition of such new Member, would be in default in the performance or observance of any covenant or condition of the Master Indenture and specifically stating that the Members would not be in default with respect to the covenant regarding Limitations on Indebtedness set forth in the Master Indenture relating to Capitalization.

Withdrawal from Obligated Group. Any Member, with the exception of the Corporation, may withdraw from the Obligated Group, and be released from further liability or obligation under the provisions of the Master Indenture, including a release or termination of the security interest in such Member's Gross Revenues created in the Master Indenture, provided that:

(a) there shall be delivered to the Master Trustee an Officer's Certificate to the effect that the Corporation consents to such withdrawal and, immediately following withdrawal of such Member, no Member would be in default in the performance or observance of any covenant or condition of the Master Indenture and specifically stating that the Members would not be in default with respect to the covenant regarding Limitations on Indebtedness set forth in the Master Indenture relating to Capitalization;

(b) such Member has not executed any Outstanding Obligations and is not a party to a loan or similar agreement with a Related Bond Issuer with respect to Outstanding Related Bonds;

(c) there shall be delivered to the Master Trustee an Officer's Certificate to the effect that all Property of the withdrawing Member may be disposed of in accordance with the covenant regarding disposition of Property set forth in the Master Indenture.

Default

Events of Default. Event of Default, as used in the Master Indenture, shall mean any of the following events:

(a) Failure on the part of the Obligated Group to make due and punctual payment of the principal of or redemption premium, if any, or interest on an Obligation.

(b) Any Member shall fail duly to observe or to perform any other covenant or agreement under the Master Indenture for a period of 60 days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the Corporation by the Master Trustee or to the Corporation and the Master Trustee by the Holders of 25% in aggregate principal amount of Outstanding Obligations except that, if such failure can be remedied but not within such 60-day period, such failure shall not become an Event of Default for so long as the Corporation shall diligently proceed to remedy same in accordance with and subject to any directions or limitations of time established by the Master Trustee (subject to the provisions of the Master Indenture).

(c) The Members shall default in the payment of Indebtedness for borrowed moneys (other than an Obligation) in an aggregate principal amount in excess of 1-1/2% of Capitalization, whether such Indebtedness now exists or shall hereafter be created, and any period of time for cure with respect thereto shall have expired, or an event of default as defined in any mortgage, indenture or instrument, under which there may be secured or evidenced any Indebtedness in excess of 1-1/2% of Capitalization, whether such Indebtedness now exists or shall hereafter be created, shall occur; provided, however, that such default shall not constitute an Event of Default within the meaning of the Master Indenture if within 30 days, or within the time allowed for service of a responsive pleading if any proceeding to enforce payment of the Indebtedness is commenced (i) any Member in good faith commences proceedings to contest the existence or payment of such Indebtedness, and (ii) sufficient moneys are escrowed with a bank or trust company or a bond is posted for the payment of such Indebtedness, all as is acceptable to the Master Trustee.

(d) Certain events of bankruptcy or insolvency with respect to the Members.

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

Acceleration; Annulment of Acceleration. Upon the occurrence and during the continuation of an Event of Default under the Master Indenture, the Master Trustee may and, upon the written request of the Holders of not less than 25% in aggregate principal amount of Outstanding Obligations or of any Holder if an Event of Default described above in subsection (a) under the heading "Default – Events of Default" has occurred and upon indemnification of the Master Trustee in accordance with the Master Indenture, shall, by notice to the Members, declare all Outstanding Obligations immediately due and payable, whereupon such Obligations shall become and be immediately due and payable, anything in the Obligations or the Master Indenture to the contrary notwithstanding. In such event, there shall be due and payable on the Obligations an amount equal to the aggregate principal amount of all such Obligations, plus all interest accrued thereon and, to the extent permitted by applicable law, which accrues on such principal and interest to the date of payment.

At any time after the principal of the Obligations shall have been so declared to be due and payable and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, if (i) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee moneys sufficient to pay all matured installments of interest and interest on installments of principal and interest and principal or redemption prices and other payments then due (other than the principal or other payments then due only because of such declaration) of all Outstanding Obligations, (ii) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee moneys sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Master Trustee and any paying agents, (iii) all other amounts then payable by the Obligated Group under the Master Indenture shall have been paid or a sum sufficient to pay the same shall have been deposited with the Master Trustee, and (iv) every Event of Default (other than a default in the payment of the principal or other payments of such Obligations then due only because of such declaration) shall have been remedied, then the Master Trustee may annul such declaration and its consequences with respect to any Obligations or portions thereof not then due by their terms (subject to the provisions of the Master Indenture). No such annulment shall extend to or affect any subsequent Event of Default or impair any right consequent thereon.

Holders' Control of Proceedings. If an Event of Default shall have occurred and be continuing, notwithstanding anything in the Master Indenture to the contrary, the Holders of at least a majority in aggregate principal amount of Obligations then Outstanding shall have the right, at any time, by any instrument in writing executed and delivered to the Master Trustee, to direct the method and place of conducting any proceeding to be taken in connection with the enforcement of the terms and conditions of the Master Indenture or for the appointment of a receiver or any other proceedings under the Master Indenture, provided that such direction is not in conflict with any applicable law or the provisions of the Master Indenture (including indemnity to the Master Trustee as provided in the Master Indenture) and, in the sole judgment of the Master Trustee, is not unduly prejudicial to the interests of Holders not joining in such direction (subject to the provisions of the Master Indenture) and provided further that nothing in the Master Indenture shall impair the right of the Master Trustee in its discretion to take any other action under the Master Indenture which it may deem proper and which the Master Trustee does not deem inconsistent with such direction by Holders.

Supplements and Amendments

Supplements Not Requiring Consent of Holders The Master Indenture may be supplemented and amended without the consent of or notice to any of the Holders for one or more of the following purposes; (a) to cure any ambiguity or formal defect or omission in the Master Indenture; (b) to correct or supplement any provision in the Master Indenture which may be inconsistent with any other provision in the Master Indenture, or to make any other provisions with respect to matters or questions arising under the Master Indenture and which shall not materially and adversely affect the interests of the Holders; (c) to grant or confer ratably upon all of the Holders any additional rights, remedies, powers or authority, or to add to the covenants of and restrictions on the Members; (d) to qualify the Master Indenture under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect; (e) to create and provide for the issuance of an Obligation or Series of Obligations as permitted under the Master Indenture; (f) to obligate a successor to the Corporation or any Member as provided in the Master Indenture; (g) to add a new Member as provided in the Master Indenture; (h) to allow a Member to withdraw from the Obligated Group as provided in the Master Indenture; or (i) to preserve the exclusion from gross income for federal income tax purposes of the interest on any Related Bonds.

Supplements Requiring Consent of Obligation Holders. The Master Indenture may also be supplemented and amended for other purposes provided that there is first filed with the Master Trustee the written consent of the Holders of not less than a majority in aggregate principal amount of the Obligations then Outstanding. No supplement or amendment shall be permitted, however, which would: (i) extend the stated maturity of or time for paying interest on any Obligation or reduce the principal amount of or the redemption premium or rate of interest or method of calculating interest payable on any Obligation without the consent of the Holder of such Obligation; (ii) modify, alter, amend, add to or rescind any of the terms or provisions of the Master Indenture so as to affect the right of the Holders of any Obligations in default as to payment to compel the Master Trustee to declare the principal of all Obligations to be due and payable, without the consent of the Holders of all Obligations then Outstanding; or (iii) reduce the aggregate principal amount of Obligations then Outstanding the consent of the Holders of which is required to authorize such Related Supplement without the consent of the Holders of all Obligations then Outstanding.

SUPPLEMENTAL MASTER INDENTURE FOR OBLIGATION NO. 22

The following is a summary of certain provisions of Supplement No. 22. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of Supplement No. 22.

Payments on Obligation No. 22; Credits

Principal of and interest and any applicable redemption premium on Obligation No. 22 are payable in any coin or currency of the United States of America that on the payment date is legal tender for the payment of public and private debts. Except as provided in Supplement No. 22 and described in the following paragraph with respect to credits, and the section of Supplement No. 22 regarding prepayment, payments on the principal of and premium, if any, and interest on Obligation No. 22 shall be made at the times and in the amounts specified in Obligation No. 22 by the Corporation depositing the same with or to the account of the Bond Trustee at or prior to the opening of business on the day such payments shall become due or payable and giving notice to the Master Trustee and the Bond Trustee of each payment of principal, interest or premium on Obligation No. 22, specifying the amount paid and identifying such payment as a payment on Obligation No. 22.

The Obligated Group shall receive credit for payment on Obligation No. 22, in addition to any credits resulting from payment or prepayment from other sources, as follows:

(i) On installments of interest on Obligation No. 22 in an amount equal to moneys deposited in the Interest Account created under the Bond Indenture, which amounts are available to pay interest on the Bonds and to the extent such amounts have not previously been credited against payments on Obligation No. 22 or any other Obligation;

(ii) On installments of principal of Obligation No. 22 in an amount equal to moneys deposited in the Principal Account created under the Bond Indenture, which amounts are available to pay principal of the Bonds and to the extent such amounts have not previously been credited on Obligation No. 22 or any other Obligation;

(iii) On installments of principal of and interest on Obligation No. 22 in an amount equal to, respectively, the principal amount of Bonds for the redemption or payment of which sufficient amounts (as determined by the Bond Indenture) in cash or United States Government Obligations are on deposit as provided in the Bond Indenture to the extent such amounts have not been previously credited against payments on Obligation No. 22 or any other Obligation, and the interest on such Bonds payable from such cash or United States Government Obligations and from and after the date fixed for payment at maturity or redemption thereof (such credits shall be made against the installments of principal of and interest on Obligation No. 22 that would have been used, but for such payment or redemption, to pay principal of and interest on such Bonds when due at maturity or upon mandatory redemption); and

(iv) On installments of principal of and interest on Obligation No. 22 in an amount equal to, respectively, the principal amount of Bonds delivered to the Bond Trustee for cancellation or purchased by the Bond Trustee and canceled, and the interest on such Bonds from and after the date interest thereon has been paid prior to cancellation (such credits shall be made against the installments of principal of and interest on Obligation No. 22 that would have been used, but for such cancellation, to pay principal of and interest on such Bonds when due at maturity or upon mandatory redemption).

Prepayment of Obligation No. 22.

So long as all amounts that have become due under Obligation No. 22 have been paid, the Corporation shall have the right, at any time and from time to time, to pay in advance and in any order of due dates all or part of the amounts to become due under Obligation No. 22. Prepayments may be made by payments of cash, deposit of United States Government Obligations or surrender of Bonds. All such prepayments (and the additional payment of any amount necessary to pay the applicable premium, if any, payable upon the redemption of Bonds) shall be deposited upon receipt at the direction of the Corporation in (i) the Principal Account created under the Bond Indenture; (ii) the Optional Redemption Account created under the Bond Indenture; (iii) the Special Redemption Account created under the Bond Indenture; or (iv) such other Bond Trustee escrow account as may be specified by the Corporation and, at the request of and as determined by the Corporation, credited against payments due under Obligation No. 22 or used for the redemption or purchase of Outstanding Bonds in the manner and subject to the terms and conditions set forth in the Bond Indenture. Notwithstanding any such prepayment or surrender of Bonds, as long as any Bonds remain Outstanding or any additional payments required to be made under Supplement No. 22 remain unpaid, the Obligated Group shall not be relieved of its obligations under Supplement No. 22.

Upon payment by the Corporation of a sum, in cash or United States Government Obligations, or both, sufficient, together with any other cash and United States Government Obligations held by the Bond Trustee and available for such purpose, to cause all Outstanding Bonds to be deemed to have been paid within the meaning of the Bond Indenture and to pay all other amounts referred to in the Bond Indenture, accrued and to be accrued to the date of discharge of the Bond Indenture, Obligation No. 22 shall be deemed to have been paid and to be no longer outstanding under the Master Indenture.

Registration, Number, Negotiability and Transfer of Obligation No. 22

Except as provided in Supplement No. 22 and as described in the following paragraph, Obligation No. 22 shall consist of a single Obligation without coupons registered as to principal and interest in the name of the Bond Trustee and no transfer of Obligation No. 22 shall be registered under the Master Indenture except for transfers to a successor Bond Trustee.

Upon the principal of all Obligations then Outstanding being declared immediately due and payable upon and during the continuance of an Event of Default, Obligation No. 22 may be transferred, if and to the extent the Bond Trustee requests that the restrictions of Supplement No. 22 described in the preceding paragraph on transfers be terminated.

BOND INDENTURE

The following is a summary of certain provisions of the Bond Indenture. Other provisions are summarized in this Official Statement under the captions "THE BONDS" and "SECURITY FOR THE BONDS." This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Bond Indenture.

Establishment of Funds and Accounts

The Bond Indenture creates, among other funds and accounts, a Revenue Fund, an Interest Account, a Principal Account, a Redemption Fund, an Optional Redemption Account, a Special Redemption Account and a Rebate Fund, all of which are to be held by the Bond Trustee.

Pledge and Assignment

Subject only to the provisions of the Bond Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, there are pledged to secure, first, the payment of the principal of and premium, if any, and interest on the Bonds in accordance with their terms and the provisions of the Bond Indenture and, second, the payment of all Reimbursement Obligations and the performance and observance of the reimbursement and other obligations of the Corporation under the Reimbursement Agreement, all of the Revenues and any other amounts held in any fund or account established pursuant to the Bond Indenture (other than the Bond Purchase Fund and the Rebate Fund). Said pledge shall constitute a lien on and security interest in such assets and shall attach, be perfected and be valid and binding from and after delivery by the Bond Trustee of the Bonds, without any physical delivery thereof or further act.

Pursuant to the Bond Indenture, the Issuer transfers in trust, grants a security interest in and assigns to the Bond Trustee, for the benefit of the Holders from time to time of the Bonds and for the benefit of the Credit Facility Provider with respect to the obligations of the Corporation under the Reimbursement Agreement, all of the Revenues and other assets pledged pursuant to the Bond Indenture and described in the preceding paragraph and all of the right, title and interest of the Issuer in the Loan Agreement (except for (i) the right to receive any Administrative Fees and Expenses to the extent payable to the Issuer, (ii) any rights of the Issuer to indemnification, (iii) the obligation of the Corporation to make deposits pursuant to the Tax Agreement and (iv) as otherwise expressly set forth in the Loan Agreement) and Obligation No. 22. The Bond Trustee shall be entitled to and shall collect and receive all of the Revenues, and any Revenues collected or received by the Issuer shall be deemed to be held, and to have been collected or received, by the Issuer as the agent of the Bond Trustee and shall forthwith be paid by the Issuer to the Bond Trustee. The Bond Trustee also shall be entitled to and shall take all steps, actions and proceedings reasonably necessary in its judgment to enforce all of the rights of the Issuer and all of the obligations of the Corporation under the Loan Agreement and of the Obligated Group Members under Obligation No. 22. Notwithstanding the foregoing, any Revenues transferred by the Corporation directly to a Credit Facility Provider or Liquidity Facility Provider pursuant to a Reimbursement Agreement shall not be required to be collected and received by the Bond Trustee and the Bond Trustee shall have no duty to collect and receive such Revenues.

Revenue Fund

All Revenues shall be promptly deposited by the Bond Trustee upon receipt thereof in a special fund designated as the "Revenue Fund" which the Bond Trustee is directed to establish, maintain and hold in trust, except as otherwise provided in the Bond Indenture and except (i) that all moneys received by the Bond Trustee and required by the Loan Agreement or Obligation No. 22 to be deposited in the Bond Purchase Fund or the Redemption Fund shall be promptly deposited in the Bond Purchase Fund and Redemption Fund, respectively, and (ii) all moneys received by the Bond Trustee from a Credit Facility shall be promptly deposited in the Credit Facility Fund. All Revenues deposited with the Bond Trustee shall be held, disbursed, allocated and applied by the Bond Trustee only as provided in the Bond Indenture. The Revenue Fund (and all accounts therein) shall be required to be an Eligible Account.

Allocation of Revenues

On or before the dates specified below, the Bond Trustee shall transfer from the Revenue Fund and deposit into the following respective accounts (each of which the Bond Trustee is directed to establish and maintain within the Revenue Fund) the following amounts, in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority: (1) to the Interest Account, on or before each Interest Payment Date, the amount of interest becoming due and payable on such date on all Bonds then Outstanding, until the balance in said account is equal to said aggregate amount of interest; provided, that if the interest rate on the Bonds is subject to conversion following such deposit and prior to the applicable Interest Payment Date, interest for the period during which the actual interest rate on the Bonds is not known shall be assumed to be equal to the Maximum Interest Rate; (2) to the Principal Account, on or before each Sinking Fund Installment Date, the amount of the Sinking Fund Installment becoming due and payable on such date, until the balance in said account is equal to said amount of such Sinking Fund Installment and (3) to the Rebate Fund, such amounts as are required to be deposited therein by the Bond Indenture (including the Tax Agreement).

Any moneys remaining in the Revenue Fund after the foregoing transfers shall be transferred to the Corporation as an overpayment of Loan Repayments.

Application of Interest Account

All amounts in the Interest Account shall be used and withdrawn by the Bond Trustee solely for the purpose of paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity from funds on deposit in the Principal Account or the Redemption Fund pursuant to the Bond Indenture) or to reimburse the Credit Facility Provider for drawings made under the Credit Facility for such purpose. At any time a Credit Facility is in effect with respect to the Bonds, interest on the Bonds shall be paid solely with Available Moneys unless a Credit Facility Provider Failure has occurred and is continuing. Interest on the Bonds, whether at maturity, by proceedings for redemption, by acceleration or otherwise, shall be payable first from the Credit Facility Provider from drawings made under the Credit Facility for such purpose and second from the Corporation from the Loan Repayments.

Application of Principal Account

All amounts in the Principal Account shall be used and withdrawn by the Bond Trustee solely to purchase or redeem or pay Sinking Fund Installments or pay at maturity the Bonds as provided in the Bond Indenture or to reimburse the Credit Facility Provider for drawings made under the Credit Facility for such purpose. At any time a Credit Facility is in effect with respect to the Bonds, principal and Redemption Price of the Bonds shall be paid solely with Available Moneys unless a Credit Facility Provider Failure has occurred and is continuing. Principal and Sinking Fund Installments on the Bonds, whether at maturity, by proceedings for redemption, by acceleration or otherwise, shall be payable first from the Credit Facility Provider from drawings made under the Credit Facility for such purpose and second from the Corporation from the Loan Repayments.

Application of Redemption Fund

All amounts deposited in the Optional Redemption Account and in the Special Redemption Account shall be used and withdrawn by the Bond Trustee solely for the purpose of redeeming Bonds, in the manner and upon the terms and conditions specified in the Bond Indenture, at the next succeeding date of redemption for which notice has not been given and at the Redemption Prices then applicable to redemptions from the Optional Redemption Account and the Special Redemption Account, respectively, provided that, at any time prior to giving such notice of redemption, the Bond Trustee shall, upon direction of the Corporation, apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as the Corporation may direct, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to such Bonds; and provided further in the case of the Optional Redemption Account that in lieu of redemption at such next succeeding date of redemption, or in combination therewith, amounts in such account may be transferred to the Revenue Fund and credited against Loan Repayments in order of their due date as set forth in a Request of the Corporation.

Rebate Fund

To the extent required by the Bond Indenture and the Tax Agreement, certain amounts will be deposited in the Rebate Fund by the Corporation, and thereafter paid to the federal government to the extent required to satisfy the rebate requirement under the Tax Agreement. Any moneys remaining in a Rebate Fund after the payment of all such amounts, or provision made therefor, will be remitted to the Corporation.

Amendment of Loan Agreement

Except as described in the following paragraph, the Issuer shall not amend, modify or terminate any of the terms of the Loan Agreement, or consent to any such amendment, modification or termination, unless the written consent of (i) the Credit Facility Provider or (ii) if a Credit Facility Provider Failure has occurred and is continuing or if there is no Credit Facility Provider, the Holders of a majority in principal amount of the Bonds then Outstanding to such amendment, modification or termination is filed with the Bond Trustee, provided that no such amendment, modification or termination shall reduce the amount of Loan Repayments to be made to the Issuer or the Bond Trustee by the Corporation pursuant to the Loan Agreement, or extend the time for making such payments, without the written consent of all of the Holders of the Bonds then Outstanding.

Notwithstanding the provisions of the Bond Indenture described in the immediately preceding paragraph, the terms of the Loan Agreement may be modified or amended from time to time and at any time by the Issuer without the necessity of obtaining the consent of any Bondholders but with the written consent of the Credit Facility Provider, only to the extent permitted by law and only for any one or more of the following purposes: (a) to add to the covenants and agreements of the Issuer or the Corporation contained in the Loan Agreement other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power therein reserved to or conferred upon the Issuer or the Corporation, provided, that no such covenant, agreement, pledge, assignment or surrender shall materially adversely affect the interests of the Holders of the Bonds; (b) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision contained in the Loan Agreement, or in regard to matters or questions arising under the Loan Agreement, as the Issuer may deem necessary or desirable and not inconsistent with the Loan Agreement or the Bond Indenture, and which shall not materially adversely affect the interests of the Holders of the Bonds; (c) to evidence or give effect to, or to conform to the terms and provisions of, any Liquidity Facility; (d) to evidence or give effect to, or to conform to the terms and provisions of, any insurance policy, letter of credit or other credit enhancement for the Bonds; (e) to maintain the exclusion from gross income of interest payable with respect to the Bonds; and (f) to make any modification or amendment to the Loan Agreement which will be effective upon the remarketing of Bonds following the mandatory tender of the Bonds pursuant to the Bond Indenture.

Continuing Disclosure

The Corporation has undertaken all responsibility for compliance with continuing disclosure requirements, and the Issuer shall have no liability to the Holders of the Bonds or any other Person with respect to S.E.C. Rule 15c2-12. Notwithstanding any other provision of the Bond Indenture, failure of the Corporation or the Dissemination Agent (as defined in the Continuing Disclosure Agreement) to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, the Bond Trustee may (and, at the request of the Issuer or any Participating Underwriter (as defined in the Continuing Disclosure Agreement) or the Holders of at least 25% aggregate principal amount of Outstanding Bonds, and upon receiving indemnification satisfactory to it shall) or any Bondholder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Corporation to comply with its obligations under Supplement No. 22 or to cause the Bond Trustee to comply with its obligations under the Bond Indenture.

Events of Default

Each of the following is an Event of Default under the Bond Indenture: (a) default in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by acceleration or otherwise or default in the redemption of any Bonds from Sinking Fund Installments in the amount and at the times provided therefor; (b) default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable; (c) failure to pay the Purchase Price of any Bond tendered or subject to mandatory tender pursuant to the Bond Indenture; (d) default in any material respect by the Issuer in the observance of any of the other covenants, agreements or conditions on its part in the Bond Indenture or in the Bonds, if such default shall have continued for a period of 60 days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Issuer and the Corporation by the Bond Trustee, or to the Issuer, the Corporation and the Bond Trustee by the Holders of not less than 25% in aggregate principal amount of the Bonds at the time Outstanding; (e) a Loan Default Event; (f) receipt by the Bond Trustee of notice from the Credit Facility Provider or the Liquidity Facility Provider that an event of default (as defined in the Reimbursement Agreement) has occurred under the Reimbursement Agreement and which notice directs the Bond Trustee to accelerate the Bonds; or (g) receipt by the Bond Trustee of notice from the Credit Facility Provider that the amount of an interest drawing under the Credit Facility will not be reinstated as provided in the Credit Facility unless such notice directs a Mandatory Credit/Liquidity Tender. Upon actual knowledge of the existence of any Event of Default, the Bond Trustee shall notify the Corporation, the Issuer and the Master Trustee in writing as soon as practicable; provided, however, that the Bond Trustee need not provide notice of any Loan Default Event if the Corporation has expressly acknowledged the existence of such Loan Default Event in a writing delivered to the Bond Trustee, the Issuer and the Master Trustee.

Acceleration of Maturities

If any Event of Default has occurred and is continuing, the Bond Trustee may take the following remedial steps:

(A) In the case of an Event of Default described in clauses (a), (b), (c), (f) or (g) of the immediately preceding section, the Bond Trustee shall declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Bond Indenture to the contrary notwithstanding. The Bond Trustee shall also notify the Issuer and the Master Trustee of such Event of Default, may make a demand for payment under Obligation No. 22 and request the Master Trustee in writing to give notice pursuant to the Master Indenture to the Obligated Group Members declaring the principal of all obligations issued under the Master Indenture then outstanding to be due and immediately payable. In addition, the Bond Trustee may take whatever action at law or in equity is necessary or desirable to collect the payments due under Obligation No. 22;

(B) In the case of an Event of Default described in clauses (d) or (e) of the immediately preceding section, the Bond Trustee may, with the written consent of the Credit Facility Provider, and shall at the written direction of the Credit Facility Provider, notify the Issuer and the Master Trustee of such Event of Default, may make a demand for payment under Obligation No. 22 and request the Master Trustee in writing to give notice pursuant to the Master Indenture to the Obligated Group Members declaring the principal of all obligations issued under the Master Indenture then outstanding to be due and immediately payable. Thereupon, the Bond Trustee shall declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Bond Indenture to the contrary notwithstanding. In addition, the Bond Trustee may take whatever action at law or in equity is necessary or desirable to collect the payments due under Obligation No. 22;

(C) In the case of an Event of Default described in clause (e) of the immediately preceding section, the Bond Trustee may (with the written consent or at the direction of the Credit Facility Provider) take whatever action the Issuer would be entitled to take, and shall take whatever action the Issuer would be required to take, pursuant to the Loan Agreement in order to remedy the Loan Default Event.

Upon a declaration of acceleration as described above, interest on Bonds (other than Liquidity Facility Bonds) shall cease to accrue and the Bond Trustee shall immediately draw on the Credit Facility in accordance with its terms, in an amount sufficient to pay principal and interest on Eligible Bonds and shall immediately apply the proceeds of such draw to the payment of such Bonds.

Any such declaration, however, is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Issuer or the Corporation shall deposit with the Bond Trustee a sum sufficient to pay all the principal (including any Sinking Fund Installments) or redemption price of and installments of interest on the Bonds, payment of which is overdue, with interest on such overdue principal at the rate borne by the respective Bonds, and the reasonable charges and expenses of the Bond Trustee, and if the Bond Trustee has received notification from the Master Trustee that the declaration of acceleration of Obligation No. 22 has been annulled pursuant to the Master Indenture, and any and all other defaults known to the Bond Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Bond Trustee or provision deemed by the Bond Trustee to be adequate shall have been made therefor, then, and in every such case, with the written consent of the Credit Facility Provider and receipt by the Bond Trustee of written confirmation that the Credit Facility and Liquidity Facility have been reinstated to the Required Stated Amount, and in the case of an Event of Default described in clauses (f) and (g) of the immediately preceding section, the notice of default from the Credit Facility Provider shall have been rescinded, the Bond Trustee shall, on behalf of the Holders of all of the Bonds, rescind and annul such declaration of acceleration of the Bonds and its consequences and waive such default; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Nothing in the Bond Indenture is intended to require the Bond Trustee to exercise any remedies in connection with an Event of Default unless the Bond Trustee shall have actual knowledge or shall have received written notice of such Event of Default.

Bond Trustee to Represent Bondholders

The Bond Trustee is irrevocably appointed (and the successive respective Holders of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Bond Trustee) as Bond Trustee and true and lawful attorney-in-fact of the Holders of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Holders under the provisions of the Bonds, the Bond Indenture, the Loan Agreement, Obligation No. 22, the Act and applicable provisions of any other law. Subject to the rights of the Credit Facility Provider with respect to the enforcement of remedies related to the Bonds as described in the Bond Indenture, upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Bond Trustee to represent the Bondholders, the Bond Trustee in its discretion may, and upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of such Holders by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained therein, or in aid of the execution of any power granted in the Bond Indenture, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the

Bond Trustee or in such Holders under the Bond Indenture, the Loan Agreement, Obligation No. 22, the Act or any other law; and upon instituting such proceeding, the Bond Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other amounts and assets pledged under the Bond Indenture, pending such proceedings.

Credit Facility Provider's and Bondholders' Direction of Proceedings

Anything in the Bond Indenture to the contrary notwithstanding, the Credit Facility Provider or, if a Credit Facility Provider Failure has occurred and is continuing or if there is no Credit Facility in effect and no obligations are payable to the Credit Facility Provider under the Reimbursement Agreement, the Holders of a majority in aggregate principal amount of the Bonds then Outstanding, shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Bond Trustee, and upon indemnifying the Bond Trustee to its satisfaction therefor, to direct the method of conducting all remedial proceedings taken by the Bond Trustee under the Bond Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Bond Indenture, and that the Bond Trustee shall have the right to decline to follow any such direction which in the opinion of the Bond Trustee would be unjustly prejudicial to Bondholders not parties to such direction.

Limitation on Bondholders' Right to Sue

No Holder of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Bond Indenture, the Loan Agreement, Obligation No. 22, the Act or any other applicable law with respect to such Bond unless (a) such Holder shall have given to the Bond Trustee written notice of the occurrence of an Event of Default, (b) the Holders of not less than 25% in aggregate principal amount of the Bonds then Outstanding shall have made written request to the Bond Trustee to exercise the powers granted to it under the Bond Indenture or to institute such suit, action or proceeding in its own name, (c) such Holder shall have tendered to the Bond Trustee indemnity satisfactory to it against costs, expenses and liabilities to be incurred in compliance with such request, (d) the Bond Trustee shall have refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and the tender of indemnity shall have been made to, the Bond Trustee and (e) the Credit Facility Provider shall have consented in writing to such action.

Amendment of Indenture

The Bond Indenture and the rights and obligations of the Issuer, the Bond Trustee and of the Holders of the Bonds may be modified or amended from time to time and at any time by an indenture or indentures supplemental to the Bond Indenture, which the Issuer and the Bond Trustee may enter into with the consent of the Corporation and the Credit Facility Provider, but without the necessity of obtaining the consent of any Bondholders, only to the extent permitted by law and only for one or more of the following purposes: (a) to add to the covenants of the Issuer contained in the Bond Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof) or to surrender any right or power in the Bond Indenture reserved to or conferred upon the Issuer, provided, that no such covenant, pledge, assignment or surrender shall materially adversely affect the interests of the Holders of the Bonds; (b) to make such provisions for the curing of any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Bond Indenture, or in regard to matters or questions arising under the Bond Indenture, as the Issuer or the Bond Trustee may deem necessary or desirable and not inconsistent with the Bond Indenture and which shall not materially adversely affect the interests of the Holders of the Bonds; (c) to modify, amend or supplement the Bond Indenture in such manner as to permit the qualification of the Bond Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially adversely affect the interests of the Holders of the Bonds; (d) to evidence or give effect to, or to conform to the terms and provisions of, any Liquidity Facility; (e) to evidence or give effect to, or conform to the terms and provisions of, any letter of credit or credit enhancement for the Bonds; (f) to facilitate and implement any book entry system (or any termination of a book entry system) with respect to the Bonds; (g) to maintain the exclusion from gross income of interest payable with respect to the Bonds; or (h) to make any modification or amendment to the Bond Indenture which will be effective upon remarketing of the Bonds following the mandatory tender of the Bonds pursuant to the Bond Indenture.

The Bond Indenture and the rights and obligations of the Issuer and of the Holders of the Bonds and of the Bond Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental to the Bond Indenture, which the Issuer and the Bond Trustee may enter into when the written consent of (1) the Credit Facility Provider or (2) if a Credit Facility Provider Failure has occurred and is continuing or if there is no Credit Facility then in effect and no obligations are payable to the Credit Facility Provider under the Reimbursement Agreement, the Holders of a majority in aggregate principal amount of the Bonds then Outstanding and the Corporation shall have been filed with the Bond Trustee. No such modification or amendment shall (x) extend the stated maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment or change the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, or change the Purchase Price to be paid to Holders tendering their Bonds, without the consent of the Holder of each Bond so affected, or (y) reduce the aforesaid percentage of Bonds the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Bond Indenture prior to or on a parity with the lien created by the Bond Indenture, or deprive the Holders of the Bonds of the lien created by the Bond Indenture on such Revenues and other assets (except as expressly provided in the Bond Indenture), without the consent of the Holders of all Bonds then Outstanding.

Defeasance

The Bonds may be paid by the Issuer or the Bond Trustee on behalf of the Issuer in any of the following ways: (a) by paying or causing to be paid the principal or Redemption Price of and interest on all Bonds Outstanding (with Available Moneys at any time in which there is a Credit Facility in effect), as and when the same become due and payable; (b) by depositing with the Bond Trustee, in trust, at or before maturity, Available Moneys or securities (purchased with Available Moneys at any time at which there is a Credit Facility in effect) in the necessary amount to pay when due or redeem all Bonds then Outstanding; or (c) by delivering to the Bond Trustee, for cancellation by it, all Bonds then Outstanding.

Upon the deposit with the Bond Trustee, in trust, at or before maturity, of moneys (which shall be Available Moneys at any time at which there is a Credit Facility in effect) or securities (purchased with Available Moneys at any time at which a Credit Facility is in effect) in the necessary amount to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, notice of such redemption shall have been given as provided in the Bond Indenture or provision satisfactory to the Bond Trustee shall have been made for the giving of such notice, then all liability of the Issuer in respect of such Bond shall cease, terminate and be completely discharged, except only that thereafter the Holder thereof shall be entitled to payment of the principal of and interest on such Bond by the Issuer, and the Issuer shall remain liable for such payments, but only out of such money or securities deposited with the Bond Trustee as aforesaid for their payment, subject, however, to the provisions of the Bond Indenture.

Whenever in the Bond Indenture it is provided or permitted that there be deposited with or held in trust by the Bond Trustee money or securities in the necessary amount to pay or redeem any Bonds, the money or securities to be so deposited or held may include money or securities held by the Bond Trustee in the funds and accounts established pursuant to the Bond Indenture (other than the Rebate Fund) and shall be: (a) lawful money of the United States of America (which shall be Available Moneys at any time at which there is a Credit Facility in effect) in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity (based on an assumed interest rate equal to the Maximum Interest Rate for periods for which the actual interest rate on the Bonds cannot be determined), except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in the Bond Indenture or provision satisfactory to the Bond Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount or Redemption Price of such Bonds and all unpaid interest thereon to the redemption date; or (b) United States Government Obligations (not callable by the Issuer thereof prior to maturity and purchased with Available Moneys, and maturing no later than the earlier of (x) the first day upon which such Bonds may be tendered or (y) the first day upon which such Bonds may be redeemed, at any time at which there is a Credit Facility in effect), the principal of and interest on which when due (without any income from the reinvestment thereof) will provide money sufficient, in the opinion of an independent certified public accountant or firm of independent certified public accountants, to pay the principal or Redemption Price of and all unpaid interest to maturity (based on an assumed interest rate equal to the Maximum Interest Rate for periods for which the actual interest rate on the

Bonds cannot be determined), or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal or Redemption Price and interest become due; provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Bond Indenture or provision satisfactory to the Bond Trustee shall have been made for the giving of such notice; provided, in each case, that the Bond Trustee shall have been irrevocably instructed (by the terms of the Bond Indenture or by Request of the Issuer) to apply such money to the payment of such principal or Redemption Price and interest with respect to such Bonds, and provided further, if the Bonds are then rated by S&P, the Bond Trustee shall have received written confirmation from S&P that the rating on the Bonds will not be reduced or withdrawn solely as a result of the defeasance.

Liability of Issuer Limited to Revenues

Notwithstanding anything in the Bond Indenture or in the Bonds, the Issuer shall not be required to advance any moneys derived from any source other than the Revenues and other assets pledged under the Bond Indenture for any of the purposes in the Bond Indenture, whether for the payment of the principal or Redemption Price of or interest on the Bonds or for any other purpose of the Bond Indenture.

Waiver of Personal Liability

No member, officer, agent or employee of the Issuer shall be individually or personally liable for the payment of the principal (or Redemption Price) of or interest on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof.

Credit Facility Provider Deemed Holder of Bonds

The Credit Facility Provider shall be deemed to be the Holder of all Bonds then Outstanding for purposes of the Bond Indenture, including without limitation, for the purpose of granting all consents and waivers required or permitted to be granted by such Holders thereunder, directing acceleration of the principal represented by the Bonds, directing Mandatory Credit/Liquidity Tenders, directing the Bond Trustee in the exercise of the rights and powers conferred upon the Bond Trustee in an Event of Default, the directing rescission and annulment of any declaration of acceleration or waiver of any default with respect to the Bonds, and exercising the rights of the holder of Obligation No. 22 under the Master Indenture. Notwithstanding any other provision of the Bond Indenture, any provision of the Bond Indenture requiring the consent of, the giving of notice to, or control of proceedings by the Credit Facility Provider shall be in effect for so long as, and only during such time as, (i) such Credit Facility is in effect or any obligations are payable to the Credit Facility Provider under the Reimbursement Agreement and (ii) no Credit Facility Provider Failure shall have occurred and be continuing.

LOAN AGREEMENT

The following is a summary of certain provisions of the Loan Agreement. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Loan Agreement.

Loan Repayments

The Corporation agrees to pay, or cause to be paid, Loan Repayments in an amount sufficient to enable the Bond Trustee to make the transfers and deposits required at the times and in the amounts described in the Bond Indenture. Notwithstanding the foregoing, the Corporation agrees to make payments, or cause payments to be made, prior to the times and in the amounts required to be paid as principal or Redemption Price of and interest on the Bonds from time to time Outstanding under the Bond Indenture and other amounts required to be paid under the Bond Indenture, as the same shall become due whether at maturity, upon redemption, by declaration of acceleration or otherwise.

Additional Payments

The Corporation also agrees to pay certain Additional Payments in connection with the issuance of the Bonds, including certain taxes and assessments charged to the Issuer or the Bond Trustee, all reasonable fees, charges, expenses and indemnities of the Issuer and the Bond Trustee under the Loan Agreement and under the Bond Indenture, the reasonable fees, charges, expenses and indemnities of the Remarketing Agent under the Remarketing Agreement, the Liquidity Facility Provider under the Liquidity Facility and the Credit Facility Provider under the Credit Facility and the reasonable fees and expenses of experts engaged by the Issuer or the Bond Trustee and all other reasonable and necessary fees and expenses attributable to the Bonds, the Loan Agreement or Obligation No. 22.

Credits for Payments

The Corporation shall receive credit against its payments required to be made under the Loan Agreement, in addition to any credits resulting from payment or repayment from other sources, as follows: (a) on installments of interest in an amount equal to moneys deposited in the Interest Account, which amounts are available to pay interest on the Bonds, to the extent such amounts have not previously been credited against such payments; (b) on installments of principal in an amount equal to moneys deposited in the Principal Account, which amounts are available to pay principal of the Bonds, to the extent such amounts have not previously been credited against such payments; (c) on installments of principal and interest in an amount equal to the principal amount of Bonds for the payment at maturity or redemption of which sufficient amounts in cash or United States Government Obligations are on deposit as provided in the Bond Indenture to the extent such amounts have not previously been credited against such payments, and the interest on such Bonds from and after the date fixed for payment at maturity or redemption thereof. Such credits shall be made against the installments of principal and interest which would have been used, but for such call for redemption, to pay principal of and interest on such Bonds when due; and (d) on installments of principal and interest in an amount equal to the principal amount of Bonds acquired by the Corporation and surrendered to the Bond Trustee for cancellation or purchased by the Bond Trustee on behalf of the Corporation and surrendered to the Bond Trustee for cancellation, and the interest on such Bonds from and after the date interest thereon has been paid prior to surrender and cancellation. Such credits shall be made against the installments of principal and interest which would have been used, but for such cancellation, to pay principal of and interest on such Bonds when due.

Prepayment

The Corporation shall have the right, so long as all amounts which have become due under the Loan Agreement have been paid, at any time or from time to time to prepay all or any part of the Loan Repayments and the Issuer agrees that the Bond Trustee shall accept such prepayments when the same are tendered. Prepayments may be made by payments of cash, deposit of United States Government Obligations or surrender of Bonds. All such prepayments (and the additional payment of any amount necessary to pay the applicable premium, if any, payable upon the redemption of Bonds) shall be deposited upon receipt as specified by the Corporation and at the request of and as determined by the Corporation, credited against payments due under the Loan Agreement or used for the redemption or purchase of Outstanding Bonds in the manner and subject to the terms and conditions set forth in the Bond Indenture. Notwithstanding any such prepayment or surrender of Bonds, as long as any Bonds remain Outstanding or any Additional Payments required to be made under the Loan Agreement remain unpaid, the Corporation shall not be relieved of its obligations under the Loan Agreement.

Obligations Unconditional

The obligations of the Corporation under the Loan Agreement are absolute and unconditional, notwithstanding any other provision of the Loan Agreement, Supplement No. 22, Obligation No. 22, the Master Indenture or the Bond Indenture. Until such Loan Agreement is terminated and all payments under such Loan Agreement are made, the Corporation: (a) will pay all amounts required under such Loan Agreement without abatement, deduction or setoff except as otherwise expressly provided in the Loan Agreement; (b) will not suspend or discontinue any payments due under the Loan Agreement for any reason whatsoever, including, without limitation, any right of setoff or counterclaim; (c) will perform and observe all its other agreements contained in such Loan Agreement; and (d) except as provided in the Loan Agreement, will not terminate the Loan Agreement for any cause including, without limiting the generality of the foregoing, damage, destruction or condemnation of its health facilities or any part thereof, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California, or any political subdivision of either thereof or any failure of the Issuer to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Loan Agreement. Nothing contained in the Loan Agreement shall be construed to release the Issuer from the performance of any of the agreements on its part contained in the Loan Agreement, and in the event the Issuer should fail to perform any such agreement on its part, the Corporation may institute such action against the Issuer as the Corporation may deem necessary to compel performance.

The rights of the Bond Trustee or any party or parties on behalf of whom the Bond Trustee is acting shall not be subject to any defense, setoff, counterclaim or recoupment whatsoever, whether arising out of any breach of any duty or obligation of the Issuer, the Master Trustee or the Bond Trustee owing to the Corporation, or by reason of any other indebtedness or liability at any time owing by the Issuer, the Master Trustee or by the Bond Trustee to the Corporation.

Payment of Purchase Price of Bonds

The Corporation agrees that, if a Liquidity Facility is not in effect with respect to the Bonds or if the Liquidity Facility Provider has not paid the full amount required by the Bond Indenture at the times required under the Bond Indenture, it shall pay to the Tender Agent all amounts necessary for the purchase of Bonds pursuant to the Bond Indenture and not deposited with the Tender Agent by the Remarketing Agent from the proceeds of the sale of such Bonds pursuant to the Bond Indenture. Each such payment by the Corporation to the Tender Agent shall be in immediately available funds and paid to the Tender Agent at its Principal Office by 2:45 p.m., New York City time, on each date upon which a payment is to be made pursuant to the Bond Indenture. If the Fixed Rate Conversion Date for the Bonds is established pursuant to the Bond Indenture, the obligations of the Corporation described in this paragraph with respect to such Bonds shall be terminated following the Fixed Rate Conversion Date.

Liquidity Facility; Alternate Liquidity Facility

A Liquidity Facility, in an amount equal to the Required Stated Amount, shall be maintained by the Corporation for Bonds bearing interest at the Daily Interest Rate, Weekly Interest Rate or Bond Interest Term Rates and, if and to the extent that the Corporation shall elect, for Bonds bearing interest at the Long-Term Interest Rate. The Corporation may maintain a Self-Liquidity Arrangement in lieu of a Liquidity Facility.

The Corporation may, at any time at its sole option, deliver to the Tender Agent an Alternate Liquidity Facility in substitution for the Liquidity Facility, or may, at any time at its sole option (subject to the notice and mandatory tender provisions set out in the Bond Indenture) proceed without a Liquidity Facility with respect to the Bonds available for use by the Tender Agent to provide for the purchase of Bonds upon their optional or mandatory tender in accordance with the Bond Indenture. Any Alternate Liquidity Facility shall be in an amount equal to the Required Stated Amount with a term of at least 360 days from the effective date thereof. Any Alternate Liquidity Facility delivered to the Tender Agent pursuant to the Loan Agreement shall be delivered and become effective not later than 10 days prior to the date on which the former Liquidity Facility, if any, terminates or expires and shall contain administrative provisions reasonably acceptable to the Tender Agent and the Remarketing Agent.

Self-Liquidity Arrangements

The Corporation, at is sole option, may maintain a Self-Liquidity Arrangement in lieu of a Liquidity Facility. A Self-Liquidity Arrangement shall become effective upon delivery to the Tender Agent of letters from each Rating Agency then rating the Bonds confirming that the Bonds are rated in the highest short-term Rating Category.

Credit Facility; Alternate Credit Facility

The Corporation may, at any time at its sole option (subject to the provisions of the Master Indenture), furnish an Alternate Credit Facility in substitution for the Credit Facility, or may, at any time at its sole option (subject to the notice and mandatory tender provisions set out in the Bond Indenture) proceed without a Credit Facility with respect to the Bonds. Any Alternate Credit Facility shall be in an amount equal to the Required Stated Amount with a term of at least 360 days from the effective date thereof.

With respect to the Bonds while in a Weekly Interest Rate Period, the Corporation (1) shall maintain the Credit Facility or an Alternate Credit Facility, in an amount equal to the Required Stated Amount, and (2) shall not voluntarily terminate the Credit Facility or any Alternate Credit Facility without at least sixty (60) days written notice to the Bond Trustee, the Tender Agent, the Liquidity Facility Provider (if any) and the Remarketing Agent (if any), and providing for a mandatory tender of the Bonds prior to the effective date of termination.

Any Alternate Credit Facility delivered to the Bond Trustee pursuant to the Loan Agreement shall be delivered and become effective not later than 10 days prior to the date on which the former Credit Facility, if any, terminates or expires and shall contain administrative provisions reasonably acceptable to the Bond Trustee and the Remarketing Agent.

Continuing Disclosure

So long as the Bonds are in a Weekly Interest Rate Period, the Corporation shall have no continuing disclosure obligation under the Loan Agreement.

Events of Default

Each of the following events constitute a "Loan Default Event" under the Loan Agreement: (a) failure by the Corporation to pay in full any payment required under the Loan Agreement or of the Obligated Group to pay in full any payment required under Obligation No. 22 when due, whether on an interest payment date, at maturity, upon a date fixed for prepayment, by declaration, upon tender of the Bonds for purchase pursuant to the Bond Indenture, or otherwise pursuant to the terms of the Loan Agreement or the Bond Indenture; (b) if any material representation or warranty made by the Corporation in the Loan Agreement or made by the Corporation or any Obligated Group Member in any document, instrument or certificate furnished to the Bond Trustee or the Issuer in connection with the issuance of Obligation No. 22 or the Bonds shall at any time prove to have been incorrect in any respect as of the time made; (c) if the Corporation shall fail to observe or perform any other covenant, condition, agreement or provision in the Loan Agreement on its part to be observed or performed, or shall breach any warranty by the Corporation contained in the Loan Agreement, for a period of sixty (60) days after written notice, specifying such failure or breach and requesting that it be remedied, has been given to the Corporation by the Issuer or the Bond Trustee; except that, if such failure or breach can be remedied but not within such sixty-day period and if the Corporation has taken all action reasonably possible to remedy such failure or breach within such sixty-day period, such failure or breach shall not become a Loan Default Event for so long as the Corporation shall diligently proceed to remedy such failure or breach in accordance with and subject to any directions or limitations of time established by the Bond Trustee; (d) any Event of Default as defined in and under the Bond Indenture; or (e) any Event of Default as defined in and under the Master Indenture.

Remedies on Default

If a Loan Default Event shall occur, then, and in each and every such case during the continuance of such Loan Default Event, the Bond Trustee on behalf of the Issuer, at the direction of or with the consent of the Credit Facility Provider, but subject to the limitations in the Bond Indenture as to the enforcement of remedies, may take such action as it deems necessary or appropriate to collect amounts due under the Loan Agreement, to enforce performance and observance of any obligation or agreement of the Corporation under the Loan Agreement or to protect the interests securing the same, and may, without limiting the generality of the foregoing: (a) exercise any or all rights and remedies given by the Loan Agreement or available under the Loan Agreement or given by or available under any other instrument of any kind securing the Corporation's performance under the Loan

Agreement; (b) by written notice to the Corporation declare all Loan Repayments and Additional Payments to be immediately due and payable under the Loan Agreement, whereupon the same shall become immediately due and payable; and (c) take any action at law or in equity to collect the payment required under the Loan Agreement then due, whether on the stated due date or by declaration of acceleration or otherwise, for damages or for specific performance or otherwise to enforce performance and observance of any obligation, agreement or covenant of the Corporation under the Loan Agreement.

Immunity of Officers, Employees and Members of the Issuer and the Corporation

No recourse shall be had for the payment of Loan Repayments or for any claim based thereon or upon any representation, obligation, covenant or agreement in the Loan Agreement contained against any past, present or future officer, member, trustee, director, employee or agent of the Issuer, the Association of Bay Area Governments or the Corporation, or, respectively, of any successor public or private corporation thereto, as such, either directly or through the Issuer, the Corporation, or respectively, any successor public or private corporation thereto, under any rule of law or equity, statute or constitution or by the enforcement of any assessment or penalty or otherwise, and all such liability of any such officers, members, directors, employees or agents as such is expressly waived and released under the Loan Agreement as a condition of and consideration for the execution of the Loan Agreement.

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APPENDIX D

FORM OF OPINION OF BOND COUNSEL

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APPENDIX D

FORM OF OPINION OF BOND COUNSEL

February 12, 2009

ABAG Finance Authority For Nonprofit Corporations
Oakland, California

ABAG Finance Authority For Nonprofit Corporations
Variable Rate Revenue Bonds (Sharp HealthCare), Series 2009A
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to ABAG Finance Authority For Nonprofit Corporations (the "Authority") in connection with the issuance of $60,000,000 aggregate principal amount of ABAG Finance Authority For Nonprofit Corporations Variable Rate Revenue Bonds (Sharp HealthCare), Series 2009A (the "Bonds"), issued pursuant to a bond indenture, dated as of February 1, 2009 (the "Bond Indenture"), between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Bond Trustee"). The Bond Indenture provides that the Bonds are issued for the purpose of making a loan of the proceeds thereof to Sharp HealthCare (the "Corporation") pursuant to a loan agreement, dated as of February 1, 2009 (the "Loan Agreement"), between the Authority and the Corporation. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Bond Indenture.

In such connection, we have reviewed the Bond Indenture; the Loan Agreement; the Tax Certificate and Agreement, dated the date hereof (the "Tax Certificate"), between the Authority and the Corporation; opinions of counsel to the Authority and the Corporation and the other Members of the Obligated Group; certificates of the Authority, the Bond Trustee, the Corporation and others; and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

We have relied on the opinion of Hooper, Lundy & Bookman, Inc., special counsel to the Members of the Obligated Group, regarding, among other matters, the current qualification of the Members of the Obligated Group as organizations described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the "Code"). We note that the opinion is subject to a number of qualifications and limitations. We have also relied upon representations of the Corporation regarding the use of the facilities financed with the proceeds of the Bonds in activities that are not considered unrelated trade or business activities of the Members of the Obligated Group within the meaning of Section 513 of the Code. We note that the opinion of special counsel to the Members of the Obligated Group does not address Section 513 of the Code. Failure of the Members of the Obligated Group to be organized and operated in accordance with the Internal Revenue Service's requirements for the maintenance of their status as organizations described in Section 501(c)(3) of the Code, or use of the bond-financed facilities in activities that are considered unrelated trade or business activities of the Members of the Obligated Group within the meaning of Section 513 of the Code, may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Bonds.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the

Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second and third paragraphs hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Bond Indenture, the Loan Agreement and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Bond Indenture, the Loan Agreement and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, and to the exercise of judicial discretion in appropriate cases. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Bond Indenture or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement, dated February 4, 2009, or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of the Authority.

2. The Bond Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority. The Bond Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Revenues and any other amounts held by the Bond Trustee in any fund or account established pursuant to the Bond Indenture, except the Rebate Fund and the Bond Purchase Fund, subject to the provisions of the Bond Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Bond Indenture.

3. The Loan Agreement has been duly executed and delivered by, and constitutes a valid and binding agreement of, the Authority.

4. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX E

BOOK-ENTRY ONLY SYSTEM

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BOOK-ENTRY ONLY SYSTEM

The information provided in this ***APPENDIX E*** *has been provided by DTC. No representation is made by the Authority, the Bank, the Obligated Group or the Underwriter as to the accuracy or adequacy of such information provided by DTC or as to the absence of material adverse changes in such information subsequent to the date hereof.*

The Depository Trust Company, New York, New York, ("DTC") will act as the 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 the Bonds, in the aggregate principal amount of such Bonds, 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 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as 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. Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond Indenture, Loan Agreement or Master Indenture. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

Payment of principal, interest, redemption prices and purchase prices, respectively, on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Bond Trustee or Authority, on a payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, Bond Trustee, Master Trustee, the Obligated Group, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest and redemption prices to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Bond Trustee. Disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Bond Trustee, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in such Bonds, on DTC's records, to such Bond Trustee or the Remarketing Agent. The requirement for physical delivery of such Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in such Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of such tendered Bonds to the Remarketing Agent's DTC account.

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

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). Once the Authority has requested that holders withdraw securities from DTC, DTC will notify its Participants of such request and such Participants may utilize DTC's withdrawal process to withdraw their Bonds from DTC. In the event a Participant utilizes DTC's withdrawal process, Bond certificates will be printed and delivered.

For so long as the Bonds are registered in the name of DTC or its nominee, Cede & Co., the Authority, the Master Trustee and the Bond Trustee will recognize only DTC or its nominee, Cede & Co., as the registered owner of the Bonds for all purposes, including payments, notices and voting.

Under the Bond Indenture, payments made by the Bond Trustee to DTC or its nominee will satisfy the Authority's obligations under the Bond Indenture, the Corporation's Obligations under the Loan Agreement and the Obligated Group's obligations under the Series 2009 Obligation, to the extent of the payments so made.

Prior to any discontinuation of the book-entry only system described above, the Bond Trustee and the Authority may treat DTC as, and deem DTC to be, the absolute owner of the Bonds for all purposes whatsoever, including, without limitation, (i) the payment of principal of, premium, if any, and interest on the Bonds, (ii) giving notices of redemption and other matters with respect to the Bonds, (iii) registering transfers with respect to the Bonds and (iv) the selection of Bonds for redemption.

Neither the Authority, the Obligated Group, the Underwriter nor the Bond Trustee will have any responsibility or obligation to any DTC Participant, Indirect Participant or any Beneficial Owner or any other person with respect to: (i) the Bonds, (ii) the accuracy of any records maintained by DTC or any DTC Participant or Indirect Participant, (iii) the payment by DTC or any DTC Participant or Indirect Participant of any amount due to any Beneficial Owner in respect of the principal or redemption price of or interest on the Bonds, (iv) the delivery by DTC or any DTC Participant or Indirect Participant of any notice to any Beneficial Owner which is required or permitted under the terms of the Bond Indenture to be given to Bondholders, (v) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Bonds, or (vi) any other action taken by DTC as Bondholder.

The Authority, the Obligated Group, the Underwriter and the Bond Trustee cannot and do not give any assurances that DTC, the DTC Participants or the Indirect Participants will distribute to the Beneficial Owners of the Bonds (i) payments of principal or redemption price of or interest on the Bonds, (ii) certificates representing an ownership interest or other confirmation of Beneficial Ownership interests in the Bonds, or (iii) redemption or other notices sent to DTC or Cede & Co., its nominee, as the Registered Owner of the Bonds, or that they will do so on a timely basis or that DTC, DTC Participants or Indirect Participants will serve and act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission, and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

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