**NEW ISSUE – BOOK-ENTRY ONLY**

**Ratings:**† Moody's "Aa3"
S&P "AA"
Fitch "AA-"

*In the opinion of Stevens & Lee, a professional corporation ("Bond Counsel"), assuming continuing compliance by the Authority and the Obligated Group with certain covenants to comply with provisions of the Internal Revenue Code of 1986, as amended (the "Code"), and all regulations applicable thereunder, interest on the 2012A Bonds is not includable in gross income under Section 103(a) of the Code and interest on the 2012A Bonds is not an item of tax preference for purposes of the federal, individual or corporate alternative minimum taxes; although Bond Counsel observes that such interest is included in adjusted current earnings when calculating the corporate alternative minimum taxable income; also see "TAX EXEMPTION AND OTHER TAX MATTERS" herein for a brief description of some of the other provisions of the Code affecting the purchasers and holders of the 2012A Bonds. In the opinion of Bond Counsel, under the laws of the Commonwealth of Pennsylvania (the "Commonwealth"), the 2012A Bonds and interest on the 2012A Bonds shall be free from taxation for state and local purposes within the Commonwealth, but this exemption does not extend to gift, estate, succession or inheritance taxes or any other taxes not levied directly on the 2012A Bonds or the income therefrom. Under the laws of the Commonwealth, profits, gains or income derived from the sale, exchange or other disposition of the 2012A Bonds, are subject to state and local taxation within the Commonwealth.*

The Reading Hospital and Medical Center

# $160,065,000
# THE BERKS COUNTY MUNICIPAL AUTHORITY
## Fixed Rate Revenue Bonds
## (The Reading Hospital and Medical Center Project), Series A of 2012

**Dated: Date of Delivery** **Due: November 1, as shown below**

The Berks County Municipal Authority (the "*Authority*") is issuing $160,065,000 of its Fixed Rate Revenue Bonds (The Reading Hospital and Medical Center Project), Series A of 2012 (the "*2012A Bonds*") to refinance certain bonds described herein for the benefit of The Reading Hospital (the "*Borrower*" and, together with The Reading Hospital and Medical Center ("*TRHMC*"), the "*Obligated Group*") and to finance part of the costs of the refinancing described herein. See "PLAN OF FINANCE" and "ESTIMATED SOURCES AND USES OF FUNDS" herein. The 2012A Bonds will be issued as described herein.

The 2012A Bonds will bear interest at the rates and mature on the dates set forth on the front cover. The principal or redemption price of the 2012A Bonds will be payable upon presentation and surrender thereof at the office of the Manufacturers and Traders Trust Company (the "*Bond Trustee*"). Interest on the 2012A Bonds will be payable semiannually on May 1 and November 1 of each year, commencing November 1, 2012. So long as The Depository Trust Company, New York, New York ("*DTC*") or its nominee, Cede & Co., is the registered owner of the 2012A Bonds, payments of the principal or redemption price of, and interest on, the 2012A Bonds will be made to DTC. Additional information concerning the terms of the 2012A Bonds is contained under the caption "DESCRIPTION OF THE 2012A BONDS" herein.

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$35,245,000 5.000% Term Bonds due November 1, 2040, Priced to Yield 4.23%*, CUSIP No. 084538GV3††
$18,980,000 4.250% Term Bonds due November 1, 2041§, Priced to Yield 4.50%, CUSIP No. 084538GW1††
$10,000,000 4.500% Term Bonds due November 1, 2041§, Priced to Yield 4.50%, CUSIP No. 084538GY7††
$95,840,000 5.000% Term Bonds due November 1, 2044, Priced to Yield 4.28%*, CUSIP No. 084538GX9††

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The 2012A Bonds will be issued as fully registered bonds without coupons, and, when initially issued, will be registered in the name of Cede & Co., as registered owner and nominee for DTC. DTC will act as securities depository of the 2012A Bonds. Individual purchases will be made only in book-entry form, initially in denominations of $5,000 and in any integral multiple thereof. So long as Cede & Co., as nominee for DTC, is the registered owner of the 2012A Bonds, references herein to the Bondholders or registered owners (other than under the caption "CONTINUING DISCLOSURE" herein) shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the 2012A Bonds.

The 2012A Bonds are issued and secured under the provisions of the Trust Indenture, dated as of June 1, 2012 (the "*Bond Indenture*"), by and between the Authority and the Bond Trustee. The 2012A Bonds are payable, in addition to the sources described herein, from loan repayments made by the Borrower pursuant to the Loan Agreement (defined herein), between the Authority and the Borrower and the Borrower's obligations under the Loan Agreement are evidenced and secured by the 2012A Master Note (defined herein), to be delivered under the terms of the Master Indenture (defined herein), by the Obligated Group. See APPENDIX C – "SUMMARY OF THE BOND INDENTURE AND THE LOAN AGREEMENT" and APPENDIX D – "SUMMARY OF THE MASTER INDENTURE" hereto.

The 2012A Bonds are subject to optional, mandatory and extraordinary redemption prior to maturity as described herein. See "DESCRIPTION OF THE 2012A BONDS – Redemption Provisions" herein.

**The 2012A Bonds are special limited obligations of the Authority and do not constitute a debt or liability of the County of Berks, the Commonwealth, or any political subdivision, agency or instrumentality thereof other than the Authority. Neither the credit nor the taxing power of any state or any political subdivision, agency or public instrumentality thereof is pledged to the payment of the principal of, premium, if any, or interest on the 2012A Bonds. The Authority has no taxing power and is not liable for the payment of the 2012A Bonds except from the sources herein described.**

This cover page contains information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. **There are risks associated with an investment in the 2012A Bonds, some of which are outlined under the caption "BONDHOLDERS' RISKS" herein.**

*The 2012A Bonds are offered when, as and if issued by the Authority and received by the Underwriters, subject to prior sale and to approval of legality by Stevens & Lee, a professional corporation, Reading, Pennsylvania, Bond Counsel; and to the approval of certain matters for the Authority by its counsel, Masano Bradley, Wyomissing, Pennsylvania; for the Borrower and the Obligated Group by their counsel, Roland Stock, LLC, Reading, Pennsylvania; and for the Underwriters by their counsel, Ballard Spahr LLP, Philadelphia, Pennsylvania. It is expected that the 2012A Bonds in definitive form will be available for delivery to DTC in New York, New York on or about June 28, 2012.*

**BofA Merrill Lynch** **Morgan Stanley** **RBC Capital Markets**

The date of this Official Statement is June 14, 2012

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† For a discussion of the ratings, see "RATINGS" herein.
* Yield to first optional redemption date of May 1, 2022.
§ 2012A Bonds maturing on November 1, 2041 are not subject to sinking fund redemption.

**IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2012A BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME WITHOUT PRIOR NOTICE. THE UNDERWRITERS MAY OFFER AND SELL THE 2012A BONDS TO CERTAIN DEALERS AT PRICES LOWER THAN THE OFFERING PRICES STATED ON THE FRONT COVER HEREOF AND SAID OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS WITHOUT NOTICE.**

No dealer, broker, salesperson or other person has been authorized by the Authority, the Borrower, the Obligated Group or the Underwriters to give any information or to make any representations, other than those in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, and there shall not be any sale of the 2012A Bonds in any state in which it is unlawful to make such offer, solicitation or sale. The information set forth herein has been obtained from the Authority, the Borrower, the Obligated Group and other sources that are believed to be reliable, but the accuracy or completeness of the information is not guaranteed and the information is not to be construed as a representation by the Underwriters. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority, the Borrower or the Obligated Group 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.

The Underwriters have reviewed the information in this Official Statement pursuant to their responsibilities to investors under the federal securities laws, but the Underwriters do not guarantee the accuracy or completeness of such information.

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

THE 2012A BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 NOR HAS THE BOND INDENTURE NOR THE MASTER INDENTURE BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE 2012A BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAWS OF THE STATES IN WHICH THE 2012A BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN THE OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THESE STATES NOR ANY OF THEIR AGENCIES HAVE PASSED UPON THE MERITS OF THE 2012A BONDS OR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT.

## CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements generally are identifiable by the terminology used, such as "plan," "expect," "estimate," "budget" or other similar words. Such forward-looking statements include, but are not limited to, certain statements under the caption "BONDHOLDERS' RISKS" in the forepart of this Official Statement and in APPENDIX A – "THE READING HOSPITAL AND THE READING HOSPITAL AND MEDICAL CENTER" attached hereto.

The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Neither the Borrower nor the Obligated Group plans to issue any updates or revisions to those forward-looking statements if or when their expectations of events, conditions or circumstances on which such statements are based occur.

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†† Copyright 2012, American Bankers Association. CUSIP data herein are provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. The CUSIP numbers listed above are being provided solely for the convenience of Bondholders only at the time of issuance of the 2012A Bonds and none of the Authority, the Obligated Group or the Underwriters makes any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the 2012A Bonds as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the 2012A Bonds.

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# OFFICIAL STATEMENT

**$160,065,000**
**The Berks County Municipal Authority**
**Fixed Rate Revenue Bonds**
**(The Reading Hospital and Medical Center Project),**
**Series A of 2012**

## INTRODUCTORY STATEMENT

This Official Statement, including the cover page and Appendices attached hereto, is furnished in connection with the offering of $160,065,000 aggregate principal amount of Fixed Rate Revenue Bonds (The Reading Hospital and Medical Center Project), Series A of 2012 (the "*2012A Bonds*"). The 2012A Bonds are being issued and sold by the Authority pursuant to (i) the Municipality Authorities Act of the Commonwealth of Pennsylvania (Act of June 19, 2001, P.L. 22, as amended) (the "*Act*"), (ii) a resolution adopted by the Board of the Authority on May 16, 2012, and (iii) a Trust Indenture, dated as of June 1, 2012 (the "*Bond Indenture*"), by and between the Authority and Manufacturers and Traders Trust Company, a New York state chartered bank with trust powers organized and existing under and by virtue of the laws of the State of New York and having a corporate trust office in the City of Harrisburg, Pennsylvania, as trustee (the "*Bond Trustee*").

The 2012A Bonds are being issued to make a loan to The Reading Hospital, a Pennsylvania nonprofit membership corporation (the "*Borrower*"), in a principal amount equal to the aggregate principal amount of the 2012A Bonds (the proceeds of which loan will be equal to the proceeds received from the sale of the 2012A Bonds), pursuant to a Loan Agreement, dated as of June 1, 2012 (the "*Loan Agreement*"), between the Authority and the Borrower. The Borrower is the parent of The Reading Hospital and Medical Center ("*TRHMC*"), which is a wholly owned subsidiary of the Borrower and a Pennsylvania nonprofit membership corporation. The primary corporate purpose of the Borrower is to engage in fund raising activities and hold, invest and manage funds on behalf of TRHMC; and together, they form the "*Obligated Group*."

Pursuant to the Loan Agreement, the Authority will lend the proceeds of the 2012A Bonds to the Borrower for the purpose of financing the costs of a project (the "*Project*") consisting of the (a) refunding of (i) the Dauphin County General Authority's Variable Rate Demand/Fixed Rate Hospital Revenue Bonds (The Reading Hospital and Medical Center Project) Series A of 1994 (the "*1994 Bonds*"); (ii) the Authority's Health Care Revenue Bonds (Pooled Financing Project) Series of 1998 (the "*1998 Bonds*") *and* (iii) the Authority's Revenue Bonds (The Reading Hospital and Medical Center Project) Series 2008A-1 (the "*2008 Bonds*" and, together with the 1994 Bonds and the 1998 Bonds, the "*Prior Bonds*"); and (b) payment of the costs and expenses incident to the issuance of the 2012A Bonds. See "PLAN OF FINANCING" and "ESTIMATED SOURCES AND USES OF FUNDS."

The 2012A Bonds will be issued in the aggregate principal amount, bear interest at the rates and mature on the dates and in the principal amounts set forth on the front cover page of this Official Statement. Interest on the 2012A Bonds is payable semiannually on May 1 and November 1 of each year, commencing November 1, 2012. The 2012A Bonds will be authorized in denominations of $5,000 and any integral multiple thereof. Additional information concerning the terms of the 2012A Bonds is contained under the caption "DESCRIPTION OF THE 2012A BONDS" herein.

Concurrently with the issuance of the 2012A Bonds, the Authority is expected to issue (a) $91,775,000 aggregate principal amount of its Variable Rate Revenue Bonds (The Reading Hospital

and Medical Center Project), Series B of 2012 (the "*2012B Bonds*"), (b) $47,235,000 aggregate principal amount of its Revenue Bonds (The Reading Hospital and Medical Center Project), Series C of 2012 (the "*2012C Bonds*") and (c) $174,200,000 aggregate principal amount of its Variable Rate Revenue Bonds (The Reading Hospital and Medical Center Project), Series D of 2012 (the "*2012D Bonds*" and, together with the 2012A Bonds, the 2012B Bonds and the 2012C Bonds, the "*2012 Bonds*"). The 2012B Bonds are expected to be issued as SIFMA Index floating rate bonds and will be described in, and offered for sale pursuant to, a separate official statement. The 2012C Bonds and the 2012D Bonds are expected to be issued as variable rate bonds and privately placed with two or more commercial banks. See "PLAN OF FINANCE – 2012B Bonds, 2012C Bonds and 2012D Bonds."

**Security**

Pursuant to the Loan Agreement, the Borrower has agreed to make payments at such times and in such amounts as to provide for payment of the principal of, and premium, if any, and interest on, the 2012A Bonds as well as certain fees and expenses of the Authority.

To evidence and secure the Borrower's obligations under the Loan Agreement, the Obligated Group, as maker, will issue to the Authority, as payee, its Series A of 2012 Master Note (The Berks County Municipal Authority) dated the date of issuance of the 2012A Bonds (the "*2012A Master Note*"). The Authority's right, title and interest in the 2012A Master Note will be assigned to the Bond Trustee. The 2012A Master Note will be issued under and secured pursuant to a Master Trust Indenture dated as of June 1, 1993 (the "*Master Indenture*") among TRHMC, the Borrower and The Bank of New York Mellon Trust Company, N.A., as master trustee (in such capacity, the "*Master Trustee*"), as amended, modified or supplemented from time to time, including by a Twenty-Fourth Supplemental Master Trust Indenture dated as of June 1, 2012 ("*Supplement No. 24*"). The 2012A Master Note and any additional notes issued under the Master Indenture are to be secured, on a parity basis with the other Master Indenture Obligations that heretofore have been issued under the Master Indenture by a lien on and a security interest in the Gross Revenues of the Obligated Group or certain corporate entities that may become members of the Obligated Group (the "*Obligated Affiliates*") for the equal and ratable benefit of the holders of all Master Indenture Obligations. On the date hereof, the only members of the Obligated Group are the Borrower and TRHMC, and no additional members are anticipated prior to or on the date of delivery of the 2012A Bonds. See "SECURITY FOR THE 2012A BONDS" herein and "SUMMARY OF THE MASTER INDENTURE" in APPENDIX D hereto for a further description of the Master Indenture.

**Indenture-held Funds**

The 2012A Bonds will be further secured by the moneys and securities in certain accounts held by the Bond Trustee under the Bond Indenture. The moneys and securities held in such accounts secure the 2012A Bonds issued under the Bond Indenture.

The 2012A Bonds are special, limited obligations of the Authority issued and separately secured under the Bond Indenture. Except to the extent payable from the proceeds of the 2012A Bonds, the 2012A Bonds will be payable solely from loan repayments made by the Borrower under the Loan Agreement and by the Obligated Group under the 2012A Master Note.

See "SECURITY FOR THE 2012A BONDS" and APPENDIX E – "SUMMARY OF THE MASTER INDENTURE" hereto for a summary of the terms of the Master Indenture.

**Financial Information**

Appendix A to this Official Statement includes financial data for the nine months ended March 31, 2012 and 2011, which have been derived from unaudited unconsolidated financial data for the Obligated Group and unaudited consolidated financial data for the Borrower and its Controlled Entities, which data in the opinion of management, include all adjustments, consisting of normal, recurring adjustments, necessary for a fair presentation of the financial data solely for such periods.

Appendix B to this Official Statement contains the audited consolidated financial statements of the Borrower and controlled entities, including TRHMC, for the fiscal years ended June 30, 2011 and 2010. SUCH AUDITED CONSOLIDATED FINANCIAL STATEMENTS INCLUDE CONTROLLED ENTITIES THAT ARE NOT MEMBERS OF THE OBLIGATED GROUP. THE MEMBERS OF THE OBLIGATED GROUP ACCOUNTED FOR 88.0% AND 88.3% OF CONSOLIDATED REVENUES FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2010, RESPECTIVELY, AND 94.2% AND 94.4% OF CONSOLIDATED ASSETS AT JUNE 30, 2011 AND 2010, RESPECTIVELY.

**Bondholders' Risks**

An investment in the 2012A Bonds involves the assumption of certain risks that relate primarily to the ability of the Borrower and the other members of the Obligated Group to generate revenues from operations that will be sufficient to pay debt service on the 2012A Bonds and other indebtedness of the Obligated Group. The disclosure of risks contained herein under the caption, "BONDHOLDERS' RISKS," is based upon the assessment of the Borrower's management of the impact that such risks might have on the Borrower and the other members of the Obligated Group, taken as a whole. In the event that the identity or composition of the Obligated Group changes, the impact of such risks might differ from the present assessment of the Borrower's management of the impact of such risks.

**Defined Terms**

All capitalized terms used in this Official Statement, unless otherwise defined or the context otherwise indicates, have the same meaning included in "Definitions of Certain Terms and Summaries of Principal Legal Documents" in APPENDIX C – "SUMMARY OF THE BOND INDENTURE AND THE LOAN AGREEMENT," and "Definitions of Certain Terms" in APPENDIX D – "SUMMARY OF THE MASTER INDENTURE" hereto.

**Underlying Documents**

The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document for the complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each such document. Copies of the Master Indenture, Supplement No. 24, the Loan Agreement and the Bond Indenture will be available on and after the date of delivery of the 2012A Bonds in reasonable quantities upon written request to the Bond Trustee.

## THE AUTHORITY

The Authority, created in 1972 by the Board of Commissioners of Berks County, Pennsylvania (the "*County*"), pursuant to the provisions of the Act, is a body politic and corporate whose existence will continue for 50 years from May 13, 2005. The Authority has the power to exercise any and all powers granted under the Act, which include the power to undertake health care projects for nonprofit institutions

located within the Commonwealth of Pennsylvania (the "*Commonwealth*") and to issue its bonds for such health care projects.

The governing body of the Authority consists of a board of seven members (the "*Board of the Authority*"), appointed by the elected Board of Commissioners of the County. Members of the Authority's board are appointed for staggered five-year terms and may be reappointed. Present members and officers are shown below:

| | |
|---|---|
| John T. Connelly | Chairman |
| Robert H. Kauffman | Vice-Chairman |
| Douglas F. Didyoung, Sr. | Secretary |
| Norman Wilikofsky | Treasurer |
| Frederick L. Schultz | Member |
| James A. Gilmartin | Member |
| Wayne R. Weidner | Member |

**THE 2012A BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE AUTHORITY, AND THE MEMBERS, OFFICERS AND EMPLOYEES OF THE AUTHORITY ARE NOT PERSONALLY LIABLE ON THE 2012A BONDS. THE AUTHORITY HAS NO TAXING POWER. NEITHER THE CREDIT NOR THE TAXING POWER OF THE COUNTY, THE COMMONWEALTH OR ANY OF THEIR POLITICAL SUBDIVISIONS IS PLEDGED FOR PAYMENT OF THE 2012A BONDS, AND THE 2012A BONDS SHALL NOT BE OR BE DEEMED AN OBLIGATION OF THE COUNTY, THE COMMONWEALTH OR ANY OF THEIR POLITICAL SUBDIVISIONS, AGENCIES OR INSTRUMENTALITIES, OTHER THAN (TO A LIMITED EXTENT) THE AUTHORITY.**

The Authority has not prepared or assisted in the preparation of this Official Statement and is not responsible for the statements made herein except with respect to the information specifically related to the Authority under this section entitled "THE AUTHORITY." Except for the execution and delivery of documents required to effect the issuance of the 2012A Bonds, the Authority has not otherwise assisted in the public offer, sale or distribution of the 2012A Bonds. Accordingly, except as aforesaid, the Authority disclaims responsibility for the disclosures set forth in this Official Statement or otherwise made in connection with the offer, sale and distribution of the 2012A Bonds.

The Authority has in the past and may in the future issue other revenue bonds and notes. None of the revenues of the Authority with respect to its other revenue bonds or notes are or will be pledged as security for the 2012A Bonds. Further, the Authority's other revenue bonds and notes are not and will not be payable from or secured by the revenues of the Authority and other moneys securing the 2012A Bonds. All such other revenue bonds and notes which were or may be issued for the benefit of any institution or municipality are and will be secured separately and distinctly from the issues on behalf of every other such institution or municipality and each will be payable solely from revenues and receipts derived from the institution or municipality on whose behalf such bonds or notes were issued.

## THE OBLIGATED GROUP

On the date hereof, the only members of the Obligated Group are the Borrower and TRHMC, and no additional members are anticipated prior to or on the date of delivery of the 2012A Bonds. TRHMC, founded in 1867, is a not-for-profit membership corporation of the Commonwealth of Pennsylvania. TRHMC owns and operates a general acute-care hospital facility located in West Reading, Pennsylvania, which is licensed for 735 beds and 34 bassinets. TRHMC serves the residents of Reading and surrounding communities in Berks County, Pennsylvania. The Borrower is a Pennsylvania not-for-profit

membership corporation and is the parent corporation of TRHMC and certain other entities. The primary corporate purpose of the Borrower is to engage in fund raising activities on behalf of TRHMC and to hold, invest and manage funds on behalf of TRHMC. Controlled entities and subsidiaries of the Borrower include The Reading Hospital Medical Group and Reading Professional Services. See APPENDIX A – "THE READING HOSPITAL AND THE READING HOSPITAL AND MEDICAL CENTER" for a more complete description of the Borrower and TRHMC and their services, operations, service area and financial results.

## PLAN OF FINANCE

### 2012A Bonds

The proceeds of the 2012A Bonds will be used to finance the costs of the Project consisting of the (a) refunding of the Prior Bonds; and (b) payment of the costs and expenses incident to the issuance of the 2012A Bonds.

The proceeds of the Prior Bonds were used to finance (A) certain capital projects relating to the facilities, buildings and equipment of TRHMC, including but not limited to, (i) the financing of certain improvements to TRHMC's campus; (ii) the construction, renovation, improvement, expansion, upgrading and installation of new and existing buildings, including, but not limited to, emergency care facilities, radiation oncology, chemotherapy and cardiology services, and fit-out for sleep lab facilities; and (iii) the acquisition, construction, installation and equipping related to certain medical equipment to be acquired in connection with the foregoing projects; (B) to fund certain necessary reserves, including capitalized interest; and (C) to pay the costs and expenses of issuing the Prior Bonds.

A portion of the proceeds of the 2012A Bonds will be transferred to The Bank of New York Trust Company, N.A., as trustee for the 1994 Bonds, and applied to pay the redemption price of the 1994 Bonds on June 28, 2012.

A portion of the proceeds of the 2012A Bonds will be transferred to Manufacturers and Traders Trust Company, as trustee for the 1998 Bonds, and applied to pay the redemption price of the 1998 Bonds on June 28, 2012.

A portion of the proceeds of the 2012A Bonds will be applied to refund the 2008 Bonds. Such portion of the proceeds of the 2012A Bonds will be irrevocably deposited with Manufacturers and Traders Trust Company (the "*Escrow Agent*") for deposit in an escrow fund (the "*Escrow Fund*") to be held under the terms of an Escrow Agreement dated as of June 1, 2012 (the "*Escrow Agreement*") among the Escrow Agent, the Borrower and the Authority. The proceeds of the 2012A Bonds deposited in the Escrow Fund are expected to be sufficient to pay the redemption price of the 2008 Bonds on November 1, 2012 (the "*Redemption Date*"). The accuracy of arithmetic computations supporting the conclusion that the 2012A Bond proceeds to be deposited in the Escrow Fund will be sufficient to pay the redemption price of the 2008 Bonds on the Redemption Date will be independently verified by Grant Thorton LLP, certified public accountants. See "VERIFICATION OF MATHEMATICAL CALCULATIONS" herein.

### 2012B Bonds, 2012C Bonds and 2012D Bonds

Concurrently with the issuance of the 2012A Bonds, the Authority is expected to issue the 2012B Bonds, the 2012C Bonds and the 2012D Bonds.

If and to the extent the 2012B Bonds are issued, the proceeds thereof are expected to be used to finance the costs of a project consisting of the (a) refunding of the Authority's Variable Rate Revenue

Bonds (The Reading Hospital and Medical Center Project), Series 2009A-5 (the "*2009A-5 Bonds*") and (b) payment of the costs and expenses incident to the issuance of the 2012B Bonds. The 2012B Bonds are expected to be issued as SIFMA Index floating rate bonds and will be described in, and offered for sale pursuant to, a separate official statement.

If and to the extent the 2012C Bonds are issued, the proceeds thereof are expected to be used to finance the costs of a project consisting of the (a) refunding of the Authority's Variable Rate Revenue Bonds (The Reading Hospital and Medical Center Project), Series 2009A-4 (the "*2009A-4 Bonds*") and (b) payment of the costs and expenses incident to the issuance of the 2012C Bonds. The 2012C Bonds are expected to be issued as variable rate bonds and privately placed with a commercial bank.

If and to the extent the 2012D Bonds are issued, the proceeds thereof are expected to be used to finance the costs of a project consisting of the refunding of the Authority's Variable Rate Revenue Bonds (The Reading Hospital and Medical Center Project), Series 2009A-1 (the "*2009A-1 Bonds*") and the Authority's Variable Rate Revenue Bonds (The Reading Hospital and Medical Center Project), Series 2009A-2 (the "*2009A-2 Bonds*"). The 2012D Bonds are expected to be issued as variable rate bonds and privately placed with a commercial bank.

## ANNUAL DEBT SERVICE REQUIREMENTS

| Fiscal Year Ended | Series 2012A Bonds | | Other Series 2012 Bonds | | | |
|---|---|---|---|---|---|---|
| June 30, | Principal | Interest | Principal | Interest [1] | Other Debt Service [1] | Total Debt Service |
| 2013 | - | $6,574,174 | $442,204 | $5,786,872 | $13,958,832 | $26,762,083 |
| 2014 | - | 7,810,900 | 472,350 | 6,251,034 | 12,721,520 | 27,255,804 |
| 2015 | - | 7,810,900 | 472,350 | 6,241,587 | 12,739,932 | 27,264,769 |
| 2016 | - | 7,810,900 | 905,338 | 6,239,958 | 10,241,337 | 25,197,532 |
| 2017 | - | 7,810,900 | 944,700 | 6,198,316 | 10,262,255 | 25,216,172 |
| 2018 | - | 7,810,900 | 944,700 | 6,190,817 | 10,287,195 | 25,233,611 |
| 2019 | - | 7,810,900 | 1,377,688 | 6,168,323 | 10,316,398 | 25,673,308 |
| 2020 | - | 7,810,900 | 1,417,050 | 6,151,299 | 10,177,719 | 25,556,968 |
| 2021 | - | 7,810,900 | 1,417,050 | 6,100,488 | 9,904,525 | 25,232,963 |
| 2022 | - | 7,810,900 | 1,535,137 | 6,082,383 | 9,901,338 | 25,329,758 |
| 2023 | - | 7,810,900 | 10,779,761 | 5,946,223 | 9,902,650 | 34,439,533 |
| 2024 | - | 7,810,900 | 10,994,761 | 5,738,462 | 9,897,656 | 34,441,779 |
| 2025 | - | 7,810,900 | 11,239,761 | 5,495,067 | 9,895,550 | 34,441,277 |
| 2026 | - | 7,810,900 | 11,449,761 | 5,278,017 | 9,899,738 | 34,438,415 |
| 2027 | - | 7,810,900 | 11,679,761 | 5,046,931 | 9,903,450 | 34,441,042 |
| 2028 | - | 7,810,900 | 11,909,761 | 4,819,301 | 9,900,575 | 34,440,537 |
| 2029 | - | 7,810,900 | 12,169,761 | 4,560,894 | 9,900,013 | 34,441,567 |
| 2030 | - | 7,810,900 | 12,399,761 | 4,323,360 | 9,900,388 | 34,434,409 |
| 2031 | - | 7,810,900 | 12,649,761 | 4,072,493 | 9,900,325 | 34,433,479 |
| 2032 | - | 7,810,900 | 12,904,761 | 3,824,003 | 9,903,313 | 34,442,976 |
| 2033 | - | 7,810,900 | 22,924,761 | 3,436,232 | 265,363 | 34,437,255 |
| 2034 | - | 7,810,900 | 23,384,761 | 2,978,874 | 265,363 | 34,439,897 |
| 2035 | - | 7,810,900 | 23,859,761 | 2,505,750 | 265,363 | 34,441,774 |
| 2036 | - | 7,810,900 | 23,534,761 | 2,035,814 | 1,061,788 | 34,443,262 |
| 2037 | - | 7,810,900 | 24,009,781 | 1,553,267 | 1,063,200 | 34,437,148 |
| 2038 | - | 7,810,900 | 24,460,000 | 1,063,662 | 1,061,738 | 34,396,299 |
| 2039 | - | 7,810,900 | 24,955,000 | 568,712 | 1,062,256 | 34,396,868 |
| 2040 | $7,590,000 | 7,621,150 | 17,975,000 | 150,695 | 1,059,613 | 34,396,457 |
| 2041 | 27,655,000 | 6,740,025 | - | - | - | 34,395,025 |
| 2042 | 28,980,000 | 5,420,325 | - | - | - | 34,400,325 |
| 2043 | 30,365,000 | 4,032,875 | - | - | - | 34,397,875 |
| 2044 | 31,920,000 | 2,475,750 | - | - | - | 34,395,750 |
| 2045 | 33,555,000 | 838,875 | - | - | - | 34,393,875 |
| | $160,065,000[2] | $236,786,574[2] | $313,210,000[2] | $124,808,832[2] | $215,619,389[2] | $1,050,489,794[2] |

(1) A 2.00% rate is assumed for variable rate bonds.
(2) Totals may not add exactly due to rounding.

## ESTIMATED SOURCES AND USES OF FUNDS

The estimated proceeds of the sale of the 2012A Bonds and the estimated uses of such funds are shown below:

**Sources of Funds**

| | |
|---|---|
| Par Amount of the 2012A Bonds | $160,065,000.00 |
| Net Original Issue Premium of 2012A Bonds | 6,882,971.00 |
| TOTAL SOURCES OF FUNDS | $166,947,971.00 |

**Uses of Funds:**

| | |
|---|---|
| Refunding of Prior Bonds | $165,206,562.13 |
| Costs of Issuance[(1)] | 1,741,408.87 |
| TOTAL USES OF FUNDS | $166,947,971.00 |

(1) Includes estimated costs of issuance of the 2012A Bonds, including fees and expenses of Bond Counsel, counsel to the Borrower and the Obligated Group, and counsel to the Underwriters, underwriting discount, accountant's fees, fees of the Rating Agencies, printing costs and other miscellaneous expenses.

## SECURITY FOR THE 2012A BONDS

### General

As security for the payment of the principal, redemption price of and interest on the 2012A Bonds, the Authority will pledge and assign to the Bond Trustee, in accordance with the Bond Indenture, all its right, title and interest in the Loan Agreement (except its right to certain fees and expenses, to indemnification and to amounts required for rebate) and the 2012A Master Note. The 2012A Bonds will also be secured by the money and securities in the funds and accounts held by the Bond Trustee under the Bond Indenture. Pursuant to the Master Indenture, the 2012A Master Note will be secured on a parity basis with any other outstanding Notes by a lien on and security interest in the Gross Revenues of the Obligated Group and the Obligated Affiliates, if any, for the equal and ratable benefit of the holders of all Master Indenture Obligations. On the date hereof, there are no Obligated Affiliates other than the Borrower and TRHMC, and none are anticipated prior to or on the date of delivery of the 2012A Bonds.

### The Loan Agreement

The Loan Agreement is an absolute and unconditional obligation of the Borrower. The Loan Agreement provides, among other things, that (i) the Authority will make a loan to the Borrower in an amount equal to the aggregate proceeds of the sale of the 2012A Bonds; (ii) the aggregate proceeds of the 2012A Bonds will be applied to finance the costs of the Project; (iii) the obligations of the Borrower under the Loan Agreement will be evidenced and secured by the 2012A Master Note to be executed by the Obligated Group, made payable to the Authority and endorsed and assigned by the Authority, without recourse, to the Bond Trustee; and (iv) the Obligated Group will pay the principal of, premium, if any, and interest on the 2012A Master Note directly to the Bond Trustee, for the account of the Authority, at the times and in amounts sufficient to make full and prompt payment of the principal of, premium, if any, and interest on the 2012A Bonds as the same will become due and payable. All of the right, title and interest of the Authority in and to the Loan Agreement, except the Authority's rights with respect to

indemnification and payment of expenses and amounts required to be rebated to the federal government, are assigned to the Bond Trustee.

**The Master Indenture**

Pursuant to the Master Indenture, as supplemented by Supplement No. 24, the Obligated Group will issue the 2012A Master Note to evidence and secure the obligations of the Borrower under the Loan Agreement to make payments that are fixed as to time and amount to enable the Authority to make timely payment of the principal of, premium, if any, and interest on the 2012A Bonds. The 2012A Master Note will be the joint and several obligation of the members of the Obligated Group (each a "*Member*") pursuant to the Master Indenture. **As of the date hereof, there are no Members of the Obligated Group other than the Borrower and TRHMC, and none are anticipated prior to or on the date of delivery of the 2012A Bonds.**

The Master Indenture provides for a pledge of Gross Revenues to secure the payment of Master Indenture Obligations. **Purchasers of the 2012A Bonds should note that the pledge of Gross Revenues is for the equal and ratable benefit of the holders of all outstanding Master Indenture Obligations issued under the Master Indenture.**

The Master Indenture permits other entities, under certain conditions, to become obligated under the Master Indenture and to have Notes or other Master Indenture Obligations issued thereunder on their behalf with the approval of the Obligated Group. Each Member will, subject to the right of such Member to withdraw from the Obligated Group under certain circumstances, jointly and severally covenant promptly to make any and all payments on all Notes and other Master Indenture Obligations theretofore or thereafter issued under the Master Indenture, including the 2012A Master Note, according to the terms thereof.

Pursuant to the Master Indenture, the Obligated Group has agreed with the Master Trustee to subject itself to certain operational and financial restrictions contained therein. Each entity that becomes a Master Indenture Obligor pursuant to the Master Indenture (and therefore a Member) will be required to comply with such restrictions as well. The operational and financial restrictions contained in the Master Indenture relate primarily to limitations on the creation of liens, the incurrence of additional indebtedness, debt service coverage requirements, the ability to transfer assets, including both physical and liquid assets, and the ability to effect mergers and consolidations.

See APPENDIX D – "SUMMARY OF THE MASTER INDENTURE" for a description of the Master Indenture.

**Rate Covenant**

Pursuant to the Master Indenture, each Member of the Obligated Group covenants to set rates and charges for its facilities such that the Long-Term Debt Service Coverage Ratio, calculated at the end of each fiscal year of the Obligated Group, will not be less than 1.10. If the Long-Term Debt Service Coverage Ratio, as calculated at the end of any fiscal year, is below 1.10, the Obligated Group covenants to retain a Consultant to make recommendations to increase such Long-Term Debt Service Coverage Ratio for subsequent fiscal years to the level required or, if in the opinion of the Consultant the attainment of such level is impracticable, to the most practicable level. Each member of the Obligated Group agrees that it will, to the extent permitted by law, follow the recommendations of the Consultant. In the event the recommendations of the Consultant are implemented by each member of the Obligated Group affected thereby and the Long-Term Debt Service Coverage Ratio does not meet the requirements of the foregoing rate covenant, there shall be no Event of Default under the Master Indenture, so long as the Long-Term

Debt Service Coverage Ratio is not less than 1.00, but the Obligated Group will be under a continuing obligation to engage a Consultant for the purposes described above. If a report of a Consultant is delivered to the Master Trustee stating that Governmental Restrictions have been imposed which make it impossible for the foregoing ratio requirement to be met, then such ratio requirement will be reduced to the maximum coverage permitted by such Governmental Restrictions, but in no event less than 1.00. See "Debt Service Coverage Ratio" in APPENDIX D – "SUMMARY OF THE MASTER INDENTURE."

**Permitted Indebtedness**

The Master Indenture authorizes the Obligated Group and any other Master Indenture Obligor to issue additional Master Indenture Obligations under the Master Indenture upon compliance with the requirements set forth therein. See "Limitations on Incurrence of Additional Indebtedness" in APPENDIX D – "SUMMARY OF THE MASTER INDENTURE."

**Limited Obligations**

The 2012A Bonds and the interest thereon, are special, limited obligations of the Authority secured under the provisions of the Bond Indenture and the Master Indenture and will be payable solely from the payments and other moneys received by the Authority under the Loan Agreement, from moneys otherwise received pursuant to the Bond Indenture, and from payments by the Obligated Group under the 2012A Master Note, which is secured by a pledge of Gross Revenues of the Obligated Group. See "SECURITY FOR THE 2012A BONDS – The Master Indenture." The 2012A Bonds shall not be deemed to constitute a debt or liability of the County, the Commonwealth or of any political subdivision thereof within the meaning of any constitutional provision or statutory limitation of the Commonwealth and shall not constitute a pledge of the full faith and credit of the County, the Commonwealth or of any political subdivision thereof. The issuance of the 2012A Bonds shall not, directly, indirectly or contingently, obligate the County, the Commonwealth or any political subdivision thereof to levy any form of taxation therefor or to make any appropriation for their payment. Neither the County nor the Commonwealth shall in any event be liable for the payment of the principal of, premium, if any, or interest on the 2012A Bonds or for the performance of any pledge, mortgage, obligation or agreement of any kind whatsoever which may be undertaken by the Authority. No breach by the Authority of any such pledge, mortgage, obligation or agreement may impose any liability, pecuniary or otherwise, upon the County or the Commonwealth or any charge upon their general credit or taxing power. Neither the general credit of the Authority nor the general credit or taxing power of the County, the Commonwealth or any political subdivision thereof is pledged to the payment of the 2012A Bonds. The Authority has no taxing power.

**Other Parity Indebtedness**

The Obligated Group has previously issued and there are currently outstanding the following Master Indenture Obligations under the Master Indenture:

(i) The First Supplemental Master Trust Indenture, dated as of June 1, 1993 ("*Supplement No. 1*"), between TRHMC and the Master Trustee and the first master note issued pursuant thereto ("*Master Note No. 1*"), was entered into in connection with the issuance by the Authority of its $31,930,000 aggregate principal amount of Hospital Revenue Bonds (The Reading Hospital and Medical Center Project), Series of 1993;

(ii) the Second Supplemental Master Trust Indenture, dated as of May 15, 1994 ("*Supplement No. 2*"), between TRHMC and the Master Trustee and the second master note issued

pursuant thereto ("*Master Note No. 2*"), was entered into in connection with the issuance by the Dauphin County General Authority of the 1994 Bonds issued to make a loan to TRHMC;

(iii) the Fifth Supplemental Master Trust Indenture, dated as of September 1, 1998, between the Obligated Group and the Master Trustee (the "*Supplement No. 5*"); and the fifth master note issued pursuant thereto ("*Master Note No. 5*"), was entered into in connection with that portion of the 1998 Bonds issued to make a loan to TRHMC;

(iv) the Sixth Supplemental Master Trust Indenture, dated as of September 1, 1998, between the Obligated Group and the Master Trustee (the "*Supplement No. 6*"), and the guaranty agreement and the guaranty note, each dated as of September 1, 1998 (collectively, "*Guaranty No. 2*"), was delivered by the Obligated Group to the Authority pursuant to the terms thereof in connection with that portion of the 1998 Bonds issued to make a loan to The Highlands;

(v) the Seventh Supplemental Master Trust Indenture, dated November 1, 1999, between the Obligated Group and the Master Trustee (the "*Supplement No. 7*"), and the Series of 1999 Master Note (Berks County Municipal Authority) was issued pursuant thereto ("*Master Note No. 7*") in connection with the issuance by the Authority of its $45,805,000 aggregate principal amount of Hospital Revenue Bonds (The Reading Hospital and Medical Center Project), Series of 1999 issued to make a loan to the Borrower;

(vi) the Fifteenth Supplemental Master Trust Indenture, dated December 1, 2008, between the Obligated Group and the Master Trustee ("*Supplement No. 15*"); and the Series A of 2008 Master Note issued pursuant thereto was entered into in connection with the issuance by the Authority of the 2008 Bonds issued to make a loan to the Borrower;

(vii) the Sixteenth Supplemental Master Trust Indenture, dated December 1, 2008, between the Obligated Group and the Master Trustee ("*Supplement No. 16*"); and the Series B of 2008 Master Note issued pursuant thereto was entered into in order to secure the obligations of TRHMC under a total return swap with Royal Bank of Canada relating to the 2008 Bonds;

(viii) the Seventeenth Supplemental Master Trust Indenture, dated February 1, 2009, between the Obligated Group and the Master Trustee ("*Supplement No. 17*"); and the Series A of 2009 Master Note issued pursuant thereto was entered into in connection with the issuance by the Authority of the 2009A-1 Bonds issued to make a loan to Borrower;

(ix) the Nineteenth Supplemental Master Trust Indenture, dated February 1, 2009, between the Obligated Group and the Master Trustee ("*Supplement No. 19*"); and the Series C of 2009 Master Note issued pursuant thereto was entered into in connection with the issuance by the Authority of the 2009A-2 Bonds issued to make a loan to Borrower;

(x) the Twenty-First Supplemental Master Trust Indenture, dated July 1, 2009, between the Obligated Group and the Master Trustee ("*Supplement No. 21*"); and the Series E of 2009 Master Note issued pursuant thereto was entered into in connection with the issuance by the Authority of its $133,665,000 aggregate principal amount of Fixed Rate Revenue Bonds (The Reading Hospital and Medical Center Project), Series 2009A-3 (the "*2009A-3 Bonds*") issued to make a loan to Borrower;

(xi) the Twenty-Second Supplemental Master Trust Indenture, dated July 1, 2009, between the Obligated Group and the Master Trustee ("*Supplement No. 22*"); and the Series F of 2009 Master Note issued pursuant thereto entered into in connection with the issuance by the Authority of the 2009A-4 Bonds issued to make a loan to Borrower; and

(xii) the Twenty-Third Supplemental Master Trust Indenture, between the Obligated Group and the Master Trustee ("*Supplement No. 23*"); and the Series G of 2009 Master Note issued pursuant thereto entered into in connection with the issuance by the Authority of the 2009A-5 Bonds issued to make a loan to Borrower.

Upon the issuance of the 2012A Bonds and the application of the proceeds thereof, the Master Indenture Obligations relating to the 1994 Bonds, the 1998 Bonds and the 2008 Bonds will cease to be outstanding.

If and to the extent the 2012B Bonds, the 2012C Bonds and the 2012D Bonds are issued, (a) a supplement to the Master Trust Indenture will be entered into and a Master Note will be issued pursuant thereto with respect to each series of such bonds and (b) upon the application of the proceeds thereof, the Master Indenture Obligations relating to the 2009A-1 Bonds, the 2009A-2 Bonds, the 2009A-4 Bonds and the 2009A-5 Bonds will cease to be outstanding.

## DESCRIPTION OF THE 2012A BONDS

### General Description

The 2012A Bonds will be issued in the aggregate principal amount of $160,065,000, will be dated the date of delivery of the 2012A Bonds and will be issuable as fully-registered bonds, without coupons, in book-entry form. The 2012A Bonds will be issuable in denominations of $5,000 and any integral multiple thereof and initially will be registered in the name of Cede & Co., as registered owner and nominee for DTC, which will act as securities depository for the 2012A Bonds.

The 2012A Bonds will bear interest at the rates and mature on the dates set forth on the front cover page hereof, subject to redemption prior to maturity. Interest on the 2012A Bonds will be payable semiannually on May 1 and November 1 of each year (each, an "*Interest Payment Date*"), commencing November 1, 2012, until maturity or redemption.

Unless the book-entry system for the 2012A Bonds is discontinued (as described below), prospective purchasers will acquire beneficial ownership interests in the 2012A Bonds, in authorized denominations, as described below, but will not receive 2012A Bond certificates representing such ownership interests.

### Payment of Principal and Interest

The principal of any 2012A Bonds will be payable when due to a registered owner upon presentation and surrender of such 2012A Bonds at the designated trust office of the Bond Trustee in Harrisburg, Pennsylvania. Payment of interest on any 2012A Bond on any Interest Payment Date will be made to the Person appearing on the registration books maintained by the Bond Trustee on behalf of the Authority (the "*Bond Register*") as the registered owner thereof the close of business on the 15th day of the calendar month (whether or not a Business Day) next preceding the applicable Interest Payment Date (the "*Record Date*"). Such payments will be made by check mailed on the applicable Interest Payment Date to the registered owner at his or her address as it appears on the Bond Register, or by wire transfer of funds if Cede & Co. or a successor Securities Depository is the registered owner, or, upon written request filed not less than 20 days prior to the applicable Interest Payment Date, by wire transfer of funds to the registered owner, if such registered owner is the owner of 2012A Bonds in an aggregate principal amount of $1,000,000 or more at such wire transfer address as specified in such request. If and to the extent that the Authority fails to make payment or provision for payment of interest on any 2012A Bonds on any Interest Payment Date, such defaulted interest will be payable to the Persons in whose names the 2012A

Bonds are registered at the close of business on a special record date (the "Special Record Date") for the payment of such defaulted interest established by notice mailed by the Bond Trustee on behalf of the Authority to the registered owners of the 2012A Bonds not less than 15 days preceding such Special Record Date and not less than 20, but not more than 30, days prior to the interest payment date. Such notice shall be mailed to the Persons in whose names the 2012A Bonds are registered at the close of business on the Business Day preceding the date of mailing.

Interest on the 2012A Bonds will be payable semiannually on each Interest Payment Date. Interest on the 2012A Bonds will be computed on the basis of a 360-day year composed of twelve 30-day months. Every 2012A Bond will bear interest from the Interest Payment Date next preceding the date of registration and authentication of such 2012A Bond, unless: (a) such 2012A Bond is registered and authenticated as of an Interest Payment Date, in which event such 2012A Bond will bear interest from said Interest Payment Date; or (b) such 2012A Bond is registered after a Record Date and before the next succeeding Interest Payment Date, in which event such 2012A Bond will bear interest from such Interest Payment Date; or (c) such 2012A Bond is registered and authenticated on or prior to the Record Date next preceding November 1, 2012, in which event such 2012A Bond will bear interest from the date of original issuance; or (d) as shown by the records of the Bond Trustee, interest on such 2012A Bond will be in default, in which event such 2012A Bond will bear interest from the date on which interest was last paid on such 2012A Bond.

If the date for payment of the principal of, premium, if any, or interest on the 2012A Bonds is a Saturday, Sunday, legal holiday or a day on which banking institutions in the city where the corporate trust office of the Bond Trustee responsible for the administration of this Indenture is located are authorized or required by law or executive order to close, then the date for such payment will be the next succeeding day which is not a Saturday, Sunday, legal holiday or a day on which such banking institutions are authorized or required to close, and payment on such date will have the same force and effect as if made on the stated date of payment.

As long as DTC or its nominee is the registered owner of the 2012A Bonds, payments of principal or redemption price of, and interest on, the 2012A Bonds will be made directly to DTC or its nominee and all such payments will be valid and effective to fully satisfy and discharge the obligations of the Authority and the Obligated Group with respect to the principal or redemption price of, and interest on, the 2012A Bonds to the extent of the sum or sums so paid. So long as DTC or its nominee is the registered owner of the 2012A Bonds, references herein to the registered owners of the 2012A Bonds will be deemed to refer to DTC or its nominee and not to the owners of beneficial interests in the 2012A Bonds. See "Book-Entry Only System" below.

**Redemption Provisions**

**Optional Redemption**. The 2012A Bonds stated to mature after November 1, 2021 are subject to redemption by the Authority, at the option and direction of the Borrower, on or after May 1, 2022, in whole or in part at any time, in such order of maturity as the Borrower determines, and by lot within a maturity as selected by the Bond Trustee, at a redemption price equal to 100% of the principal amount thereof, together with accrued interest thereon to the date fixed for redemption.

**Sinking Fund Redemption**. The 2012A Bonds stated to mature on November 1, 2040, in the aggregate principal amount of $35,245,000, are subject to mandatory redemption on November 1 in each of the years set forth below commencing on November 1, 2039, at a redemption price equal to 100% of the principal amount thereof plus accrued interest as follows:

| Year | Principal Amount |
|---|---|
| 2039 | $ 7,590,000 |
| 2040† | 27,655,000 |

† Maturity

The 2012A Bonds stated to mature on November 1, 2041, are not subject to mandatory redemption.

The 2012A Bonds stated to mature on November 1, 2044, in the aggregate principal amount of $95,840,000, are subject to mandatory redemption on November 1 in each of the years set forth below commencing on November 1, 2042, at a redemption price equal to 100% of the principal amount thereof plus accrued interest as follows:

| Year | Principal Amount |
|---|---|
| 2042 | $30,365,000 |
| 2043 | 31,920,000 |
| 2044† | 33,555,000 |

† Maturity

**Reduction of Sinking Fund Installments**. If 2012A Bonds that are subject to sinking fund redemption are purchased by the Borrower or redeemed (except pursuant to a Sinking Fund Installment), the Borrower will determine which Sinking Fund Installments are to be reduced and the amount of any such reduction, provided that the aggregate of such reductions will equal the aggregate principal amount of 2012A Bonds so purchased or redeemed.

**Extraordinary Optional Redemption**. The 2012A Bonds are subject to extraordinary redemption, at the option of the Authority, at the direction of the Borrower, as a whole, at any time, or, from time to time, in part, in the event of damage to, destruction of or condemnation of the hospital premises, or any part thereof from proceeds of insurance or condemnation that are applied to the prepayment of the Borrower's obligations under the Loan Agreement and the 2012A Master Note, upon payment of a redemption price of 100% of the principal amount to be redeemed, together with interest accrued thereon to the date fixed for redemption, as provided in the Bond Indenture. In the event that less than all of the 2012A Bonds of any particular maturity are to be redeemed, the 2012A Bonds of such maturity will be drawn by lot by the Bond Trustee.

**Purchase in Lieu of Redemption**. The Authority has granted the Borrower the option to purchase, at any time and from time to time any 2012A Bond which is to be redeemed pursuant to the optional redemption provisions of the Bond Indenture on the dates of such redemption and at a purchase price equal to the redemption price therefor. In order for the Borrower to exercise such option, the Borrower must notify the Bond Trustee not less than ten (10) Business Days prior to the proposed redemption date that amounts available to pay the redemption price of such 2012A Bonds are to be applied to purchase such 2012A Bonds in lieu of redemption. No notice other than the notice of

redemption need be given in connection with any such purchase in lieu of redemption. On the day fixed for redemption, following the receipt of a Favorable Opinion, the Bond Trustee will purchase the 2012A Bonds to be redeemed in lieu of such redemption and, following such purchase, the Bond Trustee will cause such 2012A Bonds to be registered in the name of or upon the written direction of the Borrower and deliver them to or as directed by the Borrower. No purchase of 2012A Bonds pursuant to these provisions will operate to extinguish the indebtedness of the Authority evidenced thereby. The provisions in the Bond Indenture described in this paragraph do not apply to mandatory sinking fund redemptions.

**Notice of Redemption**. Any redemption of 2012A Bonds will be upon not more than 45 days' and not less than 20 days' prior notice by first class mail to the registered owners of 2012A Bonds to be redeemed at their addresses shown on the Bond Register, unless a notice is waived in accordance with the provisions of the Bond Indenture by the registered owners of the 2012A Bonds to be called for redemption, and will be in the manner and under the terms and conditions and with the effect provided in the Bond Indenture. Upon surrender of any 2012A Bond for redemption in part, the Bond Trustee will authenticate and deliver one or more 2012A Bonds in exchange therefor, in an aggregate principal amount equal to the unredeemed portion of the 2012A Bond so surrendered. So long as the 2012A Bonds or any portion thereof are held by DTC, the Bond Trustee is required to send each notice of redemption of such 2012A Bonds to DTC. Failure to mail any such notice or defect in the mailing thereof in respect of any 2012A Bonds will not affect the validity of the redemption of any other 2012A Bonds.

If at the time of mailing of notice of any optional redemption there has not been deposited moneys with the Bond Trustee sufficient to redeem all the 2012A Bonds called for redemption, such notice must state that it is conditional, in that it is subject to the deposit of such redemption moneys with the Bond Trustee not later than the opening of business on the scheduled redemption date, in which case such notice will be of no effect unless such moneys are so deposited.

If less than all 2012A Bonds of any one maturity are to be redeemed, the selection of the particular 2012A Bonds of such maturity to be redeemed will be made by the Bond Trustee by lot in such manner as the Bond Trustee in its discretion may determine. In the case of a partial redemption of 2012A Bonds, when 2012A Bonds of denominations greater than $5,000 are then outstanding, each such 2012A Bond will be treated as representing such number of separate 2012A Bonds, each of the denomination of $5,000, as is obtained by dividing the actual principal amount thereof by $5,000.

**Book-Entry Only System**

DTC will act as securities depository for the 2012A Bonds. The 2012A Bonds will be issued as fully-registered bonds 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 2012A Bonds of each maturity, each in the aggregate principal amount of such maturity, and will be deposited with DTC

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("*Direct Participants*") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of

securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("*DTCC*"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("*Indirect Participants*"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the 2012A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2012A Bonds on DTC's records. The ownership interest of each actual purchaser of each 2012A 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 2012A 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 2012A Bonds, except in the event that use of the book-entry system for the 2012A Bonds is discontinued.

To facilitate subsequent transfers, all 2012A 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 2012A 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 2012A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2012A 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 2012A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2012A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the bond documents. For example, Beneficial Owners of the 2012A Bonds may wish to ascertain that the nominee holding the 2012A 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 notices shall be sent to DTC. If less than all of the 2012A 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 issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities 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 2012A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal, premium, if any, and interest on the 2012A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Bond Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Bond Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority 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.

DTC may discontinue providing its services as depository with respect to the 2012A Bonds at any time by giving reasonable notice to the Authority or the 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-only transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered to DTC.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE 2012A BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE OWNERS OF THE 2012A BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE 2012A BONDS. PRINCIPAL, PREMIUM, IF ANY, AND INTEREST PAYMENTS ON THE 2012A BONDS ARE TO BE MADE TO CEDE & CO., AND ALL SUCH PAYMENTS SHALL BE VALID AND EFFECTIVE TO SATISFY FULLY AND TO DISCHARGE THE OBLIGATIONS OF THE AUTHORITY AND THE OBLIGATED GROUP WITH RESPECT TO, AND TO THE EXTENT OF, PRINCIPAL, PREMIUM, IF ANY, AND INTEREST SO PAID.

The Obligated Group and the Authority cannot and do not give any assurances that DTC will distribute to Direct Participants, or that the Direct Participants or others will distribute to the Beneficial Owners payments of principal of, premium, if any, and interest on the 2012A 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 Obligated Group nor the Authority is responsible or liable for the failure of DTC or any Direct Participant or Indirect Participant to make any payments or give any notice to a Beneficial Owner with respect to the 2012A Bonds or any error or delay relating thereto.

THE INFORMATION IN THIS SECTION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT ARE BELIEVED TO BE RELIABLE, BUT NONE OF THE AUTHORITY, THE OBLIGATED GROUP, THE BOND TRUSTEE AND THE UNDERWRITERS TAKES ANY RESPONSIBILITY FOR THE ACCURACY THEREOF. NO REPRESENTATION IS MADE BY THE AUTHORITY, THE OBLIGATED GROUP, THE BOND TRUSTEE, OR THE UNDERWRITERS AS TO THE COMPLETENESS OR ACCURACY OF SUCH INFORMATION OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF. NO ATTEMPT HAS BEEN MADE BY

THE AUTHORITY, THE OBLIGATED GROUP, THE BOND TRUSTEE OR THE UNDERWRITERS TO DETERMINE WHETHER DTC IS OR WILL BE FINANCIALLY OR OTHERWISE CAPABLE OF FULFILLING ITS OBLIGATIONS. NEITHER THE AUTHORITY, THE OBLIGATED GROUP, THE BOND TRUSTEE NOR THE UNDERWRITERS (EXCEPT AS DIRECT PARTICIPANTS) WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS FOR THE 2012A BONDS, OR FOR ANY PRINCIPAL, REDEMPTION PREMIUM, IF ANY, OR INTEREST PAYMENT THEREON.

## CERTAIN CONSIDERATIONS AFFECTING FIXED RATE BONDS

### Dependence on Timely Payment

Payment of principal and interest on the 2012A Bonds when due will depend upon the timely payment of loan repayments by the Borrower under the Loan Agreement and the sufficiency of Gross Revenues pledged for the equal and ratable benefit of the holders of all outstanding Master Indenture Obligations. The financial and operational performance of the Obligated Group may affect whether such payments are timely made.

### Changes in Credit Ratings; Secondary Market Prices

The credit ratings on the 2012A Bonds are expected to be based on the credit ratings of TRHMC and the Borrower. Any adverse change in the credit worthiness or credit rating of TRHMC or the Borrower could adversely affect the credit rating assigned to, and the secondary market prices, of the 2012A Bonds. Secondary market prices for the 2012A Bonds could also be affected as a result of changes in the marginal federal income tax rate, general changes in interest rates and/or credit spreads, and other supply and demand conditions affecting the 2012A Bonds.

The 2012A Bonds are not expected to trade consistently at the initial offering prices set forth on the front cover page of this Official Statement, and there can be no assurance that, after the initial issuance thereof, the interest rate for any 2012A Bond will be a market rate. In addition, there is no put or demand feature with respect to any of the 2012A Bonds.

## BONDHOLDERS' RISKS

### General

The principal, premium, if any, and interest on the 2012A Bonds are payable solely from amounts payable by the Borrower to the Authority under the Loan Agreement. See "SECURITY FOR THE 2012A BONDS."

The Borrower and TRHMC are subject to numerous known and unknown risks many of which are described below and elsewhere in this Official Statement. Any of the events described below could have a material adverse effect on their business, financial conditions and results of operation. Additional risks and uncertainties that the Borrower and TRHMC are not aware of, or that they currently deem to be immaterial, could also impact their business and results of operations. The risk factors discussed below should be considered in evaluating the ability of the Borrower and TRHMC to make payments in amounts sufficient to meet their obligations under the Master Indenture. This discussion is not, and is not intended to be, exhaustive.

**Factors That Could Affect the Future Financial Condition of the Borrower and TRHMC**

The future financial condition of the Borrower and TRHMC could be affected adversely by, among other things, legislation, regulatory actions, economic conditions, increased competition from other health care providers, changes in the demand for health care services, demographic changes and professional liability claims and other litigation costs and claims. The occurrence of one or more of these risks could have a material adverse effect on the financial conditions and results of operations of the Borrower and TRHMC and, in turn, the ability of the Borrower to make payments under the Loan Agreement. The Underwriters and the Authority have not made any independent investigation of the extent to which any such factors may have an adverse impact on the financial condition of the Members of the Obligated Group.

The health care industry is highly dependent on a number of factors that may limit the ability of the Borrower to meet its obligations under the Loan Agreement, many of which are beyond the Borrower's and TRHMC's control. Among other things, participants in the health care industry (such as TRHMC) 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.

TRHMC is a health care provider which derives significant portions of its revenues from Medicare, Medicaid, Blue Cross, HMOs and other third-party payor programs. TRHMC is subject to governmental regulation applicable to health care providers, and the receipt of future revenues by TRHMC is subject to, among other factors, federal and state policies affecting the health care industry and other conditions which are impossible to predict. Such conditions may include limits on increasing charges and fees charged by TRHMC, changes in federal and state laws and regulations affecting payments for health services, the continued increase in managed care or development of new third-party payment policies which reduce revenues, unanticipated competition from other health care providers, and changes in demand for health services.

The receipt of future revenues by the Borrower and TRHMC is also subject to demand for hospital services, the ability to provide the services required by patients, management capabilities, physicians' relationships with TRHMC, the design and success of strategic plans, economic developments in the service area, the ability to control expenses, maintenance of relationships with HMOs and other third-party payor programs, competition, rates, costs, third-party reimbursement, legislation and governmental regulation, receipt of private contributions, the continued funding by the Commonwealth for medically indigent patient care, future economic conditions, and other conditions which are impossible to predict.

No assurances can be given that patient utilization or revenues available to the Borrower and TRHMC from their operations will remain stable or increase. The Borrower and TRHMC expect that they will experience increases in operating costs due to inflation and other factors. There is no assurance that cost increases will be matched by increased revenue in amounts sufficient to generate an excess of revenues over expenses.

**Patient Protection and Affordable Care Act and Healthcare Reform Initiatives**

In March 2010, President Obama signed the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (collectively, the laws are referred to as "*PPACA*"). PPACA is intended to address disparities in access, cost, quality and the delivery of healthcare to United States residents.

The changes to various aspects of the healthcare system in PPACA are far-reaching and include substantial adjustments to Medicare reimbursement, establishment of individual and employer mandates for health insurance coverage, extension of Medicaid coverage to certain populations, provision of incentives for employer-provided healthcare insurance, restrictions on physician-owned hospitals, and increased efficiency and oversight provisions. The implementation of certain provisions of PPACA may be subject to delay, either pursuant to the terms of the provisions themselves, or court challenges from opponents to PPACA.

Some of the provisions of PPACA took effect immediately, or within a few months of final approval, while others are being phased in over time, ranging from one year to ten years. Most of the significant healthcare coverage reforms begin in 2014. PPACA also requires the promulgation of substantial regulations with significant effects on the healthcare industry.

PPACA reforms the sources and methods by which consumers will pay for healthcare for themselves and their families. PPACA also places new requirements on employers related to the provision of health insurance to their employees and dependents. These reforms are expected to expand the base of consumers of healthcare services. One of the primary goals of PPACA is to provide or make available, or subsidize the premium costs of, healthcare insurance for consumers who are currently uninsured (or underinsured) and who fall below certain income levels. PPACA proposes to accomplish that objective through various provisions, including:

- creating state organized insurance markets (referred to as exchanges) in which individuals and small employers can purchase healthcare insurance for themselves and their families or their employees and dependents;

- providing subsidies for premium costs to individuals and families based upon their income relative to federal poverty levels;

- mandating that individual consumers obtain and certain employers provide a minimum level of healthcare insurance, and providing for penalties or taxes on consumers and employers that do not comply with these mandates;

- establishing insurance reforms that expand coverage generally through such provisions as prohibitions on denials of coverage for pre-existing conditions and elimination of lifetime or annual cost caps; and

- expanding existing public programs, including Medicaid for individuals and families.

To the extent that all or any of those provisions produce the intended result, an increase in utilization of healthcare services by those who are currently avoiding or rationing their healthcare can be expected and bad debt expenses may be reduced.

Some of the specific provisions of PPACA that may affect hospital operations, financial performance or financial conditions are described below. This listing is not intended to be, and should not be considered as, comprehensive. PPACA is complex and comprehensive, and includes myriad new programs and initiatives and changes to existing programs, policies, practices and laws.

- With varying effective dates, the annual Medicare market basket updates for many providers, including inpatient and outpatient hospital services, will be adjusted based on a ten-year average of national productivity and will be reduced by specified percentages each year.

- Commencing in federal fiscal year 2014, Medicare disproportionate share hospital ("*DSH*") payments (i.e., payments a provider receives from the federal government to help defray the cost of treating the uninsured) will be reduced initially by 75%, and thereafter will be determined by a formula that takes into account the national number of consumers who do not have healthcare insurance and the amount of uncompensated care provided by a hospital. Commencing in 2014, the Medicaid DSH payment, also will be reduced.

- Commencing October 1, 2010 through September 30, 2019, payments under the "Medicare Advantage" programs (Medicare managed care) have been or will continue to be reduced, which may result in increased premiums or out-of-pocket costs to Medicare beneficiaries enrolled in Medicare Advantage plans and may also lead to decreased payments to providers by managed care companies operating Medicare Advantage programs.

- Medicaid programs will be expanded to a broader population, with incomes up to 133% of federal poverty levels.

- Beginning with hospital discharges after October 1, 2012, Medicare will reduce payments to hospitals found to have an excess re-admissions ratio for certain conditions and this information will be made available to the public.

- Commencing in federal fiscal year 2015, hospitals that are in the top quartile of hospitals relative to the national average of hospital acquired conditions, will see a Medicare payment reduction of 1% for all discharges from these hospitals. Effective July 1, 2011, federal payments to states for Medicaid services related to hospital acquired conditions were prohibited.

- Beginning in 2012, certain Medicare providers, including hospitals, will be able to participate in a Medicare shared savings program that promotes accountability for the care of Medicare beneficiaries and encourages coordination of care and other efficiencies through entities called Accountable Care Organizations ("*ACOs*").

- Beginning in 2013, a value-based purchasing program will be established under the Medicare program. This program will provide incentive payments to hospitals based on their performance on certain quality and efficiency measures. In order to fund the incentive payments awarded to hospitals under this program, CMS will phase in reductions to Medicare inpatient payments.

- In order to reduce waste, fraud, and abuse in public programs, PPACA provides for provider enrollment screening, enhanced oversight periods for new providers and suppliers, and enrollment moratoria in areas identified as being at elevated risk of fraud in all public programs. It also requires Medicare and Medicaid program providers and suppliers to establish compliance programs. PPACA requires the development of a database to capture and share healthcare provider data across federal healthcare programs and provides for increased penalties for fraud and abuse violations, and increased funding for anti-fraud activities.

- PPACA establishes an Independent Payment Advisory Board to develop proposals to improve the quality of care and to recommend proposals to limit Medicare spending growth. Beginning January 15, 2019, if the Medicare spending growth rate exceeds the

target recommended by the Independent Payment Advisory Board, then the Independent Payment Advisory Board is required to develop proposals to reduce the growth rate and require the Secretary of HHS to implement those proposals, unless Congress enacts legislation related to the proposals.

- PPACA imposes substantial new data reporting obligations on hospital initiatives to improve the quality of care, reduce errors and improve health outcomes.

- PPACA immediately imposed additional requirements upon nonprofit hospitals to maintain their tax-exempt status, including obligations to adopt and publicize a financial assistance policy; limit charges to patients who qualify for financial assistance to the lowest amount charged to insured patients; and control the billing and collection processes. Additionally, effective for tax years commencing January 1, 2013, tax-exempt hospitals must conduct a community needs assessment at least once every three taxable years and adopt an implementation strategy to meet those identified needs. Failure to satisfy these conditions may result in the imposition of fines and the loss of tax-exempt status.

Broadly speaking, the provisions of PPACA that encourage or mandate healthcare coverage for individuals can be expected to increase demand for health care and reduce the amount of uncompensated care that TRHMC provides. However, revisions to the Medicare and Medicaid reimbursement programs could reduce revenues. Therefore, the impact of PPACA on the operations of TRHMC, the Borrower and their affiliates cannot be currently ascertained, and it may have a material impact, either positive or negative, on their operations.

There is much uncertainty regarding the future of PPACA. Efforts to repeal provisions of PPACA are pending in Congress and the constitutionality of PPACA is being challenged in courts across the country. More than 20 challenges to PPACA have been filed in federal courts. Some federal courts have upheld the constitutionality of PPACA, while other federal courts have held either the Act or its requirement that individuals maintain health insurance to be unconstitutional. In September 2011, the Obama administration and 26 states filed separate petitions asking the United States Supreme Court to review a United States Court of Appeals decision. On November 14, 2011, the Supreme Court announced that it would hear the challenges to PPACA to address the following issues: (i) the constitutionality of the mandate on individuals to obtain health insurance; (ii) whether some or all of the PPACA must fail if the individual health insurance mandate is stricken; (iii) the constitutionality of the Medicaid expansion; and (iv) whether the Anti-Injunction Act, which requires a tax to be assessed and collected before it can legally be challenged, bars the Supreme Court from hearing the case until a penalty for violation of the individual health insurance mandate is imposed. The Supreme Court heard arguments with respect to the case in March 2012 and is expected to render a decision in June 2012. The ultimate outcomes of legislative attempts to repeal or amend PPACA and legal challenges to PPACA are unknown and their impact on TRHMC's operations cannot be determined.

The Borrower and TRHMC are analyzing PPACA and will continue to do so in order to assess their effects on current and projected operations, financial performance and financial condition. However, management of the Borrower and TRHMC cannot predict with any reasonable degree of certainty or reliability any interim or ultimate effects of the legislation.

**Overview of 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 Amendments of 1965. The

federal government, as the country's largest payer of health care services, uses reimbursement as a key tool to implement health care policies, to allocate health care resources and to control utilization, facility and provider development and expansion, and technology use and development. Health care reform legislation continues these practices. These laws reflect the national policy that persons who are aged and persons who are poor should have access to medical care regardless of ability to pay. TRHMC serves this population and it is unlikely that TRHMC could attract sufficient numbers of private pay patients to their facilities to become self-sufficient without reimbursement from government sources.

Medicare provides certain health care benefits to beneficiaries who are 65 years of age or older, disabled, or qualify for Medicare's End Stage Renal Disease Program. Medicare Part A covers inpatient hospital, home health, nursing home care and certain other services, and Medicare Part B covers certain physicians services, certain outpatient ancillary care services, medical supplies and durable medical equipment. Medicare Part C, the Medicare Advantage program, enables Medicare beneficiaries to choose to obtain their benefits through a variety of private, managed care, risk-based plans.

Medicare Part D makes outpatient prescription drug benefits available to Medicare beneficiaries. The private Medicare Part D plans are funded through premium payments from enrolled Medicare beneficiaries and subsidies from the federal government. Enrollment is available on an ongoing and intermittent basis. While participation in the program is voluntary, those who wait to enroll beyond their initial point of eligibility are penalized with additional surcharges which increase over time. PPACA includes changes to the Medicare Part D program, including the gradual reduction of the cost sharing burden by beneficiaries under Medicare Part D (the so-called "donut hole"). Although Medicare Part D reimbursement does not cover inpatient prescriptions, changes in enrollment or program administration could affect the Borrower's and TRHMC's revenues. Going forward, an expansion of coverage for outpatient pharmaceutical therapy may reduce TRHMC's admissions or shift the characteristics of those patients that are admitted.

Medicaid is designed to pay providers for care given to the indigent and other persons who qualify based on certain conditions. Medicaid is funded by federal and state appropriations and is administered by an agency of the applicable state. Under PPACA, eligibility for Medicaid is expanded to cover individuals with income under 133% of the Federal Poverty Level ("*FPL*") beginning January 1, 2014. Current federal Medicaid participation is capped at 100% of FPL.

**Conditions of Participation**. Hospitals must comply with standards called "Conditions of Participation" in order to be eligible for Medicare and Medicaid reimbursement. The Centers for Medicare and Medicaid Services ("*CMS*") of the U.S. Department of Health and Human Services ("*HHS*") is the federal agency responsible for ensuring that hospitals meet the regulatory Conditions of Participation. Generally, under Medicare rules, hospitals accredited by The Joint Commission (a private nonprofit corporation that accredits health care programs and providers in the United States) and other CMS approved accreditation bodies are deemed to meet the Conditions of Participation. TRHMC's facilities are currently accredited by The Joint Commission but there is no guarantee that TRHMC will continue to be accredited or will meet the Conditions of Participation in the future. Failure to maintain accreditation or to otherwise comply with the Conditions of Participation could have a materially adverse effect on the continued participation in the Medicare and Medicaid programs, and ultimately on the revenues of the Obligated Group.

**Medicare Reimbursement**

**Overview**. Medicare is administered by CMS, which delegates to the states the process for certifying those health care organizations to which CMS will make payment. HHS's rule-making

authority is substantial and the rules are extensive and complex. Substantial deference is given by courts to rules promulgated by HHS.

Most Medicare hospital services are paid at a fixed rate per case under the reimbursement methods described below. Some Medicare recipients, however, enroll in Medicare Advantage managed care plans, which reimburse providers on a contractually determined basis. Health care providers that participate in the Medicare program must agree to be bound by the terms and conditions of the program such as meeting the quality standards for rendering covered services and adopting and enforcing policies to protect patients from certain discriminatory practices.

PPACA introduces changes to the Medicare program that are estimated by the Congressional Budget Office to reduce the cost of the program over the next ten years by approximately $455 billion. PPACA reduces cost sharing by Medicare beneficiaries for certain preventive services and wellness visits and expands coverage for these services. In addition, PPACA includes programs that link Medicare payments for hospitals and physicians with quality outcomes and the development of new patient care models that stress primary care and community-based care. The objective of these programs is to manage chronic diseases better and to reduce inpatient admissions and other high cost care provided by health care facilities, such as hospitals and nursing homes. While additional governmental reporting, oversight and audits are a certainty, it is difficult to determine what effect the health care reform legislation and its implementation will ultimately have on the financial or operating condition of the Borrower, TRHMC or their competitors in the future.

**Inpatient Services**. Medicare payments for operating expenses incurred in the delivery of inpatient hospital services are based on a prospective payment system ("*PPS*"), which pays hospitals a fixed amount for each Medicare inpatient discharge based upon patient diagnosis and certain other factors used to classify each patient into a Diagnosis Related Group ("*DRG*") or, more recently, the Medical Severity Diagnosis Related Group ("*MS-DRG*"). DRG rates are adjusted annually by the use of an "update factor" based on the projected increase in a market basket inflation index which measures changes in the costs of goods and services purchased by hospitals, but the adjustments historically have not kept pace with inflation. Inpatient psychiatric services are also reimbursed on a case-mix adjusted prospective payment methodology.

With limited exceptions, MS-DRG payments are not adjusted for actual costs, variations in intensity of illness, or length of stay. If a hospital treats a patient and incurs less cost than the applicable MS-DRG-based payment, the hospital is entitled to retain the difference. Conversely, if a hospital's cost for treating the patient exceeds the MS-DRG-based payment, the hospital generally will not be entitled to any additional payment. If a case is unusually complex or expensive, it may qualify for an "outlier" payment, which is added to the MS-DRG-adjusted base rate payment. There can be no assurance that payments under the PPS will be sufficient to cover all actual costs of providing inpatient hospital services to Medicare patients.

Medicare and Medicaid currently make additional payments to hospitals that serve a disproportionate share of low income patients. Beginning in 2014, PPACA incrementally decreases the Medicare and Medicaid payments for disproportionate share hospitals by $36 billion over a ten year period, based on an assumption that the law's new coverage and access provisions will substantially reduce uncompensated care provided by hospitals.

Medicare also makes additional payments to hospitals engaged in graduate medical education residency training programs. PPACA includes some changes to funding for primary care residency programs and provides grants to establish teaching health centers, which are community-based ambulatory patient care centers. PPACA also establishes other programs to encourage the training and

development of more primary care residents (including family medicine, internal medicine, pediatrics, obstetrics and gynecology, psychiatry and geriatrics) and the primary care workforce.

PPACA continues and expands earlier Congressional measures taken to address the growing cost of the Medicare and Medicaid programs. CMS periodically promulgates regulations, such as its annual inpatient PPS rules, to adjust the rates paid to hospitals based on its continuing experience with hospital operating and capital costs, and to implement various quality improvement, patient safety and fraud and abuse programs. For example, the annual inpatient PPS rules for federal fiscal years 2008 and 2009 included, and then expanded, a list of preventable conditions or consequences (so-called "never events") for which Medicare would not pay any additional costs of treatment. CMS also reduces payments to hospitals that do not successfully report quality measures adopted under the program by two percent from the percentage increase that would otherwise apply to their payment rates.

PPACA expands programs to improve the quality of care, with reductions in reimbursements in future years for excessive readmissions, medical errors and preventable conditions such as hospital acquired infections. Depending on the mix of future services delivered, the overall result of these changes to the inpatient PPS reimbursement rules may be to reduce Medicare reimbursement to TRHMC.

**Outpatient Services**. Medicare payments for hospital outpatient services also are established through a PPS methodology. Under outpatient PPS, procedures, evaluations, management services, drugs and devices in outpatient departments are classified into one of approximately 750 groups called Ambulatory Payment Classifications ("*APCs*"). Services provided within an APC are similar clinically and in terms of the resources they require. Each APC has been assigned a weight derived from the median hospital cost of the services in the group relative to the median hospital cost of the services included in the APC for mid-level clinic visits, adjusted to account for variations in hospital labor costs across geographic regions. Payment rates for each APC are then calculated by multiplying the relative weight for an APC by a conversion factor to arrive at a dollar figure.

Outpatient PPS includes additional adjustments for transitional pass-through payments and outlier payments. Transitional pass-through payments are costs associated with new technology items (drugs, biologicals and medical devices) that were not reflected in the data that CMS used to calculate outpatient PPS payment rates, and are intended to allow for adequate payment of new and innovative technology until there is enough data to incorporate the costs for these items into the base APC group.

APCs include payment for related ancillary services provided in conjunction with a procedure or medical visit. Although hospitals may receive payment for more than one APC for an encounter, payment for multiple surgical APC procedures are subject to substantial discounting.

Outpatient renal dialysis services are reimbursed on the basis of prospective reimbursement, though different rates are paid for hospital-based and free-standing facilities, and are adjusted for geographic differences in labor costs. This composite rate is the same regardless of whether the treatment is furnished in the facility or in the patient's home to incentivize home dialysis, and must be accepted by the facility as payment in full for covered outpatient dialysis.

Under outpatient PPS, a hospital with costs exceeding the applicable payment rate would incur losses on such services provided to Medicare beneficiaries. There can be no assurance that outpatient PPS payments will be sufficient to cover all of TRHMC's actual costs of providing hospital outpatient services to Medicare patients.

**Physician Payments**. Payment for physician services is provided by Part B of Medicare. Under Part B, physician services are reimbursed in an amount equal to the lesser of actual charges or the amount

determined under a fee schedule known as the "resource-based relative value scale" or "RBRVS." RBRVS sets a relative value for each physician service; that value is then multiplied by a geographic adjustment factor and a nationally-uniform conversion factor to determine the amount Medicare will pay for each service.

The relative values for physician services contained in the RBRVS are based on a work component intended to reflect the time and intensity of effort required to provide the service; a practice expense component which includes costs such as office rents, allied health support salaries, equipment and supplies; and a component for the cost of malpractice insurance. The formulae used to calculate physician payments under the RBRVS methodology do not necessarily reflect the actual costs of such services. There can be no assurance that payments to TRHMC and its affiliates under the Medicare program will be adequate to cover their costs of providing physician services.

CMS publishes physician fees annually in the Medicare Physician Fee Schedule (MPFS); the MPFS covers payments for more than 7,000 types of services in various settings including physician offices, hospitals, nursing facilities and other settings based on a formula. In each of the past several years, the annual adjustment formula (known as the sustainable growth rate) has yielded a reduction in physician payments but Congress has taken legislative action each year to prevent such reductions from taking effect. On February 22, 2012, President Obama signed the Middle Class Tax Relief and Job Creation Act of 2012, which prevented payment reductions to physicians through 2012. There can be no guarantee that Congress will act to stop future reductions in the physician fee schedule.

**Capital Expenditures**. Medicare payments for capital costs are based upon a PPS system similar to that applicable to operating costs. Payment for capital related costs for all hospitals are determined based on a standardized amount referred to as the federal rate.

Under PPS, payments for capital costs are calculated by multiplying the federal rate by the DRG weight for each discharge and by a geographical adjustment factor. The payments are subject to further adjustment by a disproportionate share hospital factor that contemplates the increased capital costs associated with providing care to low income patients, and an indirect medical education factor that contemplates the increased capital costs associated with medical education programs. As noted above, PPACA includes reductions over time to the disproportionate share payments.

There can be no assurance that payments under the PPS inpatient capital regulations will be sufficient to fully reimburse the Borrower or TRHMC for their capital expenditures.

**Medical Education Costs**. Under PPS, teaching hospitals receive additional payments from Medicare for certain direct and indirect costs related to their graduate medical education ("*GME*") programs. Direct GME payments compensate teaching hospitals for the cost directly related to educating residents. Such costs include the residents' stipends and benefits, the salaries and benefits of supervising faculty, other costs directly attributable to the GME program, and allocated overhead costs. Payment for direct medical education costs are calculated based upon set formulae taking into account hospital-specific medical education costs associated with each resident, the number of full-time equivalent residents, and the proportion of Medicare inpatient days to non-Medicare inpatient days. Indirect GME payments compensate teaching hospitals for the higher patient care costs they incur relative to non-teaching hospitals. Those indirect payments are issued as a percentage adjustment to the PPS payments. The calculation for both the direct part and the indirect part of Medicare payments for GME include certain limitations on the number and classification of full-time equivalent residents reimbursed by Medicare.

The formulae used to determine payments for medical education do not necessarily reflect the actual costs of such education, and the federal government will continue to evaluate its policy on graduate medical education and teaching hospital payments. There can be no assurance that payments to TRHMC under the Medicare program will be adequate to cover its direct and indirect costs of providing medical education to interns, residents, fellows and allied health professionals.

**Outlier Payments**. As noted above, hospitals are eligible to receive additional payments under the inpatient PPS for individual cases incurring extraordinarily high costs. Historically, the amount of an outlier payment was based, in part, on the hospital charges for a particular case as compared to that hospital's cost-to-charge ratio. As the hospital specific cost-to-charge ratio was calculated based on the most recently settled cost report, it was typically many months or years old and out of date.

Following an audit of aggressive pricing strategies at one of the nation's largest hospital chains, and a determination that some hospitals might be manipulating current hospital charge data to maximize reimbursement from Medicare under the outlier payment provisions, the Office of the Inspector General of HHS ("*OIG*") began investigating past outlier billing practices, and CMS amended the regulations on how outlier payments were to be calculated in the future. The methodology for calculating outlier payments is designed to prevent hospitals from manipulating the outlier formula to maximize reimbursement and allows for recovery of overpayments in certain cases.

The OIG continues to scrutinize outlier payments in an effort to determine whether outlier payments to the hospitals were paid in accordance with Medicare regulations or whether such payments were the result of potentially abusive billing practices. While TRHMC believes that it has calculated its outlier payments appropriately, there can be no assurance that TRHMC will not become the subject of an investigation or audit with respect to its past outlier payments, or that such an audit would not have a material adverse impact on TRHMC. Moreover, there can be no assurance that any future revisions to the formula for calculating outlier payments will not reduce the payments to TRHMC, or that any such reduction will not have a material adverse impact on the Obligated Group.

**Medicare Managed Care Program**. Every individual entitled to Medicare Part A benefits, and who is enrolled in Medicare Part B, with the exception of individuals who suffer from End Stage Renal Disease, may elect coverage under either the traditional Medicare fee for service program (Parts A and B) or a Medicare managed care (Part C) program, known as the Medicare Advantage Program. The Medicare Advantage program is designed to expand the number and types of private regional plans available to beneficiaries as an alternative to traditional Parts A and B Medicare coverage. Payments for Medicare Advantage plans are based on competitive bids to the government rather than administered pricing.

Public and private health maintenance organizations, preferred provider organizations, fee for service and medical savings account plans may qualify as authorized Medicare Advantage plans. With limited exceptions, Medicare Advantage plans are risk-bearing programs that accept a fixed annual amount in return for providing beneficiaries with a defined level of benefits (basic or basic plus supplemental), either directly or through arrangements with other providers. All Medicare Advantage plans are required to provide coverage, even if out of network, for emergency services, renal dialysis services provided while the enrollee was temporarily outside of the plan's service area, post-stabilization care services (under limited circumstances) and services for which coverage was denied but, following appeal by the enrollee, were determined to be covered services. Providers wishing to participate in Medicare Advantage plans are subject to specific requirements concerning enrollee protection and accountability.

The shift of Medicare eligible beneficiaries from traditional Part A and Part B coverage to Part C Medicare Advantage programs was intended to increase competitive pressure to improve benefits, reduce premiums and generate cost reductions. However, because the cost to the Medicare program was on average 114% higher than traditional Medicare, PPACA changed some of the Medicare Advantage payment methodologies and will begin paying bonuses to plans that achieve certain quality metrics in 2012. Reductions in the Medicare Part C program may have an impact on reimbursement from these insurance plans, which in turn may have a material negative impact upon the revenue of TRHMC and its affiliates.

**Audits, Exclusions, Fines and Enforcement Actions**. Hospitals participating in Medicare are subject to audits and retroactive audit adjustments under the Medicare program. Based on an audit, a Medicare contractor may conclude that a patient discharge has been claimed under an incorrect MS-DRG, that services may not have been provided under the direct supervision of a physician (to the extent so required), that a patient should not have been characterized as an inpatient, that certain services provided prior to admission as an inpatient should not have been billed as outpatient services or that certain required procedures or processes were not satisfied. As a consequence, payments may be disallowed retroactively. Under certain circumstances, payments made may be determined to have been made as a consequence of improper claims subject to the federal False Claims Act or other federal statutes, subjecting the hospital to civil or criminal sanctions.

The federal government uses a national recovery audit contractor ("*RAC*") program to identify overpayments and underpayments to providers under the Medicare program. The RAC auditors are compensated on a contingent fee basis. PPACA expands the scope of the RAC program to include Medicare Parts C and D and Medicaid. TRHMC has been the subject of RAC audits, some of which are still pending, and some of which have been appealed. Payment adjustments have also been made in some cases.

**Provider-Based Designation**. CMS regulations describe the criteria and procedures for determining whether a facility or organization is "provider-based" and thereby treated as part of a hospital campus (with often higher reimbursement levels for certain services), rather than as a freestanding entity. In the event that a facility or department that bills for outpatient services as a provider-based entity is found to be out of compliance with the current provider-based regulations, TRHMC could be liable for Medicare overpayments.

**Medicaid Reimbursement and Other State Healthcare Programs**

Medicaid is a joint federal-state reimbursement program that is administered in each state by that state's health or public welfare agency. Medicaid programs vary from state to state. In each state's program, Medicaid generally pays for covered health care services provided to certain categorically qualified or indigent individuals. In many states, reimbursement for operating costs is based on the federal PPS and Medicaid reimburses hospitals a fixed amount based on the patient's diagnosis regardless of the actual costs incurred for treatment. Some states reimburse based on PPS, others on a percentage of usual and customary charges, and still others pay the lower of usual and customary charges or a fixed rate amount. Each state's formula for reimbursement is subject to change and there can be no assurance that such payments will be adequate to cover the cost of care for the beneficiaries in the future. Pursuant to the Medicaid program, the federal government supplements funds provided by the various states for medical assistance to the medically indigent. Payment for such medical and health services is made to hospitals in an amount determined in accordance with procedures and standards established by state law under federal guidelines.

PPACA expands Medicaid program eligibility to cover individuals with household income up to 133% of the FPL. The federal government is responsible for the cost of this coverage expansion in the initial years. In addition, for fiscal year 2013 and 2014, PPACA establishes a floor for primary care physician reimbursement of 100 percent of Medicare rates. Thereafter, each state will share in the financial burden of the expanded coverage.

**Pennsylvania Medical Assistance**. The Pennsylvania Department of Public Welfare ("*DPW*") administers the Medicaid program, also referred to as "Medical Assistance," in the Commonwealth of Pennsylvania. Pennsylvania sets maximum reimbursement rates for Medicaid as the lowest of: rates set by Medicare or Medicaid, the rates in the provider fee schedule, or the provider's usual and customary charge. Providers, including hospitals, that accept Medicaid are required to accept the Medicaid payment as payment in full for services and providers may not bill for any balance except for certain allowable co-payments and deductibles.

Federal cost cutting initiatives and Commonwealth of Pennsylvania budget shortfalls in Medicaid revenues, may lead Pennsylvania to reduce the Medicaid reimbursement received by hospitals. Pennsylvania Act 49 of 2010 and its related amendments assess a 3.22% fee for the fiscal years 2011-2012 and 2012-2013 on the annual net inpatient revenue of all licensed acute care hospitals. Revenue from Pennsylvania Act 49, as amended, is used to update Medicaid claims pricing for inpatient hospital services, revise disproportionate share payments, and increase reimbursement through the state Medicaid managed care plan, HealthChoices (see "Managed Care Medicaid Program: HealthChoices" below). The reimbursement currently paid by the Medicaid program is likely to be subject to restrictions in the future, and there can be no assurance that such payments will be adequate to cover the cost of care for Medicaid beneficiaries in the future.

**Managed Care Medicaid Program; HealthChoices and ACCESS Plus**. Under HealthChoices, Pennsylvania Medicaid recipients enroll in managed care programs. The HealthChoices program requires Medicaid recipients in certain regions of the Commonwealth to enroll. Like any private managed care plan, HealthChoices programs attempt to negotiate lower fee schedules with their contracted healthcare providers. While the HealthChoices program is not currently required in TRHMC's service area, legislation has been introduced to expand the HealthChoices program to the entire state. There can be no assurance that TRHMC will be successful in contracting with the assigned managed care organizations or that the reimbursements from these managed care organizations will be sufficient to cover the costs of delivering care to Pennsylvania's Medicaid recipients at TRHMC going forward. In 2007, the Commonwealth introduced the ACCESS Plus program for those counties in which participation in HealthChoices is optional. The ACCESS Plus program also provides disease management services, case management services, and an enrollment assistance program.

**State Children's Health Insurance Program**. The State Children's Health Insurance Program ("*SCHIP*") provides federal matching funds to states that cover 65% to 84% of the costs of health care coverage, primarily for low-income children. CMS administers SCHIP, but each state creates its own program based on federal guidelines, or the state may apply for a waiver, which allows the state to create its own program using the federal funds, but using different criteria for eligibility. PPACA authorized an extension of the SCHIP program through September 30, 2015. The loss of federal approval for a state's program or a reduction in the amounts available under SCHIP could have an adverse impact on the financial condition of the Obligated Group.

In November 2006, Pennsylvania Governor Ed Rendell approved legislation expanding the Pennsylvania Children's Health Insurance Program ("*Pennsylvania CHIP*"). The existing law was amended to allow any uninsured child in Pennsylvania under the age of 19 and not eligible for Medicaid,

to enroll in Pennsylvania CHIP. While this legislation may be beneficial to the Obligated Group, there can be no guarantee that funding for this program will continue indefinitely.

**Other State Government Initiatives**

On June 28, 2011, Pennsylvania Governor Tom Corbett signed into law the "Fair Share Act." The Fair Share Act changes Pennsylvania law regarding joint and several liability. Under previous law, a defendant could be held jointly responsible for the entire judgment amount in a negligence claim, even if the defendant was only one percent responsible for the negligence among multiple defendants. Under the Fair Share Act, when liability is attributed to more than one defendant, a defendant's liability would be several and not joint, and the court would enter a separate judgment against each defendant that is proportionate to that defendant's liability. Under the new law, joint liability still exists in certain cases, such as intentional torts, misrepresentation and when a defendant is found to be more than sixty percent responsible for a given claim. The legislation is intended to reduce malpractice liabilities of hospitals in cases where the error or omission is attributable to other defendants, but it is difficult to assess what effect, if any, the passage of the Fair Share Act has on the financial condition of the Borrower and TRHMC.

Other legislation has been introduced in the 2011-2012 Pennsylvania General Assembly session that would impact hospitals. While TRHMC remains compliant with existing laws, it is unclear what effect any proposed legislation if passed would have on TRHMC or its revenues.

**Third-Party Reimbursement**

A significant portion of the net patient service revenue of TRHMC is received from commercial third-party payors and other non-governmental agencies, which provide third-party reimbursement for patient care on the basis of various formulae. Renegotiations of such formulae and changes in such reimbursement systems may reduce such third-party reimbursements to TRHMC. The reimbursement currently paid by third parties is likely to be subject to more restrictions in the future, and there can be no assurance that such payments will be adequate to cover the cost of care for the beneficiaries in the future.

PPACA includes insurance market reforms that, among other things, require individual and group health insurance plans to offer coverage (including renewability) on a guaranteed basis. PPACA prohibits pre-existing conditions limitations, certain coverage limitations, lifetime and annual dollar limits for essential health benefits, and requires coverage of certain preventive health benefits. Beginning in 2014, PPACA will require every individual to enroll in a health plan through an employer, a federal government health program such as Medicare, Medicaid or Tricare (the health care plan for military personnel), or purchase insurance through a health insurance exchange established by each state. Individuals who do not enroll for coverage, and large employers who do not offer affordable and adequate coverage, will be subject to tax penalties. It is unclear at this time whether the tax penalties will result in substantial compliance with the mandate to obtain insurance, and whether the provision requiring individuals to obtain coverage will withstand court challenges.

PPACA establishes the criteria for new Qualified Health Plans ("*QHPs*") that may participate in the state run exchanges. A QHP must meet certain minimum essential coverage requirements. Minimum essential coverage requirements may be offered at one of four levels of coverage: bronze, silver, gold or platinum. Each QHP must agree to offer at least one plan at the silver and gold level. PPACA sets forth the minimum coverage offered under each plan level and limits the variations in premiums that may be charged for exchange coverage on the basis of age and tobacco use. A QHP must also be certified by each exchange through which the plan is offered, must be licensed in each state where it offers insurance, and the QHP must limit cost sharing with the insured.

Under PPACA, individuals with family income under 400% of the federal poverty level will be eligible for subsidized premiums, deductibles and co-pays for exchange plan coverage. Initially, only individuals and small employers will be able to access coverage through the exchanges. By 2017, large employers also will be able to use the exchanges to provide employer-based coverage to their employees. Although existing health insurance plans may continue to offer coverage as grandfathered plans in the individual and group markets, enrollment in such plans will be limited to those who were currently enrolled and their families. New employees and their families still will be allowed to enroll in grandfathered employer-sponsored coverage. At this time, it is not possible to project what impact the exchanges will have on competition in the insurance markets, the cost of coverage for employers, reimbursement rates for hospitals and physicians or the number of uninsured patients that TRHMC will still need to treat.

In January 2012, the Pennsylvania Insurance Department applied for a federal grant to develop a state-based health insurance exchange for small businesses and individuals. The Insurance Department estimates that 2 million to 2.2 million Pennsylvanians could get coverage through the exchange. The use and availability of this state-based exchange and its effect upon the revenues of the Obligated Group, and upon the operations, results of operations and financial condition of the Obligated Group, cannot be predicted at this time.

Currently, most private insurance companies contract with hospitals on an exclusive or preferred-provider basis, and some insurers have introduces plans known as preferred provider organizations ("*PPOs*"). Under these plans, there may be financial incentives for subscribers to use only those hospitals and physicians who contract with those plans. Under an exclusive provider plan, an arrangement that includes most health maintenance organizations ("*HMOs*"), private payors limit coverage to those services provided by network hospitals and physicians. With this contracting authority, private payors may direct patients away from hospitals not in the network by denying coverage for services provided by them.

Currently, most PPOs and HMOs pay hospitals on a discounted fee-for-service basis or on a discounted fixed rate per day of care. The discounts offered to HMOs and PPOs may result in payment at less than actual cost, and the volume of patients directed to a hospital under an HMO or PPO contract may vary significantly from projections. Therefore, the financial consequences of such arrangements cannot be predicted with certainty and may be different from current or prior experience. Some HMOs offer or mandate a "capitation" payment method under which hospitals are paid a predetermined periodic rate for each enrollee in the HMO who is "assigned" to, or otherwise directed to receive care at, a particular hospital. In a capitation payment system, the hospital assumes an insurance risk for the cost and scope of care given to the HMO's enrollees. If payment under an HMO or PPO contract is insufficient to meet the hospital's costs of care, or if use by enrollees materially exceeds projections, the financial condition of that hospital may be adversely affected.

HMOs and other third-party payors that contract on a discounted fee-for-service or discounted fixed rate-per-day basis also exert strong controls over the utilization of health care resources. Strong utilization management by managed care plans has led to reduction in the number of hospitalizations and lengths of hospital stays, both of which may reduce patient service revenue to hospitals. Furthermore, shortened hospital lengths of stay have not necessarily been accompanied with a reduced demand for services while a patient is hospitalized and in fact may lead to more intensive hospital visits and correspondingly increased costs to hospital providers.

The Borrower, TRHMC and their affiliates also may be affected by the financial instability of HMOs and other third-party payors from which it receives reimbursement for furnishing health care services. For example, if regulators place a financially-troubled HMO into rehabilitation under state law,

or if a third-party payor files for protection under the federal bankruptcy laws, it is unlikely that health care providers will be reimbursed in full for services furnished to enrollees of the HMO or the third-party payor. Health care providers also may be required by law or court order to continue furnishing health care services to the enrollees of an insolvent HMO or third-party payor, even though the providers may not be reimbursed in full for such services.

Employer-sponsored health insurance plans are adopting health care benefits that create incentives for employees to participate in preventative care programs and better manage chronic diseases. These programs may reduce the costs of providing health care benefits and help maintain a healthier workforce. Employers also are adding alternatives to traditional fee for service health insurance programs, by offering a variety of health insurance programs that increase cost sharing by employees or reduce cost by limiting access to only preferred providers. These types of insurance programs are expected to cover an increasing share of health care services being provided in the future.

Per diem rates, other risk-based payment systems and discounts pose major challenges to hospital providers. In order to enter into such contracts, hospitals not only must anticipate the cost of rendering specific services to patients, but also estimate the likelihood and severity of illness or injury within the population which the hospital serves. If payment under a managed care plan contract is insufficient to meet a hospital's costs of caring for the needs of the population it serves, that hospital's financial condition may erode rapidly and significantly. Often, managed care plan contracts are enforceable for the stated term, regardless of provider losses. Furthermore, managed care plan contracts and insurance laws may require that a hospital continue to provide care for enrollees for a certain period of time irrespective of whether the managed care plan has funds to make payment to the hospital.

Increasingly, physician practice groups, independent practice associations and other physician management companies have become a part of the process of negotiating payment rates to hospitals by managed care plans. This involvement has taken many forms but typically increases the competition for limited payment resources from managed care plans. For example, it is increasingly common for managed care plans to enter into contracts with physicians that may give physicians incentives in patient care decisions which may result in reduced hospital admissions and procedures.

Any new payment methods implemented by the Medicare and Medicaid programs in response to PPACA provisions are likely to drive similar changes in the private payor market. Programs designed to encourage coordination of care, value-based purchasing and quality outcomes will likely evolve in the private payor market.

There is no assurance that reimbursement contracts of TRHMC or its physicians with Blue Cross, HMOs, PPOs or other third-party payors will be maintained, that other similar contracts will be obtained in the future, or that payments from such payors will be sufficient to cover all of the costs TRHMC incurs in providing services to their beneficiaries. Failure to execute and maintain such contracts could have the effect of reducing the patient base or revenues of TRHMC. Conversely, participation may maintain or increase the patient base, but may result in reduced payments.

**Uncompensated Care**

Although TRHMC attempts to assure payment or reimbursement for most of the care it renders, it provides a substantial amount of uncompensated care to indigents. Obligations to provide uncompensated care can arise from laws and regulations that may require TRHMC to provide care without regard to a patient's ability to pay for such care. Increased unemployment or other adverse economic conditions could increase the proportion of patients who are unable to pay all or any of the costs of their care.

While PPACA should reduce uncompensated care by expanding health care coverage to a larger portion of the population, improvements to coverage and access will not be available immediately. In addition, the Medicaid and Medicare programs are dependent on the continued availability of federal and state funding, which could be curtailed in the future in response to growing budget deficits at all governmental levels. The continued availability, comprehensiveness of coverage and adequacy of reimbursement for care for the indigent and disabled cannot be assured in the future.

**Regulatory Environment**

The Borrower, TRHMC and their affiliates and the health care industry in general are subject to regulation by a number of governmental agencies, including those that administer the Medicare and Medicaid programs, federal, state and local agencies responsible for administration of health care planning programs, and other federal, state and local governmental agencies. These laws and regulations also require hospitals to meet various detailed standards relating to the adequacy of medical care, equipment, personnel, information technology, patient confidentiality, operating policies and procedures, maintenance of adequate records, utilization, rate setting, compliance with building codes and environmental protection laws, and numerous other matters. Failure to comply with applicable regulations can jeopardize a hospital's licenses, ability to participate in the Medicare and Medicaid programs, and ability to operate as a hospital. These laws and regulations, as well as similar laws and regulations now in effect, and the adoption of additional laws and regulations in these and other areas could have an adverse effect on the operations and financial conditions of the Obligated Group and, in turn, on the Borrower's ability to make payments under the Loan Agreement.

PPACA enhanced the Medicare and Medicaid integrity provisions by increasing funding for enhanced fraud and abuse efforts over the next ten years and increasing the fines and penalties for failure to comply. These efforts will be supported by the expansion of access to CMS's integrated claims data repository of CMS, to be used to identify potential fraud, waste and abuse. The Obama Administration has estimated substantial cost savings from these enforcement efforts.

There are multiple federal laws concerning the submission of inaccurate or fraudulent claims for reimbursement and errors or misrepresentations on cost reports by hospitals and other health care providers. The coding, billing and reporting obligations of Medicare and Medicaid providers are extensive, complex and highly technical. In some cases, errors and omissions by billing and reporting personnel may result in liability under one of the federal False Claims Acts or similar laws, exposing a health care provider to civil and criminal monetary penalties, as well as exclusion from participation in the Medicare and Medicaid programs.

Some of the laws and regulations affecting the health care industry are discussed below.

**Federal False Claims Act and Civil Money Penalties Law**. The federal False Claims Act prohibits knowingly submitting a false or fraudulent claim for payment to the United States. This statute is violated if a person acts with actual knowledge, or in deliberate ignorance or reckless disregard of the falsity of the claim. Penalties under the False Claims Act include fines of up to $11,000 per claim, plus treble damages, potentially resulting in penalties aggregating millions of dollars for ongoing claims submission errors. Anyone who knowingly makes a false statement or representation in any claim to the Medicare or Medicaid programs may be subject to criminal penalties, including fines and imprisonment.

The False Claims Act includes "whistleblower" provisions under which a person who believes that someone is violating the False Claims Act can file a sealed complaint against the alleged violator in the name of the United States government. The nature of the allegations is not revealed to the target during the time the United States Justice Department investigates the complaint and determines whether

to join in the suit. If the Justice Department decides not to join in the suit, the original whistleblower nonetheless can proceed. If the case is successful, the whistleblower is entitled to between 15% and 30% of the proceeds of any fines or damages paid. Although the False Claims Act has been in effect for many years, in recent years there has been a significant increase in the number of whistleblower allegations filed under the False Claims Act, a large number of which involve the health care and pharmaceutical industries.

In 2009, President Obama signed into law the Fraud Enforcement Recovery Act ("*FERA*") which authorized increased funding for fraud investigation and prosecution, and expanded the scope of the False Claims Act. A health care provider now may face severe penalties for the knowing retention of government overpayments even though the provider or contractor made no false or improper claim for such payments. Under FERA, the False Claims Act now applies even if a false claim was not submitted directly to the government. In addition, FERA enhances whistleblowers' ability to investigate alleged False Claims Act violations and provides them enhanced protections.

The Civil Money Penalties Law under the Social Security Act ("*CMP Law*") provides for the imposition of civil money penalties against any person who submits a claim to Medicare, Medicaid or any other federal health care program that the person knows or should know: (a) is for items or services not provided as claimed; (b) is false or fraudulent; (c) is for services provided by an unlicensed or uncertified physician or by an excluded person; (d) represents a pattern of claims that are based on a billing code higher than the level of service provided; or (e) is for services that are not medically necessary. Penalties under the CMP Law include up to $50,000 for each item or service claimed, and damages of up to three times the amount claimed for each item or service, and exclusion from participation in the federal health care programs.

The threats of large monetary penalties and exclusion from participation in Medicare, Medicaid and other federal health care programs, and the significant costs of mounting a defense, create serious pressures on providers who are targets of false claims actions or investigations to settle. Therefore, an action under the False Claims Act or CMP Law could have an adverse financial impact on the Borrower and TRHMC, regardless of the merits of the case.

Pennsylvania currently does not have a state false claims act, however, legislation was introduced in the 2011-2012 General Assembly session to adopt a state version of the federal false claims act. The bill, SB 125, is currently in the Judiciary Committee. It is unclear what effect the passage of SB 125 would have on the revenues of the Obligated Group, but it has the potential to expose the Obligated Group to increased liability.

**"Fraud and Abuse" Laws and Regulations**. The federal Medicare/Medicaid Anti-Fraud and Abuse Amendments to the Social Security Act (known as the "*Anti-Kickback Law*") prohibit the knowing and willful offer, payment or receipt of remuneration in exchange for or as an inducement to make or influence a referral of a patient for the provision of goods or services that may be reimbursed under federal health benefit programs. The scope of the Anti-Kickback Law is very broad, and it potentially implicates many practices and arrangements common in the health care industry, including space and equipment leases, personal services contracts, purchase of physician practices, joint ventures, and relationships with vendors. Penalties for violation of the Anti-Kickback Law include criminal prosecution, criminal fines of up to $25,000, civil penalties of up to $50,000 per violation, as well as exclusion from the federal health care programs.

PPACA amended the intent requirement to provide that a person need not have actual knowledge of the Anti-Kickback Law or specific intent to commit an Anti-Kickback Law violation. Under PPACA

claims resulting from a violation of the Anti-Kickback Law also constitute false or fraudulent claims for purposes of the False Claims Act.

Federal "safe harbor" regulations describe certain arrangements that will not be deemed to violate the Anti-Kickback Law. The safe harbors, however, are narrow and do not cover a wide range of economic relationships that many hospitals, physicians and other health care providers have historically considered to be legitimate business arrangements not prohibited by the Anti-Kickback Law. Because the safe harbor regulations do not purport to describe comprehensively all lawful or unlawful economic arrangements or other relationships between health care providers and referral sources, it is uncertain whether hospitals, physicians and other health care providers that have these arrangements or relationships may need to alter them in order to ensure compliance with the Anti-Kickback Law. Failure to comply with a safe harbor, however, does not mean an arrangement necessarily violates the Anti-Kickback Law.

Although the Anti-Kickback Law applies only to health benefit programs funded by the federal government, a number of states have passed similar laws pursuant to which similar types of prohibitions are made applicable to other health plans or third-party payors. Pennsylvania has its own anti-kickback law that prohibits the knowing and willful offer, payment or receipt of remuneration in exchange for or as an inducement to make or influence a referral of a patient for the provision of goods or services that may be reimbursed under the medical assistance program. Penalties under the Pennsylvania law include a maximum fine of $15,000 and seven years imprisonment, as well as possible exclusion from the Medicaid program.

There can be no assurances that TRHMC will not be found to be in violation of either the state or federal anti-kickback laws. If such a violation were found, any sanctions imposed could have a material adverse effect upon the future operations and financial condition of the Obligated Group.

**Restrictions on Self-Referrals**. The federal Ethics in Patient Referrals Act (known as the "*Stark Law*") prohibits a physician who has a financial relationship with an entity that provides certain designated health services from referring Medicare patients to that entity for the provision of such designated health services, with limited exceptions. The Stark Law designated health services include physical therapy services, occupational therapy services, radiology or other diagnostic services (including MRIs, CT scans and ultrasound procedures), durable medical equipment, radiation therapy services, parenteral and enteral nutrients, equipment and supplies, prosthetics, orthotics and prosthetic devices, home health services, outpatient prescription drugs, and inpatient, outpatient hospital services, clinical laboratory services and diagnostic and therapeutic nuclear medicine services. The Stark Law also prohibits an entity that receives a prohibited referral from filing a claim or billing for the services arising out of that prohibited referral.

There are certain exceptions to the Stark Law, based on the nature of the financial relationship between the referring physician and the entity. Unlike the Anti-Kickback Statute, the Stark Law is not an intent based statute. No wrongful intent or culpable conduct is required for violation of the Stark Law. When a financial relationship exists between an entity and a physician, the arrangement must meet the necessary elements of a Stark Law exception in order for a referral to be made for designated health services to that entity and for that entity to bill for those designated health services generated by the referral. Sanctions under the Stark law include denial and refund of payments, civil monetary penalties and exclusions from the Medicare and Medicaid programs. Also, because the Stark law is a Medicare payment rule, claims prohibited by the Stark law may also be the predicate for liability under the False Claims Act.

As required under the Health Care Reform Act, in September 2010, CMS released a protocol under which health care providers can make self-disclosures of actual and potential Stark violations, with reduced penalties for self-disclosed violations.

Because of the complexity of the Stark Law and the evolving nature of quality improvement and cost-reduction efforts, there can be no assurances that TRHMC will not be found to have violated the Stark Law. If such violation were found to have occurred, any sanctions imposed could have a material adverse effect upon the future operations and financial condition of the Obligated Group.

**State Fraud and Abuse Laws**. The Commonwealth's Medicaid Fraud and Abuse Control Law (the "*Medicaid Fraud Control Act*") prohibits the submission of false or fraudulent claims to Pennsylvania's Medical Assistance (Medicaid) program. The Medicaid Fraud Control Act prohibits any person from, among other things: knowingly or intentionally presenting for allowance or payment any false or fraudulent claim or cost report for furnishing services or merchandise under the Medicaid program; knowingly presenting for allowance or payment any claim or cost report for medically unnecessary services or merchandise under the Medicaid program; knowingly submitting false information, for the purpose of obtaining greater compensation than that to which he or she is legally entitled for furnishing services or merchandise under the Medicaid program; or knowingly submitting false information for the purpose of obtaining or furnishing services or merchandise under the Medicaid program. Violation of the Medicaid Fraud Control Act may lead to civil and criminal penalties, as well as exclusion from the Medicaid program.

The Pennsylvania Whistleblower Law provides protection from discrimination and retaliation to any person who witnesses or has evidence of wrongdoing or waste while employed by a public body (or any body which is funded in any amount by or through the Commonwealth) and who makes a good faith report of the wrongdoing or waste, verbally or in writing, to one of the person's superiors, to an agent of the employer or to an appropriate authority. No employer may discharge, threaten or otherwise discriminate or retaliate against an employee regarding the employee's compensation, terms, conditions, location or privileges of employment because the employee, or a person acting on behalf of the employee, makes a good faith report or is about to report, verbally or in writing, to the employer or appropriate authority an instance of wrongdoing or waste.

The potential imposition of large monetary penalties, criminal sanctions, and the significant costs of mounting a defense, create serious pressures to settle on providers who are targets of false claims actions or investigations. Therefore, an action under the Medicaid Fraud Control Act could have a material adverse financial impact on the Obligated Group, regardless of the merits of the case.

Under current Pennsylvania law, physicians (and other practitioners of the healing arts) are required to disclose to patients any referral to a facility where the physician has a financial interest, and must advise the patient that he or she retains the freedom to choose among any recommended facilities. Providers participating in the Medicaid program may not refer a Medicaid recipient to an independent laboratory, pharmacy, radiology or other ancillary medical service in which the practitioner or professional corporation has an ownership interest.

**HIPAA**. Congress enacted The Health Insurance Portability and Accountability Act of 1996 ("*HIPAA*") as part of a broad health care reform effort. Among other things, HIPAA established a program administered jointly by the Secretary of HHS and the United States Attorney General designed to coordinate federal, state and local law enforcement programs to control fraud and abuse in connection with the federal health care programs. In addition, Congress greatly increased funding for health care fraud enforcement activity, enabling the OIG to substantially expand its investigative staff and authorizing the Federal Bureau of Investigation to quadruple the number of agents assigned to health care

fraud. The result has been a dramatic increase in the number of civil, criminal and administrative prosecutions for alleged violations of the laws relating to payment under the federal health care programs, including the Anti-Kickback Law and the False Claims Act. This expanded enforcement activity, together with the whistleblower provisions of the False Claims Act, has significantly increased the likelihood that health care providers, including TRHMC and its affiliates, could face inquiries or investigations concerning compliance with the many laws governing claims for payment and cost reporting under the federal health care programs.

In addition to the expanded enforcement activity noted above, the "Administrative Simplification" provisions of HIPAA mandate the use of uniform standard electronic formats for certain administrative and financial health care transactions, the adoption of minimum security standards for individually identifiable health information maintained or transmitted electronically, and compliance with privacy standards adopted to protect the confidentiality of personal health information. The Administrative Simplification provisions apply to health care providers, health plans, and health care clearinghouses (collectively, "*Covered Entities*").

**The HITECH Act**. The American Recovery and Reinvestment Act of 2009 ("*ARRA*") appropriated approximately $20 billion for the development and implementation of health information technology standards and the adoption of electronic health care records. ARRA also includes the Health Information Technology for Economic and Clinical Health Act ("*HITECH Act*"), which contains a number of provisions that affect HIPAA privacy regulations and significantly expands the HIPAA privacy and security provisions applicable to Covered Entities and their business associates. The law includes a notice requirement when there is a breach of unsecured electronic personal health information, increases civil monetary and criminal penalties for HIPAA violations, and authorizes the state attorneys general to enforce its provisions. All other breaches must be reported annually to HHS. The HITECH Act limits a Covered Entity's discretion in determining what health care information about a person may be properly disclosed under the HIPAA privacy regulations. PPACA also includes new electronic transaction and operating guidelines that must be used by all HIPAA covered entities for electronic funds transfers and various claim forms. The effective dates are 2013 and 2015, respectively. The financial costs of continuing compliance with HIPAA and the Administrative Simplification regulations are substantial and will increase as a result of the ARRA amendments and PPACA.

Covered Entities that use an "electronic health record" are required to account for disclosures of information that are currently not subject to the accounting requirements, including disclosures for treatment, payment and health care operations. In addition, if a Covered Entity maintains an electronic health record, individuals have a right to receive a copy of the protected health information maintained in the record in an electronic format. The Secretary of HHS is charged with developing guidance and implementing regulations for these requirements.

The HITECH Act includes provisions requiring Covered Entities to agree to a patient request to restrict disclosure of information to a health plan for the purposes of carrying out payment or health care operations, if the information pertains solely to an item or service for which the provider was paid out of pocket in full. The HITECH Act also includes a prohibition on the payment or receipt of remuneration in exchange for protected health information without specific patient authorization, except in limited circumstances, and places additional restrictions on the use and disclosures of protected health information for marketing communications and fundraising communications.

In the event of an unauthorized disclosure of protected health information, Covered Entities now are required to notify the affected individuals, HHS and sometimes the media of the unauthorized disclosure, depending on the nature of the breach, the type of unauthorized disclosure and its scope.

The HITECH Act revises the civil monetary penalties associated with violations of HIPAA, and provides state attorneys general with authority to enforce the HIPAA privacy and security regulations in some cases, through a damages assessment of $100 per violation or an injunction against the violator. The revised civil monetary penalties range: (a) in the case of violations due to willful neglect, from a minimum of $10,000 or $50,000 per violation depending on whether the violation was corrected within 30 days of the date the violator knew or should have known of the violation, and (b) in the case of all other violations, from a minimum of $100 to $1,000 per violation. Certain enhanced noncompliance penalties due to willful neglect apply to penalties imposed on or after February 17, 2011. Any failure by TRHMC to meet its responsibilities under the law could materially adversely affect the financial condition of the Obligated Group.

**Coding Update**. The International Classification of Diseases (ICD) is the international standard diagnostic classification for used for health management purposes, clinical use and billing. HHS mandated a change to the ICD-9 coding standards currently used to ICD-10 standards to be effective October 1, 2013. These changes may be costly to physicians and hospitals and will require significant planning, training and updates to the software and systems of hospitals at substantial cost to the hospital and providers. However, HHS issued a proposed rule on April 17, 2012, to delay implementation of the coding update until October 14, 2014.

**Emergency Medical Treatment and Active Labor Act**. Congress enacted the Emergency Medical Treatment and Active Labor Act ("*EMTALA*"), in response to allegations of inappropriate hospital transfers of indigent and uninsured emergency patients. EMTALA imposes strict requirements on hospitals in the treatment and transfer of patients with emergency medical conditions.

EMTALA requires hospitals to provide a medical screening examination to any individual who comes to a hospital's emergency department for treatment, without regard to ability to pay, to determine whether the individual suffers from an emergency medical condition within the meaning of EMTALA. A participating hospital may not delay providing a medical screening examination in order to inquire about method of payment or insurance status. If an emergency medical condition is present, the hospital must provide such additional medical examination and treatment as may be required to stabilize the emergency medical condition. If the hospital deems it in the best interest of the individual to transfer the individual to another medical facility, the treating physician must execute a transfer certificate complying with the standards of EMTALA and must provide a medically appropriate transfer.

In regulations, CMS has extended the application of EMTALA beyond the hospital emergency department to any individual who is on hospital property and requests an examination or treatment, including individuals who are anywhere on the hospital's main campus, in a hospital owned ambulance, or in a facility determined by CMS to be an off-campus department of the hospital. Off-campus departments might include, for example, urgent care centers, primary care clinics and physical therapy and radiology facilities.

EMTALA imposes significant costs on hospitals, including the costs of treatment of individuals who may not be able to pay for those services, costs to develop and implement protocols covering medical screening examinations, stabilization and appropriate transfers and, in some cases, costs associated with assuring on-call availability of specialty physicians. In addition, the expansion of the requirements of EMTALA to off-campus departments may result in significant costs in training personnel and the development of protocols for screening, stabilization and transportation of patients.

If a hospital violates EMTALA, whether knowingly or negligently, it is subject to a civil money penalty of up to $50,000 per violation. Failure to satisfy the requirements of EMTALA also may result in termination of the hospital's provider agreement with Medicare. In addition, EMTALA creates a private

cause of action for individuals who suffer personal harm as a result of an EMTALA violation, and for any hospital that suffers financial loss as a result of another hospital's violation of EMTALA. Enforcement activity under EMTALA has increased dramatically in recent years, and because of the broad interpretation of the reach of EMTALA, there can be no assurance that TRHMC or one of its affiliates will not have been found to have violated EMTALA, and if such a violation were found, that any sanctions imposed would not have a material adverse effect upon the future operations and financial condition of the Obligated Group.

**Quality Reporting Requirements**. The Deficit Reduction Act ("*DRA*") also introduced significant new quality reporting initiatives for hospitals. TRHMC and its affiliates are required to submit quality performance measures; the penalty for hospitals not reporting quality measures is a two percentage point reduction in the market basket update for that fiscal year. PPACA expands those reporting obligations.

**DRA Compliance Policy and Employee Training Requirements**. The DRA also established requirements for states participating in the Medicaid program to impose obligations on health care providers and others that receive at least $5 million annually in Medicaid payments to establish written policies and procedures designed to educate their employees (and certain contractors and agents) by providing detailed information about: (i) the federal False Claims Act and remedies under the law, (ii) administrative remedies for false claims and statements established by the Federal Program Fraud Civil Remedies Act of 1986, (iii) any state law false claims act and its remedies, (iv) the whistleblower protections provided under such laws, (v) the role of such laws in preventing and detecting fraud, waste and abuse, and (vi) the provider (or other party's) policies and procedures that are in place for the prevention and detection of fraud, waste and abuse. Providers and other covered parties that do not adequately update their compliance policies, handbooks and other training materials or otherwise abide by these requirements run the risk of losing Medicaid reimbursement and risk potential liability under the False Claims Act and other federal and state fraud and abuse laws.

**Environmental Laws Affecting Health Care Facilities**. Hospitals are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations that address, among other things, hospital operations or facilities and properties owned or operated by hospitals. In their role as owners and/or operators of properties or facilities, hospitals may be subject to liability for investigating and remedying any hazardous substances that have come to be located on the property, including any such substances that may have migrated off the property. Typical hospital operations include the handling, use, storage, transportation, disposal and/or discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants, or contaminants. For these reasons, hospital operations are particularly susceptible to the practical, financial, and legal risks associated with compliance with such laws and regulations. Such risks may result in damage to individuals, property, or the environment; may interrupt operations and/or increase their cost; may result in legal liability, damages, injunctions or fines; or may trigger investigations, administrative proceedings, penalties or other governmental agency actions. There can be no assurance that TRHMC 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 Obligated Group.

**Transparency in Pricing**. PPACA requires hospitals to establish and make public a list of the hospital's standard charges for items and services, including MS-DRGs. A 2006 executive order was issued requiring the same public reporting of cost and quality data at four federal agencies. CMS also has made "outcomes" reporting a condition of Medicare participation. These are examples of a trend in which hospitals will be required to divulge proprietary information to the general public in order to participate in federal health care programs. The disclosure of proprietary information may have a negative impact on TRHMC's ability to gain advantages in negotiations with payors. This, in turn, could

negatively impact the Obligated Group's revenues. PPACA includes various public disclosure obligations for financial arrangements between hospitals, physicians, imaging centers, and pharmaceutical and medical device manufacturers. Due to the relative novelty of these disclosure requirements, it is impossible to predict the effect, if any, that cost and outcomes reporting will have on the Obligated Group's finances.

**Future Federal Legislation**. The Borrower and TRHMC anticipate that the federal government's health care reform initiatives will result in further legislation, regulation, and other actions that will continue the trend toward reduced reimbursement for hospital services and more pervasive regulation of operations. At present, no determination can be made concerning whether, or in what form, such legislation could be introduced and enacted into law. Similarly, the impact of future cost control programs and future regulations on the forecasted financial performance of the Obligated Group cannot be determined at this time.

Any future changes to the Medicare and Medicaid programs could result in substantial reductions in the amounts of Medicare and Medicaid payments to hospital providers in the future, which could substantially reduce the revenues available to the Obligated Group, and any reduction in the levels of payment in these government payment programs could adversely affect the Obligated Group's financial condition and its ability to fulfill its obligations with respect to the 2012A Bonds.

**Medical Care Availability and Reduction of Error Act**. The Medical Care Availability and Reduction of Error Act (the "*Mcare Act*") is a Pennsylvania state law that is the successor to the Medical Professional Liability Catastrophe Loss Fund, better known as the "*CAT Fund*." The Mcare Act established a fund within the state Treasury to ensure reasonable compensation for persons injured due to medical negligence. Money in the fund is used to pay claims against participating health care providers and eligible entities for losses or damages awarded in medical professional liability actions in excess of basic insurance coverage. Participation in the Mcare Fund is mandatory for most Pennsylvania licensed health care providers.

The Mcare Act also includes significant patient safety initiatives, professional liability tort reforms, professional liability insurance reforms, and administrative requirements. Under the Mcare Act, hospitals are required to develop and implement patient safety plans, appoint patient safety officers, form patient safety committees, and engage in mandatory reporting of serious events, incidents, and infrastructure failures in the hospital. Furthermore, hospitals are required to provide written notice to patients affected by serious events. Failure to comply with the patient safety requirements of the Mcare Act can result in administrative fines of $1,000 per day and could significantly affect the financial condition of the Obligated Group. Several bills have been introduced in the 2011-2012 General Assembly session regarding Mcare. Some bills seek to end the Mcare fund and others seek to make changes or make the Mcare fund permanent. The future of the Mcare fund is uncertain.

**The Health Care-Associated Infection and Prevention Control Act**. Enacted in July 2007, the Pennsylvania Health Care-Associated Infection and Prevention Control Act requires the adoption of infection control procedures and the reporting of healthcare-associated infections going forward. The Act requires healthcare facilities to implement internal infection control plans including systems designed to identify patients with Methicillin-resistant Staphylococcus aureus (MRSA) and other multi drug resistant organism infections. Healthcare facilities will be required to report hospital-acquired infections to the Patient Safety Authority. In return for the implementation of qualified electronic surveillance systems and reductions in infection rates, healthcare facilities will be eligible to receive additional reimbursement from the State. There can be no assurance that TRHMC will be eligible or that State funds will continue to be available for reimbursement under this program.

**Preventable Serious Adverse Events Act**. In June 2009, Pennsylvania enacted the Serious Adverse Events Act which prohibits health care providers from knowingly seeking payment from a person or entity for a "preventable serious adverse event" ("*PSAE*"). A PSAE is an event that occurs in a health care facility that is within the health care provider's control to avoid, but that occurs because of an error or other system failure and results in a patient's death, loss of body part, disfigurement, disability or loss of bodily function lasting more than seven days or still present at the time of discharge from a health care facility. A list of PSAEs are published in a bulletin prepared by the Pennsylvania Department of Public Welfare. If TRHMC discovers that a PSAE has occurred, it cannot seek payment for the event or for any corrective measures related to the PSAE. If a PSAE is discovered after payment is received, TRHMC is obligated to return the payment.

**Self-Pay Patients and Charity Care**. Recent Pennsylvania legislative efforts have attempted to limit fees charged to the self-insured and also to restrict a hospital's ability to collect bad debt. While these legislative efforts have not been enacted to date, there can be no guarantee that such legislation will not be adopted in the future. There can be no assurance that any such initiative will not have effects that negatively impact the financial condition of the Members of the Obligated Group.

**Regulatory Inquiries**

The laws and regulations governing federal reimbursement programs and the laws governing the health care industry generally (such as the False Claims Act, the Civil Money Penalties Law, the Anti-Kickback Law and the Stark Law) are complex and subject to varying interpretations, and the Borrower and TRHMC are subject to contractual reviews and program audits in the normal course of business. Penalties for violations of federal regulations governing health care providers can be severe, including treble damages, fines, and suspension from federal reimbursement programs such as Medicare and Medicaid. Federal agencies have initiated nationwide investigations into several areas of concern, including, among others: (a) teaching hospitals, (b) home health care services, (c) investigational devices, (d) laboratory billing, (e) cardioverter defibrillators and (f) cost reporting. The Borrower and TRHMC expect that the level of review and audit to which they and other health care providers are subject will increase. PPACA includes additional funding and resources to increase enforcement actions.

In contrast to a government-imposed corporate compliance plan that may be instituted pursuant to the federal government's investigation of a health care provider, a voluntary corporate compliance plan is instituted by a health care provider to put into place effective internal controls that promote adherence to various federal and state laws regulating the health care industry. The Office of Inspector General's *Compliance Program Guidance for Hospitals* was released in 1998 and supplemented in 2005. The OIG believes that the adoption and implementation of voluntary compliance programs by hospitals significantly advances the prevention of fraud, abuse and waste in federal, state and private health plans. In fact, the OIG may consider the existence of an effective compliance plan that was instituted before a governmental investigation when negotiating a settlement with a health care provider. TRHMC has compliance programs that are designed to detect and correct potential violations of laws and regulations applicable to its programs.

Regulatory authorities have discretion to assert claims for noncompliance with applicable requirements based upon their interpretation of those requirements. Because these complex program requirements are subject to varying interpretations and because, in some instances (e.g., the Anti-Kickback Law and the Stark Law), there is little clear regulatory or judicial guidance, there can be no assurance that regulatory authorities will not challenge TRHMC's compliance with these requirements and assert claims or penalties, and it is not possible to determine the impact (if any) any such claims or penalties would have upon the Obligated Group.

Like other health care, educational and research institutions that have contracts with the federal government, the Borrower, TRHMC and their affiliates may be subject from time to time to other regulatory inquiries, whistleblower complaints under the False Claims Act and other similar investigations. It is not possible to assess the merits of any such inquiries or investigations, complaints or inquiries at this point and, in any event, no assurances can be given as to what the impact of any such investigations, complaints or inquiries would have upon the operations or consolidated financial position of the Borrower, TRHMC and their affiliates.

**Licensing, Surveys and Accreditations**

Health care facilities, including those of TRHMC, are subject to numerous legal, regulatory, professional and private licensing, certification and accreditation requirements. Those requirements include credentialing and survey requirements relating to Medicare and Medicaid participation and payment, state licensing agencies, private payor participation, The Joint Commission, the National Labor Relations Board and other federal, state and local government agencies. Renewal and continuance of certain of these licenses, certifications and accreditations are based on inspections, surveys, audits, investigations or other reviews. These activities are generally conducted in the normal course of business of health care facilities. Nevertheless, an adverse result could be the cause of loss or reduction in a facility's scope of licensure, certification or accreditation or reduce payments received.

Management of the Borrower and TRHMC currently does not anticipate any difficulty in renewing or maintaining currently held licenses, certifications or accreditations that are material to its operations, and does not anticipate a reduction in third-party payments that would materially adversely affect the financial condition, operations, revenues and expenses of the Obligated Group due to licensing, certification or accreditation difficulties. Nevertheless, there can be no assurance that the requirements of present or future laws, regulations, certifications, and licenses will not materially and adversely affect the operations of the Obligated Group. Actions in any of these areas could occur and could result in a reduction in utilization or revenues or both, or the loss of TRHMC's ability to operate all or a portion of its health care facilities, and, consequently, could adversely affect the Obligated Group's financial condition, operations, revenues and expenses or its ability to make payments of principal, interest or any premium coming due on the 2012A Bonds.

**Physician Contracting**

TRHMC may contract with physician organizations (such as independent physician associations, and physician-hospital organizations) to arrange for the provision of physician and ancillary services. Because physician organizations are separate legal entities with their own goals, obligations to shareholders, financial status, and personnel, there are risks involved in contracting with the physician organizations.

The success of TRHMC will be partially dependent upon its ability to attract physicians to join the physician organizations and to attract physician organizations to participate in their networks, and upon the ability of the physicians, including employed physicians, to perform their obligations and deliver high quality patient care in a cost-effective manner. There can be no assurance that TRHMC will be able to attract and retain the requisite number of physicians, or that such physicians will deliver high quality healthcare services. Without impaneling a sufficient number and type of providers, TRHMC 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 TRHMC.

**Rankings Based on Clinical Outcomes, Cost, Quality, Patient Satisfaction and Other Performance Measures**

Health plans, Medicare, Medicaid, employers, trade groups and other purchasers of health services, private standard-setting organizations and accrediting agencies increasingly are using statistical and other measures in efforts to characterize, publicize, compare, rank and change the quality, safety and cost of health care services provided by hospitals and physicians. Published rankings such as "score cards," "pay for performance" and other financial and non-financial incentive programs are being introduced to affect the reputation and revenue of hospitals and the members of their medical staffs and to influence the behavior of consumers and providers such as TRHMC. Currently prevalent are measures of quality based on clinical outcomes of patient care, reduction in costs, patient satisfaction and investment in health information technology. Measures of performance set by others that characterize a hospital negatively may adversely affect its reputation and financial condition.

**Medical Professional Liability Insurance Market**

Deteriorating underwriting results have generated substantial premium increases and coverage reductions in the medical professional liability insurance marketplace in recent years. A rise in claim severity nationwide, coupled with the lower investment returns available to insurers, have resulted in substantial reductions in medical professional liability insurance capacity. Several major medical professional liability insurance carriers have been forced into rehabilitation and/or liquidation, or have voluntarily withdrawn from this line of business. The insurance carriers who are still writing medical professional liability coverage are requiring substantial premium increases, reductions in the breadth of coverage afforded by the policy(ies), more stringently enforced policy terms, and increases in required deductibles or self-insured retentions. Health care entities that have self-funded programs are also experiencing similar difficulties with respect to fronting carriers, reinsurance on their captive insurance companies and/or with respect to insurance placements excess of the primary coverage layers. Furthermore, insurance carrier insolvencies are forcing health care providers to either repurchase insurance coverage from new carriers at substantially higher rates, or self insure exposures for which they had previously purchased insurance. The Pennsylvania General Assembly has attempted to address these issues with varying success. The Mcare Act was one such effort and the Fair Share Act, discussed earlier, is another. However, it may be some time before the impact is felt in the liability insurance market.

The effect of these developments has been to increase the operating costs of health care providers, including those of the Obligated Group. In addition, the increase in the cost of professional liability insurance may have the effect of causing established physicians to leave the most heavily affected geographical regions, including Pennsylvania, and of preventing new physicians from establishing their practices in the Obligated Group's service area. There can be no assurance that the unpredictability and increasing severity of jury awards and claims payouts, the reduction of coverage availability, and/or the rising cost of professional liability insurance coverage will not adversely affect the operations or financial condition of the Obligated Group.

**Nursing Shortage**

The health care industry is facing a shortage of nursing professionals, including registered nurses, in certain areas of the United States. A shortage of nursing staff could result in escalating labor costs, delays in providing care, and patient care management issues, among other adverse effects. The shortage of nurses and other primary care healthcare practitioners may be exacerbated if the increase in access coverage to coverage provided under PPACA leads to an increase in demand for medical care. PPACA includes numerous workforce programs that should have an impact on existing and projected nursing shortages and increase the availability of other primary care health practitioners. There can be no

assurance that a nursing or other non-physician health care practitioner shortage will not adversely affect the operations or financial condition of the Obligated Group. Although legislation has been introduced at both the state and federal level to mitigate the impact of the existing and projected nursing shortages, there can be no assurance that a nursing shortage will not adversely affect the operations or financial condition of the Obligated Group.

**Labor Relations and Collective Bargaining**

Hospitals are large employers with a wide variety of employees. Increasingly, employees of hospitals are becoming unionized and many hospitals have collective bargaining agreements with one or more labor organizations. Employees subject to collective bargaining agreements may include essential nursing and technical personnel as well as food services, maintenance and other trade personnel. Renegotiation of such agreements upon expiration may result in significant cost increases to hospitals. Employee strikes or other unfavorable labor actions may have an adverse impact on operations, revenue and hospital reputation.

At the present time, there are no employees covered by collective bargaining agreements nor is management aware of any union organizing activities among any of TRHMC's employees.

**Competition**

TRHMC faces, and will continue to face, competition from other hospitals and physicians that offer comparable health care services. Competition exists from alternative modes of health care delivery that offer lower priced services to the same population. Such alternative modes include ambulatory surgery centers, private laboratories and radiology services, skilled and specialized nursing facilities and home health care. Physicians increasingly offer outpatient ancillary services that compete with certain services offered by hospitals. Further, TRHMC competes for patient volume with an increasing number of for-profit hospitals. No assurance can be given that increasing competition and consolidation of providers in the service areas will not have a materially adverse effect on the financial condition and operations of the Obligated Group.

**Tax Exemption for Nonprofit Corporations**

The Code establishes certain requirements (the "*Federal Tax Requirements*") that must be met by the Borrower subsequent to the issuance of the 2012A Bonds in order that interest on the 2012A Bonds not be included in gross income for federal income tax purposes. Non-compliance with the Federal Tax Requirements may cause interest on the 2012A Bonds to become subject to federal and Pennsylvania income tax retroactive to its date of issue, irrespective of the date on which such noncompliance occurs or is ascertained. However, if such an event occurs, there are no provisions in the 2012A Bonds which would increase the interest payable thereon, or which would cause the 2012A Bonds to become subject to redemption. See "TAX EXEMPTION AND RELATED CONSIDERATIONS."

Loss of tax-exempt status by the Borrower or TRHMC could result in loss of tax exemption of interest on the 2012A Bonds and of other tax-exempt debt issued for the benefit of the Borrower and its affiliates, and defaults in covenants regarding the 2012A Bonds and other related tax-exempt debt could be triggered. Such an event would have material adverse consequences on the financial condition of the Obligated Group.

The maintenance by each of the Borrower and TRHMC of its tax-exempt status depends, in part, upon maintaining its status as an organization described in Section 501(c)(3) of the Code. Maintaining that status is contingent upon 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 educational purposes and their avoidance of transactions that would cause their assets to inure to the benefit of private persons. The Internal Revenue Service (the "*IRS*") indicated that it intends to issue "compliance checks" relating to post-issuance compliance of tax-exempt bonds issued for exempt organizations. TRHMC was one of the hospitals that received and responded to a compliance questionnaire.

The IRS also has announced that it intends to closely scrutinize transactions between nonprofit organizations and for-profit entities, and in particular has issued audit guidelines for tax-exempt hospitals. Although specific activities of hospitals, such as medical office building leases and compensation arrangements, joint ventures and other contracts with independent physicians, have been the subject of interpretations by the IRS in the form of private letter rulings, many activities have not been addressed in any official opinion, interpretation or policy of the IRS. Under IRS form 990 tax information reporting requirements, tax-exempt hospitals must disclose certain joint venture arrangements. Because the Borrower and TRHMC affiliates conduct large scale and diverse operations involving private parties, there can be no assurances that certain of their transactions would not be challenged by the IRS.

The IRS has taken the position that hospitals that are in violation of the Anti-Kickback Law may also be subject to revocation of their federal tax-exempt status. As a result, tax-exempt entities such as the Borrower, TRHMC and their nonprofit affiliates that have, and will continue to have, extensive transactions with physicians are subject to an increased degree of scrutiny and perhaps enforcement by the IRS.

The Taxpayer Bill of Rights 2 (the "*Intermediate Sanctions Law*") allows the IRS to impose "intermediate sanctions" against certain individuals in circumstances involving the violation by tax-exempt organizations of the prohibition against private inurement. Prior to the enactment of the Intermediate Sanctions Law, the only sanction available to the IRS was revocation of an organization's tax-exempt status. Intermediate sanctions may be imposed in situations in which a "disqualified person" (such as an "insider") (a) engages in a transaction with a tax-exempt organization on other than a fair market value basis, (b) receives unreasonable compensation from a tax-exempt organization, or (c) receives payment in an arrangement that violates the prohibition against private inurement. These transactions are referred to as "excess benefit transactions."

A disqualified person who benefits from an excess benefit transaction will be subject to an excise tax equal to 25% of the amount of the excess benefit. Organizational managers who participate in the excess benefit transaction knowing it to be improper are subject to an excise tax equal to 10% of the amount of the excess benefit, subject to a maximum penalty of $10,000. A second penalty, in the amount of 200% of the excess benefit, may be imposed on the disqualified person (but not on the organizational manager) if the excess benefit is not corrected within a specified period of time.

The IRS revenue rulings provide guidance on joint ventures between taxable and tax-exempt health care entities. The revenue ruling provides generally that a nonprofit hospital must retain control over certain of the key aspects of such a joint venture (e.g., control of the governing body of the joint venture, change in types of services offered, etc.) in order to assure that the joint venture's activities are treated as primarily furthering the exempt purposes of the nonprofit, charitable organization. It is not possible at this point to determine whether the IRS guidelines for joint ventures will restrict the ability of the Members of the Obligated Group to enter into joint ventures with taxable entities.

The IRS has stepped up its oversight activities of tax-exempt entities, particularly health care systems and hospitals. These efforts include a report on compensation practices of health care organization based on questionnaires the IRS sent to 500 tax-exempt hospitals in 2007 and revisions to

the annual IRS reporting form for tax-exempt organizations commencing in 2008. The new IRS Form 990 requires tax-exempt hospitals to report additional information about joint ventures, compensation arrangements and the charitable benefits that the hospital provides to the community. The IRS's enforcement efforts on issues applicable to tax-exempt organizations such as excessive compensation, private inurement, unrelated business tax and political intervention are expected to increase.

The tax-exempt status of nonprofit corporations, and the exclusion from taxation of income earned by them, has been the subject of review by various federal, state and local legislative, regulatory and judicial bodies. This review has included proposals to broaden and strengthen existing federal tax law with respect to unrelated business income of nonprofit corporations.

Bills have been introduced from time to time in Congress that would require a tax-exempt hospital to provide a certain amount of charity care and care to Medicare and Medicaid patients in order to maintain its tax-exempt status and avoid the imposition of an excise tax. PPACA imposes additional requirements for tax-exempt hospitals, including obligations to: adopt and publicize a financial assistance policy; limit charges to patients who qualify for financial assistance to the amount generally charged to insured patients; and control the billing and collection processes. Additionally, effective for tax years beginning January 1, 2013, tax-exempt hospitals must conduct periodic community needs assessments and adopt an implementation strategy to meet needs identified in the assessment. Failure to satisfy these conditions may result in the imposition of an excise tax and the loss of tax-exempt status.

In recent years, the IRS and state, county and local taxing authorities have been undertaking audits and reviews of the operations of tax-exempt hospitals with respect to their exempt activities and the generation of unrelated business taxable income ("*UBTI*"). Members of the Obligated Group may from time to time participate in activities which may generate UBTI. Management believes it has properly accounted for and reported UBTI; nevertheless, an investigation or audit could lead to a challenge which could result in taxes, interest and penalties with respect to unreported UBTI and in some cases could ultimately affect the tax-exempt status of the Members of the Obligated Group, as well as the exclusion from gross income for federal income tax purposes of the interest payable on the 2012A Bonds and other tax-exempt debt issued on behalf of the Obligated Group.

The Subcommittee on Oversight of the United States House of Representatives Ways and Means Committee has considered options and recommendations in the area of taxation of unrelated business income of nonprofit organizations. Hearings have been held on these options and recommendations and legislation may be drafted to clarify and strengthen existing law with respect to the unrelated business income tax. The scope and effect of legislation, if any, that may be adopted at the federal and state levels with respect to unrelated business income cannot be predicted. Any such legislation could have the effect of subjecting a portion of a hospital's income to federal or state income taxes.

It is not possible to predict the scope or effect of future legislative or regulatory actions with respect to federal, state or local taxation of nonprofit corporations. There can be no assurance that future changes in the laws and regulations of the federal, state or local governments or audits or examinations of the activities of the Borrower or TRHMC by one or more taxing authorities will not materially and adversely affect the future operations and revenues of the Obligated Group by requiring one or more Members of the Obligated Group to pay income, sales or real estate taxes or to make payments in lieu of such taxes.

**Local Tax Assessments**

In recent years, a number of local taxing authorities in the Commonwealth have sought to subject the facilities of non-profit hospitals and other traditionally exempt organizations to local real estate and

business privilege taxes, primarily by challenging their status as "institutions of purely public charity" as described in the Pennsylvania Constitution, notwithstanding the fact that Pennsylvania nonprofit hospital facilities historically have been viewed as exempt from such taxes. The Pennsylvania constitutional test is very subjective and frequently difficult to satisfy. Pennsylvania court decisions have been highly fact-specific and do not provide clear overall guidance on the question. In addition, the Pennsylvania law sets forth additional standards that must be satisfied for tax exemption. Therefore, there is no assurance that under current Pennsylvania law that the members of the Obligated Group will be exempt from real estate and other local taxes. If the tax exemption of the members of the Obligated Group is challenged, notwithstanding that the Obligated Group believes that it properly is exempt from real estate tax and other local taxes, to achieve certainty about its potential tax liability, the members of the Obligated Group might consider entering into a payment in lieu of taxes agreement and agreeing to make some payments to the taxing authorities.

**Other Legislative and Regulatory Actions**

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

Legislative proposals which could have an adverse effect on the Obligated Group include: (a) any change in the taxation of not for profit corporations or in the scope of their exemption from income or property taxes; (b) limitations on the amount or availability of tax-exempt financing for charitable organizations described in Section 501(c)(3) of the Code; (c) possible non-access to tax-exempt debt by hospitals described in Section 501(c)(3) of the Code; (d) regulatory limitations affecting the ability of the Borrower and TRHMC to undertake capital projects or develop new services; and (e) a requirement that nonprofit health care institutions pay real estate property tax and sales tax on the same basis as for-profit entities.

**Antitrust**

TRHMC and its affiliates, like other providers of health care services, are subject to antitrust laws. Those laws generally prohibit agreements that restrain trade and prohibit the acquisition or maintenance of a monopoly through anticompetitive practices. The legality of particular conduct under the antitrust laws generally depends on the specific facts and circumstances and, in some circumstances, cannot be predicted in advance. Antitrust actions against health care providers have become increasingly common in recent years. Antitrust liability can arise in a number of different contexts, including medical staff privilege disputes, third-party payor contracting, joint ventures and affiliations between health care providers, and mergers and acquisitions by health care providers. Actions can be brought by federal and state enforcement agencies seeking criminal and civil penalties and, in some instances, by private plaintiffs seeking damages for harm from allegedly anticompetitive behavior.

Judicial decisions have permitted physicians who are subject to disciplinary or other adverse actions by a hospital at which they practice, including denial or revocation of medical staff privileges, to seek treble damages from the hospital under the federal antitrust laws. The Federal Health Care Quality Improvement Act of 1986 provides immunity from liability for discipline of physicians by hospitals under certain circumstances, but courts have differed over the nature and scope of this immunity. In addition, hospitals occasionally indemnify medical staff members who incur costs as defendants in lawsuits involving medical staff privilege decisions. Recent court decisions have also permitted recovery by competitors claiming harm from a hospital's use of its market power to obtain unfair competitive

advantage in expanding into ancillary health care businesses. Antitrust liability in any of these contexts can be substantial, depending upon the facts and circumstances involved.

In 1993, the United States Department of Justice and the Federal Trade Commission issued "Statements of Antitrust Enforcement Policy in the Health Care Area." The statements, which have been revised from time to time, generally describe certain analytical principles which the agencies will apply to certain factual situations and also establish certain "antitrust safety zones." Conduct within the safety zones will not be challenged by the agencies, absent extraordinary circumstances. Many activities frequently engaged in by health care providers fall outside of the zones but are not challenged, and failure to fall within a safety zone does not mean that a participant will be investigated or prosecuted, or even that the activity violated the antitrust laws. There can be no assurances that enforcement authorities or private parties will not assert that a Member of the Obligated Group, or any transaction in which such Member is involved, is in violation of the antitrust laws.

**Construction Risks**

From time to time, the Borrower and TRHMC undertake significant construction projects. There are certain risks inherent in any major construction project that could affect the timing and completion and the overall cost of such projects, including delays in the issuance of required building and occupancy permits, strikes, shortages of materials and adverse weather conditions. Such events could result in delaying occupancy of such projects and thus the revenue flow therefrom.

**General Commercial and Economic Factors**

**General**. The recent domestic and international economic downturn has had, and may continue to have, negative impacts upon the national and global economies, including a tightening of credit, decreased confidence in the financial sector, volatility in the financial markets, increase in interest rates, reduced business activity, increased business failures and increased consumer and business bankruptcies. The ongoing repercussions of the economic downturn may adversely affect the Obligated Groups expenses and, consequently, its ability pay debt service on its debt.

The current conditions in credit markets may cause the Borrower's and TRHMC's ability to borrow to fund capital expenditures to be more limited and more expensive. The credit market situation has also caused a number of financial institutions to restrict lending, including extending the term of liquidity and credit facilities. No assurance can be given that any of the financial institutions currently providing liquidity facilities or credit facilities for Obligated Group debt will renew or extend those facilities or that the Obligated will be able to obtain alternate liquidity for certain of its variable rate bonds on comparable terms.

**Market Value of Investments**. Earnings on investments have historically provided the Obligated Group an important source of cash flow and capital appreciation to support their programs and services, to finance capital expenditure investments and to build cash reserves. Historically the value of both debt and equity securities has fluctuated and, in some instances, the fluctuations have been quite significant. Diversification of securities holdings may diminish the impact of these fluctuations. However, no assurances can be given that the market value of the investments of the Obligated Group will grow, or even remain at current levels and there is no assurance that such market value will not decline.

**Pension Funding Impact**. Changes in market interest rates and debt and equity market fluctuations also potentially could have an impact on the Borrower's and TRHMC's pension fund liabilities and its requirements for funding its related pension expenses. Like any other entity with

pension fund liabilities, the Members of the Obligated Group find that increases or decreases in interest rates have an impact on the assumed earnings rates on pension assets needed to match pension fund liabilities, which accordingly affects the levels of actuarial pension investment assets required to meet future pension obligations. Consequently, any substantial and sustained decline in long-term interest rates could have the effect of increasing the Obligated Groups current pension funding requirements. In addition, the Pension Protection Act of 2006 (the "*PPA*") has accelerated the minimum funding requirements for many defined benefit pension plans. This change, together with new rules for measuring pension plan assets and liabilities, including new actuarial assumptions and asset valuation rules included in the PPA, has generally increased employers' required minimum funding contributions to pension plans. No assurance can be given that the Borrower or TRHMC will not be required to make increased pension funding payments in these or other circumstances.

**Interest Rate Swap Agreements**. The Obligated Group has entered into certain interest rate swap agreements to hedge interest rate risk. Changes in the market value of such agreements could negatively or positively impact the Obligated Group's operating results and financial condition, and such impact could be material. Any such agreement may be subject to early termination upon the occurrence of certain specified events. If either the Obligated Group or the counterparty were to terminate such an agreement when the agreement had 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. For a further discussion of the interest rate swap agreements the Obligated Group has entered into, see APPENDIX A – "THE READING HOSPITAL AND THE READING HOSPITAL AND MEDICAL CENTER."

**Additional Debt**

The Master Indenture permits the Obligated Group to incur Additional Indebtedness which may be equally and ratably secured with the 2012A Master Note and the other outstanding Master Indenture Obligations. Any such Additional Indebtedness would be entitled to share ratably with the holders of the 2012A Master Note in any moneys realized from the exercise of remedies in the event of a default by the Obligated Group and in the proceeds of certain insurance and condemnation awards. There is no assurance that, despite compliance with the conditions upon which Additional Indebtedness may be incurred at the time such debt is created, the ability of the Obligated Group to make the necessary payments to repay the 2012A Master Note will not be materially, adversely affected upon the incurrence of Additional Indebtedness.

Supplements to the Master Indenture entered into in connection with the issuance of additional Master Indenture Obligations may contain additional covenants for the benefit of the Holders of such additional Master Indenture Obligations, including financial covenants that are more restrictive than the covenants otherwise contained in the Master Indenture. In the case of an Event of Default related to failure to comply with such covenants, the Holders of such Master Indenture Obligations, to the extent permitted under the terms of the Supplemental Master Indenture pursuant to which such Master Indenture Obligation is issued, could direct an acceleration of all Master Indenture Obligations, including the 2012A Master Note. See APPENDIX D – "SUMMARY OF THE MASTER INDENTURE."

**Fraudulent Conveyances and Preferences**

The financial statements of the Members of the Obligated Group will be combined for financial reporting purposes and will be used in determining whether various covenants and tests contained in the Master Indenture (including tests relating to the issuance of additional indebtedness) are met, notwithstanding uncertainties as to the enforceability under certain circumstances of the joint and several liability of all Members of the Obligated Group for each Obligation, including the 2012A Master Note,

issued under the Master Indenture. The obligations described herein of the Members of the Obligated Group with respect to the 2012A Bonds and the Master Indenture are, in the opinion of counsel to the Members of the Obligated Group, enforceable under the laws of Pennsylvania, subject to the qualifications that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyances or other similar laws or equitable principles relating to or affecting debtors' obligations or creditors' rights generally.

The current Members of the Obligated Group and any future Member of the Obligated Group will be jointly and severally liable for all Obligations issued pursuant to the Master Indenture. As indicated above, the enforcement of such liability may be limited to the extent that any payment or transfer by a Member of the Obligated Group would render it insolvent or would conflict with, not be permitted by or be subject to recovery for the benefit of other creditors of such member under applicable laws or would be prohibited by or would render any Obligation or portion thereof void or voidable under applicable usury or similar laws. There is no clear precedent in the law as to whether such payments by a Member of the Obligated Group in order to pay debt service on an Obligation may be voided by third-party creditors in an action brought pursuant to the Pennsylvania Fraudulent Transfer Act. Under the Pennsylvania Fraudulent Transfer Act, a creditor of a related guarantor may avoid any obligation incurred by a related guarantor if, among other bases therefor, (a) the guarantor has not received fair consideration or reasonably equivalent value in exchange for the guaranty or grossly inadequate consideration is received for the guaranty, and the guarantor is insolvent, as defined in the Pennsylvania Fraudulent Transfer Act, or (b) the guaranty renders the guarantor undercapitalized.

Judicial application of the tests of "insolvency," "reasonably equivalent value," "fair consideration," "valuable consideration" and "grossly inadequate consideration" has resulted in a conflicting body of case law. It is possible that a court may determine that a Member of the Obligated Group has no liability to satisfy an Obligation issued by another Member of the Obligated Group in the event it is determined that the Member of the Obligated Group from whom payment is sought did not receive sufficient consideration for such undertaking and that the incurrence of such liability has rendered or will render such Member of the Obligated Group insolvent.

In addition, a court could determine, in the event of the bankruptcy of a Member of the Obligated Group, that payments made under the Master Indenture or with respect to the 2012A Bonds by the bankrupt member or the other Members of the Obligated Group could constitute preferential payments to or for the benefit of an insider, within the meaning of Section 547(b) of the Federal Bankruptcy Code, which payments, if made during the one year period prior to the date of the filing of the petition in bankruptcy with respect to the bankrupt Member of the Obligated Group, could be recovered by the trustee in bankruptcy from the holders of the 2012A Bonds.

**Limitations on Security Interests in the Members of the Obligated Group's Revenues**

The effectiveness of the security interest in the Gross Revenues of the Obligated Group created by the Master Indenture may be limited by a number of factors, including: (1) provisions of the Social Security Act that may limit the ability of the Master Trustee to enforce directly the security interest in any of the Gross Revenues in the form of reimbursement due under the Medicaid programs and any other statutory or contractual provisions, grant award conditions, regulations or judicial decisions which may have a comparable effect with respect to any of the Gross Revenues in the form of governmental appropriations, or governmental or private research services; (2) commingling of some or all of the Gross Revenues and other moneys of the Members of the Obligated Group not so pledged; (3) present and future statutory liens; (4) rights arising in favor of the United States of America or any agency thereof; (5) rights of third parties in revenues not yet expended; (6) constructive trusts, equitable or other rights impressed or conferred by federal or state courts in the exercise of equitable jurisdiction; (7) the factors

described above under "Fraudulent Conveyances and Preferences"; and (8) rights of third parties in Gross Revenues not in possession of the Master Trustee.

**Other Factors**

The following, among others, may adversely affect future operations of health care, educational and research institutions, including TRHMC and the Borrower, to an extent that cannot be determined at this time:

- Imposition of wage or price controls on the health care industry by state or federal government.
- Adoption of a national healthcare program.
- Repeal or modification of federal health care reform legislation.
- Potential depletion of the Medicare trust fund.
- Continued availability of governmental and private funding for medical research activities conducted by TRHMC or its affiliates.
- Increased medical malpractice claims (affecting TRHMC or in general) which affect the cost and availability of professional liability insurance, and sufficiency of self-insurance reserves.
- Employee strikes and other adverse labor actions that could result in a substantial reduction in revenues without corresponding decreases in costs.
- Reduced need for hospitalization or other medical services arising from future medical and scientific advances.
- Increased unemployment or other adverse economic conditions which would increase the proportion of patients who are unable to pay fully for the cost of their care.
- Cost and availability of energy.
- Efforts by insurers and governmental agencies to limit the cost of hospital services and to reduce the utilization of health care facilities by such means as preventive medicine, improved occupational health and safety and outpatient care.
- Any inability to obtain any required governmental approvals for necessary capital expenditures.
- The occurrence of terrorist activities or natural disasters, including floods and earthquakes, may damage the facilities of the Obligated Group, interrupt utility service to the facilities, or otherwise impair the operation of TRHMC and the generation of revenues from the facilities.

## LITIGATION

There is not now pending nor, to the knowledge of the Authority or the Obligated Group, threatened against the Authority or the Obligated Group, respectively, any litigation, administrative action, or proceeding seeking to restrain or enjoin the issuance, sale, execution or delivery of the 2012A Bonds or in any way, contesting the proceedings and the authority under which the 2012A Bonds have been authorized and are to be issued, sold, executed, delivered or the validity of the 2012A Bonds. There is no litigation pending or, to its knowledge, threatened against the Authority which in any manner questions the right of the Authority to enter into the Bond Indenture or the Loan Agreement, or to issue or secure the 2012A Bonds in the manner provided in the Bond Indenture and the Act. See APPENDIX A – "THE READING HOSPITAL AND THE READING HOSPITAL AND MEDICAL CENTER" hereto for a discussion of certain legal matters affecting the Obligated Group.

## CONTINUING DISCLOSURE

The Authority has determined that no financial or operating data concerning the Authority is material to an evaluation of the offering of the 2012A Bonds or to any decision to purchase, hold or sell the 2012A Bonds, and the Authority will not provide any such information. The Obligated Group has undertaken all responsibilities for any continuing disclosure to Bondholders as described below, and the Authority shall have no liability to the holders of the 2012A Bonds or any other person with respect to Rule 15c2-12(b)(5) (the "*Rule*") promulgated by the United States Securities and Exchange Commission (the "*SEC*") pursuant to the Securities and Exchange Act of 1934, as amended (the "*Exchange Act*").

The Obligated Group will covenant in a written agreement (the "*Continuing Disclosure Agreement*") for the benefit of holders and beneficial owners of the 2012A Bonds to provide to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (EMMA) system, certain financial information and operating data relating to the Obligated Group, including, but not limited to, the Borrower's annual audited consolidated financial statements, by not later than 150 days following the end of the Obligated Group's Fiscal Year (which currently ends June 30) (the "*Annual Report*") and the Obligated Group's quarterly unaudited consolidated financial statements, by no later than 60 days following the end of each of the Obligated Group's fiscal quarters, and to provide notices of the occurrence of certain enumerated events. These covenants have been made in order to assist the Underwriters in complying with the Rule. The proposed form of the Continuing Disclosure Agreement is attached hereto as Appendix F.

The Obligated Group has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

## APPROVAL OF LEGALITY

Legal matters incident to the issuance of the 2012A Bonds are subject to the approving opinion of Stevens & Lee, a professional corporation, Reading, Pennsylvania, Bond Counsel. Certain legal matters were passed upon for the Authority by its counsel, Masano Bradley, Wyomissing, Pennsylvania; for the Borrower and the Obligated Group, by their counsel Roland Stock, LLC, Reading, Pennsylvania; and for the Underwriters by their counsel, Ballard Spahr LLP, Philadelphia, Pennsylvania, none of which firms is passing upon the legality of the 2012A Bonds.

## TAX EXEMPTION AND OTHER TAX MATTERS

In the opinion of Stevens & Lee, a professional corporation, Reading, Pennsylvania, 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 2012A Bonds is not includable in gross income for federal income tax purposes under Section 103(a) of the Code. Bond Counsel is of the further opinion that interest on the 2012A 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 when calculating federal corporate alternative minimum taxable income.

Bond Counsel, is also of the opinion that, under the laws of the Commonwealth of Pennsylvania (the "*Commonwealth*"), the 2012A Bonds and interest on the 2012A Bonds shall be free from taxation for State and local purposes within the Commonwealth, but this exemption does not extend to gift, estate, succession or inheritance taxes, or any other taxes not levied directly on the 2012A Bonds or the interest thereon. Under the laws of the Commonwealth, profits, gains, or income derived from the sale, exchange or other disposition of the 2012A Bonds are subject to State and local taxation within the Commonwealth.

The 4.25% 2012A Bonds maturing on November 1, 2041 have been offered at a discount ("original issue discount") equal generally to the difference between public offering price and principal amount. For federal income tax purposes, original issue discount on a 2012A Bond accrues periodically over the term of the 2012A Bond as interest with the same tax exemption and alternative minimum tax status as regular interest. The accrual of original issue discount increases the holder's tax basis in the 2012A Bond for determining taxable gain or loss from sale or from redemption prior to maturity. Holders should consult their tax advisers for an explanation of the accrual rules.

The 2012A Bonds maturing on November 1, 2040 and November 1, 2044 have been offered at a premium ("original issue premium") over their principal amount. For federal income tax purposes, original issue premium is amortizable periodically over the term of a 2012A Bond through reductions in the holder's tax basis for the 2012A Bond for determining taxable gain or loss from sale or from redemption prior to maturity. Amortizable premium is accounted for as reducing the tax-exempt interest on the 2012A Bond rather than creating a deductible expense or loss. Holders should consult their tax advisers for an explanation of the amortization rules.

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 2012A Bonds. The Authority and the Obligated Group have made certain representations and covenanted to comply with certain restrictions designed to insure that interest on the 2012A Bonds will not be included in federal gross income. Inaccuracy of these representations and failure to comply with these covenants may result in interest on the 2012A Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 2012A 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 2012A Bonds may adversely affect the value of, or the tax status of interest on, the 2012A Bonds.

Bond Counsel has assumed that the proceeds of the 2012A Bonds will be expended as required by and described in the Loan Agreement, the Bond Indenture and the Nonarbitrage Certificate and Compliance Agreement and the other relevant documents, agreements, instruments and certificates executed and delivered in connection with the issuance of the 2012A Bonds (collectively, the "*Bond Documents*"). Bond Counsel has also assumed that each party to the Bond Documents will carry out all obligations imposed on such party by the Bond Documents in accordance with the terms thereof and that all representations and certifications contained in the Bond Documents are accurate, true and complete.

Certain requirements and procedures contained or referred to in the Bond Documents and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the 2012A Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in those documents. Bond Counsel expresses no opinion as to any 2012A Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Stevens & Lee, a professional corporation.

Although Bond Counsel is of the opinion that interest on the 2012A Bonds is not includable in gross income for federal income tax purposes and is exempt from certain state taxes as described above, the ownership or disposition of, or the accrual or receipt of interest on, the 2012A Bonds may otherwise affect a Beneficial Owner's federal or state tax liability. The nature and extent of these other tax consequences will depend 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.

Proposals to alter or eliminate the exclusion of interest on tax-exempt bonds from gross income for some or all taxpayers have been made in the past and may be made again in the future. For example, on September 12, 2011, President Obama submitted the "American Jobs Act of 2011" (the "*Jobs Act*") to Congress. While the Jobs Act was not enacted in its original form, certain measures in support of tax-reform continue to appear in the President's fiscal 2013 budget request, released in February 2012. The 2013 budget proposes a 28% cap on the value of tax preferences, including tax-exempt interest for municipal bonds. There is much uncertainty regarding whether any legislation to effect tax-reform will be enacted now or in the future. The impact of such legislation on the 2012A Bonds and the financial condition of the Obligated Group cannot be predicted. Prospective purchasers of the 2012A Bonds should consult their own tax advisors regarding the potential consequences of the proposed change to the treatment of interest on the 2012A Bonds.

Future legislation, if enacted into law, or clarification of the Code may cause interest on the 2012A Bonds to be subject, directly or indirectly, to federal 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 legislation or clarification of the Code may also affect the market price for, or marketability of, the 2012A Bonds. PROSPECTIVE PURCHASERS OF THE 2012A BONDS SHOULD CONSULT THEIR OWN TAX ADVISERS REGARDING ANY PROPOSED FEDERAL TAX LEGISLATION.

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 2012A Bonds for federal income tax purposes. It is not binding on the IRS or the courts.

Bond Counsel's engagement with respect to the 2012A Bonds ends with the issuance of the 2012A Bonds.

## UNDERWRITING

Pursuant to a Bond Purchase Contract among the Authority, the Obligated Group, and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as representative on behalf of itself, Morgan Stanley & Co. LLC and RBC Capital Markets, LLC (collectively, the "*Underwriters*"), the Underwriters have agreed to purchase from the Authority, upon the satisfaction of certain conditions, all of the 2012A Bonds, if any are purchased, at a purchase price equal to the aggregate principal amount of the 2012A Bonds, plus net original issue premium of $6,882,971.00, less an underwriting discount of $677,347.06. In addition, the Obligated Group has agreed to pay for the out-of-pocket expenses of the Underwriters, including their

legal counsel. Pursuant to the Bond Purchase Contract, each Member of the Obligated Group has agreed to indemnify each of the Underwriters and the Authority against losses, claims, damages and liabilities to third parties arising out of any materially incorrect or incomplete statements of information contained in this Official Statement pertaining to the Obligated Group, their hospital facilities or certain other matters. The initial public offering prices set forth on the front cover page of this Official Statement may be changed by the Underwriters, and the Underwriters may offer and sell the 2012A Bonds to certain dealers (including dealers depositing 2012A Bonds into investment trusts) and others at prices lower than the offering prices set forth on the front cover page.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC, an underwriter of the 2012A Bonds, has entered into a retail brokerage joint venture with Citigroup Inc. As part of the joint venture, Morgan Stanley & Co. LLC will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Morgan Stanley & Co. LLC will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the 2012A Bonds.

## RATINGS

Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. ("*S&P*"), Moody's Investors Service ("*Moody's*") and Fitch Ratings ("*Fitch*") have assigned the 2012A Bonds ratings of "AA" (outlook stable), "Aa3" (outlook stable) and "AA-" (outlook stable), respectively. It is a condition of delivery of the 2012A Bonds that they carry an equivalent rating as of the date of delivery.

Such ratings reflect only the views of S&P, Moody's and Fitch, respectively, and any explanation of the significance of such ratings may only be obtained from the rating agency furnishing the same. The Obligated Group and the Authority furnished to S&P, Moody's and Fitch certain information and materials concerning the 2012A Bonds and themselves. 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 may not be lowered, suspended or withdrawn entirely by Moody's, S&P or Fitch if in their judgment circumstances so warrant. The Authority, the Obligated Group and the Underwriters have undertaken no responsibility either to bring to the attention of the owners of the 2012A Bonds any proposed change in, suspension or withdrawal of a rating or to oppose any such proposed revision, suspension or withdrawal. Any such downward change in, suspension or withdrawal of such rating may have an adverse effect on the market price or marketability of the 2012A Bonds.

## INDEPENDENT ACCOUNTANTS

The consolidated financial statements and supplementary consolidating information as of June 30, 2011 and 2010 and for the years then ended, included in this Official Statement, have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report appearing herein.

## FINANCIAL ADVISOR

Hammond Hanlon Camp LLC (the "*Financial Advisor*") has served as financial advisor to the Borrower and TRHMC for purposes of assisting with the structuring of the 2012 Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken, an independent verification of nor does the Financial Advisor assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. The Financial Advisor is an independent healthcare capital advisory firm and has not been engaged in the underwriting or distribution of the 2012 Bonds.

## VERIFICATION OF MATHEMATICAL COMPUTATIONS

The accuracy of the mathematical computations of the adequacy of the maturing principal amounts of and interest on the investments held in escrow to pay (1) interest when due on the refunded 2008 Bonds and (2) the principal amount and applicable redemption premium, if any, of the refunded 2008 Bonds when due, will be verified solely as to mathematical accuracy by Grant Thorton LLP, certified public accountants.

## CERTAIN RELATIONSHIPS

Stevens & Lee, which is acting as Bond Counsel in connection with the issuance of the 2012A Bonds, represents the Borrower and TRHMC from time to time in matters unrelated to the issuance of the 2012A Bonds. One shareholder and one retired shareholder of Stevens & Lee, Bond Counsel, serve on the Boards of Directors of the Borrower and TRHMC. A principal of an affiliate of Stevens & Lee, McCullough Consulting, LLC, also serves on the Boards of Directors of the Borrower and TRHMC.

A member of, and an attorney with, Roland Stock, LLC, which is acting as counsel to the Members of the Obligated Group in connection with the issuance of the 2012A Bonds, serve on the Board of Directors of the Borrower and TRHMC.

RBC Capital Markets, LLC, one of the Underwriters, is an affiliate of RBC Municipal Products, Inc., which is the purchaser of the 2012D Bonds.

## MISCELLANEOUS

The references herein to the Master Indenture, the Bond Indenture, and the Loan Agreement and the summary of the Bond Indenture and Loan Agreement provided in APPENDIX C – "SUMMARY OF THE BOND INDENTURE AND THE LOAN AGREEMENT" and the summary of the Master Indenture provided in APPENDIX D – "SUMMARY OF THE MASTER INDENTURE" attached hereto are brief outlines of certain provisions thereof. Such outlines do not purport to be complete, and for full and complete statements of such provisions, reference is made to such instruments, documents and other materials, copies of which, as executed and delivered, will be on file at the principal corporate trust office of the Bond Trustee. Copies may be obtained at the expense of the person requesting the same.

The appendices attached hereto are an integral part of this Official Statement and must be read together with all of the foregoing statements.

All information contained herein relating to the Obligated Group has been provided and approved by the Obligated Group for use within the Official Statement.

All estimates and other statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between any of the Authority, the Obligated Group and the purchasers or owners of any of the 2012A Bonds.

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The Authority has duly authorized the execution and delivery of, and the Borrower and TRHMC have approved, this Official Statement.

THE BERKS COUNTY MUNICIPAL AUTHORITY

By: /s/ John T. Connelly
Chairman

Approved:

THE READING HOSPITAL

By: /s/ Clint Matthews
President and Chief Executive Officer

THE READING HOSPITAL AND MEDICAL CENTER

By: /s/ Clint Matthews
President and Chief Executive Officer

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# APPENDIX A

## THE READING HOSPITAL AND
## THE READING HOSPITAL AND MEDICAL CENTER

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## INTRODUCTION

### History and Mission of TRHMC

In 1867, medical and business leaders from the local community partnered to establish the first permanent hospital in Berks County. Then called "The Reading Dispensary," this facility grew in size and services as the community's health needs changed, evolving into the regional health delivery system now called The Reading Hospital and Medical Center ("TRHMC" or the "Hospital"). Today, TRHMC is a wholly owned and controlled entity of The Reading Hospital (the "Borrower"). Together, TRHMC and the Borrower comprise the Obligated Group, as more fully described below; and the Borrower, together with TRHMC and its other controlled entities form the "System." See "CORPORATE ORGANIZATION – Obligated Group" herein.

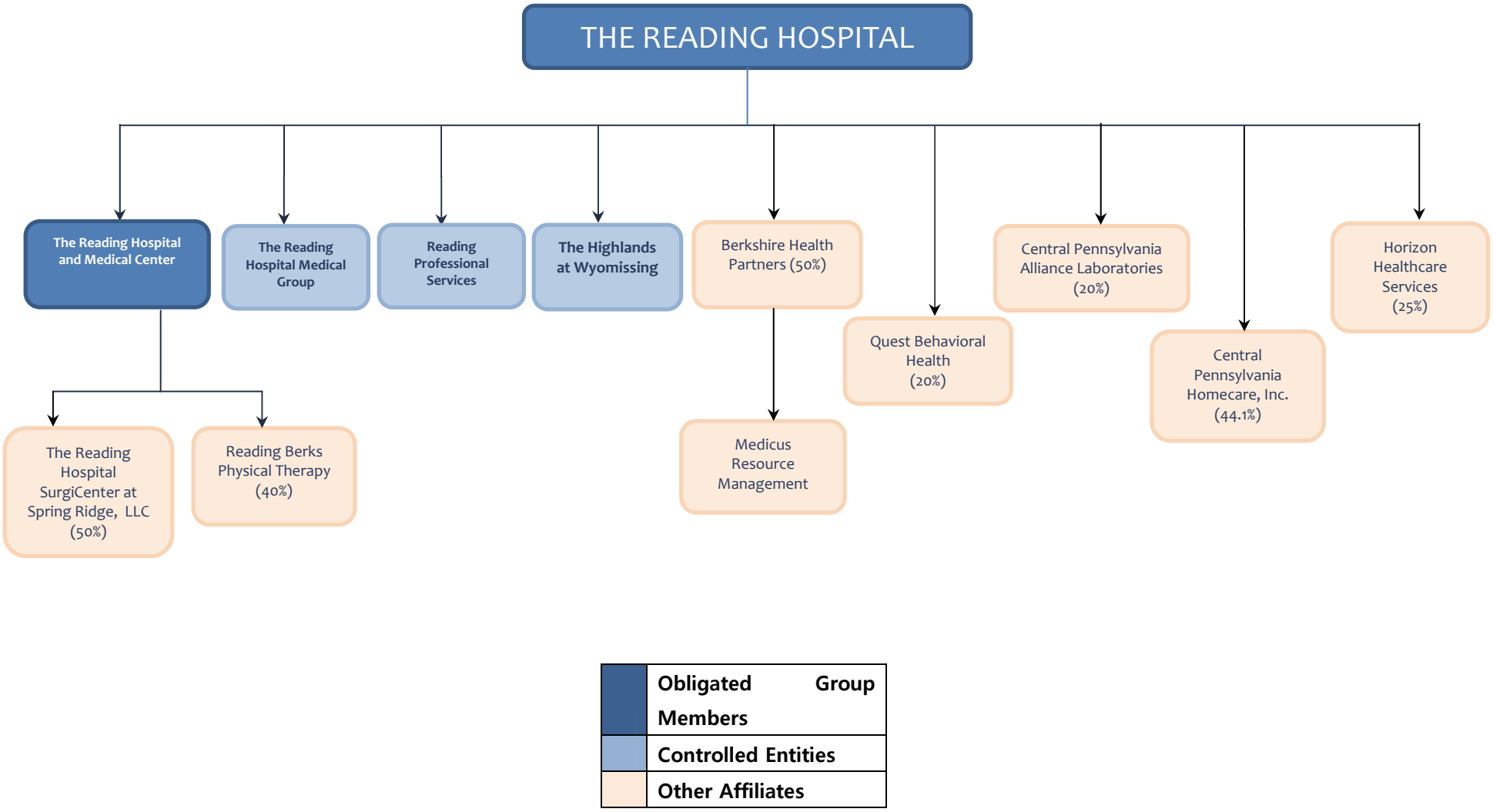
TRHMC is a nonprofit hospital providing a full continuum of acute and tertiary health care services at its main campus in West Reading, Pennsylvania and 26 satellite locations throughout Berks County, Pennsylvania. Its mission is:

- to provide compassionate, accessible, high-quality, cost-effective health care to the community;
- to promote health;
- to educate healthcare professionals; and
- to participate in appropriate clinical research.

TRHMC is Pennsylvania's largest single hospital between Philadelphia and Pittsburgh. TRHMC has an average of 655 beds in service during the fiscal year ended June 30, 2011. TRHMC's inpatient discharges account for approximately 61% of all hospital-reported discharges in its primary service area. During the year ended June 30, 2011, TRHMC treated approximately 119,000 individuals in the emergency department and had approximately 33,000 inpatient admissions.

## CORPORATE ORGANIZATION

As illustrated in the organizational chart on the following page, each of the Borrower and TRHMC, which together comprise the Obligated Group, are affiliated with various controlled and non-controlled entities none of which are members of the Obligated Group.


THE READING HOSPITAL
The Reading Hospital and Medical Center
The Reading Hospital Medical Group
Reading Professional Services
The Highlands at Wyomissing
Berkshire Health Partners (50%)
Quest Behavioral Health (20%)
Central Pennsylvania Alliance Laboratories (20%)
Central Pennsylvania Homecare, Inc. (44.1%)
Horizon Healthcare Services (25%)
The Reading Hospital SurgiCenter at Spring Ridge, LLC (50%)
Reading Berks Physical Therapy (40%)
Medicus Resource Management
Obligated Group Members
Controlled Entities
Other Affiliates

**Obligated Group**

The Obligated Group created under the Master Indenture is comprised of the Borrower, a Pennsylvania nonprofit membership corporation, an organization described in Section 501(c)(3), and a public charity under Section 509(a)(3) of the Internal Revenue Code of 1986, as amended (the "Code"), and TRHMC, also a Pennsylvania nonprofit membership corporation, an organization described in Section 501(c)(3) and a public charity under Section 509(a)(3) of the Code. The Borrower wholly owns and controls TRHMC.

**Borrower**. The primary corporate purpose of the Borrower is to engage in fund raising activities on behalf of TRHMC and to hold, invest and manage funds on behalf of TRHMC. The Borrower appoints the members of TRHMC's Board of Directors.

**TRHMC**. The main campus houses its regional cancer and heart centers, trauma center, inpatient and outpatient surgical center, stroke center, heart failure program, critical care units for newborns and adults, and acute and rehabilitation nursing units. As of April 30, 2012, TRHMC's licensed bed count is 735 beds and 34 bassinets. TRHMC's inpatient discharges account for approximately 61% of all hospital-reported discharges in its primary service area.

Plans call for developing other strategic locations to bring these healthcare services closer to where patients live and work. See "FACILITIES – Strategic Plans and Capital Spending" herein.

THE AUDITED FINANCIAL STATEMENTS INCLUDED IN APPENDIX B TO THIS OFFICIAL STATEMENT CONTAIN THE CONSOLIDATED FINANCIAL STATEMENTS OF THE BORROWER AND ITS CONTROLLED ENTITIES. SUCH CONSOLIDATED FINANCIAL STATEMENTS INCLUDE CONTROLLED ENTITIES THAT ARE NOT MEMBERS OF THE OBLIGATED GROUP. THE OBLIGATED GROUP ACCOUNTED FOR 88.0% AND 88.3% OF CONSOLIDATED REVENUES FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2010, RESPECTIVELY, AND ACCOUNTED FOR 94.2% AND 94.4% OF THE CONSOLIDATED ASSETS REPORTED IN THE FINANCIAL STATEMENTS AT JUNE 30, 2011 AND 2010, RESPECTIVELY.

**Affiliated Entities Outside the Obligated Group**

**Borrower Controlled Entities**. The following organizations are consolidated entities affiliated with the Borrower (together, with TRHMC, the "Controlled Entities") that provide physician services by employing physicians and contracting with physician groups or professional corporations.

*The Reading Hospital Medical Group* ("TRHMG") is a Pennsylvania nonprofit corporation, an organization described in Section 501(c)(3) and a public charity under Section 509(a)(3) of the Code. TRHMG was established on January 1, 2007 with the mission of providing access to high quality primary care physicians and specialty physicians in sufficient numbers to meet community needs. TRHMG has a network of more than 100 physicians and other healthcare providers.

*Reading Professional Services* ("RPS") is a Pennsylvania nonprofit corporation, an organization described in Section 501(c)(3) and a public charity under Section 509(a)(3) of the Code. RPS recruits physicians and provides physician billing and administrative services for TRHMC, including supervision and instruction for medical students completing their residency training.

*The Highlands at Wyomissing* ("The Highlands") is a Pennsylvania nonprofit corporation, an organization described in Section 501(c)(3) and a public charity under Section 509(a)(3) of the Code. The purpose of The Highlands is to develop, build, own and operate a continuing care

retirement community, including residential, recreational and health care facilities and services specially designed to meet the physical, social and psychological needs of elderly persons and to support the purposes. Certain members of the Board of Directors of TRHMC are also members of the Board of Directors of Highlands. The Highlands is a fully controlled entity of the Borrower.

**Other Affiliated Entities**. One or both of the Borrower and TRHMC are affiliated with the following non-controlled entities.

*The Reading Hospital SurgiCenter at Spring Ridge, LLC*, a Delaware limited liability company located in Wyomissing, Pennsylvania, provides ambulatory surgery services to the surrounding community. TRHMC is a 50% member of The Reading Hospital SurgiCenter at Spring Ridge, LLC.

*Reading Berks Physical Therapy LLC*, a Pennsylvania for-profit limited liability company, provides physical therapy services at eight locations within the greater Berks County area. TRHMC is a 40% member of Reading Berks Physical Therapy LLC.

*Berkshire Health Partners* ("BHP"), a Pennsylvania nonprofit corporation, and its wholly owned subsidiary, Medicus Resource Management, Inc. ("Medicus"), a Pennsylvania for- profit corporation, provide network access, population health management services, provider credentialing and enrollment, and assist in developing preferred provider relationships. While BHP is exempt from state income taxes, it is a taxable entity for federal tax purposes. TRHMC is a 50% owner of Berkshire Health Partners.

*Central Pennsylvania Alliance Laboratories; Quest Behavioral Health, Inc.* The Borrower, along with several other acute care service hospitals throughout the central Pennsylvania area, is a member of the Central Pennsylvania Health Alliance. As such, the Borrower has contributed capital to and has become a 20% owner of Central Pennsylvania Alliance Laboratories, which is a joint venture among the Borrower and such hospitals to provide diagnostic laboratory services, and a 20% owner of QUEST Behavioral Health, which is a joint venture that provides mental health benefits to TRHMC and other hospitals in the area.

*Central Pennsylvania Homecare, Inc.*, a Pennsylvania nonprofit corporation, an organization described in Section 501(c)(3) and a public charity under Section 509(a)(3) of the Code, is a home care company operating in Pennsylvania that provides visiting home nursing services to outpatients. More than 64,000 home care visits are provided by Central Pennsylvania Homecare, Inc. (also called VNA Community Services) in a ten county area. The Borrower is a 44.1% member of Central Pennsylvania Homecare, Inc.

*Horizon Healthcare Services, LLP* ("Horizon"), a Pennsylvania for-profit limited liability partnership, is an in-home infusion and specialty pharmacy company located in Lancaster, Pennsylvania. Horizon, which serves patients throughout 30 counties in Pennsylvania, is wholly owned by four nonprofit acute care providers, including the Borrower, which holds a 25% partnership interest. Horizon supports more than 3,000 home care referrals annually.

**Education Affiliations and Research Programs**

Currently, TRHMC offers physician residency programs in Internal Medicine, Family Medicine, Obstetrics/Gynecology, Osteopathic Traditional Internship, and Transitional Year Medicine. TRHMC maintains affiliated residencies in General Surgery and Plastic Surgery with Philadelphia College of Osteopathic Medicine and an affiliated Cardiology fellowship position with Thomas Jefferson University. TRHMC provides a clinical setting for medical students from several medical schools and also serves as a

training site for physician assistant and nurse practitioner students from several schools in the region. At any one time there are 60-65 residents in training at TRHMC.

From its inception, TRHMC has made a commitment to medical education, nursing education and allied healthcare training. The training programs have been central to the mission of the organization. Over one third of current primary care, hospitalist, and obstetric gynecology staff are graduates of TRHMCs training programs. In the past year, residents and faculty have presented or published over 50 peer reviewed reports at regional or national levels. The faculty and residents have developed key skills in process improvement and have been integrally involved in TRHMC's Patient Safety and Quality programs.

The Academic Affairs office, which oversees undergraduate and graduate education at TRHMC, also assures extensive high level continuing medical education for the medical staff and provides support for resident and staff research initiatives. TRHMC maintains a major academic affiliation with Thomas Jefferson University and is a partner in the Jefferson Coordinating Center for Clinical Research. In addition, an academic partnership with the Jefferson Kimmel Cancer Center supplements TRHMCs education, clinical and research programs. The organization maintains contractual educational relationships with multiple schools of higher learning.

In addition to medical education, TRHMC offers the following hospital-based educational programs through its School of Health Sciences:

**Registered Nursing Program**. Instituted in 1889, the school was one of the first schools in the country to be accredited by the National League for Nursing. To date, over 5,578 students have graduated from the Nursing Program. Currently, 340 students are enrolled in the Nursing Program.

The Nursing Program offers two- and three-year educational options, accepting new classes for both tracts in August. Currently accredited by the National League for Nursing Accrediting Commission, the Nursing Program includes education in specialization areas, including medical surgical nursing, pediatrics, maternity, oncology, and intensive care. The program is affiliated with Alvernia University. Courses in physical, biological, and behavioral sciences, along with English composition are taught at the School of Health Sciences by Alvernia University faculty. This affiliation enables Nursing Program graduates to qualify for RN-BSN completion in the Bachelor of Science degree program in Nursing at Alvernia. Because of an agreement with Alvernia University, School of Health Sciences' students who earn a Registered Nurse diploma and pass the NCLEX examination are guaranteed admission with advanced standing at the junior level.

TRHMC retains a percentage of graduates on its nursing staff providing workforce security, in contrast to the nursing shortages affecting hospitals across the country. To maintain this renewable source of professionals, TRHMC offers financial support to cover the cost of operating the Nursing Program.

**Surgical Technology Program**. For almost 40 years, the Surgical Technology Program has prepared qualified professionals for a technical role on the surgical team. The Mission of the Surgical Technology Program of The Reading Hospital School of Health Sciences is to prepare competent, entry-level surgical technologists in the cognitive (knowledge), psychomotor (skills), and affective (behavior) learning domains. Combining instructional lectures and clinical experience, the 18-month program prepares students for the national certification examination and to assume entry-level positions as surgical technologists. Currently 20 Surgical Technology students are enrolled.

**Emergency Management Services Program**. The Emergency Medical Services (EMS) program consists of two sectors: EMT education and Paramedic education.

EMTs provide care for the sick and injured in emergency medical settings. The EMT educational program is provided in a variety of settings including the Berks County's local vocational technical schools, The School of Health Sciences campus, or at local fire companies and businesses who request courses. Current EMT enrollment is 34 on-site students and over 50 off-site students.

The Paramedic Education Program was founded in 1987 to prepare individuals for careers as pre-hospital services professionals. Emergency Medical Technicians with one or more years of field experience are eligible to apply to the Paramedic program. The Paramedic Program gives students the opportunity to combine their educational and work experience in the community and in the Hospital. From this combination, students gain an understanding of continuity of care – from first contact with the patient in the field until discharge from the Hospital. The program includes didactic, clinical, and field experiences provided by The Reading Hospital in cooperation with advanced life support services in the Eastern Pennsylvania EMS region. Currently, 22 students are enrolled in the Paramedic Program.

**Clinical Pastoral Education Program**. The Clinical Pastoral Education Program at The Reading Hospital offers program formats tailored to the needs of theological-degree candidates, clergy, and lay ministers seeking continuing education or wishing to train for careers in chaplaincy. The curriculum and supervised clinical pastoral experiences focus on the development and refinement of pastoral care and counseling skills that are theoretically informed and pastorally effective. These programs are offered: (1) Summer Internship for Theological Students, Clergy and Qualified Lay Applicants; (2) Extended Internship from Fall through Winter for Theological Students, Clergy and Qualified Lay Applicants; (3) Chaplain Residency Program which is a one-year paid professional training program for careers in chaplaincy; and (4) a fellowship in CPE supervision. There are currently one fellow, four residents and six interns in the Program.

**Radiologic Technology Program**. The Radiologic technology Program is approved by the Joint Review Committee on Education in Radiologic Technology (JRCERT), and has graduated over 500 Radiologic Technologists since being organized in 1951. The radiologic technology program is presented in 24 months; a new class begins each Fall semester. Class size is limited to 20 students per year. Combining classroom and clinical experiences, the two-year certificate program prepares graduates for entry-level employment as diagnostic radiographers in a variety of radiologic healthcare settings. Current enrollment in the school is 34.

TRHMC also provides a critical care training course using the American Association of Critical Care Nurses' Essentials of Critical Care Orientation (ECCO), which is comprised of five modules: cardiovascular, EKG, pulmonary, neurologic and renal. Registered nurses working in critical care, progressive care, and telemetry units are required to take selected modules of the ECCO program to master the required knowledge to work in those areas.

TRHMC provides clinical support for programs operated by the following institutions:

- **Physical Therapy and Physical Therapy Assistant:** Arcadia University, Drexel University, Hampton University, Ithaca College, Lebanon Valley College, Misericordia University, Neumann College, St. Francis University, Temple University, Thomas Jefferson University, University of Delaware, University of Scranton, University of the Sciences in Philadelphia, Widener University, Harcum College, Central Penn College, Lehigh Carbon Community College, Penn State (Hazelton), St. Augustine

- **Medical Records Administration/Coding:** Lehigh Carbon Community College, Temple, Pittsburgh, York College, Gwynedd-Mercy, Reading Area Community College, Berks Technical Institute

- **Speech Pathology:** Bloomsburg University, University of Pittsburgh, Ithaca College, Marywood, Penn State University, Temple University, West Chester

- **Professional Nursing:** Alvernia, Reading Area Community College, Pennsylvania State University, University of Pennsylvania, University of Delaware, Villanova

## GOVERNANCE AND MANAGEMENT

### TRHMC Board of Directors; Committees

As of the date of this Official Statement, TRHMC is served by a 37-member Board of Directors (the "TRHMC Board"), which is comprised of 29 active (voting), four emeritus (non-voting), and four ex-officio (non-voting) members. TRHMC's President and Chief Executive Officer is a voting member of the TRHMC Board for a period coterminous with that office. Candidates for election to the TRHMC Board are nominated by the Governance Committee in accordance with the Bylaws. Election of Directors is made by the TRHMC Board at the annual meeting acting upon recommendations from the Governance Committee.

Pursuant to the Bylaws of TRHMC, a 12-member Executive Committee of the TRHMC Board is vested with all the executive, administrative and supervisory powers of the Board. In addition, the TRHMC Board has the following other standing committees: Audit and Compliance, Capital Resources, Community Benefit, Executive Compensation, Finance, Governance, Human Resources and Quality, Safety, and Physician Relations.

The current members of the TRHMC Board and their principal occupations are as shown below.

***Active Members (Voting)***

| Name | Profession or Occupation | Company | Current Term Ends[(1)] | Years of Service |
|---|---|---|---|---|
| Barbara Arner[(2)] | Past President | Arner's Restaurants | 2015 | 19 |
| Theodore Auman[(2)] | Senior Vice President | Walnut Street Associates | 2016 | 8 |
| Michael Avedissian, MD | Past President, Medical Staff | Cardiology Assoc. of West Reading | 2012 | 6 |
| Mary Ellen Batman | Retired | N/A | 2012 | 3 |
| Bruce Bengtson | Retired | N/A | 2013 | 28 |
| P. Michael Ehlerman[(2)] | Past President | Yuasa Battery, Inc. | 2014 | 13 |
| Hon. Elizabeth Ehrlich[(2)] | Retired | County of Berks | 2014 | 25 |
| Thomas Flynn, Ph.D. | President | Alvernia University | 2015 | 1 |
| Robert J. Gibble | President | Gibble Consulting | 2013 | 16 |
| Victor Hammel[(2)(3)] | Chairman of the Board | J.C. Ehrlich Co. | 2016 | 20 |
| Julia Klein[(2)] | President | C.H. Briggs | 2015 | 12 |
| Christ Kraras | President | White Star Tours | 2016 | 6 |
| Edward T. Lentz | President | Lentz Milling | 2016 | 6 |

***Active Members (Voting)***

| Name | Profession or Occupation | Company | Current Term Ends[1] | Years of Service |
|---|---|---|---|---|
| Clint Matthews* | President | The Reading Hospital | 2012 | |
| Samuel A. McCullough | Retired | McCullough Consulting, LLC | 2013 | 19 |
| Terrence McGlinn | General Partner | Walnut Street Associates | 2014 | 28 |
| Margaret S. McShane | Community Volunteer | N/A | 2012 | 19 |
| Marlin Miller, Jr. | President | Norwich Ventures | 2014 | 28 |
| Lillian Murphy | President | The Friends of The Reading Hospital | 2013 | 1 |
| Richard M. Palmer, Jr. | President | R.M. Palmer Co. | 2013 | 14 |
| Karen A. Rightmire[2] | Past President | United Way of Berks County | 2016 | 1 |
| John Roland, Esq.[2] | Member | Roland Stock, LLC | 2016 | 14 |
| Elizabeth B. Rothermel | Community Volunteer | | 2013 | 23 |
| Jay S. Sidhu | President | Customer's Bank | 2015 | 14 |
| David L. Thun[2] | Past President | Magnetch International | 2016 | 14 |
| Brent J. Wagner, MD[2] | President of the Medical Staff | Radiology Associates of West Reading | 2013 | 2 |
| John P. Weidenhammer | President | Weidenhammer Systems | 2016 | 1 |
| C. Thomas Work, Esq.[4] | Partner | Stevens & Lee | 2015 | 8 |
| Benjamin J. Zintak, III | Community Volunteer | | 2015 | 1 |

(1) Term ends as of the date of the annual Board of Directors meeting held in September of each year.
(2) Member of the Executive Committee.
(3) Mr. Hammel currently serves as the Vice Chairman of the Board of Directors through June 30, 2014.
(4) Mr. Work currently serves as the Chairman of the Board of Directors through June 30, 2014.

***Ex-Officio Members (Non-Voting)****

| Name | Profession or Occupation | Company | Years of Service |
|---|---|---|---|
| J. Marc Aynardi, M.D. | Past President of RHMG | The Reading Hospital Medical Group | 5 |
| Robert A. Brigham, M.D. | Chair, Dept. of Surgery | The Reading Hospital & Medical Center | 14 |
| A. George Neubert, M.D. | Chair, Dept. of OB/GYN | The Reading Hospital & Medical Center | 5 |
| Cecilia M. Smith, D.O. | Chair, Dept. of Internal Medicine | The Reading Hospital & Medical Center | 5 |

***Emeritus Members (Non-Voting)*** †

| Name | Profession or Occupation | Company | Years of Service |
|---|---|---|---|
| Bernard Fromm | Chairman | Fromm Electric Supply | 25 |
| Sidney D. Kline, Jr., Esq. | Attorney | Stevens and Lee | 41 |
| David Reynolds | Retired | N/A | 27 |
| David H. Roland, Esq. | Attorney | Roland Stock, LLC | 46 |

* The TRHMC Board will cease to have non-voting ex-officio members as of July 1, 2012. The Bylaws will continue to provide, however, that the Chief Executive Officer will serve as a voting member of the Board.

† The Bylaws provide that no further Emeritus Members will be appointed.

**Certain Relationships**

Thomas C. Work, Esquire, Chairman of the TRHMC Board, is a shareholder of, and Sidney D. Kline, Jr., Esquire, an emeritus member of the TRHMC Board, is an attorney with, Stevens & Lee, Reading, Pennsylvania, which serves as Bond Counsel in connection with the issuance of the Series 2012 Bonds. Samuel A. McCullough, a member of TRHMC Board, is a principal of McCullough Consulting, LLC, which is affiliated with Stevens & Lee, Reading, Pennsylvania.

John Roland, Esquire, a member of TRHMC Board, is a member of, and David H. Roland, Esquire, an emeritus member of the TRHMC Board, is an attorney with, Roland Stock, LLC, Reading, Pennsylvania, which serves as counsel to TRHMC and the Borrower in connection with the issuance of the Series 2012 Bonds.

**Conflict of Interest Policy**

The Bylaws of each of the Borrower and TRHMC contain specific provisions governing conflicts of interest by any director, officer or committee member. Pursuant to the Bylaws, directors, officers and committee members have an affirmative duty to disclose in a timely fashion any relationship or interest, financial or otherwise, which they or any other corporation, partnership, association or other organization in which they have any interest, may have in any contract or transaction to which the Borrower or TRHMC is, or is about to become, a party.

In addition, the Borrower and TRHMC have adopted a conflict of interest policy that governs certain transactions and contracts, including an proposal to discuss, negotiate or enter into a contract or transaction, in which their officers, directors and members of committees, including community members, may have a direct or indirect interest. Under the policy, a director, officer or member of a committee who has or might have a financial or other interest in a matter is required to disclose the details of that interest to the chair of the Board of Directors or committee that is addressing the matter. After disclosure of the conflict or potential conflict of interest and a determination that a conflict exists by the applicable Board of Directors or committee, the Board of Directors or committee is required to determine (a) whether the Borrower can address the matter more advantageously by means that avoid the conflict of interest and (b) if the matter cannot be addressed more advantageously by means that avoid the conflict of interest, or if other approaches to resolution are impractical under the circumstances, (i) whether the proposed transaction or contract is in the Borrower's best interests, (ii) whether it is fair and reasonable, and (iii) whether to enter into it. Violation of the conflict of interest policy may be grounds for removal.

**Management**

TRHMC Board is committed to ensuring the Hospital's continuing prominence as a regional healthcare leader by recruiting and retaining an experienced senior management team. As charged by the Board, the executive team is focused on expanding TRHMC's clinical capabilities, bolstering its medical and administrative staff, and enhancing the quality of care and service to patients.

The three newest members of the executive team are the President and Chief Executive Officer, who is appointed by and serves at the pleasure of the Board, the Executive Vice President and Chief Operating Officer, and the Senior Vice President and Chief Financial Officer. These three executives, who previous to their formal appointments served in interim executive roles starting in 2010, have added their experience in professional healthcare administration to the clinical and leadership expertise of the existing senior team to focus on bringing the nation's best practices to the organization.

**Clint Matthews, President and Chief Executive Officer**. Clint Matthews, age 58, has served as Chief Executive Officer since January 1, 2012. A Texas native, Mr. Matthews has occupied executive roles with Tenet Healthcare's Palm Beach Gardens Medical Center in Florida, Lourdes Hospital in Kentucky, Princeton Health System in West Virginia, Ornda Healthcorp South Park Hospital in Texas, Amarillo Hospital district Northwest Healthcare System in Texas, HCA Doctors Hospital in Arkansas, and Hospital Affiliates International, Inc., facilities in Texas and California. He has been employed by FTI Consultants in its healthcare practice since 2004. Mr. Matthews has an undergraduate degree in nursing from the University of Texas and a master's degree in health care administration from Texas Woman's University.

**Therese Sucher, Executive Vice President and Chief Operating Officer**. Therese Sucher, age 59, has served as Chief Operating Officer of TRHMC since January 1, 2012. Ms. Sucher began her career as Clinical Director of Nursing at Fairview General Hospital in Ohio, and later served as a consultant in the healthcare business practice of Arthur Andersen, LLC, and a Vice President of Operations at Kaiser Permanente in Cleveland. Also a nurse by training, Theresa Sucker graduated from Ursuline College of Cleveland and received a master's degree in organizational development from Case Western Reserve University.

**Richard W. Jones, Senior Vice President and Chief Financial Officer**. Rick Jones, age 56, has served as Chief Financial Officer since January 1, 2012. Mr. Jones previously served as CFO at Boca Raton Community Hospital in Florida, Brooklyn Queens Healthcare of New York, Methodist Hospitals in Indiana, Roseland Community Hospital in Chicago, Tenet's USC University Hospital in Los Angeles, Louis A. Weiss Memorial Hospital in Chicago, Catholic Healthcare West's San Gabriel Valley Medical Center in California, Tulane University Hospital in Louisiana, University Hospital of Arkansas, and Geisinger System Services in Danville. He began his career as a financial counselor at Baptist Hospital of Miami and as a staff accountant with Arthur Andersen & Co. Mr. Jones majored in political science, finance, and accounting at the University of Miami, earning an undergraduate degree, followed by an MBA from the University's School of Business. He is a certified public accountant.

Other key leaders include:

**Brent J. Wagner, MD, President of the Medical Staff**. Dr. Brent Wagner, age 51, has served as President of the Medical Staff since 2010. Dr. Wagner earned his MD degree at Jefferson Medical College in Philadelphia, and completed his residency in diagnostic radiology at Wilford Hall USAF Medical Center at Lackland Air Force Base in San Antonio.. His military service included a position at the Armed Forces Institute of Pathology in Washington, DC, where he served as Chief of Genitourinary Radiology and Course Director for the Department of Radiologic Pathology for two years. He also served

in the Department of Radiology at both Walter Reed Army Medical Center and the National Naval Medical Center and headed the Ultrasound Section at Wilford Hall Medical Center. Dr. Wagner joined The Reading Hospital and Medical Center's Medical Staff in 1998 and became Chair of the Department of Radiology in 2002. In private practice with West Reading Radiology Associates, he became that group's President in 2002. He is a visiting lecturer with the American Institute for Radiologic Pathology, author or co-author of nearly 50 publications, and lectures regularly on genitourinary topics. Dr. Wagner was elected to the Board of Trustees of the American Board of Radiology in 2011.

**David L. George, MD, Vice President and Chief Academic Officer**. Dr. George, age 60, has served as Chief Academic Officer at The Reading Hospital since 2010, having previously served as Interim CAO and Director of Graduate Medical Education with responsibility TRHMC's five residency programs, osteopathic education, and medical student education since 2000. Dr. George, a graduate of Princeton University and Harvard University Medical School, has been a practicing rheumatologist on the Hospital's Medical Staff since 1983. Board certified in both internal medicine and rheumatology, he completed his residency at Boston's Brigham and Women's Hospital, followed by a fellowship at Brigham and Women's and Best Israel Hospitals. He also completed a faculty development fellowship at the University of North Carolina, and earned an MBA from Alvernia University. A Fellow in the American College of Physicians, Dr. George has been honored locally and nationally for his commitment to education, receiving the distinguished Parker J. Palmer Courage to Teach Award from the Accreditation Council on Graduate Medical Education, the National Award for Innovation in Medical Education from the Society of General Internal Medicine, and the Medical Student Clinical Preceptorship Award from the American College of Rheumatology Research and Education Foundation

**Jacob D. McKnight, Vice President and Chief Information Officer**. Jacob D. "Mac" McKnight, age 60, has served as Vice President and Chief Information Officer since April 2011, after serving as the Hospital's Interim CIO for the previous 10 months. He had previously held the position as Senior IT Director and Assistant Chief Information Officer for four years. Mr. McKnight has brought almost 35 years of information technology experience in health care to the position. His expertise includes IT strategic planning, governance, and implementation and integration of information systems in both the for-profit and nonprofit arenas. Mr. McKnight began his IT career in his home community of Louisville, Kentucky, where, he advanced from systems engineer and project leader to senior systems manager for Humana, Inc., and its future parent Columbia Healthcare Corporation. His career also included senior IT leadership positions with Humana Hospital in Lexington, and Jewish Hospital and St. Mary's Healthcare in Louisville. He holds a bachelor's degree from McKendree College, Lebanon, Illinois.

**Jorge J. Scheirer, MD, Vice President and Chief Medical Information Officer**. Jorge J. Scheirer, MD, age 48, has served as Vice President and Chief Medical Information Officer since May 2011. In this newly created position, Dr. Scheirer is responsible for supporting the development of clinical information systems that assist clinicians in the delivery of high quality patient care. Previously, he provided his expertise in support of the Hospital-wide implementation of computerized physician order entry, and assisted in the design of both its electronic medication reconciliation and discharge management applications. These informatics investments have contributed to improved patient care outcomes in congestive heart failure and pneumonia. Dr. Scheirer, a member of TRHMC's Medical Staff since 1996, began in a private internal medicine practice before joining the Hospital's internal medicine faculty practice. As its medical director, the practiced earned level 3 recognition from the National Committee for Quality Assurance as a patient-centered medical home, and was acknowledged as a leader in quality improvement innovations and outcomes by the Governor's Chronic Care Initiative. A graduate of Albright College and Temple University School of Medicine, Dr. Scheirer completed his internal medicine residency training at Keesler Medical Center, Keesler Air Force Base, Biloxi, Mississippi, in

1992. He began his postgraduate medical career as a faculty member in the internal medicine residency program at Keesler Medical Center and was discharged with the rank of Major in 1996.

**Donna F. Weber, Vice President and Chief Nursing Officer**. Donna Weber, MSN, MBA, RN, NEA-BC, age 58, has been Vice President & Chief Nursing Officer at TRHMC since 1996. She had previously served as Patient Education Coordinator for the Hospital, and was named Nursing Service Director, the number two position in Nursing Administration, in 1986. Throughout her tenure, she led the evolution from top-down management of inpatient nursing services into organizational-wide shared governance, providing nurses with a voice in determining nursing practice, standards, and quality of care across the enterprise. During this time, the Hospital established the Center for Professional Nursing Practice to promote and advance excellence, developed a strategic plan for transformational leadership, innovative environment and self-empowerment to achieve best-practice outcomes, and established the organizational structure to advance toward national certifications. Mrs. Weber serves on the advisor by boards for the nursing programs at Alvernia University, Reading Area Community College, and Kutztown University, and is a co-founder of the Berks Regional Research Alliance to promote nursing research. This graduate of Columbia University's baccalaureate nursing program earned an MSN in the Family Nurse Practitioner Program at the University of Pennsylvania and an MBA from Alvernia University. She also holds Advanced Nurse Executive credentials from the American Nurses Credentialing. Mrs. Weber will retire on May 31, 2012, and a national search has been launched for her successor. In the interim, Barbara Romig, RN, MSN, CPHQ, currently Director of Education and Nursing Clinical Practice, will serve as CNO. A 24-year Hospital veteran, Mrs. Romig has served in a variety of roles, from staff nurse, case manager, and manager of quality improvement. She received a baccalaureate degree in nursing from Albright College and a master's degree in nursing from the University of Pennsylvania.

**Vice President of Business Development and Strategy**. This newly created position is the subject of another national search. The individual selected will be responsible for supporting the Board and Senior Leadership team in formalizing a strategic plan for the organization and developing strategies and tactics to enhance the clinical offerings of TRHMC. This person will also have operational oversight of the communications and marketing functions.

## FACILITIES

### General

TRHMC's main campus, situated on 39 acres in West Reading, Pennsylvania, is the system's site for inpatient care, research, and education, as well as the hub for major outpatient services. Facilities on this campus include 20 buildings, 12 devoted to patient care. An important non-clinical building is the new School of Health Sciences, which prepares students in five disciplines – nursing, radiologic technology, surgical technology, paramedic education, and clinical pastoral education – for their future as healthcare professionals.

In addition to the West Reading location, TRHMC maintains 15 satellite offices that provide laboratory services; 11 satellite offices that provide imaging services; a location for occupational health services; a location that houses outpatient physical therapy, occupational therapy, and speech and hearing services; and multiple physician practice sites. TRHMC also owns The Reading Health Dispensary in downtown Reading that provides primary care to uninsured and underinsured children and adults during the day and urgent care during the evening.

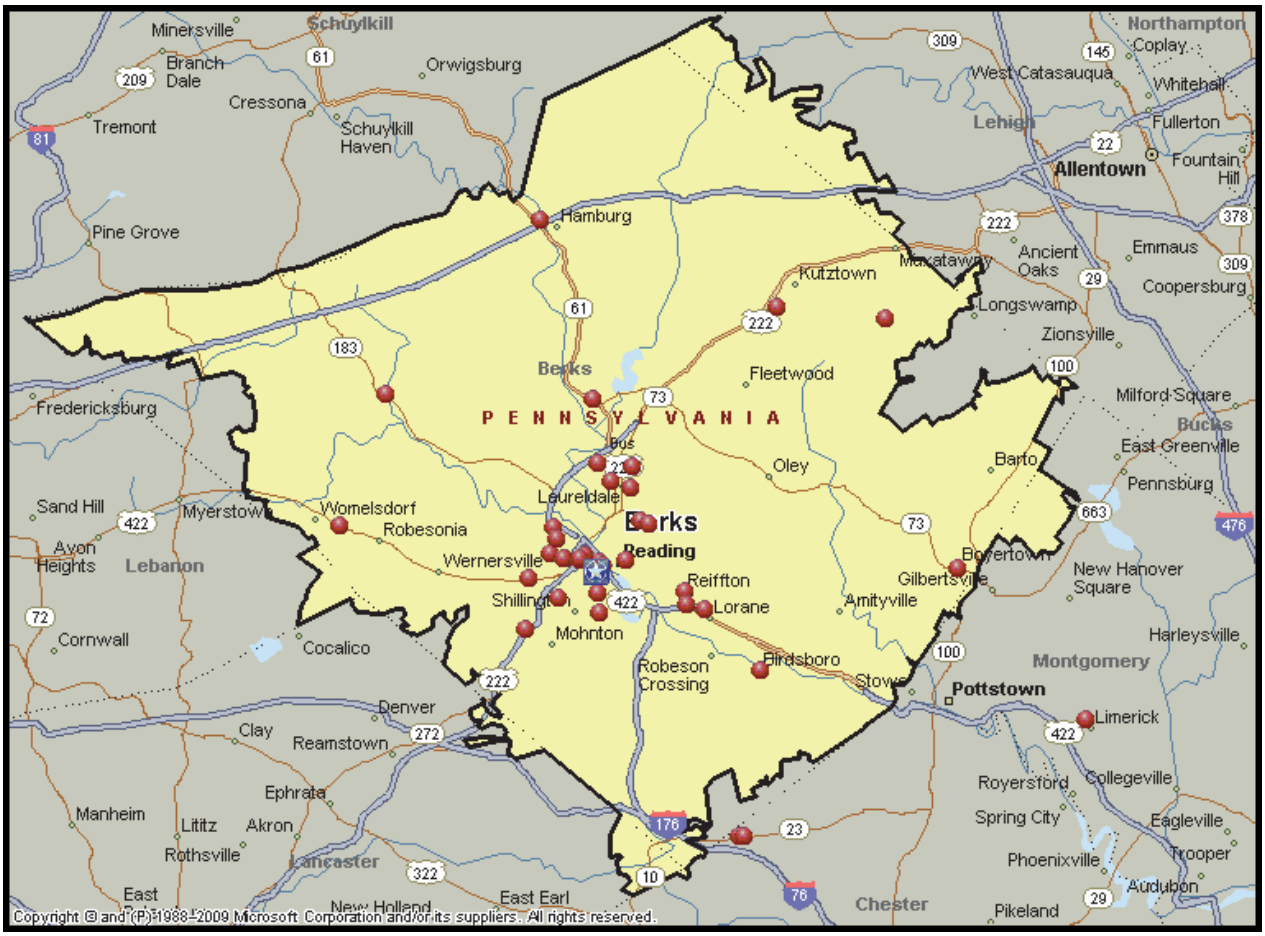
In addition, TRHMC owns a seven-acre site in nearby Spring Township, approximately three miles from West Reading, that houses an ambulatory center, imaging center and lab testing satellite,

wound healing and hyperbaric medicine center, and weight management center. A second nearly 23-acre site in Spring Township for TRHMC's post-acute campus was completed in fall of 2009. This site houses an inpatient rehabilitation center and other services.

In addition to these locations, TRHMC has acquired several other properties to meet future needs and extend its market reach. These include:

- A third location in Spring Township consisting of 105 acres
- Douglassville, Amity Township, 23 acres
- Kutztown, Maxatawny Township, 15 acres
- Denver, East Cocalico Township, 32 acres
- New Morgan Township, 32 acres

The following map shows the locations for TRHMC and certain affiliates.




**Strategic Plans and Capital Spending**

Strategic planning is managed and coordinated at the executive level and includes governance, management, and physicians. TRHMC went through a strategic planning process in 2009 that identified opportunities for improvement in the perioperative areas, clinical information systems, communications,

and the provision of care within the communities served by TRHMC. Those areas have been addressed and long-range plans have been implemented.

Another strategic planning process has commenced in the second quarter of calendar year 2012. Thomson Reuters has been selected and an agreement has been signed to lead and facilitate the strategic planning process. The process will identify ongoing opportunities for achieving TRHMC's goal of being a top 100 hospital in the United States, meeting the needs of the communities TRHMC serves, improving the overall health status, and continuing to improve financial health. The process will include and identify new metrics for measuring progress in and for critical strategies and allow for appropriate adjustment to the strategic, tactical, and operational plans based on changes in the market in order to obtain the above goals.

TRHMC is in the process of developing a clinically integrated infrastructure in concert with physicians in order to improve quality, manage the cost of health care, improve access, and maximize outcomes. This includes the implementation of the Epic System across all operating entities of the organization, hospital, ambulatory and physician. The Epic System project will result in one electronic health record accessible anywhere within The Reading Hospital organization by any appropriate care giver and will facilitate provider order entry and documentation by physicians and other care givers. The system will be made available to non-employed members of the medical staff as well as employed. When fully implemented the system will meet Meaningful Use criteria for The Reading Hospital and Medical Center and its employed physicians, and also allow remote access to patient records by care givers and patients. The Epic project is expected to cost approximately $139 million.

As part of its physician development plan, TRHMC entered into a purchase agreement on May 21, 2012 to acquire Surgical Institute of Reading ("SIR"), a surgical hospital with 16 physician members. Physicians at SIR perform specialty surgery at a facility based in Wyomissing, Pennsylvania.

As part of its customary long-range capital budgeting and resource evaluation process, TRHMC is evaluating a mix of capital expenditures that total approximately $841 million for FY 2012 through FY 2017. Including the acquisition of SIR, the capital budget for FY 2012 totaled $114 million of the $841 million. The $841 million includes estimated routine capital of $267 million, $139 million for the Epic project, and the development of a surgical tower ($254 million) and a patient bed tower ($99 million). The proposed surgical tower would include 24 replacement operating rooms with 100 replacement private patient rooms. The surgical tower and patient bed tower projects have not been approved by the Board. The projects will be evaluated over the next year and they are scheduled to be presented to the Board in the Spring of 2013. The decision to proceed will be determined based on financial feasibility at the time of approval. If the surgical tower and patient bed tower projects, or components thereof, proceed, Management expects that they will be financed from operating cash flows and cash on hand, but Management could decide to utilize debt as well. Routine capital needs will be evaluated annually by Management and the Board and the ultimate capital expenditures will be based on needs and the availability of capital resources.

## PATIENT SERVICES

### Overview

TRHMC is a major regional healthcare provider, offering a full range of inpatient and outpatient, general and specialized, acute and post-acute medical programs. TRHMC provides acute inpatient care in clinical specialty fields ranging from maternity and newborn care through complex neurosurgical and orthopedic services, from comprehensive cardiac and vascular procedures to the new institute for radiosurgery and the advanced interventional radiology center. It also houses Berks County's only

accredited trauma center, the Marlin Miller, Jr., Regional Heart Center, and the McGlinn Family Regional Cancer Center.

In the area of post-acute care, TRHMC maintains the County's only CARF-accredited rehabilitation center, transitional care center, and home care services.

Patient care throughout the continuum of services benefits from comprehensive diagnostic services, including MRIs, CT scanners, portable head CT scanner – the first such unit in the Commonwealth of Pennsylvania – PET scanner, and radioisotope imaging. TRHMC also has active hospitalist, intensivist, palliative care, and hospice programs.

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TRHMC provides the following clinical services:

## ❖ Inpatient Care

*Medical Division*
- Evaluation & Assessment Center
- Discharge Center
- Oncology Unit
- 2 General Medical Units
- Advanced Primary Stroke Center

*Cardiac/Respiratory Division*
- Cardiac Progressive Care Unit
- Cardiac/Respiratory Acute Care Unit
- Heart Failure Unit
- COPD/Pneumonia Unit

*Surgical Division*
- Joint Replacement Center
- Orthopaedic/Trauma Acute Care Unit
- 2 Surgical Acute Care Units

*Psychiatric Division*
- Inpatient Spruce Pavilion
- Willows program for Geriatric Patients
- Adolescent Unit
- Evaluation/Transition Center

*Maternal/Child Health Division*
- 2 Postpartum Acute Care Units and Nurseries
- Pediatrics Unit
- Triage Center
- Department
- Labor & Delivery Suite
- Procedure Suite
- Neonatal Intensive Care Unit

*Critical Care*
- Medical Intensive Care Unit
- Surgical Intensive Care Unit
- Trauma Progressive Care Unit
- Infusion Center
- Hemodialysis Center

*Post-Acute Care*
- Inpatient Rehabilitation Center
- Inpatient Skilled Nursing Center

*Special Programs*
- Hospitalists
- Intensivists
- Central Monitoring
- Admission and Transfer Center
- IV Team
- Lactation Support
- Palliative Care
- Hospice Care
- Case Management
- Social Service Department
- Chaplaincy Services

## ❖ Outpatient Clinics

- Adult Medical Clinic
- Center for Public Health
- Children's Health Center
- Cleft Palate Clinic
- Employee Health Center
- Eye Clinic
- Midwifery Center
- Specialty Clinics
- Trauma Clinic
- Women's Health Center

## ❖ Perioperative Services

- Department of Surgery
  - Cardiothoracic, General, Neurologic, Ophthalmology, Orthopaedic, Otolaryngology, Plastic and Reconstructive, Podiatric, Trauma, Urology, and Vascular
  - Support to: gynecologic oncology, gynecology, oral and maxillofacial surgery, reproductive endocrinology/infertility, urogynecology
- Department of Anesthesiology
- GI Lab
- Pain Management Center
- Pre-Admission Testing Center
- 2 DaVinci Surgical Robotic Systems
- Bariatric Surgical Program
- 2 Outpatient SurgiCenters

## ❖ Cancer Center, McGlinn Family Regional

- Cancer Risk Assessment Program
- Chemotherapy Infusion Center
- Clinical Trials/Protocols
- Diagnostic Services, including PET/CT Scan
- Gynecologic Oncology Center
- Image Recovery Center
- Institute for Radiosurgery
- Integrative Medicine Program
- Medical Oncology Program
- Multidisciplinary Cancer Committees
- Nurse Navigators
- Radiation Oncology Department
- Tumor Board

❖ **Heart Center, Miller Regional**

- Diagnostic services
- Cardiac Catheterization Laboratory
- Cardiac Rehabilitation Center
- Accredited Chest Pain Center
- Vascular Services Procedure Suite
- High-Risk Valve Center
- Cardiac Surgical Program
- In-house and EKG satellite locations

❖ **Emergency Services**

- Trauma Center (certified by PTSF)
- Emergency Department
- Emergency Observation Center
- Dedicated CT scanners
- Pediatrics Center
- 2 QuickCare Centers
- Urgent Care Center
- Accredited Chest Pain Center

❖ **Laboratory Services**

- Inpatient and outpatient testing
- Pathology Department
- Research Laboratory

❖ **Radiology Services**

- Advanced Interventional Radiology Center
- General Diagnostic Services
- CT Scanners
- MRIs
- Nuclear Medicine Department
- PET/CT Scanner
- Radiation Oncology Department

❖ **Neurosciences**

- Advanced Interventional Radiology center
- Neurointerventional Radiology program
- Advanced Primary Stroke Center
- Secure Brain Injury Rehabilitation Unit
- Epilepsy Monitoring Center
- Full range of diagnostic and therapeutic services

❖ **Psychiatric Services**

- Behavioral Medicine Center
- Outpatient Center for Mental Health
- Group Center Partial Hospitalization Program
- Residential Drug and Alcohol Center
- Dual Diagnosis Program
- Assertive Community Treatment Program
- Willows Program for Geriatric Care
- Senior Assessment Program
- Partners Adolescent Partial Hospitalization Program
- Inpatient Care Spruce Pavilion
- Integrative Medicine Program

❖ **Respiratory Care**

- Inpatient/Outpatient Diagnostic Services & Therapy
- Pulmonary Function Lab
- Pulmonary Rehabilitation Program
- Sleep Center
- COPD/Pneumonia Inpatient Units
- Tobacco-Free Wellness Initiative

❖ **Therapy Services**

- Inpatient and Outpatient Occupational Therapy
- Inpatient and Outpatient Physical Therapy
- Rehabilitation Clinic for Post-Acute Recovery
- Speech Pathology/Therapy Services

❖ **Speech and Hearing Center**

- Inpatient newborn hearing screening program
- Cochlear implant program
- Outpatient Audiology Services
- Speech Pathology/Therapy Services

❖ **Pharmacy Services**

❖ **Diabetes & Endocrinology Services**

❖ **Epidemiology, Infection Control, and Prevention**

❖ **Travel Immunization Service**

❖ **Home Care**

❖ **Weight Management Center**

**Hospitalist Program**

In 2001, TRHMC established a hospitalist program (the "Hospitalist Program") in response to physician requests for a different care model. Today, the Hospitalist Program employs 49 full-time and 3 part-time physicians, who are managed by a medical director and an associate director who also work clinical shifts. The Hospitalist Program provides coverage 24 hours a day, seven days a week, with 17 hospitalists working during the day shift and five hospitalists working the night shift.

In September 2011, a surgical co-management team was established. The service sees elective surgery patients that they are consulted on.

The Hospitalist Program has approximately 13,000 admissions per year. In calendar year 2011, the actual mortality rate was 1.62%, which compares favorably to the expected rate of 4.91%.

## SERVICE AREA AND MARKET DATA

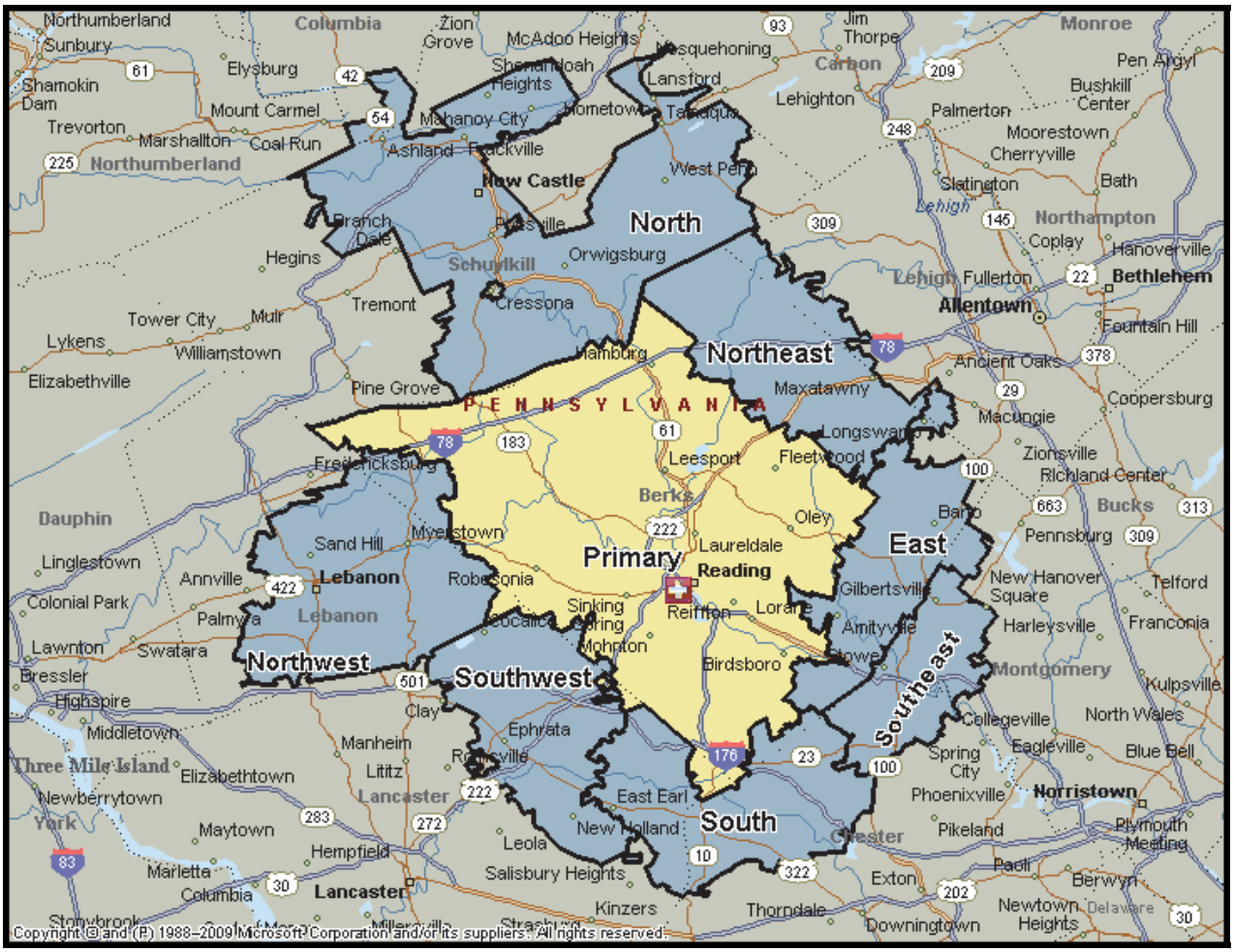
**Primary and Secondary Service Areas**

TRHMC is located in the south central part of Berks County in West Reading, Pennsylvania, which adjoins the City of Reading. Based on patient origin data obtained from TRHMC's admissions records, TRHMC's primary service area ("PSA") is comprised of the City of Reading and the surrounding communities and townships of Alsace, Lower Alsace, Exeter, Cumru, Spring, Heidelberg, Lower Heidelberg, South Heidelberg, North Heidelberg, Centre, Bern, Penn, Muhlenberg, Perry, Ruscombmaner, Oley, Robeson and Ontelaunee, all in Berks County. TRHMC receives approximately 85% of its total inpatient discharges from the PSA, with approximately 27% of inpatient discharges during the fiscal year ending June 30, 2011 coming from the City of Reading.

TRHMC's secondary service area ("SSA") is comprised of the remainder of Berks County, and of Schuylkill, Lebanon, Lancaster and Montgomery Counties and accounts for approximately 12% of TRHMC's inpatient discharges.

TRHMC's entire PSA, as well as the two SSAs in which TRHMC has its strongest presence (Northeast and East), are located in Berks County. Several major highway systems connect Berks County with major business hubs in New York City, Boston, Philadelphia, Baltimore, Washington, and Pittsburgh. Interstate Routes 78 and 76 run east to west through Pennsylvania, passing through Berks County. U.S. Routes 222 and 61 run north and south through Berks County.

The map below shows TRHMC's PSA and SSA.




**Sources of Patient Discharges**

The following table sets forth the distribution of TRHMC's inpatient discharges by service area for the fiscal year ended June 30, 2011.

**Distribution of TRHMC Inpatient Discharges by Service Area**
**Fiscal Year Ended June 30, 2011**

| Service Area | Discharges | Percent of Discharges |
|---|---|---|
| PSA | 25,040 | 85.5% |
| SSA | 3,425 | 11.7 |
| Outside PSA and SSA | 821 | 2.8 |
| Total Discharges | 29,286 | 100.0% |

Source: TRHMC records

**Market Share**

With an average of 655 beds in service during the fiscal year ended June 30, 2011, TRHMC is the largest hospital in the PSA.

**Inpatient Discharges**. TRHMC's inpatient discharges comprise 61% of all hospital-reported discharges in the PSA. As shown in the tables below, from 2009 through 2011, TRHMC's market share improved with respect to inpatient discharges and overall discharges in both the PSA and SSA.

The following table summarizes TRHMC's market share of inpatient discharges in the PSA, the SSA, and combined PSA and SSA for fiscal years ended June 30, 2009, 2010 and 2011 based upon all hospital-reported inpatient discharges.

**TRHMC Market Share of Inpatient Discharges by Service Area**

| | Fiscal Year Ended June 30, | | |
|---|---|---|---|
| **Service Area** | **2009** | **2010** | **2011** |
| PSA | 61.3% | 61.0% | 61.3% |
| SSA | 5.4 | 5.7 | 5.9 |
| *North SSA* | 3.5 | 4.0 | 3.6 |
| *Northeast SSA* | 16.9 | 16.2 | 17.3 |
| *East SSA* | 15.5 | 15.9 | 16.5 |
| *Southeast SSA* | 3.4 | 3.4 | 3.7 |
| *South SSA* | 7.4 | 7.4 | 6.8 |
| *Southwest SSA* | 5.0 | 4.4 | 5.1 |
| *Northwest SSA* | 2.4 | 3.1 | 2.9 |
| Total Service Area (combined PSA and SSA) | 27.5 | 28.0 | 28.7 |

Source: Pennsylvania Health Care Cost Containment Council (PHC4) Inpatient Discharge Data. Excludes normal newborns.

The following table shows market share trends, based on total inpatient discharges, for TRHMC and its competitors within the PSA for the fiscal years ended June 30, 2009, 2010 and 2011.

## Market Share Trends in PSA
## Inpatient Discharges

| | Year Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | 2010 | | 2011 | |
| Hospital | Discharges | Share | Discharges | Share | Discharges | Share |
| **Reading Hospital and Med Center** | **24,112** | **61.3%** | **24,095** | **61.0%** | **25,040** | **61.3%** |
| St. Joseph Med Center/Reading | 8,259 | 21.0 | 7,872 | 19.9 | 7,684 | 18.8 |
| Lehigh Valley Hospital | 925 | 2.4 | 999 | 2.5 | 994 | 2.4 |
| Milton S. Hershey Medical Center | 813 | 2.1 | 985 | 2.5 | 915 | 2.2 |
| HealthSouth Rehab of Reading LLC | 650 | 1.7 | 707 | 1.8 | 696 | 1.7 |
| Haven Behavioral Hosp. of E PA | 0.0 | 0.0 | 0.0 | 0.0 | 577 | 1.4 |
| Surgical Institute of Reading* | 493 | 1.3 | 514 | 1.3 | 503 | 1.2 |
| Pottstown Memorial Med Center | 348 | 0.9 | 375 | 1.0 | 367 | 0.9 |
| Other Hospitals | 3,721 | 9.5 | 3,950 | 10.0 | 4,079 | 10.0 |
| All Hospitals | 39,321 | 100.0% | 39,497 | 100.0% | 40,855 | 100.0% |

Source: PHC4 Inpatient Discharge Data. Excludes normal newborns.

* TRHMC has entered into a purchase agreement dated May 21, 2012 to acquire the Surgical Institute of Reading ("SIR"). See "FACILITIES – Strategic Plans and Capital Spending" herein.

The following table shows market share trends, based on discharges, for the fiscal years ended June 30, 2009, 2010 and 2011 for TRHMC and its competitors within the SSA.

## Market Share Trends, Secondary Service Area
## (Based on Number of Discharges)

| | 2009 | | 2010 | | 2011 | | 2009-2011 |
|---|---|---|---|---|---|---|---|
| Hospital | Discharges | Share | Discharges | Share | Discharges | Share | Change |
| Pottstown Memorial Med Center | 8,082 | 13.43% | 7,660 | 13.24% | 7,487 | 12.87% | 0.23% |
| Good Samaritan Hospital/Lebanon | 6,369 | 10.59 | 6,287 | 10.86 | 6,599 | 11.34% | -1.05 |
| Schuylkill Med Center-S Jackson St | 5,880 | 9.77 | 5,437 | 9.39 | 5,355 | 9.20% | -1.21 |
| Ephrata Community Hospital | 5,750 | 9.56 | 5,059 | 8.74 | 4,998 | 8.59% | -1.22 |
| Lehigh Valley Hospital | 4,490 | 7.46 | 4,432 | 7.66 | 4,401 | 7.56% | 0.72 |
| Schuylkill Med Center-E Norwegian St | 4,158 | 6.91 | 3,971 | 6.86 | 3,906 | 6.71% | -0.74 |
| **Reading Hospital and Med Center** | **3,395** | **5.64** | **3,332** | **5.76** | **3,425** | **5.89%** | **0.58** |
| Milton S. Hershey Medical Center | 3,121 | 5.19 | 2,837 | 4.90 | 2,963 | 5.09% | 0.47 |
| Lancaster General Hospital | 2,908 | 4.83 | 2,753 | 4.76 | 2,599 | 4.47% | -0.16 |
| Phoenixville Hospital | 1,913 | 3.18 | 1,660 | 2.87 | 1,517 | 2.61% | -0.42 |
| St. Luke's Hospital | 721 | 1.20 | 1,101 | 1.90 | 1,301 | 2.24% | 0.94 |
| Geisinger Medical Center | 860 | 1.43 | 1,071 | 1.85 | 1,130 | 1.94% | 0.51 |
| Brandywine Hospital | 1,188 | 1.97 | 1,099 | 1.90 | 1,093 | 1.88% | -0.10 |
| St. Catherine Med Ctr Fountain Springs | 1,015 | 1.69 | 983 | 1.70 | 923 | 1.59% | 0.26 |
| Main Line Hospital Paoli | 763 | 1.27 | 851 | 1.47 | 833 | 1.43% | 0.33 |
| St. Joseph Med Center/Reading | 867 | 1.44 | 770 | 1.33 | 746 | 1.28% | -0.16 |
| Other hospitals | 8,677 | 14.42 | 8,573 | 14.81 | 8,900 | 15.31% | 1.02 |
| All Hospitals | 60,157 | 100.00% | 57,876 | 100.00% | 58,176 | 100.00% | |

**Outpatient Procedures**. TRHMC's outpatient procedures (performed at The Reading Hospital or the Spring Ridge SurgiCenter) comprise 37% of all reported outpatient procedures in the PSA. The following table summarizes TRHMC's share of outpatient procedures in the PSA, the SSA, and combined PSA and SSA for the fiscal years ended June 30, 2009, 2010 and 2011.

**TRHMC Market Share of Outpatient Procedures by Service Area**

| Service Area | Fiscal Year Ended June 30, 2009 | 2010 | 2011 |
|---|---|---|---|
| PSA | 36.7% | 36.4% | 37.0% |
| SSA | 3.7 | 3.4 | 3.5 |
| *North SSA* | 3.4 | 3.6 | 3.3 |
| *Northeast SSA* | 9.6 | 8.4 | 8.8 |
| *East SSA* | 9.1 | 10.1 | 9.9 |
| *Southeast SSA* | 2.1 | 2.2 | 2.5 |
| *South SSA* | 3.9 | 3.5 | 4.5 |
| *Southwest SSA* | 3.7 | 3.4 | 3.2 |
| *Northwest SSA* | 1.6 | 1.1 | 1.4 |
| Total Service Area (combined PSA and SSA) | 18.2 | 17.2 | 17.5 |

Source: PHC4 Inpatient Discharge Data. Represents only outpatient procedures that are required to be reported to PHC4

The following table shows market share trends, based on total inpatient discharges, for TRHMC and its competitors within the PSA for the fiscal years ended June 30, 2009, 2010 and 2011.

**Market Share Trends in PSA**
**Outpatient Procedures**

| Facility | Fiscal Year Ended June 30, 2009 Procedures | 2009 Share | 2010 Procedures | 2010 Share | 2011 Procedures | 2011 Share |
|---|---|---|---|---|---|---|
| **The Reading Hospital** | **29,903** | **36.7%** | **31,035** | **36.4%** | **32,253** | **37.0%** |
| **Reading Hospital and Med Center** | **23,346** | **28.6** | **24,133** | **28.3** | **25,301** | **29.0** |
| **Reading Hospital SurgiCenters** | **6,557** | **8.0** | **6,902** | **8.1** | **6,952** | **8.0** |
| Berks Center for Digestive Health, | 9,847 | 12.1 | 9,920 | 11.6 | 9,456 | 10.8 |
| Surgical Institute of Reading* | 4,950 | 6.1 | 5,403 | 6.3 | 5,329 | 6.1 |
| St. Joseph Med Center/Reading | 5,489 | 6.7 | 5,541 | 6.5 | 5,328 | 6.1 |
| Reading Surgery Center | 5,446 | 6.7 | 5,169 | 6.1 | 5,029 | 5.8 |
| Berks Urologic Surgery Center, LLC | 4,454 | 5.5 | 4,583 | 5.4 | 4,697 | 5.4 |
| PA Eye and Ear Surgery Center, | 3,244 | 4.0 | 3,192 | 3.7 | 3,204 | 3.7 |
| Milton S. Hershey Medical Center | 2,851 | 3.5 | 2,986 | 3.5 | 3,040 | 3.5 |
| Reading Endoscopy Center | 2,387 | 2.9 | 2,418 | 2.8 | 2,657 | 3.0 |
| Berkshire Eye Surgery Center | 2,658 | 3.3 | 2,632 | 3.1 | 2,580 | 3.0 |
| Wyomissing Surgical Services, Inc. | 2,153 | 2.6 | 2,442 | 2.9 | 2,475 | 2.8 |
| Lehigh Valley Hospital | 805 | 1.0 | 902 | 1.1 | 1,086 | 1.2 |
| Other facilities | 7,382 | 9.1 | 9,142 | 10.7 | 10,062 | 11.5 |
| All Facilities | 81,569 | 100.0% | 85,365 | 100.0% | 87,196 | 100.0% |

Source: PHC4 Ambulatory Procedure Data. Represents only outpatient procedures that are required to be reported to PHC4.

* TRHMC has entered into a purchase agreement dated May 21, 2012 to acquire the Surgical Institute of Reading ("SIR"). See "FACILITIES – Strategic Plans and Capital Spending" herein.

## Competitor Profiles

TRHMC's highest market share competitor in the PSA is St. Joseph Medical Center, which is a community hospital owned by Catholic Health Initiatives. This facility recently relocated from the City of Reading to a new 240-bed facility in Bern Township, Berks County, and also provides services at its

Community Health Center and Family Practice still located in the City of Reading. In addition, the Reading Rehabilitation Hospital, owned by HealthSouth, Inc., is located in Berks County, has 60 beds and provides rehabilitation services in the area.

TRHMC's highest market share competitor in the SSA is Pottstown Memorial Medical Center, a for-profit community hospital owned by Community Health Systems. Additional competitors of TRHMC include Lehigh Valley Health System and Hershey Medical Center, both of which are located outside of the PSA and SSA and offer primary and referral levels of service, as well as trauma care.

Listed below are the primary acute care competitors of TRHMC.

| | TRHMC | St. Joseph Medical Center | Lehigh Valley Health System | Hershey Medical Center | Pottstown Memorial Medical Center |
|---|---|---|---|---|---|
| **Location** | Reading, Berks County | Reading, Berks County | Allentown and Bethlehem, Lehigh County | Hershey, Dauphin County | Pottstown, Montgomery County |
| **Miles from TRHMC** | n/a | 6 miles | 35 miles | 50 miles | 22 miles |
| **Type** | Non-Community | Community | Non-Community | Non-Community | Community |
| **Control** | Not-for-profit | Not-for-profit | Not-for-profit | Not-for-profit | For profit |
| **Acute Care Beds[(1)]** | 661 | 180 | 965 | 469 | 226 |
| **Active Medical Staff Members[(2)]** | 724 | 254 | 1,107 | 728 | 147 |

Source: Pennsylvania Department of Health, 2010-2011 Annual Survey of Hospitals
(1) Represents beds-in-service as of June 30, 2011.
(2) As of June 30, 2011.

**Demographic and Economic Characteristics of Service Area**

Pennsylvania experienced a population growth of 3.4% between 2000 and 2011, and is expected to grow less than 1% in the next five years. By contrast, the population of Berks County has grown 10.7% from 2000 to 2011, and is expected to grow 3.2% in the next five years. Based upon the U. S. Census, the population of TRHMC's combined service area as of 2011 is estimated to be 805,799, which represents a 9.4% increase from the 2000 U.S. Census. Based upon population estimates prepared by Claritas, Inc., the population of TRHMC's PSA and SSA is expected to increase by 2.8% over the next five years.

Pennsylvania is tied with West Virginia for the second highest percentage of population over the age of 65 in the nation; only Florida is higher. In the PSA, 15.2% of the population is age 65 or older, which is similar to the Pennsylvania state average of 15.9% and slightly higher than the national average of 13.3%. The percentage of the population in the PSA who are age 65 and older is anticipated to increase to 16.5% by 2016, reflecting the aging of the "baby boomers," which is expected to increase demand for certain healthcare services, including cardiology, cancer, surgery, orthopedics, home care, and skilled nursing care.

Median household income in 2011 for Berks County is approximately $52,185, which is slightly higher than the state and national averages. Statistics for Berks County are somewhat skewed because they include the City of Reading, which is home to a large Hispanic and low-income population.

The following table presents selected summary demographic information for TRHMC's PSA and SSA, as well as for Pennsylvania and the United States.

| | 2011 Estimated Population | 2011-16 Projected Population Growth | Median Household Income | Age 0-17 | Age 65+ | Civilian Unemployment | Families Below Federal Poverty Line |
|---|---|---|---|---|---|---|---|
| PSA | 337,445 | 3.0% | $50,408 | 24.3% | 15.2% | 5.4% | 7.5% |
| SSA | 468,354 | 2.7 | 51,252 | 23.5 | 15.6 | 4.2 | 4.4 |
| Pennsylvania | 12,730,760 | 0.7 | 47,949 | 22.0 | 15.9 | 4.8 | 8.4 |
| United States | 310,650,750 | 4.0 | 49,726 | 24.3 | 13.3 | 5.3 | 10.1 |

Source: Claritas Inc. 2011 estimates.

The following table sets forth the ten largest employers in Berks County:

| Employer | Number of Employees |
|---|---|
| Reading Hospital and Medical Center | 6,855 |
| East Penn Manufacturing Company | 6,104 |
| Carpenter Technology Corporation | 3,450 |
| Reading School District | 2,509 |
| County of Berks | 2,477 |
| St. Joseph Medical Center | 1,506 |
| Boscov's Department Store | 1,500 |
| Redner's Warehouse Markets | 1,408 |
| Penske Truck Leasing | 1,330 |
| Berks County Intermediate Unit (BCIU) | 1,300 |

Source: *Berks County Living*, September 2011.

Berks County has several institutions of higher learning, including Albright College, Alvernia University, Penn State Berks Campus, and Reading Area Community College. The Reading Hospital also runs a School of Health Sciences, which trains students in a variety of healthcare-related fields, including nursing. These institutions educate and train students who are an important source of qualified professionals in the community.

## MEDICAL STAFF

### Overview

As of May 1, 2012, TRHMC's medical staff consisted of 808 practitioners in eleven departments. Of the 808 physicians on staff, over 92% are board certified. The physicians serving on the Medical Staff are divided into two categories, as shown below:

| Physician Status | Number | % of Total |
|---|---|---|
| Active | 725 | 90% |
| Affiliate | 83 | 10 |
| **Total** | **808** | **100%** |

Appointees to Active Staff must have served on the medical staff for one year as a provisional member, be involved in 24 patient contacts (i.e., a patient contact is defined as an inpatient admission, consultation, outpatient surgical procedure and/or an outpatient ancillary referral) at TRHMC and/or its affiliates and subsidiaries per two-year period, except as expressly waived for practitioners with at least 20 years of service in the active category or for those qualified practitioners who document their efforts to support the hospital's patient care mission to the satisfaction of the Medical Staff Executive Committee and the TRHMC Board. Active Staff members are eligible to hold office and vote on all matters presented by the medical staff.

Appointment to Affiliate Staff is reserved for practitioners who do not meet the eligibility requirements for the active category. Appointees to this category must serve on the medical staff for one year as a provisional member. Practitioners assigned to this category are typically involved in fewer than 24 patient contacts (*i.e.*, a patient contact is defined as an inpatient admission, consultation, outpatient surgical procedure and/or an outpatient ancillary referral) at TRHMC and/or its affiliates and subsidiaries per two year period, except as expressly waived for practitioners with at least 20 years of services in the affiliate category or for those practitioners who document their efforts to support the TRHMC's patient care mission to the satisfaction of the Medical Staff Executive Committee and the TRHMC Board.

As stated in the Medical Staff Bylaws, each applicant for appointment to the medical staff must demonstrate that he/she has:

- successfully graduated from an approved school of medicine, osteopathy, dentistry, podiatry, or holds a doctorate degree in psychology;
- a current unrestricted license; possess a current, valid unrestricted drug enforcement administration (DEA) number, if applicable; and
- recent clinical performance and competence within the last 12 months with an active clinical practice in the area in which clinical privileges are sought.

The following table summarizes the number and average age of Active Medical Staff by category of medical practices, as of May 1, 2012.

**Active Medical Staff by Medical/Surgery Specialty**

| Department | Number of Physicians | Average Age |
|---|---|---|
| **Medicine** | | |
| Anesthesiology | 36 | 49 |
| Dentistry | 17 | 52 |
| Emergency Medicine | 50 | 46 |
| Family & Community Medicine | 128 | 50 |
| Medicine | 225 | 49 |
| OB/GYN | 47 | 52 |
| Pathology | 11 | 55 |
| Pediatrics | 74 | 47 |
| Psychiatry | 29 | 48 |
| Radiology | 36 | 47 |
| Other | 1 | 38 |
| **Medicine Total** | **654** | |
| **Surgery** | | |
| Cardiology Surgery | 6 | 50 |
| General Surgery | 16 | 52 |
| Neurologic Surgery | 6 | 56 |
| Ophthalmology | 27 | 52 |
| Orthopedic Surgery | 23 | 55 |
| Otolaryngology | 9 | 57 |
| Plastic Surgery | 6 | 55 |
| Podiatry Surgery | 29 | 47 |
| Trauma & Surgical Critical Care | 18 | 40 |
| Urological Surgery | 9 | 54 |
| Vascular Surgery | 5 | 55 |
| **Surgery Total** | **154** | |
| **Combined Totals** | **808** | **49** |

The following table sets forth the top ten admitting physicians, with their age, specialties, and affiliations for the nine-month period ended March 31, 2011.

**Top Ten Admitting Physicians**

| Specialty | Ages | Discharges | % of Discharges | Employment Status |
|---|---|---|---|---|
| OB/GYN | 57 | 449 | 1.9% | Independent |
| Medicine | 40 | 447 | 1.9 | Employed by TRHMC |
| Orthopedics | 51 | 364 | 1.6 | Independent |
| Trauma Services | 37 | 270 | 1.2 | Employed by TRHMC |
| Psychiatry | 40 | 251 | 1.1 | Employed by TRHMC |
| Pediatrics | 33 | 199 | 1.0 | Employed by TRHMC |
| General Surgery | 49 | 178 | 0.7 | Independent |
| Family Medicine | 40 | 131 | 0.6 | Employed by TRHMC |
| Neurosurgery | 70 | 104 | 0.5 | Employed by TRHMC |
| Urology | 50 | 99 | 0.4 | Independent |
| **Total** | | **2,492** | **10.9%** | |

**Physician Recruitment Plan**

The Hospital's most recent physician needs assessment was carried out in the fall of 2010 by FTI Consulting, Inc. ("FTI"). The methodology used by FTI was based upon national standards that are endorsed by the Internal Revenue Service and the Department of Health and Human Services. FTI utilized medical staff interviews, key stakeholder interviews and an actuarially-based model to project future physician needs. This analysis included consideration of factors such as demographic shifts, physician retirements, payor mix and level of physician commitment to the Hospital. The resultant Physician Resource Plan identified community and Hospital physician needs by specialty over the next three years.

To address these identified needs, as well as other recruitment needs that may arise, the Hospital has established a team of in-house physician recruitment professionals that is responsible for coordinating and carrying out all employed physician searches and, on occasion, engages outside recruiting firms to assist with searches. As part of the annual budgeting process, the leadership of the Hospital establishes the recruitment goals for the upcoming fiscal year. Throughout the year, refinements are made to the approved search assignments to account for unforeseen developments, such as unexpected physician attrition or increased demand for particular services.

**Employed Physicians**

Of the 808 members of the medical staff of TRHMC, 324 are employed by the Hospital or by one of the two related/controlled organizational entities – RPS and TRHMG. The remainder of the medical staff consists of independent, private practitioners from the community. A total of six physicians serve on the Hospital's Board of Directors.

Due to the increasing constraints of private practice, many physicians now show a preference for the hospital employment model. The Hospital has experienced significant growth of the number of employed physicians over the past five years. Much of this has come about by the acquisition of practices that are strategically important to the Hospital. The formation of The Reading Hospital Medical Group (primary care physicians) in 2007 and the subsequent growth of that Group has accounted for a large portion of the increase in the number of employed physicians.

At this time, the Hospital employs physicians in primary care as well as many medical and surgical specialties and sub specialties. Physicians currently employed by the Hospital are in the specialties of psychiatry, obstetrics and gynecology, endocrinology, general internal medicine, infectious disease, interventional radiology, neonatology, neurology, physical medicine, plastic surgery, neurosurgery, vascular surgery, trauma surgery, bariatric surgery, pediatrics, family medicine, occupational medicine, pathology, emergency medicine, oncology, geriatric medicine, and wound healing/hyperbaric medicine.

## EMPLOYEES

TRHMC, The Highlands, RPS and TRHMG (collectively, the "System") currently employ 7,083 employees, which equates to 5,972 full-time equivalent (FTE) employees. The nursing staff comprises 37.6% of the System's employees, while technical and professional staff comprises 25.1%; management staff makes up 3.5%; and all other staff makes up 33.8%. The employee complement is made up of 67% full-time and 33% part-time employees.

| Company | Total Employees | Total Full-Time Equivalent |
|---|---|---|
| TRHMC | 5,739 | 4,853 |
| The Highlands | 366 | 231 |
| RPS | 332 | 299 |
| TRHMG | 646 | 589 |
| Total | 7,083 | 5,972 |

Management believes that the System provides compensation and a comprehensive package of fringe benefits that it believes are competitive with other hospitals in the area. Regular salary and benefits surveys are conducted by Human Resources to ensure the System compensates it employees at levels competitive with other healthcare systems locally and regionally. The employee benefit plans include a pension plan, life insurance, health and dental insurance and a Section 403(b) benefit plan.

At the present time, there are no employees covered by collective bargaining agreements nor is management aware of any union organizing activities among any of TRHMC's employees.

### Nursing Staff

The number of FTE's employed in nursing roles is listed below:

| Employed FTE Category | TRHMC |
|---|---|
| Registered Nurse | 1,311.4 |
| Licensed Practical Nurse | 87.9 |
| Medical Assistant | 363.0 |
| Total | 1,762.3 |

The System utilizes agency registered nurses, as needed, to support vacancies in inpatient, peri-operative, and Emergency Department. The utilization of agency registered nurses has been at 4% during this fiscal year, which is low, based on national averages. An internal float pool is being developed that will increase internal resources to cover vacancies and periodic increases in patient volume. The national vacancy rate for registered nurses is currently at 7%; System-wide, the vacancy rate is 1.3%.

The retention and recruitment of registered nurses is one of the System's highest priorities. The System has an active shared governance model in nursing that allows for input on key decisions at the staff level. This model also provides for more collaboration in quality and improved patient outcomes.

## ACCREDITATION, MEMBERSHIP AND AWARDS

In July 2009, The Joint Commission issued a three-year accreditation to TRHMC. The Joint Commission's review process is currently underway to facilitate a renewal of such accreditation by July 2012. TRHMC is also licensed by the Pennsylvania Department of Health.

In addition, TRHMC is accredited or approved by the following entities:

- American Association of Blood Banks
- Accreditation Council for Graduate Medical Education
- American College of Surgeons
- American Osteopathic Association
- Association for Clinical Pastoral Education
- Commission on Accreditation of Allied Health Education Programs
- Commission on the Accreditation of Rehabilitation Facilities
- Joint Review Committee on Education in Radiologic Technology
- National Accreditation Program for Breast Centers
- National Accrediting Agency for Clinical Laboratory Science
- National League for Nursing Accrediting Commission
- Pennsylvania Medical Society
- Pennsylvania State Board of Nursing
- Pennsylvania Trauma Systems Foundation
- Society of Chest Pain Centers
- Undersea and Hyperbaric Medicine Society

In addition, all of TRHMC's educational programs have received the appropriate accreditation. TRHMC's Cancer Program is approved by the American College of Surgeons.

TRHMC is also a member of the following organizations:

- American Hospital Association
- Hospital & Healthsystem Association of Pennsylvania
- Berks County Chamber of Commerce
- United Way of Berks County (non-funded member)
- Voluntary Hospitals of America/VHA of Pennsylvania
- Central Pennsylvania Health Alliance

TRHMC has been the recipient of numerous awards and recognitions for quality and excellence in the delivery of health services, including:

| Organization | Award/Recognition |
|---|---|
| Blue Cross and Blue Shield Association | ▪ Blue Distinction Center for Bariatric Surgery<br>▪ Blue Distinction Center for Cardiac Care<br>▪ Blue Distinction Center for Knee & Hip Replacement |
| International Lactation Consultants Association | ▪ Care Award |
| Diversified Clinical Services | ▪ Center for Distinction for Wound Healing & Hyperbaric Medicine |
| American Society of Bariatric Surgery | ▪ Center of Excellence of Bariatric Surgery |
| The Joint Commission | ▪ Disease-Specific Certifications for:<br>▪ Advanced Primary Stroke Center<br>▪ Chronic Obstructive Pulmonary Disease<br>▪ Heart Failure Program<br>▪ Pneumonia<br>▪ Total Hip Replacement<br>▪ Total Knee Replacement |
| American Heart Association | ▪ Get with the Guidelines Gold Performance Achievement for Heart Failure |
| American Heart Association/ American Stroke Association | ▪ Get with the Guidelines Gold Performance Achievement for Stroke Care |
| U.S. News & World Report | ▪ High Performer in Urologic Surgery<br>▪ Highest Ranking for Heart Bypass Surgery |
| Consumer Reports | ▪ Highest Ranking for Heart Bypass Surgery |
| American Heart Assoc. | ▪ Mission Lifeline Bronze Performance Achievement for ST Elevation Myocardial Infarction |

## HISTORICAL UTILIZATION OF SERVICES

The table below presents selected statistical indicators of patient activity for TRHMC for each of the Fiscal Years ended June 30, 2009, 2010 and 2011, and for the nine-month periods ended March 31, 2011 and 2012.

| | Year Ended June 30, | | | Nine Months Ended March 31, | |
|---|---|---|---|---|---|
| | **2009** | **2010** | **2011** | **2011** | **2012** |
| Beds in Service: | | | | | |
| Adults & Pediatrics | 582 | 594 | 594 | 594 | 594 |
| Newborn | 56 | 56 | 56 | 56 | 56 |
| Total | 638 | 650 | 650 | 650 | 650 |
| | | | | | |
| Admissions: | | | | | |
| Medical/Surgical | 22,460 | 23,447 | 24,024 | 17,943 | 17,955 |
| Obstetrics/Gynecology | 3,814 | 3,683 | 3,683 | 2,697 | 2,876 |
| Pediatrics | 866 | 766 | 834 | 654 | 607 |
| Psychiatry | 1,240 | 1,298 | 1,303 | 971 | 984 |
| Subtotal | 28,380 | 29,194 | 29,844 | 22,265 | 22,422 |
| Newborn | 3,625 | 3,470 | 3,570 | 2,590 | 2,761 |
| Total | 32,005 | 32,664 | 33,414 | 24,855 | 25,183 |
| | | | | | |
| Patient Days: | | | | | |
| Medical/Surgical | 136,058 | 135,560 | 137,259 | 102,210 | 106,496 |
| Obstetrics/Gynecology | 10,618 | 10,037 | 9,872 | 7,298 | 7,982 |
| Pediatrics | 1,922 | 2,101 | 1,849 | 1,492 | 1,552 |
| Psychiatry | 11,044 | 11,812 | 11,483 | 8,624 | 8,163 |
| Subtotal | 159,642 | 159,510 | 160,463 | 119,624 | 124,091 |
| Newborn | 11,448 | 11,112 | 12,059 | 9,054 | 9,353 |
| Total | 171,090 | 170,622 | 172,522 | 128,678 | 133,444 |
| | | | | | |
| Acuity: | | | | | |
| Case Mix Index | 1.3 | 1.3 | 1.4 | 1.4 | 1.4 |
| | | | | | |
| Length of Stay: | | | | | |
| Adult and Pediatric | 5.6 | 5.5 | 5.4 | 5.4 | 5.5 |
| Newborn | 3.2 | 3.2 | 3.4 | 3.5 | 3.4 |
| Total | 5.3 | 5.2 | 5.2 | 5.2 | 5.3 |
| | | | | | |
| Occupancy Rates: | | | | | |
| Medical/Surgical | 85% | 85% | 86% | 85% | 89% |
| Obstetrics/Gynecology | 81% | 76% | 75% | 74% | 81% |
| Pediatrics | 28% | 30% | 27% | 29% | 30% |
| Psychiatry | 76% | 81% | 79% | 79% | 74% |
| Newborn | 56% | 54% | 59% | 59% | 61% |
| Total | 73% | 72% | 73% | 72% | 75% |

| | Year Ended June 30, | | | Nine Months Ended March 31, | |
|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2011 | 2012 |
| Selected Statistics: | | | | | |
| Laboratory Tests | 4,110,377 | 4,045,067 | 4,145,342 | 3,072,521 | 3,228,219 |
| Ambulatory Surgical | 12,313 | 11,614 | 11,486 | 8,575 | 7,468 |
| Diagnostic Radiology | 406,270 | 460,796 | 457,891 | 346,342 | 338,552 |
| EKG | 63,963 | 75,306 | 77,925 | 58,251 | 59,722 |
| Outpatient Clinic | 37,610 | 28,990 | 28,009 | 21,008 | 20,165 |
| Emergency Dept. Visits | 99,924 | 112,195 | 119,328 | 88,315 | 94,749 |

Source: TRHMC records.

From 2009 to 2011, inpatient admissions have continued to grow steadily. Total admissions grew by 4.4% (1,409 admissions) over the three-year period; and Medical/Surgical admissions showed a 7.0% increase. The average length of stay for Adult and Pediatric patients decreased by 0.3 days, or 5.4%, to a level of 5.2 days at June 30, 2011. Continued emphasis on reducing the length of stay through more efficient clinical processes will be beneficial as more patients are reimbursed in prospective basis.

The case mix index for all patients shows a 4.5% growth over the period, driven by continued growth in emergency room and trauma visits. The increase is expected to continue, also aided by the aging population and growth in Medicare patients.

The Hospital continues to operate one of the busiest emergency rooms in the Commonwealth and has seen a dramatic increase of 19.4% in visit volume during the period. This is an important driver of inpatient admission volume with more than 50% of admissions originating in the emergency room.

## SUMMARY OF FINANCIAL INFORMATION

### Summary of Revenues and Expenses – Borrower and Controlled Entities

Selected financial data for the years ended June 30, 2009, 2010 and 2011 set forth in this Appendix A was derived from the audited consolidated financial statements of the Borrower and Controlled Entities. In addition, related financial information for the nine-month periods ended March 31, 2011 and 2012 is also presented. The audited consolidated financial statements of the Borrower and Controlled Entities for the years ended June 30, 2010 and 2011 are set forth in Appendix B to this Official Statement. SUCH FINANCIAL INFORMATION AND CONSOLIDATED FINANCIAL STATEMENTS INCLUDE INFORMATION CONCERNING THE CONTROLLED ENTITIES OF THE BORROWER WHICH ARE NOT MEMBERS OF THE OBLIGATED GROUP.

In the opinion of management of the Borrower and Controlled Entities, there has been no material adverse change in the consolidated financial condition or income from operations or cash flows of the Borrower and Controlled Entities since March 31, 2012 and this summary should be read in conjunction with the audited consolidated financial statements and notes attached hereto.

**Condensed Consolidated Financial Information**
**The Reading Hospital and Controlled Entities**

| ($ in thousands) | Year Ended June 30, | | | Nine Months Ended March 31 | |
|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2011 | 2012 |
| Revenues | | | | | |
| Net patient service revenue | $740,110 | $780,656 | $826,837 | $624,047 | $647,307 |
| Residential Revenue | 14,810 | 21,248 | 22,620 | 14,711 | 14,947 |
| Other revenue | 26,542 | 24,999 | 30,352 | 21,586 | 21,313 |
| Total revenues | 781,462 | 826,903 | 879,809 | 660,344 | 683,567 |
| Expenses: | | | | | |
| Salaries and benefits | 434,863 | 440,385 | 467,196 | 351,516 | 358,045 |
| Supplies | 104,500 | 99,079 | 97,264 | 78,105 | 82,878 |
| General operating expenses | 168,357 | 177,554 | 183,017 | 135,714 | 147,265 |
| Interest expense | 14,603 | 20,327 | 21,022 | 15,990 | 15,169 |
| Depreciation and amortization | 53,045 | 63,136 | 64,058 | 50,124 | 54,735 |
| Total expenses | 775,368 | 800,481 | 832,557 | 631,449 | 658,092 |
| Income from Operations | 6,094 | 26,422 | 47,252 | 28,895 | 25,475 |
| Nonoperating Gains (Losses): | | | | | |
| Investment income and impairment loss | (37,934) | 23,139 | 31,030 | 28,134 | 16,100 |
| Gifts and bequests and other (loss) income | (1,085) | 3,445 | 2,710 | 2,317 | 1,357 |
| Realized and Unrealized loss on interest rate swaps | (9) | (8,417) | 549 | 10,180 | (23,576) |
| Nonoperating Gains | (39,028) | 18,167 | 34,289 | 40,631 | (6,119) |
| Excess of revenue, gains, and other support over expenses | ($32,934) | $44,589 | $81,541 | $69,526 | $19,356 |
| Operating margin | 0.8% | 3.2% | 5.4% | 4.4% | 3.7% |
| Operating cash flow margin* | 9.4% | 13.3% | 15.0% | 14.4% | 14.0% |

* Operating cash flow margin = (operating income + interest expense + depreciation and amortization) / total revenues.

**Summary of Revenue and Expenses – Obligated Group**

The following selected Condensed Consolidated Financial Information of the Obligated Group for the three years ended June 30, 2009, 2010 and 2011, and nine-month periods ended March 31, 2011 and 2012 have been prepared by Management and are derived from the financial records for The Reading Hospital and The Reading Hospital and Medical Center. The statements include, in the opinion of Management, all adjustments necessary to summarize fairly the results for such period. Financial performance for the nine months ended March 31, 2012 may not be indicative of results for the full Fiscal Year ended June 30, 2012. In the opinion of management of the Borrower and TRHMC, there has been no material adverse change in the consolidated financial condition or income from operations or cash flows of the Obligated Group since March 31, 2012.

The Obligated Group accounted for 88.0% and 88.3% of consolidated revenues for the fiscal years ended June 30, 2011 and 2010, respectively, and accounted for 94.2% and 94.4% of the consolidated assets reported in the financial statements at June 30, 2011 and 2010, respectively.

## Condensed Consolidated Financial Information
## Obligated Group

| ($ in thousands) | Year Ended June 30, 2009 | Year Ended June 30, 2010 | Year Ended June 30, 2011 | Nine Months Ended March 31 2011 | Nine Months Ended March 31 2012 |
|---|---|---|---|---|---|
| Revenues | | | | | |
| Net patient service revenue | $675,702 | $708,001 | $746,785 | $561,840 | $580,794 |
| Residential Revenue | 0 | 0 | 0 | 0 | 0 |
| Other revenue | 23,995 | 22,401 | 27,815 | 19,769 | 19,445 |
| Total revenues | 699,697 | 730,402 | 774,600 | 581,609 | 600,239 |
| Expenses: | | | | | |
| Salaries and benefits | 350,130 | 347,213 | 365,502 | 274,730 | 271,902 |
| Supplies | 99,917 | 94,335 | 92,634 | 74,668 | 78,935 |
| General operating expenses | 147,240 | 155,067 | 158,299 | 118,052 | 125,865 |
| Interest expense | 12,925 | 19,486 | 19,274 | 14,687 | 13,886 |
| Depreciation and amortization | 49,829 | 58,904 | 59,663 | 46,802 | 51,131 |
| Total expenses | 660,041 | 675,005 | 695,372 | 528,939 | 541,719 |
| Income from Operations | 39,656 | 55,397 | 79,228 | 52,670 | 58,520 |
| Nonoperating Gains (Losses): | | | | | |
| Investment income and impairment loss | (32,163) | 21,502 | 28,906 | 26,190 | 15,386 |
| Gifts and bequests and other (loss) income | (1,084) | 3,506 | 2,581 | 2,171 | 1,207 |
| Realized and Unrealized loss on interest rate swaps | 2,817 | (6,210) | 548 | 10,180 | (23,576) |
| Nonoperating Gains | (30,430) | 18,798 | 32,035 | 38,541 | (6,983) |
| Excess of revenue, gains, and other support over expenses | $9,226 | $74,195 | $111,263 | $91,211 | $51,537 |
| Operating margin | 5.7% | 7.6% | 10.2% | 9.1% | 9.7% |
| Operating cash flow margin* | 14.6% | 18.3% | 20.4% | 19.6% | 20.6% |

* Operating cash flow margin = (operating income + interest expense + depreciation and amortization) / total revenues.

### Trends In Liquidity

The table on the following page sets forth the cash position and liquidity of the Borrower and the Controlled Entities at June 30, 2009, 2010 and 2011, and at March 31, 2011 and 2012. Liquidity includes operating cash, short-term investments and assets limited by the Board to capital improvements. Excluded are trustee-held bond funds, funds held under self-insurance funding arrangements, and funds held for workers' compensation.

**Selected Liquidity Indicators**
**The Reading Hospital and Controlled Entities**

| ($ in thousands) | As of and for the Year Ended June 30, | | | Nine Months Ended March 31,[3] | |
|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2011 | 2012 |
| Unrestricted Cash and Investments[1] | $767,797 | $867,262 | $1,016,329 | $993,144 | $1,049,666 |
| Average Daily Operating Expenses[2] | $1,893 | $1,912 | $1,994 | $2,016 | $2,065 |
| Days Cash on Hand[3] (Days) | 405.64 | 453.53 | 509.62 | 492.63 | 508.21 |
| Cash to Debt[4] (%) | 122.79% | 137.52% | 164.76% | 159.78% | 172.84% |

(1) Includes all cash and cash equivalents and Board designated investments that are not restricted by donors or other third parties. Does not include "investments" as listed on balance sheet.
(2) Annual expenses exclusive of depreciation and amortization divided by number of days in the year
(3) Unrestricted cash and investments divided by average daily operating expenses
(4) Unrestricted cash and investments divided by long term debt

The following table sets forth selected capitalization indicators with respect to the Borrower and the Controlled Entities at June 30, 2009, 2010 and 2011, and for the nine-month periods ended March 31, 2011 and 2012.

**Selected Capitalization Indicators**
**The Reading Hospital and Controlled Entities**

| ($ in thousands) | As of and for the Year Ended June 30, | | | Nine Months Ended March 31, | | |
|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2011 | 2012 | 2012 Pro Forma |
| Outstanding Long-Term Debt | $625,277 | $630,653 | $616,838 | $621,560 | $607,316 | $611,981 |
| Unrestricted Net Assets | $715,398 | $732,997 | $876,200 | $832,700 | $886,019 | $886,019 |
| Debt to Capitalization[1] (%) | 46.64% | 46.25% | 41.31% | 42.74% | 40.67% | 40.85% |

(1) Outstanding long-term debt divided by the sum of (a) outstanding long-term debt and (b) unrestricted net assets

## Debt Service Coverage

The following table sets forth (i) the Borrower and the Controlled Entities' income available for debt service for each of the Fiscal Years ended June 30, 2009, 2010 and 2011 and the nine-month periods ended March 31, 2011 and 2012; (ii) historical coverage of the maximum annual principal and interest requirement on debt outstanding as of June 30, 2011; and (iii) pro-forma coverage of maximum annual debt service for the year ended June 30, 2011, assuming that the 2012 Bonds were outstanding, and for the nine month period ended March 31, 2012.

**Estimated and Pro Forma Coverage of Maximum Annual Debt Service**

| | Fiscal Year Ended June 30, | | | Nine Months Ended March 31, | |
|---|---|---|---|---|---|
| **($ in thousands)** | **2009** | **2010** | **2011** | **2011** | **2012** |
| Income from Operations | $6,094 | $26,422 | $47,252 | $28,895 | $25,475 |
| Adjustments: | | | | | |
| Depreciation and Amortization | 53,045 | 63,136 | 64,058 | 50,124 | 54,735 |
| Interest | 14,603 | 20,327 | 21,022 | 15,990 | 15,169 |
| Investment Income | (37,934) | 23,139 | 31,030 | 28,134 | 16,100 |
| Gifts and Bequests | (1,085) | 3,445 | 2,710 | 2,317 | 1,357 |
| Realized and Unrealized gains (and loss) on interest rate swaps | (9) | (8,417) | 549 | 10,180 | (23,576) |
| Income Available for Debt Service | $34,714 | $128,051 | $166,622 | $135,640 | $89,260 |
| Maximum Annual Debt Service Requirement[(1)] | $42,175 | $42,175 | $42,175 | | |
| Coverage of Maximum Annual Debt Service Requirement | 0.82x | 3.04x | 3.95x | | |
| Pro Forma Maximum Annual Debt Service Requirement | n.a. | n.a. | $34,443 | | |
| Coverage of Pro Forma Maximum Annual Debt Service | n.a. | n.a. | 4.84x | | |

(1) Assumes 2.0% rate of funds for variable rate bonds.

## Investment Policy

Cash and investments are managed pursuant to policies established by the Investment Committee, a subcommittee of the Board. The Investment Committee meets quarterly, determines the allocation of investments according to asset classes, selects managers for each asset class, and reviews manager performance based on a benchmark rate of return established for that manager. The present asset allocation policy and selection of asset managers for asset classes was established pursuant to a review undertaken by the Investment Committee in 2008. Currently, Jeffrey Slocum and Associates, Inc. is the advisor with respect to these investments.

The following table sets forth the long term capital plan investments at market value by asset class and the percentage which each asset class represents of the total as of December 31, 2011 and as of March 31, 2012:

**Investments**

| ($ in thousands) | December 31, 2011 | | March 31, 2012 | |
|---|---|---|---|---|
| **Asset Class** | **Investments (Market Value)** | **Percentage Of Total** | **Investments (Market Value)** | **Percentage of Total** |
| Cash | $174,515 | 17.2% | $184,523 | 17.6% |
| Money Market Funds | 189,426 | 18.6 | 188,331 | 18.0 |
| **Total Cash & MM Funds** | **363,941** | **35.8** | **372,854** | **35.6** |
| **Total US Gov Holdings** | **30,002** | **3.0** | **30,509** | **2.9** |
| Municipal Bonds | 3,516 | 0.3 | 9,070 | 0.9 |
| Domestic Equity Mutual Bonds | 10,740 | 1.1 | 21,068 | 2.0 |
| Mutual Funds | 6,408 | 0.6 | 7,045 | 0.7 |
| International Equity Mutual Funds | 146,274 | 14.4 | 145,561 | 13.9 |
| Closed End Equity Mutual Funds | 20,223 | 2.0 | 22,810 | 2.2 |
| **Total Bonds & Mutual Funds** | **187,162** | **18.4** | **205,554** | **19.6** |
| **Equities** | **23,080** | **2.3** | **25,361** | **2.4** |
| **Fixed Income** | **336,270** | **33.1** | **337,618** | **32.2** |
| **Private Equity** | **29,999** | **3.0** | **29,426** | **2.8** |
| **Total Foreign Holdings** | **791** | **0.1** | **817** | **0.1** |
| **Other Assets** | **45,554** | **4.5** | **46,537** | **4.4** |
| **Total Fund** | **$1,016,799** | **100.0%** | **$1,048,676** | **100.0%** |

**Sources of Revenue**

TRHMC's revenues come directly from patients, commercial insurance carriers or from third parties such as Medicare and Medicaid. The following is a summary of gross and net patient service revenue by source for the three Fiscal Years ended June 30, 2009, 2010 and 2011.

| | 2009 | | 2010 | | 2011 | |
|---|---|---|---|---|---|---|
| | **Gross** | **Net** | **Gross** | **Net** | **Gross** | **Net** |
| Medicare | 46.0% | 31.5% | 46.4% | 31.1% | 45.4% | 30.3% |
| Medicaid | 12.0 | 3.4 | 14.5 | 5.8 | 16.6 | 8.1 |
| Aetna | 2.5 | 4.5 | 3.2 | 5.8 | 3.1 | 5.9 |
| Blue Cross | 13.5 | 20.2 | 12.4 | 19.8 | 10.8 | 17.9 |
| Highmark | 5.5 | 9.4 | 5.4 | 9.9 | 6.0 | 11.6 |
| Other Commercial | 17.8 | 29.2 | 15.7 | 27.0 | 15.1 | 24.3 |
| Self Pay | 2.6 | 1.7 | 2.4 | 0.8 | 2.8 | 1.9 |
| Totals | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

**Medicare and Medicaid**. Medicare and Medicaid are the commonly accepted names for hospital payment programs created by certain provisions of the Federal Social Security Act. Medicare is exclusively a Federal Program and Medicaid is a combined Federal and state program.

**Aetna**. Aetna reimburses TRHMC under an agreement which provides for payment based on a percentage of charges. The agreement renews automatically unless terminated by either party with 180 days' notice.

**Blue Cross**. Capital Blue Cross reimburses TRHMC under an agreement which provides for payment based on a percentage of charges.

**Highmark Blue Shield**. Highmark Blue Shield reimburses TRHMC under an agreement which provides for payment based on a percentage of charges. The contract is evergreen with payment increases tied to increases in charges. The contract cycle is typically three years.

**Capital Blue Cross**. Until June 30, 2010, Capital Blue Cross (CBC) reimbursed TRHMC under an agreement which provided for payment based on a percentage of charges. Effective July 1, 2010, CBC and TRHMC entered into a three year agreement through June 30, 2013 which modified the payment structure for inpatient care. A fixed case rate payment for each MS-DRG identified in the Medicare payment structure was established. The initial rates were determined at budget neutral levels relative to the expiring contract. An annual increase is applied at the contract anniversary based on a Bureau of Labor Statistics index. Outpatient activity continues to be reimbursed based on a percentage of charges.

**Other Commercial, Non-Governmental Insurers**. United Healthcare, Cigna, Berkshire Health Partners, HealthAmerica, Geisinger and EHP all have similar contracts based on a percentage of charges.

**Non-contracted Commercial Insurance**. Other commercial insurance plans reimburse their subscribers or make direct payments to TRHMC for covered services at prevailing area room rates plus ancillary service charges, subject to various limitations, insurance provisions and deductibles.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**Operational Performance**. The operating margin and operating cash flow margin (operating earnings before interest, taxes, depreciation, and amortization) for both the Parent and Controlled Entities and for the Obligated Group for Fiscal Years 2009, 2010 and 2011, and for the two nine-months periods ended March 31, 2011 and 2012 were as follows:

## Condensed Consolidated Financial Information

## The Reading Hospital and Controlled Entities

| ($ in thousands) | Year Ended June 30, | | | Nine Months Ended March 31, | |
|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2011 | 2012 |
| REVENUES: | | | | | |
| Net Patient Service Revenue | $740,110 | $780,656 | $826,837 | $624,047 | $647,307 |
| Residential Revenue | 14,810 | 21,248 | 22,620 | 14,711 | 14,947 |
| Other Rev | 26,542 | 24,999 | 30,352 | 21,586 | 21,313 |
| Total revenues | 781,462 | 826,903 | 879,809 | 660,344 | 683,567 |
| EXPENSES: | | | | | |
| Salaries and benefits | 434,863 | 440,385 | 467,196 | 351,516 | 358,045 |
| Supplies | 104,500 | 99,079 | 97,264 | 78,105 | 82,878 |
| General Operating Expenses | 168,357 | 177,554 | 183,017 | 135,714 | 147,265 |
| Interest Expense (Income) | 14,603 | 20,327 | 21,022 | 15,990 | 15,169 |
| Depreciation and amortization | 53,045 | 63,136 | 64,058 | 50,124 | 54,735 |
| Total expenses | 775,368 | 800,481 | 832,557 | 631,449 | 658,092 |
| Income From Operations | $6,094 | $26,422 | $47,252 | $28,895 | $25,475 |
| Operating Margin | 0.8% | 3.2% | 5.4% | 4.4% | 3.7% |
| Operating Cash Flow Margin* | 9.4% | 13.3% | 15.0% | 14.4% | 14.0% |

## Condensed Consolidated Financial Information

## The Reading Hospital and The Reading Hospital and Medical Center

| ($ in thousands) | Year Ended June 30, | | | Nine Months Ended March 31, | |
|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2011 | 2012 |
| REVENUES: | | | | | |
| Net Patient Service Revenue | $675,702 | $708,001 | $746,785 | $561,840 | $580,794 |
| Other Revenue | 23,995 | 22,401 | 27,815 | 19,769 | 19,445 |
| Total revenues | 699,697 | 730,402 | 774,600 | 581,609 | 600,239 |
| EXPENSES: | | | | | |
| Salaries and benefits | 350,130 | 347,213 | 365,502 | 274,730 | 271,902 |
| Supplies | 99,917 | 94,335 | 92,634 | 74,668 | 78,935 |
| General Operating Expenses | 147,240 | 155,067 | 158,299 | 118,052 | 125,865 |
| Interest Expense (Income) | 12,925 | 19,486 | 19,274 | 14,687 | 13,886 |
| Depreciation and amortization | 49,829 | 58,904 | 59,663 | 46,802 | 51,131 |
| Total expenses | 660,041 | 675,005 | 695,372 | 528,939 | 541,719 |
| Income From Operations | $39,656 | $55,397 | $79,228 | $52,670 | $58,520 |
| Operating Margin | 5.7% | 7.6% | 10.2% | 9.1% | 9.7% |
| Operating Cash Flow Margin* | 14.6% | 18.3% | 20.4% | 19.6% | 20.6% |

The operating margin for the Parent and Controlled Entities dropped to 0.8% in Fiscal Year 2009. The reason for the reduction in operating margin, commencing in Fiscal Year 2007 and continuing through to June 30, 2009, is related to the physician development strategy of the institution. Two corporations, Reading Professional Services and Reading Hospital Medical Group, were established and

* Operating Cash Flow Margin = (operating income + interest + depreciation and amortization) / total revenues.

commenced operations approximately midway through Fiscal Year 2007.Such operations ramped up through the remainder of 2007 and this continued throughout 2009, at which point it began to plateau.

Physician integration is an important component of the long-term market expansion strategy of the institution and, hence, a certain level of operating losses at these two subsidiaries is anticipated to continue. However, a significant element of the Financial Improvement Plan (discussed below) is to mitigate such operating losses going forward such that consolidated operating performance returns to historical levels.

**Financial Improvement**. Consolidated operating performance since fiscal year 2009 has improved significantly. As a result of increased volume, revenue cycle improvements and cost controls operating margins improved from 0.8% in fiscal year 2009 to 3.2% and 5.4% in fiscal years 2010 and 2011. After normalizing for one-time items in fiscal year 2011 the operating margin improved to 3.9%. For the nine months to date for fiscal years 2011 and 2012 the operating margins were 4.4% and 3.7%, respectively. Operating expenses, excluding interest, depreciation and amortization, as a percent of total revenue decreased from 90.6% in fiscal year 2009 to 86.7% and 85.0% in fiscal years 2010 and 2011, respectively. After normalizing for one-time items fiscal year 2011's operating expenses, excluding interest, depreciation and amortization, as a percent of total revenue decreased to 86.3%. For the nine months to date for fiscal year 2012 operating expenses, excluding interest, depreciation and amortization, as a percent of total revenue was 86.0%.

**Liquidity and Leverage**. The institution has historically balanced the incurrence of incremental indebtedness with the maintenance of substantial balance sheet liquidity. Since the downturn in equity markets in calendar year 2008 and their continued volatility, the institution has maintained a conservative investment philosophy choosing liquidity and minimizing equities risk exposure. During fiscal year 2012 the Capital Resources Committee of the Board developed an Investment Policy Statement (IPS) that was approved by the Board. The IPS is intended to provide investment guidelines for the institution, its investment consultants, advisors and managers.

**Interest Rate Swaps**. The Obligated Group has certain interest rate swap agreements in place for a portion of its outstanding debt. The fair value of these swaps was a liability of $52,332,000 at June 30, 2011 and is recorded in the accompanying financial statements. At March 31, 2012, the fair value of the swaps was a liability of $72,541,000. The change in the fair value of the swaps is included as a component of excess of revenues over expenses. Such liability of $72,541,000 as of March 31, 2012 represents the mark-to-market value of all the swaps of the Obligated Group. The Obligated Group, however, would be required to pay thereon only in the event that all or a portion of such swap portfolio was terminated. The Obligated Group has the right to terminate at market at any time but has no intention of exercising such right; the respective counterparty, J.P. Morgan Chase or Royal Bank of Canada, may exercise a right to terminate only upon the occurrence of certain prescribed events. In addition, the swap documents provide for collateralization of a portion of the mark-to-market valuation; however, based upon the current credit ratings of the Obligated Group, no such collateralization obligation exists.

## PENSION AND POST-RETIREMENT BENEFIT PLANS

The Members of the Obligated Group participate in a noncontributory defined benefit pension plan (the "Pension Plan") that covers substantially all of their employees. Generally, employees who work 1,000 hours or more annually and are at least 21 years old by the end of the then-current plan year (which runs from July 1 through June 1) are automatically enrolled in the Pension Plan upon completion of one year of employment. Participants in the Pension Plan are fully vested in their rights to benefits under the Pension Plan upon completion of five years of service or, if earlier, upon turning 65 years old. Benefits are based on years of credited service and an employee's average monthly compensation. At

June 30, 2011 and June 30, 2010, the benefit obligations exceeded the fair value of plan assets by $99.5 million and $118.5 million, respectively.

In addition, TRHMC sponsors (i) a defined contribution plan that allows employees to defer income for retirement and (ii) a supplemental employee retirement plan ("SERP Plan") for certain members of upper management. At June 30, 2011, the fair value of SERP Plan assets equaled benefit obligations. At June 30, 2010, the benefit obligations exceeded the fair value of plan assets by $5.5 million. Currently, only one employee is a participant in the SERP Plan.

## FUNDRAISING AND DEVELOPMENT

The Development Fund at the Hospital is designed to support patient care by utilizing donated funds to purchase equipment or initiate new programs focused on patients and their families. These include funds that may be restricted by the donors for certain clinical areas, such as heart or oncology care, or to support ongoing education for health professionals through educational programs or scholarships. However, the majority of the $1.886 million in the Development Fund are unrestricted.

The Hospital also has a permanent endowment fund valued at $1.555 million. These endowments provide earnings that are used to offset annual scholarships and awards, continuing medical education programs, and/or medications and related support for patients with specific health conditions or needs.

Special event fundraising is conducted by the Hospital's volunteer arm, called The Friends of The Reading Hospital and Medical Center. Supported by the Volunteer Services Department, the Friends host major events each year (Garden Party, Road Run, and Tower Golf Classic), sponsor three revenue-producing gift shops, and conduct regular sales of books, candy, food, and holiday treats. Revenue is then returned to the Hospital through one major annual gift that is usually restricted for a major project, as well as lesser funds restricted for ongoing projects. The major project at this time is the HeartSAFE Berks County program that is designed to place AEDs in all area first responder vehicles, schools, and other major gathering places, to provide CPR training, and to educate the community about the chain of survival in the case of a cardiac event. In 2011, The Friends of The Reading Hospital and Medical Center donated $200,000 to support the HeartSAFE Berks County program.

## COMMUNITY BENEFIT

Rooted in the core values of TRHMC is the goal of improving the health and wellbeing of TRHMC's neighbors throughout the Berks County region. This is a tradition that dates back 144 years – to treat those served like family, to address issues outside our doors that impact health, healing, and an improved quality of life for every individual regardless of background, or medical condition, or ability to pay. During the fiscal year ended June 30, 2011, TRHMC committed $182 million to community benefit efforts that addressed specific community needs through a broad array of education, service, and outreach offerings. More than 180 programs and events reached approximately 40,000 individuals, and included free screenings, free immunizations, provision of information, sponsorship of support groups, and hosting educational programs.

In addition, during the fiscal year ended June 30, 2011, TRHMC provided $6.1 million in charity care, $146.1 million in unreimbursed government-sponsored care, and $16 million to individuals unable or unwilling to pay. Another $5.1 million of community benefit funding supported patient care community services, including free flu immunizations and screenings, free educational programs, and in-kind donations to agencies that support TRHMC in taking care of patients. The commitment for medical education and schools for providing future health professionals for the region totaled $9.5 million.

## VOLUNTEER PROGRAM

The Friends of The Reading Hospital and Medical Center ("The Friends") is a voluntary group of individuals who support TRHMC's mission through the coordination of in-service voluntarism, special event and project volunteers and group volunteers, as well as through fundraising for specific hospital projects. No separately incorporated, The Friends receive input and support through TRHMC-employed Director and staff of the Volunteer Services Department. The Director reports to the TRHMC President and Chief Executive Officer to assure oversight of volunteer initiatives. In addition, the Chair of The Friends Board has a position reserved on TRHMC's Board of Directors.

The Friends grew from a small group of volunteers who, in 1873, offered to make pillows, buy fruits and vegetables, and gather other donations to benefit the patients of The Reading Hospital. This early group, then called the Ladies' Advisory Committee, became The Ladies Auxiliary in 1890, later shortened to The Auxiliary of The Reading Hospital. In 2005, this name was changed to The Friends of The Reading Hospital, who continue to support the mission of the Hospital through fundraising, coordinating work groups, and recruiting and coordinating in-service volunteers.

The Board of The Friends currently has 74 members. Membership in local Friends groups and workgroups stands at 1,035. The number of in-service volunteers is 208. In 2011, donated hours to support the Hospital mission totaled 99,902.

Also, in 2011, the Volunteer Services Department launched the Employee Engagement initiative that offers staff members the opportunity to sample volunteer work at a local nonprofit agency on Hospital time. The dual purpose is to support the Hospital's overall commitment to the community and to encourage staff to find a satisfying agency or project to volunteer to support.

## INSURANCE AND LITIGATION

### Medical Malpractice Considerations

Pennsylvania law sets forth minimum professional liability coverage limits for physicians and hospitals. This coverage can be provided through either commercial insurance or through an approved self-insurance program. TRHMC currently provides its coverage, as well as the coverage of certain participating physicians, through an approved self-insurance program. The statutorily required limits of the fund for the year ended June 30, 2012, are $500,000 per occurrence and $1.5 million in the annual aggregate for participating physicians and nurse midwives; and a single limit of $500,000 per occurrence and $2.5 million in the annual aggregate for the hospital and its agents, servants, and employees (other than those health care providers having separate coverage at least equivalent to that provided by the self-insurance program). Additionally, the trust provides coverage of $1 million per occurrence and $3 million in the annual aggregate for any employed certified registered nurse practitioners or physician assistants. As set forth in The Medical Care Availability and Reduction of Error Act, Act 13 of 2002, the statutorily required limits of the fund for policies issued or renewed in subsequent calendar years were scheduled to increase. To date, these amendments have not been implemented by the Commonwealth and it is uncertain when the Commonwealth may, if ever, implement these changes. In addition to these amounts, TRHMC also participates in the Medical Care Availability and Reduction of Error Fund providing coverage in the amount of $500,000 per occurrence and $1.5 million in the annual aggregate over the above-referenced self-insured professional liability limits for TRHMC and physicians participating in the self-insurance program.

For losses occurring on or after April 30, 2009, the self-insurance program is part of an overall insurance program providing coverage for TRHMC in the total annual aggregate amount of $25 million through a combination of self-insurance and commercial insurance.

**Other Insurance Coverage**

TRHMC also carries liability insurance, comprehensive policies of other insurance to cover potential directors' and officers' liability, the facilities, equipment and other contents of TRHMC, and self-insures for professional, general liability and workers' compensation as part of its self-insurance program. TRHMC also purchases $25 million in first dollar umbrella coverage for its various exposures.

**Litigation**

There is no litigation pending or threatened against TRHMC (other than claims for malpractice, against which TRHMC is insured) that management believes would adversely affect TRHMC's ability to meet its obligations in the event of an adverse result.

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**APPENDIX B**

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS**
**OF THE READING HOSPITAL AND CONTROLLED ENTITIES**
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

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# The Reading Hospital and Controlled Entities

**Consolidated Financial Statements and Supplementary Consolidating Information**
**June 30, 2011 and 2010**

# The Reading Hospital and Controlled Entities
## Index
## June 30, 2011 and 2010

pwc

**Report of Independent Auditors**

The Board of Directors of
The Reading Hospital

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, changes in net assets, and cash flow present fairly, in all material respects, the financial position of The Reading Hospital and Controlled Entities (the "Company") at June 30, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These consolidated 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 of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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.

October 31, 2011

*PricewaterhouseCoopers LLP, 100 East Pratt Street, Suite 1900, Baltimore, MD 21202-1096*
*T: (410) 783 7600, F: (410) 783 7680, www.pwc.com/us*

# The Reading Hospital and Controlled Entities
## Consolidated Balance Sheets
## June 30, 2011 and 2010

| | 2011 | 2010 |
|---|---|---|
| **Assets** | | |
| Current | | |
| Cash and cash equivalents | $ 153,711,135 | $ 105,484,660 |
| Patient accounts receivable, less allowance for uncollectible accounts of $37,523,872 and $35,485,206 in 2011 and 2010, respectively | 99,564,208 | 105,802,248 |
| Other receivables | 10,137,129 | 9,792,947 |
| Receivable from affiliates | 1,260,326 | 615,498 |
| Inventories | 12,938,623 | 5,439,934 |
| Prepaid expenses and other current assets | 8,839,669 | 2,871,783 |
| Assets whose use is limited - required for current liabilities | | |
| Self-insurance funding arrangements | 10,783,761 | 7,291,000 |
| Revenue bond indentures - debt service requirements | 3,026,508 | 3,235,286 |
| Total current assets | 300,261,359 | 240,533,356 |
| Assets whose use is limited | | |
| Self-insurance funding arrangements | 18,714,026 | 18,130,829 |
| Revenue bond indentures - capital projects | - | 14,967,096 |
| By board | 862,617,917 | 761,777,828 |
| Total assets whose use is limited, net of current portion | 881,331,943 | 794,875,753 |
| Investments | 18,067,783 | 15,001,252 |
| Temporarily restricted funds | 646,812 | 561,245 |
| Property, plant and equipment, net | 605,772,321 | 634,862,625 |
| Deferred financing expense, net | 5,708,931 | 5,943,434 |
| Deferred compensation fund | 3,443,533 | 5,095,672 |
| Other assets | 12,039,262 | 18,115,167 |
| Total assets | $ 1,827,271,944 | $ 1,714,988,504 |

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

# The Reading Hospital and Controlled Entities
## Consolidated Balance Sheets
## June 30, 2011 and 2010

| | 2011 | 2010 |
|---|---|---|
| **Liabilities and Net Assets** | | |
| Current | | |
| Current installments of long-term debt | $ 31,810,387 | $ 35,950,387 |
| Bonds backed by self-liquidity | 141,700,000 | 141,700,000 |
| Accounts payable | 24,272,470 | 25,528,479 |
| Estimated third-party payer settlements | 6,565,671 | 5,985,774 |
| Current portion of estimated self-insurance costs | 8,670,086 | 7,473,296 |
| Current portion of accrued pension liabilities | - | 5,512,782 |
| Accrued expenses | 22,800,653 | 19,999,731 |
| Accrued vacation | 18,004,683 | 17,826,572 |
| Advance from third-party payor | 3,832,169 | 3,832,000 |
| Other current liabilities | 10,720,097 | 9,950,927 |
| Total current liabilities | 268,376,216 | 273,759,948 |
| Long-term debt, net of current portion and unamortized discount | 443,328,021 | 453,002,191 |
| Accrued pension liabilities, net of current portion | 99,855,961 | 118,778,044 |
| Deferred revenue | 35,652,680 | 35,481,358 |
| Deferred compensation | 3,443,533 | 4,491,251 |
| Gift annuities | 652,081 | 738,966 |
| Estimated self-insurance costs, net of current portion | 29,389,700 | 27,913,101 |
| Swap contracts | 52,332,357 | 52,175,216 |
| Total liabilities | 933,030,549 | 966,340,075 |
| Commitments and contingencies (Note 13) | | |
| **Net assets** | | |
| Unrestricted | 876,200,090 | 732,997,174 |
| Temporarily restricted | 672,471 | 561,245 |
| Permanently restricted | 17,368,834 | 15,090,010 |
| Total net assets | 894,241,395 | 748,648,429 |
| Total liabilities and net assets | $ 1,827,271,944 | $ 1,714,988,504 |

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

# The Reading Hospital and Controlled Entities
## Consolidated Statements of Operations
## Years Ended June 30, 2011 and 2010

| | 2011 | 2010 |
|---|---|---|
| **Unrestricted revenues and other support** | | |
| Net patient service revenue | $ 826,837,399 | $ 780,655,807 |
| Residential revenue | 22,619,836 | 21,247,742 |
| Other revenue | 30,352,509 | 24,999,190 |
| Total revenues and other support | 879,809,744 | 826,902,739 |
| **Expenses** | | |
| Salaries and benefits | 467,196,170 | 440,384,570 |
| Supplies | 97,264,087 | 99,079,416 |
| Provision for uncollectible accounts | 40,579,629 | 39,379,452 |
| Utilities | 14,982,854 | 13,382,812 |
| Interest | 21,022,300 | 20,327,263 |
| Depreciation and amortization | 64,058,459 | 63,135,774 |
| Purchased services | 63,669,198 | 62,658,750 |
| Repairs and maintenance | 17,435,657 | 20,244,858 |
| Other | 46,349,025 | 41,888,316 |
| Total expenses | 832,557,379 | 800,481,211 |
| Income from operations | 47,252,365 | 26,421,528 |
| **Nonoperating gains/(losses)** | | |
| Investment income | 31,030,024 | 23,138,886 |
| Gifts and bequests | 1,809,342 | 912,553 |
| Other gains | 901,156 | 2,532,896 |
| Realized and unrealized gains/(losses) on interest rate swaps | 548,623 | (8,416,648) |
| Nonoperating gains | 34,289,145 | 18,167,687 |
| Excess of revenue, gains and other support over expenses | 81,541,510 | 44,589,215 |
| Net assets released from restrictions | - | (153,934) |
| Change in unrealized gains/(losses) on investments | 37,544,646 | 23,144,659 |
| Change in pension liability | 24,434,865 | (50,065,009) |
| Change in deferred compensation | (370,088) | 106,628 |
| Other | 51,983 | (21,960) |
| Increase in unrestricted net assets | $ 143,202,916 | $ 17,599,599 |

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

# The Reading Hospital and Controlled Entities
## Consolidated Statements of Changes in Net Assets
## Years Ended June 30, 2011 and 2010

| | 2011 | 2010 |
|---|---|---|
| **Unrestricted net assets** | | |
| Excess of revenues, gains and other support over expenses | $ 81,541,510 | $ 44,589,215 |
| Net assets released from restrictions | - | (153,934) |
| Change in unrealized gains/(losses) on investments | 37,544,646 | 23,144,659 |
| Change in pension liability | 24,434,865 | (50,065,009) |
| Change in deferred compensation | (370,088) | 106,628 |
| Other Net Assets | 51,983 | (21,960) |
| Increase in unrestricted net assets | 143,202,916 | 17,599,599 |
| **Temporarily restricted net assets** | | |
| Contributions | 119,178 | 112,515 |
| Net assets released from restrictions - for operations | (7,951) | (65,804) |
| Increase in temporarily restricted net assets | 111,227 | 46,711 |
| **Permanently restricted net assets** | | |
| Contributions | - | 181,941 |
| Change in funds held in trust for others | 2,278,824 | 959,489 |
| Increase in permanently restricted net assets | 2,278,824 | 1,141,430 |
| Change in net assets | 145,592,966 | 18,787,740 |
| **Net assets** | | |
| Beginning of year | 748,648,429 | 729,860,689 |
| End of year | $ 894,241,395 | $ 748,648,429 |

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

# The Reading Hospital and Controlled Entities
## Consolidated Statements of Cash Flows
## Years Ended June 30, 2011 and 2010

| | 2011 | 2010 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Change in net assets | $ 145,592,966 | $ 18,787,740 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Change in unrealized (gains)/losses on investments | (37,544,646) | (18,814,700) |
| Change in fair value of interest rate swaps | 548,623 | 23,373,286 |
| Change in pension liability | (24,434,865) | 50,065,009 |
| Change in deferred revenue | 171,322 | 1,270,647 |
| Depreciation and amortization | 64,058,459 | 63,135,774 |
| (Gain)/loss on disposal of fixed assets | 55,096 | (9,021) |
| Provision for uncollectible accounts | 40,579,629 | 39,379,452 |
| Realized gains on investments | (19,768,383) | (21,614,905) |
| Equity in income of affiliates | (1,008,512) | (820,844) |
| Restricted contributions and investment income received | (120,000) | (309,551) |
| Change in cash due to changes in operating assets and liabilities | | |
| Receivable from patients and others | (34,685,771) | (38,471,747) |
| Receivable from affiliates | (644,828) | 48,733 |
| Inventories | (7,498,689) | (3,812,059) |
| Prepaid expenses and other assets | 1,133,623 | 6,544,178 |
| Accounts payable and accrued expenses | 5,531,299 | (13,813,086) |
| Deferred compensation | 603,765 | (106,628) |
| Net cash provided by operating activities | 132,569,088 | 104,832,278 |
| **Cash flows from investing activities** | | |
| Acquisition of property, plant and equipment | (34,755,790) | (71,562,416) |
| Proceeds from sale of fixed assets | 110,380 | 13,866 |
| Purchases and sales of investments and assets whose use is limited, net | (35,780,318) | 14,935,476 |
| Net cash used in investing activities | (70,425,728) | (56,613,074) |
| **Cash flows from financing activities** | | |
| Restricted contributions and investment income received | 120,000 | 309,551 |
| Cash paid for financing fees | - | (4,900,171) |
| Proceeds from long-term debt | - | 284,765,000 |
| Payments of long-term debt | (13,950,000) | (278,062,624) |
| Increase in gift annuities | (86,885) | (26,603) |
| Net cash provided by/(used in) financing activities | (13,916,885) | 2,085,153 |
| Net increase in cash and cash equivalents | 48,226,475 | 50,304,357 |
| **Cash and cash equivalents** | | |
| Beginning of year | 105,484,660 | 55,180,303 |
| End of year | $ 153,711,135 | $ 105,484,660 |
| **Supplemental cash flow information** | | |
| Cash paid during the year for interest | $ 21,489,698 | $ 20,715,750 |
| Fixed asset additions included in accounts payable | $ 2,044,935 | $ 2,615,636 |

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

## 1. Organizational Structure and Nature of Operations

The Reading Hospital ("Parent") is a tax-exempt not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code. The Parent is located in West Reading, Pennsylvania and provides inpatient, outpatient and emergency care for residents of the greater Berks County area. Admitting physicians are primarily practitioners in the local area. Controlled entities and subsidiaries of the Parent include:

- The Reading Hospital and Medical Center ("Hospital"), a tax-exempt not-for-profit acute and post-acute care hospital;

- Reading Professional Services ("RPS"), a tax-exempt entity established for charitable, educational and scientific purposes. RPS recruits physicians, provides physician billing and administrative services for the Hospital, including supervision and instruction for medical students completing their residency training;

- MC Realty, Inc. ("MC Realty"), a wholly owned subsidiary, established to strategically acquire real estate in Berks County and the surrounding areas. MC Realty is consolidated into the Parent;

- The Reading Hospital Medical Group ("TRHMG"), a not-for-profit entity, established on January 1, 2007 to assure access to high quality primary care physicians and specialty physicians in sufficient numbers to meet the community need; and

- The Highlands at Wyomissing ("Highlands"), a not-for-profit corporation, became a fully controlled entity of The Reading Hospital in July 2009. Prior to July 2009, the Highlands was jointly controlled by the Hospital and The Lutheran Home at Topton. The purpose of the Highlands is to operate a continuing care retirement community including residential, recreational, and health care facilities and services specially designed to meet the physical, social, and psychological needs of elderly persons. The Highlands facility is located in Wyomissing, Pennsylvania and its residents are principally from the Wyomissing, and Reading, Pennsylvania area. The facility contains 289 residential living units, an 80-bed skilled nursing unit and 70 personal care units.

  Certain members of the board of directors from the Hospital are also members of the board of directors of the Highlands.

  **Other non-controlled related entities include:**

- Berkshire Health Partners ("BHP") (and its wholly owned subsidiary, Medicus Resource Management, Inc.) are state tax-exempt corporations established to provide alternative health care services and assist in developing preferred provider relationships. Certain members of the Hospital's Board of Directors are also directors of BHP. The Parent has a 26.5% ownership interest in BHP accounted for under the equity method of accounting. This interest is included in other assets on the accompanying balance sheets;

- Reading Berks Physical Therapy LLC ("RBPT"), a limited liability corporation established to provide physical therapies at eight locations within the greater Berks County area. The Hospital maintains a 40% interest in RBPT under the equity method of accounting. This interest is included in other assets on the accompanying balance sheets;

- The Reading Hospital Surgicenter at Springridge, LLC ("Springridge LLC"), a limited liability company, established to provide ambulatory surgery services to the surrounding community. The Hospital maintains a 50% ownership under the equity method of accounting. This interest is included in other assets on the accompanying balance sheets;

- The Parent, along with several other acute care service hospitals throughout the central Pennsylvania area, contributed capital to form Central Pennsylvania Alliance Laboratories ("CPAL"), a joint venture to combine laboratory operations. The Parent maintains a 20% ownership interest in CPAL. This interest is recorded under the equity method of accounting and is included in other assets on the accompanying balance sheet;

- The Parent is a 50% owner of Central Pennsylvania Homecare, Inc., which is doing business as Visiting Nurses Association (“VNA”). VNA provides visiting home nursing services to outpatients of the Hospital and other healthcare providers in the surrounding community. This investment is recorded under the equity method of accounting and is included in other assets on the accompanying balance sheets;

- The Parent is a 20% owner, along with Central Pennsylvania Healthcare Alliance (“CPHA”) members: Ephrata Community Hospital, Lancaster General, Pinnacle Health System, Summit Health Alliance and WellSpan Health, of Quest Behavioral Health, Inc (“Quest”). Quest is a not-for-profit corporation providing full service managed behavioral healthcare, with over 1000 network clinicians (behavioral health specialists of psychiatrists, psychologists, clinical social workers, licensed mental health professionals and clinical nurse practitioners) to over 120,000 members in 40 counties in Central Pennsylvania and 7 counties in Northern Maryland and 200 employer groups. This investment is recorded under the equity method of accounting and is included in other assets on the accompanying balance sheets; and

- The Parent is a 30% owner in Horizon Healthcare Services, LLP (“HHS”), a for-profit limited liability partnership which provides in-home infusion drug therapy to customers in central Pennsylvania, along with Pinnacle Health Hospitals (10%) and Barge-Ganse Venacare Business Trust (60%). The investment is recorded under the equity method of accounting and is included in other assets on the accompanying balance sheets.

## 2. Summary of Significant Accounting Policies

These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("US GAAP"). The significant accounting policies followed by The Reading Hospital and Controlled Entities (“Company”) are as follows:

### Principles of Consolidation

The consolidated financial statements of the Company include the accounts of the Parent, the Hospital, RPS, TRHMG, Highlands and MC Realty. All significant intercompany balances and transactions have been eliminated.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These significant estimates include the accounts receivable allowance for doubtful accounts, contractual allowances, estimated third-party payor settlements, investments, accrued pension liabilities, accrued retirement costs and accrued insurance costs. Actual results could differ from those estimates.

**Reclassifications**
Certain reclassifications to amounts previously reported have been made to conform with the current period presentation.

**Cash and Cash Equivalents**
Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less, excluding amounts whose use is limited by board designation, indenture agreements and self-insurance trust agreements.

**Net Patient Service Revenue**
The Hospital has agreements with third-party payors that provide for payments to the Hospital 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 due to future audits, reviews and investigations. 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 or as years are no longer subject to such audits, reviews and investigations.

**Allowance for Doubtful Accounts**
Patient receivables are recorded at their estimated net realizable value. The allowance for doubtful accounts is estimated based upon historical collection rates.

**Residential Revenue**
The Highlands' entrance fees are refundable for a period of time up to 50 months. During this time, for refund purposes only, a resident's entrance fee is amortized at the rate of 2% per month for 50 months beginning on the date of occupancy. Entrance fees which are no longer refundable are recorded as deferred entrance fee revenue. Entrance fees are amortized to income using the straight-line method over the estimated remaining life expectancy of the resident. For all contracts entered into prior to January 1, 2005, a portion of the entrance fee, referred to as the health fund, equal to 30% of the total entrance fee, is reserved to be accounted for individually for each resident/couple. All health funds are refundable to extent not amortized. Amortization of the health fund occurs when a resident utilizes health services (Nursing or Personal Care). The amortization rate is the incremental difference between the daily rate for health services and the monthly fee prorated on a daily basis.

**Other Revenue**
Significant components of other revenue include; rental income on leased properties, tuition revenue for The Reading Hospital and Medical Center School of Health Sciences and cafeteria revenues.

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

**Donor Restricted Gifts**
Unconditional promises to give cash and other assets to the Hospital are reported at estimated fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at estimated fair value at the date the gift is received.

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 consolidated statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

**Excess of Revenues, Gains and Other Support Over Expenses**
The consolidated statements of operations include the excess of revenues, gains and other support over expenses. Changes in unrestricted net assets which are excluded from the excess of revenues, gains and other support over expenses, consistent with industry practice, include changes in unrealized gains and losses on investments other than certain nonreadily marketable investments, adjustments for defined benefit and other post-retirement benefits and contributions of long-lived assets (including assets acquired using contributions which by donor-restriction were to be used for the purposes of acquiring such assets).

**Assets Whose Use is Limited**
Assets whose use is limited include designated assets set aside by the Board of Directors for future capital improvements over which the Board retains control and may at its discretion subsequently use for other purposes, assets held by trustees under indenture agreements and self-insurance trust arrangements.

**Property, Plant and Equipment**
Property, plant and equipment are carried at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of each class of depreciable asset. Gains and losses resulting from the retirement or sale of property, plant and equipment are included in the consolidated statements of operations. Useful lives range as follows:

| | |
|---|---|
| Land improvements | 5-25 years |
| Buildings and improvements | 10-40 years |
| Fixed equipment | 5-10 years |
| Movable equipment | 3-7 years |

Gifts of long-lived operating assets such as land, buildings, or equipment are reported as unrestricted support, excluded from the excess of revenues, gains and other support over expenses, unless explicit donor stipulations specify how the donated asset 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.

**Temporarily and Permanently Restricted Net Assets**
Temporarily restricted net assets are those whose use by the Company has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Company in perpetuity.

**Inventories**
During Fiscal 2011, the Company began capitalizing inventory items for supplies used in operating rooms which were previously expensed as incurred. At June 30, 2011 a physical inventory was taken and supplies totaling approximately $7,600,000 were capitalized which resulted in a reduction in operating expenses in the statement of operations. Inventories are stated at lower of cost (first-in, first-out method) or market.

**Investments and Investment Income**
The Company follows standards issued by the Financial Accounting Standards Board ("FASB") related to fair value accounting. The standards define fair value, establish a framework for measuring fair value and expand the disclosures about fair value measurements. The standards also provide an option to report selected financial assets and liabilities at fair value and establish presentation and disclosure requirements. The fair value option permits the Company to elect to measure eligible items at fair value on an instrument-by-instrument basis and then report the unrealized gains and losses for those items in the Company's revenues, gains and support over expenses. The Company has chosen to record all of its investments under the fair value option permitted under these standards.

Under these fair value standards, the Company is required to categorize and disclose certain assets and liabilities, including investments, at fair value, according to three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities.
Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There was no cumulative effect adjustment to net assets as a result of adoption.

The following is a description of the Company's valuation methodologies for investments carried at fair value. These methods may produce a fair value calculation that may not be reflective of future fair values. Furthermore, while the Company believes that its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of investments could result in a different estimate of fair value at the reporting date.

Where quoted prices are available in an active market, investments are classified in Level 1 of the valuation hierarchy. Investments in Level 1 are exchange-trade equity securities and debt securities. If quoted prices are not available, other accepted valuation methodologies, such as quotes for similar securities are used. These valuation services estimate fair values using pricing models and other accepted valuation methodologies, such as quotes for similar securities and observable yield curves and spreads. As part of the Company's overall valuation process, management evaluates these third-party methodologies to ensure that they are representative of exit prices in the Company's principal markets. Investments in Level 2 include corporate obligations, other fixed income investments, other domestic equity investments, and foreign equity investments. Investments in Level 3 include nonreadily marketable alternative investments and auction rate securities. See Note 5 for additional details related to the Company's investments.

The Company's nonreadily marketable investments include limited partnerships and limited liability corporations that do not price shares on at least a monthly basis or require notice to redeem shares. These nonreadily marketable investments invest in securities traded in foreign and domestic markets and are carried in the balance sheet at net asset value as determined by the general partner.

The Company uses an investment advisor to manage their investment portfolio and has authorized them to execute transactions on their behalf. All unrealized investment losses are recognized in earnings.

**Deferred Financing Expense**
Deferred financing expense is amortized over the period the debt is outstanding using the interest method.

**Bond Discounts**
Bond discounts are reported as direct reductions of the carrying values of the related debt instruments from which the discounts arose. Bond discounts are amortized over the period the debt is outstanding using the straight-line method with current period adjustments included as a component of interest expense.

**Estimated Self-Insurance Costs**
The provision for estimated self-insured claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. The Company self-insures its medical malpractice, general liability, and workers' compensation risks. Reserve estimates are subject to the impact of changes in claim trends as well as prevailing social, economic, and legal conditions. The ultimate net cost of settling these liabilities may vary from the estimated amounts. Accordingly, reserve estimates are continually reviewed and updated and any resulting adjustments are reflected in the current financial statements.

**Derivative Instruments**
The Company accounts for derivative financial instruments in accordance with standards issued by FASB. The Company owns free-standing derivatives that are not designated as part of a qualifying hedge relationship. As such, the derivatives are recorded at fair value and are marked-to-market through the excess of revenues over expenses.

**Income Taxes**
The Company is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. On such basis, the exempt entities do not incur liability for federal income taxes, except in the case of unrelated business income.

The Company evaluates uncertain tax positions using a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in an unrelated business activity tax return and disclosures regarding uncertainties in tax positions. No adjustments to the financial statements were required as a result of this evaluation.

**Fair Value of Financial Instruments**
Financial instruments include cash and cash equivalents, accounts receivable, investments, interest rate swap agreements and long-term debt. The carrying amount reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, investments, interest rate swap agreements and long-term debt approximates its fair value as of June 30, 2011.

**Supplemental Employee Retirement Plans**
Certain of the Company's employees are covered under supplemental employee retirement plans. The liability for these plans is included in accrued pension costs on the balance sheet.

**Deferred Revenue**
The Highlands has deferred revenue pertaining to refundable entrance fees of $19,533,000 and $20,081,000 at June 30, 2011 and 2010, respectively and deferred entrance fee revenue of $16,121,000 and $15,401,000 at June 30, 2011 and 2010, respectively. Entrance fees are refundable for a period of time up to 50 months before they are transferred to deferred entrance fee revenue. The deferred entrance fee revenue is amortized to income using the straight-line method over the estimated remaining life expectancy of the resident.

**Deferred Compensation**
The Company is a party to deferred compensation plans intended to provide retirement benefits to certain individuals formerly employed by the Company. Assets are deposited with the respective plan managers pursuant to these agreements such that the value of the assets determined by the market value approximates the related accrued deferred compensation liability. The funds are placed into a range of investment strategies from conservative to aggressive.

**Accounting for Defined Benefit Plan**
Substantially all employees of the Company are covered under a qualified noncontributory defined benefit pension plan. Pension costs are funded as accrued except when not permitted by regulations, such as full funding limitations. Unfunded prior service costs are amortized over an initial term of thirty years.

The Company follows the FASB standards over employer's accounting for defined benefit pension and other postretirement plans. Included in these standards is a requirement for an entity to recognize in its balance sheet, the overfunded or underfunded status of its defined benefit postretirement plans measured as the difference between the fair value of the plan assets and the benefit obligation. For a pension plan, this would be the projected benefit obligation; for any other postretirement plan, the benefit obligation would be the accumulated postretirement benefit obligation. These standards also require measurement dates for the pension plan obligation to be measured as of the date of the entity's balance sheet.

**Recently Issued Accounting Pronouncements**
In July 2011, the FASB issued Accounting Standards Update ("ASU") 2011-07, "Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities," which requires health care entities to change the presentation in their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). For nonpublic entities, the amendments are effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2012, with early adoption permitted. While this standard will have no impact on the Hospital's financial position or results of operations, it will require reclassification of the provision for doubtful accounts from operating expenses to a component of net revenues beginning with the first quarter of 2013, with retrospective application required.

In August 2010, the FASB issued ASU 2010-24, "Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries," which clarifies that a health care entity should not net insurance recoveries against a related claim liability. The guidance provided is effective for the fiscal years, and interim periods within those years, beginning after December 15, 2010.

In August 2010, the FASB issued ASU 2010-23, "Health Care Entities (Topic 954): Measuring Charity Care for Disclosure," which prescribes a specific measurement basis of charity care for disclosure. The guidance provided in this ASU is effective for fiscal years beginning after December 15, 2010.

In January 2010, the FASB issued ASU 2010-06, "Fair Value Measurements and Disclosures about Fair Value Measurements." The new guidance requires that information, such as description of and reasoning for transfers, be disclosed for all transfers to and from Level's 1, 2 and 3 in the fair value hierarchy. Another requirement under this guidance is the gross, rather than net, presentation of purchases, sales, issuances and settlements in Level 3 roll-forward tables. The new guidance is effective for fiscal years beginning after December 15, 2009 for transfer disclosures and December 15, 2010 for gross presentation and as such, disclosures pertaining to these topics have be made in accordance with this guidance for consolidated financial statements beginning in Fiscal Year 2011 and Fiscal Year 2012, respectively.

## 3. Charity Care and Community Service

The Company provides services to patients who meet the criteria of its charity service policy without charge or at amounts less than the established rates. Criteria for charity care consider the patient's family income, family size, and ability to pay. Individuals who qualify for charity care do not have insurance or other coverage.

The Company maintains records to identify and monitor the level of charity care and community service it provides. These records include the amount of charges foregone based on established rates for services and supplies furnished under its charity care and community service policies and the estimated cost of those services.

Charges foregone for charity service as determined in accordance with the Company's policy approximate $19,212,000 and $13,984,000 in 2011 and 2010, respectively. Such amounts have been excluded from revenue. The cost to provide these services was approximately $7,225,000 and $5,992,000 for the years ended 2011 and 2010, respectively.

Additionally, the Company sponsors certain other service programs and charity services which provide substantial benefit to the broader community. Such programs include services to needy populations requiring special services and support, including community service programs and charity services as well as health promotion and education.

The Company's community service includes the Medical Assistance program which makes payment for services provided to families with dependent children, the aged, the blind, and the permanently and totally disabled, whose income and resources are insufficient to meet the costs of necessary medical services. Payments from the Medical Assistance program are generally less than the Company's charge of providing the service.

In addition, community service represents the cost to deliver services to the community, net of any payment received for those services. Included in these services are the Company's subsidy of outpatient clinics, education of medical professionals who work with various health care providers in the community upon graduation, and community mental health programs. The Company also sponsors health fairs and other wellness programs throughout the community.

## 4. Net Patient Service Revenue

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

- **Medicare**

  Inpatient acute care and rehabilitation services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services are reimbursed by Medicare under the Ambulatory Payment Classification System. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with Medicare. The Hospital's Medicare cost reports have been closed and settled by the Medicare fiscal intermediary through June 30, 2007.

- **Medicaid**

  Historically, inpatient and outpatient services rendered to Medicaid program beneficiaries were paid at prospectively determined rates with inpatient services being reimbursed on a rate-per-discharge basis and outpatient services on a predetermined fee schedule basis.

  On December 29, 2010 The Pennsylvania Department of Public Welfare ("DPW") received approval from the Centers for Medicare & Medicaid Services for the state plan amendments pursuant to Act 49 of 2010, passed by the Pennsylvania General Assembly on July 3, 2010, that established a new inpatient hospital fee for service payment system, new supplemental payments and the waiver to establish the statewide Quality Care Assessment. DPW also received approval on final language for the DPW contracts with managed care organizations. The estimated net impact on the Hospital for the year ended June 30, 2011 was $8,029,000 (based on total payment adjustments of $18,018,000 and offset by assessments of $9,989,000).

- **Capital Blue Cross**

  Beginning July 1, 2010, inpatient services rendered to Capital Blue Cross subscribers are reimbursed at negotiated case rates and per diem rates. Previously, inpatient services had been reimbursed on a negotiated percentage of covered charges. The prospectively determined rates are not subject to retroactive adjustment. The Hospital continues to be reimbursed for outpatient services at a negotiated percentage of covered charges.

- **Workers' Compensation**

  The payment method by which all employers and/or insurers of workers' compensation policies will pay for the services provided by health care providers to employees covered by workers' compensation is a percentage of the Medicare payment for these services.

- **Other Contractual Arrangements**

The Company has various payment agreements with preferred provider organizations and health maintenance organizations. The basis for payment under these agreements includes discounts from established charges.

Revenue received under agreements with third-party payors is subject to audit and retroactive adjustment. Adjustments related to tentative and final settlements with third-party payors are included in the determination of the excess of revenues, gains and other support over expenses in the year in which such adjustments become known. Such adjustments relating to prior years reduced net patient service revenues by approximately $964,000 in 2011 and $1,943,000 in 2010.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at the time. Recently, government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for patient services previously billed.

## 5. Investments

| | 2011 | 2010 |
|---|---|---|
| **Deferred compensation** | | |
| Cash and cash equivalents | $ 507 | $ 579 |
| Mutual funds | 3,443,026 | 5,095,093 |
| Total deferred compensation | $ 3,443,533 | $ 5,095,672 |

Assets whose use is limited that are required for obligations classified as current liabilities are reported in current assets. The composition of assets whose use is limited at June 30, 2011 and 2010, is set forth in the following tables.

| | 2011 | 2010 |
|---|---|---|
| **Under self-insurance funding arrangements** | | |
| **Professional liability** | | |
| Cash and cash equivalents | $ 8,329,642 | $ 7,906,104 |
| U.S. Government securities | 6,991,769 | 5,631,031 |
| Corporate bonds | 4,928,840 | 3,392,041 |
| Mutual funds | 84,586 | 62,646 |
| | 20,334,837 | 16,991,822 |
| **Workers' compensation** | | |
| Cash and cash equivalents | 427,969 | 244,594 |
| U.S. Government securities | 3,432,321 | 4,337,099 |
| Corporate bonds | 3,476,579 | 2,347,149 |
| Mutual funds | 1,826,081 | 1,501,165 |
| | 9,162,950 | 8,430,007 |
| Total assets whose use is limited under self-insurance funding arrangements | $ 29,497,787 | $ 25,421,829 |

| | 2011 | 2010 |
|---|---|---|
| **Under revenue bond indenture agreements -** | | |
| held by trustee | | |
| Cash and cash equivalents | $ 299,913 | $ 15,449,643 |
| U.S. Government securities | 2,726,595 | 2,752,739 |
| Total assets whose use is limited under under revenue bond indenture agreements | $ 3,026,508 | $ 18,202,382 |
| **By board** | | |
| Cash and cash equivalents | $ 189,007,395 | $ 113,773,407 |
| U.S. Government securities | 28,923,332 | 26,867,586 |
| Corporate and foreign bonds | 6,395,487 | 6,852,249 |
| Common, preferred and foreign stocks | 2,188,389 | 19,459,230 |
| Mutual funds | 161,208,026 | 356,674,724 |
| Fixed income funds | 332,728,555 | 30,604,670 |
| Hedge funds and private equity funds | 142,166,734 | 207,545,962 |
| Total assets whose use is limited by the board for capital improvements | $ 862,617,917 | $ 761,777,828 |
| **Temporarily restricted funds** | | |
| Cash and cash equivalents | $ 646,812 | $ 561,245 |
| **Investments** | | |
| Beneficial interest in trusts | $ 13,248,118 | $ 10,989,659 |
| Cash and equivalents | 124,917 | 78,394 |
| Common, foreign and preferred stock | 2,699,556 | 2,291,307 |
| Mutual funds | 254,148 | - |
| Corporate and foreign bonds | 549,998 | 389,927 |
| U.S. Government securities | 1,191,046 | 1,251,965 |
| Total assets whose use is permanently restricted as to use | $ 18,067,783 | $ 15,001,252 |

A summary of the Company's total investment return for the years ended June 30, 2011 and 2010 as reflected in the Consolidated Statements of Operations and Changes in Net Assets is as follows:

| | 2011 | 2010 |
|---|---|---|
| **Nonoperating gains and losses** | | |
| Investment income | $ 31,030,024 | $ 23,138,886 |
| Change in unrealized gains/(losses) on investments | 37,544,646 | 23,144,659 |

The Company's investments are managed by investment managers and bank trust departments. Because the Company's investments include a variety of financial instruments, the related values as presented in the consolidated financial statements are subject to various market fluctuations which include changes in the equity markets, interest rate environment and general economic conditions.

The Company performs an impairment analysis annually on its investments. Other than temporary impairment charges of $1,328,000 and $4,435,000 were recorded at June 30, 2011 and 2010, respectively, and are included in investment income.

The following tables represent the fair value measurement levels for all assets and liabilities, which the Company has recorded at fair value:

| | | Fair Value Measurement Using | | |
|---|---|---|---|---|
| | June 30, 2011 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Other Unobservable Inputs (Level 3) |
| **Assets** | | | | |
| Cash and cash equivalents | $ 198,837,156 | $ 198,837,156 | $ - | $ - |
| Corporate and foreign bonds | 15,350,904 | | 9,283,805 | 6,067,099 |
| Common, preferred and foreign stock | 4,887,945 | 4,887,945 | | |
| U.S. Government securities | 43,265,063 | | 43,265,063 | |
| Mutual funds | 166,815,867 | 77,580,968 | 89,234,899 | |
| Fixed income funds | 332,728,554 | 332,728,554 | | |
| Beneficial interests in trusts | 13,248,119 | | 13,248,119 | |
| Hedge funds and private equity funds | 142,166,734 | | | 142,166,734 |
| Total investments | $ 917,300,341 | $ 614,034,623 | $ 155,031,885 | $ 148,233,833 |
| **Liabilities** | | | | |
| Interest rate swaps | $ 52,332,357 | $ - | $ 52,332,357 | $ - |

| | | Fair Value Measurement Using | | |
|---|---|---|---|---|
| | June 30, 2010 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Other Unobservable Inputs (Level 3) |
| **Assets** | | | | |
| Cash and cash equivalents | $ 137,973,726 | $ 137,973,726 | $ - | $ - |
| Corporate and foreign bonds | 12,981,367 | | 6,484,280 | 6,497,087 |
| Common, preferred and foreign stock | 21,750,536 | 19,205,584 | 2,544,952 | |
| U.S. Government securities | 40,840,420 | | 40,840,420 | |
| Mutual funds | 363,333,629 | 363,333,629 | | |
| Fixed income funds | 30,604,670 | | 30,604,670 | |
| Beneficial interests in trusts | 10,989,659 | | 10,989,659 | |
| Hedge funds and private equity funds | 188,880,576 | | 64,879,588 | 124,000,988 |
| Total investments | $ 807,354,583 | $ 520,512,939 | $ 156,343,569 | $ 130,498,075 |
| **Liabilities** | | | | |
| Interest rate swaps | $ 52,175,216 | $ - | $ 52,175,216 | $ - |

There were no significant transfers in and out of Level 1 and Level 2 measurements.

The following table represents the nonreadily marketable investments and auction rate securities for which fair value was measured under Level 3:

| | 2011 | 2010 |
|---|---|---|
| Beginning balance at July 1 | $ 130,498,075 | $ 123,196,498 |
| Total realized and unrealized gains included in excess of revenue, gains and other support over expenses | 16,812,453 | 13,269,004 |
| Purchases, issuances, and settlements | (7,071,477) | (5,967,427) |
| Transfers into Level 3 | 7,994,782 | - |
| Ending balance at June 30 | $ 148,233,833 | $ 130,498,075 |

The corporate and foreign bonds, hedge funds and private equity funds reflected as being Level 3 were valued by fund managers. Management believes that these values reflect fair value.

The Company has investments in limited partnerships that are accounted for at cost of $21,665,000 and $18,665,000 at June 30, 2011 and 2010, respectively.

## 6. Property, Plant and Equipment

Property, plant and equipment and related accumulated depreciation at June 30, 2011 and 2010 consist of:

| | 2011 | 2010 |
|---|---|---|
| Land and land improvements | $ 62,713,360 | $ 58,924,667 |
| Buildings and improvements | 521,470,570 | 515,079,189 |
| Fixed equipment | 259,362,093 | 247,845,472 |
| Movable equipment | 271,078,732 | 283,119,097 |
| Property, plant, equipment before depreciation and CPIP | 1,114,624,755 | 1,104,968,425 |
| Less: Accumulated depreciation | (524,712,086) | (493,470,998) |
| Property, plant, equipment before CPIP, net of depreciation | 589,912,669 | 611,497,427 |
| Construction and projects in progress ("CPIP") | 15,859,653 | 23,365,198 |
| Net property, plant and equipment | $ 605,772,322 | $ 634,862,625 |

Depreciation expense was approximately $63,680,535 and $57,940,000 for the years ended June 30, 2011 and 2010, respectively.

## 7. Long-Term Debt

Long-term debt at June 30, 2011 and 2010 consist of:

| | 2011 Carrying Value | 2011 Fair Value | 2010 Carrying Value | 2010 Fair Value |
|---|---|---|---|---|
| Berks County Municipal Authority Hospital Revenue Bond Series of 2009 net of unamortized discount | $442,711,083 | $ 448,406,439 | $452,566,434 | $458,072,548 |
| Berks County Municipal Authority Hospital Revenue Bond Series of 2008 | 100,000,000 | 103,171,924 | 100,000,000 | 109,305,963 |
| Berks County Municipal Authority Hospital Revenue Bond Series of 1999, net of unamortized discount | 2,338,954 | 2,373,795 | 3,413,162 | 3,471,362 |
| Berks County Municipal Authority Hospital Revenue Bond Series of 1998, net of unamortized discount | 53,768,060 | 53,768,060 | 53,688,825 | 53,681,244 |
| Dauphin County General Authority Hospital Revenue Bond Series A of 1994 | 6,285,000 | 6,285,000 | 7,080,000 | 7,080,000 |
| Berks County Municipal Authority Hospital Revenue Bond Series of 1993 | 9,040,000 | 9,537,200 | 11,005,000 | 11,445,200 |
| Term loans | 2,695,311 | 2,695,311 | 2,899,157 | 2,899,157 |
| Total long-term debt | 616,838,408 | 626,237,729 | 630,652,578 | 645,955,474 |
| Less: Amounts due within one year | 31,810,387 | | 35,950,387 | |
| Hospital Revenue Bonds backed by self-liquidity | 141,700,000 | | 141,700,000 | |
| Long-term debt, net of current portion | $443,328,021 | | $453,002,191 | |

Under the terms of the various debt agreements, the Company is required to maintain certain deposits with a trustee. Such deposits are included with assets whose use is limited in the consolidated financial statements. The various agreements also place limits on the incurrence of additional borrowings and require that the Company satisfy certain measures of financial performance as long as the debt is outstanding. The Company was in compliance with these covenants at June 30, 2011 and 2010.

Scheduled principal repayments on long-term debt are as follows for the years ending June 30:

| | |
|---|---|
| 2012 | $ 173,535,553 |
| 2013 | 19,749,209 |
| 2014 | 8,826,185 |
| 2015 | 9,522,118 |
| 2016 | 7,973,824 |
| Thereafter | 399,973,619 |
| Total long-term debt | 619,580,508 |
| Less: Unamortized discount | 2,742,100 |
| Long term-debt, net of unamortized discount | $ 616,838,408 |

**Berks County Municipal Authority Hospital Revenue Bond Series of 2009**
On February 1, 2009, The Berks County Municipal Authority ("Authority") issued $180,000,000 of Variable Rate Revenue Bonds, Series 2009 for the primary purpose of redeeming $15,800,000, $96,000,000, and $62,825,000 of the 2001, 2005 and 2007 Bond Series, respectively. This Bond Series contained the 2009 A-1 Bonds for $100,000,000 and the 2009 A-2 Bonds for $80,000,000.

The Series 2009 A-1 and A-2 Bonds were supported by two separate standby bond purchase agreements, totaling $180,000,000 until February 1, 2010, at which time these were converted to Floating Rate Notes. These agreements expire on February 1, 2014.

On July 15, 2009, The Authority issued $133,665,000 of Fixed Rate Revenue Bonds, Series 2009 A-3 for the primary purpose of redeeming $115,520,000 of 2001 Bonds and $14,965,000 for major renovation projects. On July 15, 2009, The Authority also issued $151,000,000 of Variable Rate Revenue Bonds, Series 2009 A-4 for $51,100,000 for the primary purpose of redeeming $27,433,000 and $23,105,000 of the 2001 Bond Series and 2002 Bond Series, respectively. Series 2009 A-5 for $100,000,000 was issued for the primary purpose of redeeming $60,541,000 of the 2002 Bond Series and loaning $38,602,000 to The Highlands at Wyomissing to redeem the 2002 A & B, 1997 and 1992 Series Bonds.

Mandatory annual principal redemptions by the Company for the 2009 A-1 Bonds due in 2044 range from $5,000,000 in 2032 to $10,900,000 in 2044. The 2009 A-1 Bonds mature on November 1, 2044. Interest is initially calculated weekly and is payable on the first business day of each month. The Floating rate note was 1.26% at June 30, 2011.

Mandatory annual principal redemptions by the Company for the 2009 A-2 Bonds due in 2037 range from $1,900,000 in 2009 to $3,800,000 in 2037. The 2009 A-2 Bonds mature on November 1, 2037. Interest is initially calculated weekly and is payable on the first business day of each month. From July 1, 2009 these bonds were in the variable rate demand mode. As of February 2, 2010 these bonds were converted to the Floating Rate Note based upon SIFMA Municipal index plus a fixed spread for a duration of four years. The floating rate was 1.26% at June 30, 2011.

The 2009 A-3 bonds are comprised of $44,285,000 of serial bonds and $89,380,000 of term bonds. The serial bonds are due in installments payable November 1, 2009 through 2019, with payments ranging from $120,000 to $4,895,000. The term bonds are due on November 1 of 2024, 2031 and 2039, with payments ranging from $820,000 to $9,380,000. The effective interest rate on the serial bonds ranges from 3% to 5% and 5.25% to 5.75% for the term bonds.

The Series 2009 A-4 and A-5 are supported by Self Liquidity.

Mandatory annual principal redemptions by the Company for the 2009 A-4 Bonds due in 2032 range from $1,300,000 in 2011 to $2,900,000 in 2032. The 2009 A-4 Bonds mature on November 1, 2032. Interest is initially calculated weekly and is payable on the first business day of each month. The variable rate was .11% at June 30, 2011.

Mandatory annual principal redemptions by the Company for the 2009 A-5 Bonds due in 2032 range from $3,400,000 in 2011 to $12,400,000 in 2032. The 2009 A-5 Bonds mature on November 1, 2032. Interest is initially calculated weekly and is payable on the first business day of each month. The variable rate was .29% at June 30, 2011.

**Berks County Municipal Authority Hospital Revenue Bond Series of 2008**
On December 4, 2008, the Authority issued $100,000,000 of Revenue Bonds, Series 2008 ("2008 Bonds") for the primary purpose of refunding $96,000,000 of the 2005 Bond Series. Mandatory annual principal redemptions by the Company for the 2008 Bonds due in 2044 range from $6,700,000 in 2033 to $8,800,000 in 2044. The 2008 Bonds mature on November 1, 2044. Interest is calculated based on a fixed rate and is payable on the first day of May and November. The interest rate was 7.50% at June 30, 2011.

**Berks County Municipal Authority Hospital Revenue Bond Series of 1999**
On November 1, 1999, the Authority issued $45,805,000 of Hospital Revenue Bonds, Series 1999 ("1999 Bonds") for the primary purpose of providing funds for the cost of certain capital projects relating to the facilities, buildings, and equipment of the Hospital (the "project") and to pay certain costs incurred with the issuance of the 1999 Bonds. The project consists of certain improvements to the Hospital's campus, the construction of new facilities, the renovation of existing facilities, and the acquisition of certain medical equipment. The Company granted to the Authority a security interest in certain assets and substantially all revenues as collateral for its obligation under the indenture The principal amount outstanding was $2,338,954.

**Berks County Municipal Authority Hospital Revenue Bond Series of 1998**
On September 10, 1998, the Authority issued $55,135,000 of 5.00% Health Care Revenue Bonds, Series 1998 ("1998 Bonds") to make revolving loans to finance (or reimburse prior expenditures for) the cost of buildings, equipment and improvements included in the capital budgets of the Hospital and the Highlands, and to pay certain costs incurred in connection with the issuance of the 1998 Bonds. The Hospital's allocable portion of the 1998 Bonds was $54,150,000, while the Highlands' allocable portion was $985,000.

Mandatory redemption of the 1998 Bonds is scheduled for March 2, 2028. The 1998 Bonds may be redeemed, at the option of the Authority and the direction of the Hospital, prior to 2028. The Hospital granted to the Authority a security interest in certain assets and substantially all revenues as collateral for its obligation under the indenture.

The Hospital has the option to recycle the principal component of the outstanding bonds. In August 2010, $22,000,000 of principal scheduled for repayment in August 2010 was recycled to be payable in August 2020. In August 2011, $22,000,000 of principal scheduled for payment in August 2011 was recycled to be payable in August 2018.

**Dauphin County General Authority Hospital Revenue Bond Series A of 1994**
On May 25, 1994, The Dauphin County General Authority ("General Authority") issued Hospital Variable Rate Demand/Fixed Rate Revenue Bonds, Series A of 1994 ("1994A Bonds") for the primary purpose of providing funds for the advance refunding of the Washington County Authority Municipal Facilities Lease Revenue Bonds.

Mandatory annual principal redemptions by the Hospital for the 1994A Bonds range from $795,000 in 2011 to $980,000 in 2017. Interest is established based upon a remarketing process by which a broker dealer of the Hospital (the Remarketing Agent) sells bonds that are periodically tendered to other bond purchasers. In the event that bonds are tendered and other bond purchasers cannot be found and the bonds cannot be remarketed, the Hospital is obligated to purchase such bonds. The variable rate was .14% and .26% at June 30, 2011 and 2010, respectively. The Hospital granted to the General Authority a security interest in certain assets and substantially all revenues as collateral for its obligation under the indenture.

**Berks County Municipal Authority Hospital Revenue Bond Series of 1993**
On June 1, 1993, the Authority issued Hospital Revenue Bonds, Series of 1993 ("1993 Bonds") for the primary purpose of providing funds for the advance refunding of the Berks County Municipal Authority Hospital Revenue Bonds Series of 1986 ("1986 Bonds"), the retirement of certain other indebtedness, and the funding of certain medical and computer equipment to be located on Hospital premises.

Mandatory annual principal redemptions by the Hospital for the 1993 Bonds range from $1,965,000 in 2011 to $2,450,000 in 2014. All mandatory redemptions are at par value. The Hospital granted to the Authority a security interest in certain assets and substantially all revenues as collateral for its obligation under the indenture.

The stated maturity dates and interest rates of the 1993 Bonds at June 30, 2011 are as follows:

| Type | Face Amount | Maturity | Interest Rate |
|---|---|---|---|
| Term Bonds | $ 9,040,000 | 2010-2014 | 5.70% |

**Term Loans**
Effective retroactive to January 1, 2004, the Hospital replaced NMG Limited Partnership as the borrower on three promissory notes. The Hospital was previously the guarantor for the notes. The original notes were issued as follows: $2,100,000 due March 31, 2020, $2,000,000 due December 31, 2019 and $165,000 due March 31, 2006. In conjunction with the assumption of debt, the Hospital received assets which have been purchased with the proceeds from the debt.

Mandatory annual principal redemptions by the Hospital for the notes range from $123,000 to $411,000 in 2019. The interest rate is calculated based upon the London Interbank Offered Rate plus 1.70% and was 1.89% at June 30, 2011.

**Lines of Credit**
At June 30, 2011, the Company had available a line of credit of $10,000,000 with a commercial bank. In the prior year, the Company had available two lines of credit with commercial banks totaling $60,000,000. One line of credit of $50,000,000 expired in September 2010. There were no amounts outstanding on the available lines of credit at June 30, 2011 and 2010, respectively.

## 8. Interest Rate Swaps

The Company has used derivative instruments, such as interest rate swaps, to manage certain interest rate exposures. Derivative instruments are viewed as risk management tools by the Company and are not used for trading and speculative purposes.

When quoted market prices are not available, the valuation of derivative instruments is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including interest rate curves and implied volatilities. The estimates of fair value are made by an independent third-party valuation service using a standardized methodology based on observable market inputs. As part of the Company's overall valuation process, management evaluates this third-party methodology to ensure that it is representative of exit prices in the principal markets. These future net cash flows, however, are susceptible to change primarily due to fluctuations in interest rates. As a result, the estimated values of these derivatives will change over time as cash is received and paid and also as market conditions change. As these changes take place, they may have a positive or negative impact on estimated valuations. Based on the nature and limited purposes of the derivatives that the Company employs, fluctuations in interest rates have had only a modest effect on its results of operations. As such, fluctuations are generally expected to be countered by offsetting changes in income, expense, and/or values of assets and liabilities.

The Company has classified its interest rate swap in Level 2 of the fair value hierarchy, as the significant inputs to the overall valuations are based on market-observable data or information derived from or corroborated by market-observable data. For over-the-counter derivatives that trade in liquid markets, such as interest rate swaps, model inputs (i.e. contractual terms, market prices, yield curves, credit curves, and measures of volatility) can generally be verified, and model selection does not involve significant management judgment.

A summary of the related liabilities and income statement impact of the swaps at June 30, 2011 and 2010 is as follows:

| | Balance Sheets Asset (Liability) | | Statements of Operations | |
|---|---|---|---|---|
| **Interest rate swaps** | **2011** | **2010** | **2011** | **2010** |
| 2008 Bond Issuance | $ 4,794,719 | $ 7,012,524 | $ 911,842 | $ 2,784,212 |
| 2005 Bond Issuance | (4,846,052) | (5,757,803) | (911,751) | (3,204,193) |
| 2002 Bond Issuance | (21,898,578) | (25,334,274) | (3,435,696) | (7,315,953) |
| 2001 Bond Issuance | (28,219,095) | (32,846,707) | (4,627,613) | (12,694,049) |
| 1997 Bond Issuance | (624,604) | (666,822) | 1,291,426 | (444,795) |
| 1992 Bond Issuance | (878,307) | (1,050,554) | (172,247) | (670,204) |
| 2001-2005 Swap Agreement | - | 7,243,760 | 7,580,187 | 13,728,825 |
| Term loans | (660,441) | (775,340) | (87,524) | (600,491) |
| Total interest rate swaps | $ (52,332,357) | $ (52,175,216) | $ 548,623 | $ (8,416,648) |

In connection with the 2008 bond issuance, the Company entered into an interest rate swap agreement with a third party. The swap economically converts the fixed rate obligation of the 2008 bonds from a fixed rate of 7.50% to variable rates which averaged 1.42% at June 30, 2011.

In connection with the 2005 bond issuance, the Company entered into an interest rate swap agreement with a third party. The swap economically converts the variable rate obligation of the 2005 bonds to a fixed rate of 3.584%.

In connection with the 2001 and 2002 bonds issuances, the Company entered into two interest rate swap agreements with a third party. The swaps economically convert the variable rate obligations of the 2001 and 2002 bonds to a fixed rate of 4.30% and 4.69%, respectively.

On June 26, 2006, the Company entered into an interest rate swap agreement on the 2001, 2002 and 2005 bond issuances which was effective as of August 4, 2006. The swap has a variable effective interest rate at 68% of the London Inter-bank Offering Rate ("LIBOR").

In connection with the 2002 bond issuance, the Company entered into two interest rate swap agreements. The swaps effectively convert the variable rate obligation of the Series A and B Bonds to fixed rates of 4.69% and 6.28%, respectively.

In connection with the 1997 bond issuance, the Company entered into an interest rate swap agreement which was effective as of May 26, 2005. The swap effectively converts the variable rate obligation of the Bonds to a fixed rate of 3.607%.

In connection with the 1992 bond issuance, the Company entered into an interest rate swap agreement which was effective as of May 26, 2005. The swap effectively converts the variable rate obligation of the Bonds to a fixed rate of 3.397%.

In connection with the term loans, the Company assumed two interest rate swap agreements with a third party. The swaps effectively convert the variable obligations to fixed rates of 9.13% for the $2,100,000 note and 9.06% for the $2,000,000 note. The fair value of the interest rate swap agreements is the amount at which they would be settled based on estimates of market rates, which was a liability of $660,440 at June 30, 2011 and $775,340 at June 30, 2010.

The change in the value of the interest rate swap agreements and the interest expense associated with these swaps are recorded in other nonoperating gains (losses) on the Statements of Operations.

## 9. Pension Plans

The Company participates in The Reading Hospital and Medical Center Pension Plan ("Plan"), a noncontributory defined benefit pension plan covering substantially all employees of the Company. Employees are eligible to join the Plan upon completion of one year of service provided they have attained age 21. Benefits are based upon years of credited service and the employee's highest average monthly compensation. The Hospital also sponsors a defined contribution plan which allows employees to defer income for retirement. The Hospital also sponsors a supplemental employee retirement plan ("SERP") for certain members of management. The Hospital's funding policy is to contribute annually amounts required by Section 412(b) of the Internal Revenue Code so that no deficiency exists at the end of any Plan year.

The following table sets forth the Plan's funded status and amounts recognized in the consolidated balance sheets at June 30, 2011 and 2010 and the amounts charged to operations during the years ended June 30, 2011 and 2010:

**Obligations and Funded Status at June 30 for the Plan and SERP:**

| | 2011 | 2010 |
|---|---|---|
| Change in benefit obligation | | |
| Benefit obligation at beginning of year | $ 372,760,226 | $ 300,201,868 |
| Service cost | 16,246,275 | 13,717,437 |
| Interest cost | 20,221,240 | 19,513,918 |
| Actuarial gain | (13,018,594) | 48,764,819 |
| Benefits paid | (17,793,898) | (9,437,816) |
| Benefit obligation at end of year | $ 378,415,249 | $ 372,760,226 |
| Change in plan assets | | |
| Fair value of plan assets at beginning of year | $ 248,792,934 | $ 228,685,318 |
| Actual return on assets | 24,401,092 | 14,397,879 |
| Employer contributions | 23,482,694 | 15,147,553 |
| Benefits paid | (17,793,898) | (9,437,816) |
| Fair value of plan assets at end of year | $ 278,882,822 | $ 248,792,934 |

The accrued liability of the plan at June 30, 2011 and 2010 consists of the following components:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Plan | SERP | Plan | SERP |
| Funded status | $ (99,532,427) | $ - | $ (118,454,510) | $ (5,512,782) |

The accumulated benefit obligations totaled $322,148,000 and $310,132,000 at June 30, 2011 and 2010, respectively, for the Plan and SERP.

Amounts recognized in the balance sheet consist of:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Plan | SERP | Plan | SERP |
| Current portion of accrued pension and postretirement liabilities | $ - | $ - | $ - | $(5,512,782) |
| Prepaid (accrued) pension and postretirement, net of current portion | (99,532,427) | - | (118,454,510) | - |
| Total accrued liability | $ (99,532,427) | $ - | $ (118,454,510) | $(5,512,782) |
| Amounts recognized in net assets consist of | | | | |
| Net actuarial loss (gain) | $ 82,913,748 | | $ 107,134,700 | |
| Prior service cost (benefit) | 1,664,829 | | 1,880,792 | |
| Pension cost charged to net assets | $ 84,578,577 | | $ 109,015,492 | |

Net periodic benefit cost components include the following:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Plan | SERP | Plan | SERP |
| Service cost - benefits earned during the period | $ 16,143,178 | $ 103,097 | $ 12,395,221 | $ 1,322,216 |
| Interest cost on projected benefit obligation | 20,074,172 | 147,068 | 18,955,421 | 558,497 |
| Expected return on Plan assets | (20,499,749) | - | (18,366,365) | - |
| Amortization of prior service cost | 215,963 | - | 215,963 | - |
| Amortization of net gain | 5,181,268 | 424,663 | 2,057,624 | 255,535 |
| Settlement Charge | - | 1,695,084 | - | - |
| Effect of Curtailment | - | - | - | (1,244,459) |
| Net periodic pension cost charged to operations | $ 21,114,832 | $ 2,369,912 | $ 15,257,864 | $ 891,789 |

The amounts expected to be amortized from unrestricted net asset to net periodic pension costs during fiscal year 2012 are a net loss of $3,467,000 and a prior service cost of $216,000.

Weighted-average assumptions used to determine benefit obligations at June 30:

| | 2011 Plan | 2011 SERP | 2010 Plan | 2010 SERP |
|---|---|---|---|---|
| Discount rate | 5.78% | * | 5.59% | 1.63% |
| Rate of compensation increase | 3.00% | * | 3.00% | 5.00% |
| Measurement date | 6/30/2011 | 6/30/2011 | 6/30/2010 | 6/30/2010 |

* As of June 30, 2011 all of the participants' benefit obligations have been settled.

Weighted-average assumptions used to determine net periodic benefit cost for years ended June 30:

| | 2011 Plan | 2011 SERP | 2010 Plan | 2010 SERP |
|---|---|---|---|---|
| Discount rate | 5.59% | 5.59%/1.63% | 6.50% | 7.00% |
| Expected long-term return on plan assets | 8.00% | N/A | 8.00% | N/A |
| Rate of compensation increase | 3.00% | 5.00% | 3.00% | 7.00% |

To develop the expected long-term rate of return on assets assumption, the Hospital considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

**Plan Assets**

The Reading Hospital and Medical Center Pension Plan weighted-average asset allocations at June 30, 2011 and 2010, by asset category are as follows:

| | Plan Assets at June 30 | |
|---|---|---|
| | 2011 | 2010 |
| **Asset Category** | | |
| Cash and cash equivalents | 1.2 % | 28.8 % |
| Mutual funds | 21.1 | 30.4 |
| Fixed income | 28.3 | 8.2 |
| Equity investments | 3.5 | 15.2 |
| Alternate Investments | 45.9 | 17.4 |
| | 100.0 % | 100.0 % |

The overall investment objective of the Plan is to provide a return on investment consistent with the Plan's spending needs and to prevent erosion of purchasing power by inflation. Achievement of the return will be sought from an investment strategy that provides an opportunity for superior returns within acceptable levels of risk and volatility of returns.

The following tables represent the fair value measurement levels for all assets and liabilities, which the Hospital has recorded at fair value:

| | | Fair Value Measurement Using | | |
|---|---|---|---|---|
| | June 30, 2011 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Other Unobservable Inputs (Level 3) |
| **Assets** | | | | |
| Cash and cash equivalents | $ 3,300,843 | $ 3,300,843 | $ - | $ - |
| State and local government securities | 9,450,000 | - | - | 9,450,000 |
| Mutual funds | 59,042,410 | 23,330,178 | 35,712,232 | - |
| Equities | 9,626,546 | 9,626,546 | - | - |
| Fixed income funds | 69,391,277 | 69,391,277 | - | - |
| Hedge funds and private equity funds | 128,071,746 | - | - | 128,071,746 |
| Total investments | $ 278,882,822 | $ 105,648,844 | $ 35,712,232 | $ 137,521,746 |

| | | Fair Value Measurement Using | | |
|---|---|---|---|---|
| | June 30, 2010 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Other Unobservable Inputs (Level 3) |
| **Assets** | | | | |
| Cash and cash equivalents | $ 71,769,259 | $ - | $ 71,769,259 | $ - |
| Corporate and foreign bonds | 23,377,079 | - | 23,377,079 | - |
| State and local government securities | 9,700,000 | - | - | 9,700,000 |
| U.S. Government securities | 10,735,265 | - | 10,735,265 | - |
| Mutual funds | 78,194,374 | 14,518,167 | 23,142,351 | 40,533,856 |
| Fixed income funds | 52,379,870 | 41,458,672 | 10,921,198 | - |
| Hedge funds and private equity funds | 2,637,088 | - | - | 2,637,088 |
| Total investments | $ 248,792,935 | $ 55,976,839 | $ 139,945,152 | $ 52,870,944 |

The following table represents the nonreadily marketable investments and auction rate securities for which fair value was measured under Level

| | 2011 | 2010 |
|---|---|---|
| Beginning balance at July 1 | $ 52,870,944 | $ - |
| Total realized and unrealized gains included in excess of revenue, gains and other support over expenses | (1,409,879) | (666,870) |
| Purchases, issuances, and settlements | 86,060,681 | 53,537,814 |
| Transfers in and/or (out) of Level 3 | - | - |
| Ending balance at June 30 | $ 137,521,746 | $ 52,870,944 |

**Cash Flows**

*Contributions*

The Reading Hospital and Medical Center expects to contribute the minimum required contribution during the 2012 fiscal year to the Plan, which is estimated to be $15,500,000.

*Estimated Future Benefit Payments*

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

| For the years ending June 30: | |
|---|---|
| 2012 | $ 10,193,148 |
| 2013 | 10,980,950 |
| 2014 | 12,059,507 |
| 2015 | 13,224,362 |
| 2016 | 14,995,296 |
| 2017 - 2021 | 99,974,235 |

## 10. Related Party Transactions

Other receivables from affiliated organizations at June 30, 2011 and 2010 consist of:

| | 2011 | 2010 |
|---|---|---|
| Springridge, LLC | $1,163,630 | $ 511,347 |
| Berkshire Health Partners | 94,623 | 102,818 |
| Central Pennsylvania Homecare Inc | 2,073 | 1,333 |
| Total receivables from affiliated organizations | $ 1,260,326 | $ 615,498 |

These amounts are all noninterest bearing with no stated repayment terms.

Included in other assets are the following investments in affiliates at June 30, 2011 and 2010:

| | 2011 | 2010 |
|---|---|---|
| CPAL | $ 348,736 | $ 348,202 |
| Quest | 22,855 | 19,815 |
| Springridge, LLC | 2,133,518 | 2,011,948 |
| Reading Berks Physical Therapy | 378,266 | 393,738 |
| Horizon | 1,240,104 | 1,030,196 |
| VNA Community Care Services | 6,447,497 | 5,793,907 |
| Total investments in affiliated organizations | $ 10,570,976 | $ 9,597,806 |

## 11. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at fair value are available for the following purposes at June 30, 2011 and 2010:

| | 2011 | 2010 |
|---|---|---|
| Various health care services | $ 672,471 | $ 561,245 |

Permanently restricted net assets at fair value at June 30, 2011 and 2010 are restricted to:

| . | 2011 | 2010 |
|---|---|---|
| Permanent endowment funds, the interest and dividend income from which is expendable to support health care services | $ 3,920,090 | $ 4,039,111 |
| Funds held in trust by others | 13,448,744 | 11,050,899 |
| Total permanently restricted net assets | $ 17,368,834 | $ 15,090,010 |

## 12. Insurance Arrangements

The Company participates in the Pennsylvania Medical Care and Reduction of Error Fund or Mcare Fund (formerly the Medical Professional Liability Catastrophe Fund – “CAT Fund”) established under the Medical Care Availability and Reduction of Error Act (“Mcare Act”) of the Commonwealth of Pennsylvania. The Mcare Fund provides coverage excess of the Company's primary per occurrence retention, currently $500,000, up to $1 million per occurrence, i.e. $500,000 of coverage per occurrence with a $1.5 million annual aggregate. The Company has also retained the layer $25 million excess of Mcare since July 1, 2009, i.e. $25 million excess of $1 million per occurrence. No contributions were required to be made to the plan during the years ended June 30, 2011 and 2010. Funding requirements of the plan are subject to increase depending on the plan’s claim experience.

Premium payments for the Mcare Fund are based upon each individual licensed healthcare provider's rating with the Joint Underwriters Association and may be subject to future increases to cover any funding deficiencies within the Mcare Fund. The Company's annual surcharge premiums for participation in the Mcare Fund were $1,510,000 and $1,415,000 for the years ended June 30, 2011 and 2010, respectively. The Mcare Fund is scheduled, under current legislation, to be phased out in 2013. The Company has not made a provision for future Mcare premium payments in the accompanying June 30, 2011 and 2010 financial statements due to the uncertainty surrounding the Commonwealth's future funding of this liability. The Company may be liable for future assessments.

Additionally, the Company self-insures its workers' compensation and minor general liability risks. The Company's self-insurance plan has been reviewed and approved by the Commissioner of Insurance of Pennsylvania.

The Company, excluding the Highlands, purchases excess workers' compensation insurance with statutory limits over a self-retention of $1,000,000 per occurrence subject to a policy maximum of $1,000,000 for the policy period. The Company has established a trust fund for the payment of workers' compensation benefits.

The Highlands purchases excess workers' compensation insurance with statutory limits over a self-insured retention of $350,000 per occurrence. The Highlands has established a trust fund for the payment of workers' compensation benefits, and has an unused irrevocable letter of credit in the amount of $500,000 to satisfy the requirements for self-insuring such claims.

Reserves for self-insurance claims at June 30, 2011 and 2010 are summarized as follows:

| | 2011 | 2010 |
|---|---|---|
| Professional liability claims payable | $ 24,314,786 | $ 22,056,100 |
| Workers' compensation | 13,745,000 | 13,330,297 |
| Total self-insurance claims reserve | 38,059,786 | 35,386,397 |
| Less: Current portion | 8,670,086 | 7,473,296 |
| Self-insurance claims reserve, net of current portion | $ 29,389,700 | $ 27,913,101 |

## 13. Commitment and Contingencies

### Operating Leases

The Company leases equipment and facilities under operating leases expiring at various dates through May 2026. Total rental expense under all operating leases was $10,760,000 and $9,928,000 for the years ended June 30, 2011 and 2010, respectively.

The following table summarizes future minimum rental commitments under non-cancellable operating leases with initial or remaining terms of more than one year:

| For the years ending June 30: | |
|---|---|
| 2012 | $ 5,623,869 |
| 2013 | 4,362,644 |
| 2014 | 3,187,818 |
| 2015 | 2,820,540 |
| 2016 and thereafter | $12,396,239 |

**Litigation**
The Company and its controlled entities are involved in certain litigation which involves professional and general liability. In the opinion of management and legal counsel, the ultimate liability, if any, will not have a material effect on the consolidated financial condition of the Parent and its controlled entities.

**Regulatory Compliance**
Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Company believes that it is in compliance with all applicable laws and regulations through the years ended June 30, 2011 and 2010. Compliance with such laws and regulations can be subject to government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

## 14. Functional Expenses

The Company provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows:

| | 2011 | 2010 |
|---|---|---|
| Health care services | $ 668,487,342 | $ 623,857,961 |
| General and administrative | 164,070,037 | 176,623,250 |
| Total functional expenses | $ 832,557,379 | $ 800,481,211 |

## 15. Significant Concentrations of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, short term investments, U.S. Treasury obligations and patient accounts receivable.

The Company typically maintains cash and cash equivalents and short term investments in commercial banks. The short-term investments consist primarily of money market funds, U.S. Government agency notes, U.S. Treasury bills, commercial paper and corporate bonds with maturities ranging from 90 to 180 days. The FDIC insures funds up to $100,000 per depositor.

The fair value of the Company's investments is subject to various market fluctuations which include changes in the interest rate environment and general economic conditions.

The Company's operations are located in Reading, Pennsylvania. Its primary service area includes Reading, Pennsylvania and the Greater Berks County community. The Company grants credit to its patients and other third-party payors, primarily Medicare, Medical Assistance, Blue Cross and various commercial insurance companies. The Company maintains reserves for potential credit losses and such losses have historically been within management's expectations. The mix of receivables from patients and third-party payors at June 30, 2011 and 2010, was as follows:

| | 2011 | 2010 |
|---|---|---|
| Medicare | 27 % | 34 % |
| Medical Assistance | 19 | 17 |
| Blue Cross | 15 | 14 |
| Commercial insurance | 19 | 17 |
| Self-pay | 18 | 15 |
| Other | 2 | 3 |
| | 100 % | 100 % |

## 16. Subsequent Events

The Company has evaluated subsequent events through October 31, 2011. Management reviews for and identifies subsequent events through participation at meetings of the Board of Directors and their subcommittees.

pwc

**Report of Independent Auditors**
**on Supplementary Consolidating Information**

The Board of Directors of
The Reading Hospital

The report on the audit of the consolidated financial statements of The Reading Hospital and Controlled Entities as of June 30, 2011 and for the year then ended appears on page 1. That audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary consolidating information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

October 31, 2011

*PricewaterhouseCoopers LLP, 100 East Pratt Street, Suite 1900, Baltimore, MD 21202-1096*
*T: (410) 783 7600, F: (410) 783 7680, www.pwc.com/us*

# The Reading Hospital and Controlled Entities
## Consolidating Balance Sheet
## Year Ended June 30, 2011

**Schedule I**

| | Parent | Hospital | RPS | TRHMG | Highlands | Consolidating and Eliminating Entries | The Reading Hospital and Controlled Entities Consolidated |
|---|---|---|---|---|---|---|---|
| **Current assets** | | | | | | | |
| Cash and cash equivalents | $ - | $ 152,989,606 | $ 59,143 | $ 206,948 | $ 455,438 | $ - | $ 153,711,135 |
| Patient accounts receivable, less allowance for uncollectible accounts of | | 91,794,061 | 3,632,987 | 2,614,083 | 1,523,077 | | 99,564,208 |
| Other receivables | 216,015 | 9,476,491 | 468,785 | (25,571) | 1,409 | | 10,137,129 |
| Receivable (to) from affiliates | 56,735,948 | (6,944,622) | - | | | (48,531,000) | 1,260,326 |
| Inventories | | 12,626,868 | | | 311,755 | | 12,938,623 |
| Prepaid expenses and other current assets | | 7,455,718 | 174,938 | 1,015,154 | 193,859 | | 8,839,669 |
| Assets whose use is limited - required for current liabilities | | | | | | | |
| Self-insurance funding arrangements | | 10,637,044 | | | 146,717 | | 10,783,761 |
| Revenue bond indentures - debt service | - | 3,026,508 | | | | | 3,026,508 |
| Total current assets | 56,951,963 | 281,061,674 | 4,335,853 | 3,810,614 | 2,632,255 | (48,531,000) | 300,261,359 |
| **Assets whose use is limited** | | | | | | | |
| Self-insurance funding arrangements | | 18,714,026 | | | | | 18,714,026 |
| By board | 811,390,638 | 9,125,460 | | | 42,101,819 | | 862,617,917 |
| Total assets whose use is limited, net of current requirements | 811,390,638 | 27,839,486 | - | - | 42,101,819 | - | 881,331,943 |
| Investments | | 18,067,783 | | | | | 18,067,783 |
| Temporarily restricted funds | | 646,812 | | | | | 646,812 |
| Long-term receivables from affiliates | 493,006,317 | | | | | (493,006,317) | - |
| Property, plant and equipment, net | 37,955,075 | 515,220,255 | | 9,577,143 | 43,019,848 | | 605,772,321 |
| Deferred financing expense | 5,556,585 | 152,346 | | | | | 5,708,931 |
| Deferred compensation | | 3,443,533 | | | | | 3,443,533 |
| Other assets | 9,958,815 | 2,080,447 | | | | | 12,039,262 |
| Total assets | $ 1,414,819,393 | $ 848,512,336 | $ 4,335,853 | $ 13,387,757 | $ 87,753,922 | $ (541,537,317) | $ 1,827,271,944 |

# The Reading Hospital and Controlled Entities
## Consolidating Balance Sheet
## Year Ended June 30, 2011

**Schedule I**

| | Parent | Hospital | RPS | TRHMG | Highlands | Consolidating and Eliminating Entries | The Reading Hospital and Controlled Entities Consolidated |
|---|---|---|---|---|---|---|---|
| **Current liabilities** | | | | | | | |
| Current installments of long-term debt | $ 6,570,000 | $ 25,240,387 | $ - | $ - | $ - | $ - | $ 31,810,387 |
| Bonds backed by self-liquidity | 141,700,000 | - | - | - | - | | 141,700,000 |
| Current installments of long-term affiliated payables | | 10,574,000 | 972,750 | 562,181 | 1,776,819 | (13,886,000) | - |
| Current portion of estimated self-insurance costs | | 8,382,300 | | | 287,786 | | 8,670,086 |
| Accounts payable | 381,374 | 22,645,357 | 135,820 | 616,967 | 492,952 | | 24,272,470 |
| Estimated third-party settlements | | 6,565,671 | | | | | 6,565,671 |
| Accrued expenses | 2,584,803 | 13,290,330 | 3,598,450 | 2,138,293 | 1,188,777 | | 22,800,653 |
| Accrued vacation | | 14,641,381 | 2,525,190 | 838,112 | | | 18,004,683 |
| Advance from third-party payor | | 3,832,169 | | | | | 3,832,169 |
| Other current liabilities | | 10,125,082 | | | 595,015 | | 10,720,097 |
| Total current liabilities | 151,236,177 | 115,296,677 | 7,232,210 | 4,155,553 | 4,341,349 | (13,886,000) | 268,376,216 |
| Long-term debt, net of current portion and unamortized discount | 396,778,784 | 45,562,984 | | | 986,253 | | 443,328,021 |
| Long-term affiliates payables, net of current portion | | 493,006,317 | | | 34,645,000 | (527,651,317) | - |
| Accrued pension costs, net of current portion | | 99,532,427 | | | 323,534 | | 99,855,961 |
| Deferred revenue | | | | | 35,652,680 | | 35,652,680 |
| Deferred compensation | | 3,443,533 | | | | | 3,443,533 |
| Gift annuities | | - | | | 652,081 | | 652,081 |
| Estimated self-insurance costs, net of current portion | | 29,389,700 | | | | | 29,389,700 |
| Swap contracts | 51,671,916 | 660,441 | | | | | 52,332,357 |
| Total liabilities | 599,686,877 | 786,892,079 | 7,232,210 | 4,155,553 | 76,600,897 | (541,537,317) | 933,030,549 |
| **Net assets** | | | | | | | |
| Unrestricted | 815,071,276 | 43,665,851 | (2,896,357) | 9,232,204 | 11,127,366 | | 876,200,090 |
| Temporarily restricted | | 646,812 | | | 25,659 | | 672,471 |
| Permanently restricted | 61,240 | 17,307,594 | | | | | 17,368,834 |
| Total net assets | 815,132,516 | 61,620,257 | (2,896,357) | 9,232,204 | 11,153,025 | - | 894,241,395 |
| Total liabilities and net assets | $ 1,414,819,393 | $ 848,512,336 | $ 4,335,853 | $ 13,387,757 | $ 87,753,922 | $ (541,537,317) | $ 1,827,271,944 |

# The Reading Hospital and Controlled Entities
## Consolidating Statement of Operations
## Year Ended June 30, 2011

**Schedule I**

| | Parent | Hospital | RPS | TRHMG | Highlands | Consolidating and Eliminating Entries | The Reading Hospital and Controlled Entities Consolidated |
|---|---|---|---|---|---|---|---|
| **Unrestricted revenues** | | | | | | | |
| Net patient service revenue | $ - | $ 746,785,001 | $ 35,385,818 | $ 44,666,580 | | $ - | $ 826,837,399 |
| Residential revenue | | | | | $ 22,619,836 | | $ 22,619,836 |
| Other Revenue | 1,502,414 | 26,312,173 | 2,991,122 | 600,572 | 800,770 | (1,854,542) | 30,352,509 |
| Total revenues | 1,502,414 | 773,097,174 | 38,376,940 | 45,267,152 | 23,420,606 | (1,854,542) | 879,809,744 |
| **Expenses** | | | | | | | |
| Salaries and benefits | | 365,501,555 | 44,067,379 | 46,505,291 | 11,121,945 | | 467,196,170 |
| Supplies | | 92,633,595 | 837,308 | 2,703,298 | 1,089,886 | | 97,264,087 |
| Provision for uncollectible accounts | | 39,576,258 | 1,527,833 | (524,462) | - | | 40,579,629 |
| Utilities | | 12,851,885 | 102,968 | 987,529 | 1,040,472 | | 14,982,854 |
| Interest expense | (215,229) | 19,488,827 | - | - | 1,748,702 | | 21,022,300 |
| Depreciation and amortization | 289,784 | 59,372,784 | 353,380 | 1,266,614 | 2,775,897 | | 64,058,459 |
| Purchased services | 900,000 | 56,128,599 | 3,338,628 | 2,160,967 | 1,141,004 | | 63,669,198 |
| Repairs and maintenance | | 16,552,408 | 174,942 | 508,304 | 200,003 | | 17,435,657 |
| Other | 1,581 | 32,290,400 | 6,882,233 | 5,814,221 | 3,215,132 | (1,854,542) | 46,349,025 |
| Total expenses/(income) | 976,136 | 694,396,311 | 57,284,671 | 59,421,762 | 22,333,041 | (1,854,542) | 832,557,379 |
| Income/(loss) from operations | 526,278 | 78,700,863 | (18,907,731) | (14,154,610) | 1,087,565 | - | 47,252,365 |
| **Nonoperating gains/(losses)** | | | | | | | |
| Investment income | 28,103,215 | 802,682 | | | 2,124,127 | | 31,030,024 |
| Unrestricted donations and bequests | | 1,687,514 | | | 121,828 | | 1,809,342 |
| Other income/(loss) | 4,985 | 888,320 | | | 7,851 | | 901,156 |
| Realized and unrealized loss on interest rate swaps | 636,147 | (87,524) | | | - | | 548,623 |
| Nonoperating gains, net | 28,744,347 | 3,290,992 | - | - | 2,253,806 | - | 34,289,145 |
| Excess/(deficiency) of revenue, gains and other support over expenses | 29,270,625 | 81,991,855 | (18,907,731) | (14,154,610) | 3,341,371 | - | 81,541,510 |
| Unrealized gains/(losses) on investments | 30,716,995 | 2,877,608 | | | 3,950,043 | | 37,544,646 |
| Change in pension liability | | 24,434,865 | | | | | 24,434,865 |
| Change in deferred compensation | | (370,088) | | | | | (370,088) |
| Other | | 51,983 | | | | | 51,983 |
| Transfer from The Reading Hospital | 7,800,839 | (41,600,992) | 17,600,626 | 16,199,527 | | | - |
| Transfer to other entities | 5,287,102 | | | | (5,287,102) | | - |
| Decrease in unrestricted net assets | $ 73,075,561 | $ 67,385,231 | $ (1,307,105) | $ 2,044,917 | $ 2,004,312 | $ - | $ 143,202,916 |

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# APPENDIX C

# SUMMARY OF THE BOND INDENTURE AND THE LOAN AGREEMENT

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## SUMMARY OF THE BOND INDENTURE AND THE LOAN AGREEMENT

### DEFINITIONS OF CERTAIN TERMS

In addition to the terms defined elsewhere in this Official Statement, the following are definitions of certain terms used in the Bond Indenture and the Loan Agreement and this Official Statement unless the context clearly otherwise requires. Reference is hereby made to the Bond Indenture and the Loan Agreement for complete definitions of all terms.

"Act" shall mean the Municipality Authorities Act of May 2, 1945, P.L. 382, (the "1945 Act'), which 1945 Act is codified and continued by Act No. 22, approved on June 19, 2001, 53 Pa. C.S.A. § 5601 *et seq.*, as amended and supplemented, and all acts supplemental thereto or amendatory thereof.

"Authorized Investments" means any of the following that at the time are legal investments under the laws of the Commonwealth for moneys held hereunder and then proposed to be invested therein, provided that each obligation shall mature, or shall be subject to redemption by the holder thereof at the option of such holder, not later than the respective dates when the moneys will be required for the purposes intended:

(a) The following obligations may be used as Authorized Investments for all purposes, including defeasance investments in refunding escrow accounts:

(1) Cash (insured at all times by the Federal Deposit Insurance Corporation or collateralized in accordance with applicable state law); and

(2) Obligations of, or obligations guaranteed as to principal and interest by, the United States of America or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the United States of America including:

- U.S. treasury obligations
- All direct or fully guaranteed obligations
- Farmers Home Administration
- General Services Administration
- Guaranteed Title XI financing
- Government National Mortgage Association (GNMA)
- State and Local Government Series

Any security used for defeasance must provide for the timely payment of principal and interest and cannot be callable or prepayable prior to maturity or earlier redemption of the rated debt (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date).

(b) The following obligations may be used as Authorized Investments for all purposes other than defeasance investments in refunding escrow accounts:

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

- Export-Import Bank

- Rural Economic Community Development Administration (formerly the Farmers Home Administration)
- U.S. Maritime Administration
- Small Business Administration
- U.S. Department of Housing & Urban Development (PHA's)
- Federal Housing Administration
- Federal Financing Bank;

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

- Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC)
- Obligations of the Resolution Funding Corporation (REFCORP)
- Senior debt obligations of the Federal Home Loan Bank System
- Senior debt obligations of other Government Sponsored Agencies;

(c) U.S. dollar denominated deposit accounts, federal funds, and banker's acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "A-1" or "A-1+" by S&P and "P-1" by Moody's and maturing no more than 360 calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);

(d) Commercial paper which is rated at the time of purchase in the single highest classification, "A-1+" by S&P and "P-1" by Moody's, and which matures not more than 270 days after the date of purchase;

(e) Any money market fund registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of AAAm-G, AAAm, or AAm, if rated by Moody's rated Aaa, Aa1 or Aa2 and if rated by Fitch AAA, AA+, or AA, including, without limitation, any other mutual fund for which the Bond Trustee or an affiliate of the Bond Trustee serves as investment manager, administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (1) the Bond Trustee or an affiliate of the Bond Trustee receives fees from such funds for services rendered, (2) the Bond Trustee charges and collects fees for services rendered pursuant to the Bond Indenture, which fees are separate from the fees received from such funds, and (3) services performed for such funds and pursuant to the Bond Indenture may at times duplicate those provided to such funds by the Bond Trustee or its affiliates;

(f) Pre-refunded Municipal Obligations defined as follows: Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality, or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and (A) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of S&P or Moody's or any successor thereto; or (B)(i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in (a)(2) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent

certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates or the redemption date or dates specified in the irrevocable instructions referred to above, as appropriate;

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

(h) Investment agreements (supported by appropriate opinions of counsel); and

(i) other forms of investments (including repurchase agreements).

The value of the above investments shall be determined as follows:

(a) For the purpose of determining the amount in any fund, all Authorized Investments credited to such fund shall be valued at fair market value. The Bond Trustee shall determine the fair market value based on accepted industry standards and from accepted industry providers. Accepted industry providers shall include but are not limited to pricing services provided by Financial Times Interactive Data Corporation, Merrill Lynch & Co. or Salomon Smith Barney, or their respective successors.

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

(c) As to any investment not specified above: the value thereof established by prior agreement among the Authority and the Bond Trustee.

"Board" shall mean the governing body of the Authority or the Borrower, as applicable.

"Bond" or "Bonds" shall mean any 2012A Bond, or all the 2012A Bonds, as the case may be, authenticated and delivered under the Bond Indenture.

"Bondholder" or "bondholder" or "Bondowner" or "Holder of the Bonds" or "holder of the bonds" or "Holder" or "Owner" or any similar term shall mean any registered owner of any Bond or legal representative thereof.

"Bond Redemption Fund" shall mean the Bond Redemption Fund created under the Bond Indenture.

"Cede & Co." means Cede & Co., as nominee name of The Depository Trust Company, New York, New York.

"Certified Authority Resolution" shall mean a copy of a resolution certified by the Secretary or Assistant Secretary of the Authority, under its corporate seal, to have been duly adopted by the Board and to be in full force and effect on the date of such certification.

"Certified Hospital Resolution" shall mean a copy of a resolution certified by the Secretary or Assistant Secretary of the Borrower, under its corporate seal, to have been duly adopted by the Board of Trustees of the Borrower or a committee of the Board of Trustees or officers of the Borrower, in each case duly authorized to act on behalf of the Borrower, and to be in full force and effect on the date of such certification.

"Code" shall mean the Federal Internal Revenue Code of 1986, as amended, and regulations promulgated thereunder.

"Commonwealth" shall mean the Commonwealth of Pennsylvania.

"Debt Service Fund" shall mean the Debt Service Fund created under the Bond Indenture.

"Defeasance Obligations" shall mean investments described in paragraphs (a)(1) or (a)(2) of the definition of "Authorized Investments" in the Bond Indenture.

"Event of Default" shall mean any one or more of those events set forth under the caption "SUMMARY OF THE BOND INDENTURE--Defaults and Remedies" and "SUMMARY OF THE LOAN AGREEMENT—Events of Default" below.

"Fiscal Year" shall mean each period of twelve consecutive calendar months ending June 30.

"Fitch" means Fitch, 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 Obligated Group Agent by notice in writing to the Issuer and the Bond Trustee.

"Master Notes" or "Notes" means any notes issued, authenticated and delivered under the Master Indenture.

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

"Obligated Group Agent" means TRHMC or any other Person designated in writing to the Bond Trustee as the "Obligated Group Agent."

"Officers' Certificate" shall mean a statement signed by a Responsible Officer of the Borrower or of the Authority, as the case may be. If such Officers' Certificate shall include a statement with respect to the existence or non-existence of an event of default or any condition, event, act or omission which, with the giving of notice or lapse of time or both, would constitute an event of default, such Officers' Certificate may state that such statement is based upon the best knowledge, information and belief of the signer of such certificate, provided that such certificate also states that, in the opinion of the signer of such certificate, he has made such examination or investigation as he deemed reasonably appropriate to enable him to make such statement.

"Outstanding", "outstanding", "outstanding under the Bond Indenture" or "outstanding hereunder", when used in reference to the Bond Indenture, shall mean, with reference to 2012A Bonds, as of any particular time, all 2012A Bonds executed, authenticated, issued and delivered under the Bond Indenture; provided, however, that such terms shall not include, in any case:

(a) 2012A Bonds canceled or delivered to the Bond Trustee for cancellation at or prior to such time;

(b) 2012A Bonds in substitution for which other 2012A Bonds shall have been authenticated and delivered pursuant to provisions of the Bond Indenture; and

(c) 2012A Bonds for payment or redemption of which provision has been made in accordance with the Bond Indenture; provided, however, that if such 2012A Bonds are being redeemed, notice of any such redemption shall have been mailed or provision satisfactory to the Bond Trustee shall have been made for such notice or written waivers of such notice shall have been received as provided in the Bond Indenture.

The foregoing, however, is subject to the condition that, for purpose of reference in the Bond Indenture or in the Loan Agreement to Holders of a particular percentage of 2012A Bonds, there shall be excluded 2012A Bonds, if any, held by the Authority or the Borrower.

"Person" shall mean an individual, a corporation, a partnership, an association, a joint stock company, a joint venture, a trust, an unincorporated organization, an authority or similar body or a government or a political subdivision or agency thereof, or any other entity.

"Project" shall mean, among other things, the application of proceeds of the 2012A Bonds for and toward: (1) refunding the Dauphin County General Authority's Variable Rate Demand/Fixed Rate Hospital Revenue Bonds (The Reading Hospital and Medical Center Project) Series A of 1994; (2) refunding the Authority's Health Care Revenue Bonds (Pooled Financing Project) Series of 1998, (3) refunding the Authority's Revenue Bonds (The Reading Hospital and Medical Center Project) Series 2008A-1; and (4) paying the costs and expenses incident to the issuance of the 2012A Bonds.

"Registered Owner" shall mean a Person in whose name any 2012A Bond shall be registered on books of the Authority to be kept for that purpose in accordance with provisions of the Bond Indenture and of such 2012A Bond.

"Responsible Officer" means (a) when used with respect to the Authority its Chairman, Vice Chairman, Executive Director, any Assistant Executive Director, any Treasurer, Assistant Treasurer, Secretary, Assistant Secretary, or an incumbent of such other office or such other officers specifically named as shall be designated by a currently effective Certified Authority Resolution and (b) when used with respect to the Borrower or the Obligated Group Agent, its president, any vice president, its secretary or assistant secretary, its treasurer or any other person designated as a Responsible Officer of the Borrower or the Obligated Group Agent in a Certified Hospital Resolution.

"Revenue Fund" shall mean the Revenue Fund created under the Bond Indenture.

"S&P" means Standard & Poor's, a division of The McGraw-Hill Companies, a corporation organized and existing under the laws of the State of New York, its successors and assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Obligated Group Agent by notice in writing to the Issuer and the Bond Trustee.

"2012A Bonds" or "Bonds" shall mean the $160,065,000 aggregate principal amount of The Berks County Municipal Authority Fixed Rate Revenue Bonds (The Reading Hospital and Medical Center Project), Series A of 2012 dated June 28, 2012, issued and outstanding under the Bond Indenture.

"Settlement Fund" shall mean the Settlement Fund created under the Bond Indenture.

"Tax Certificate and Compliance Agreement" means, as the context may require, the Non-Arbitrage Certificate and Compliance Agreement dated the date of issuance of the 2012A Bonds delivered by the Authority and the Confirmation Certificate and Agreement dated the date of issuance of the 2012A Bonds delivered by the Borrower, as the same may be amended or supplemented in accordance with its terms.

## SUMMARY OF THE BOND INDENTURE

The following summarizes certain provisions of the Bond Indenture; however, it is not a comprehensive description, and reference is made to the full text of the Bond Indenture for a complete recital of its terms.

### Pledge and Assignment

The Authority pledges to the Bond Trustee, as trustee under the Bond Indenture, its successors in the trust and its and their assigns forever, to the extent provided in the Bond Indenture, all of the right, title and interest of the Authority in and to the Loan Agreement (excepting its right to administrative fees and expenses and indemnification and amounts required and deposited to be rebated to the federal government), in and to the 2012A Master Note and in and to all security therefor under the Master Indenture, together with all sums of money due and payable or to become due and payable thereunder to the Authority (except sums payable in respect of the Authority's administrative fees and expenses and indemnification and amounts required and deposited to be rebated to the federal government) or to the Bond Trustee by the Borrower and all money, securities and funds at any time held or set aside by the Bond Trustee pursuant to the provisions of the Bond Indenture.

### Funds Created by the Bond Indenture

1. Settlement Fund

2. Revenue Fund

4. Debt Service Fund

5. Bond Redemption Fund

Money, from time to time, in the various funds created under the Bond Indenture shall be held by the Bond Trustee, in trust, for the benefit of holders of 2012A Bonds and shall be secured, invested and applied as provided in the Bond Indenture; subject, however, to provisions of the Bond Indenture relating to transfer of certain investment income to or for the benefit of the Borrower.

### Settlement Fund

All money representing proceeds of sale of the 2012A Bonds shall be deposited initially into the Settlement Fund and disbursed by the Bond Trustee to pay costs of the Project and to provide for the payment of costs and expenses of issuance of the 2012A Bonds.

**Revenue Fund**

All money payable by the Borrower to the Authority under the Loan Agreement and the 2012A Master Note shall be paid directly to the Bond Trustee by the Borrower and shall be deposited by the Bond Trustee into the Revenue Fund.

**Debt Service Fund**

The Bond Trustee shall, on or before each date on which principal of or interest on 2012A Bonds comes due, withdraw from the Revenue Fund and deposit to the Debt Service Fund (subject to deposits from other funds made directly to the Debt Service Fund and other available funds on deposit therein) the amounts required to pay the principal or interest, or both, coming due with respect to the 2012A Bonds. Any interest or profit from investments or deposits of money in other funds created by the Bond Indenture which have been transferred to the Debt Service Fund shall first reduce the amount required to be transferred from the Revenue Fund, as more fully provided in the Bond Indenture.

**Bond Redemption Fund**

Any amounts that the Borrower elects to provide, or is required by the Master Indenture to provide, for optional or extraordinary redemption of the 2012A Bonds shall be deposited in the Bond Redemption Fund.

The Bond Trustee shall be authorized, without any direction from the Authority, to transfer money from the Bond Redemption Fund to the Debt Service Fund to the extent that the money in the Debt Service Fund may be insufficient at any time to pay the 2012A Bonds and the interest thereon as the same shall become due or any costs involved therewith or to make the withdrawals and deposits required pursuant to the terms of the Bond Indenture.

The payment of the necessary premiums, costs and expenses of any purchases or redemption of 2012A Bonds pursuant to the Bond Indenture, including, without limiting the generality of the foregoing, all legal fees, costs of advertisement, printing costs, brokerage charges and charges of the Bond Trustee incident to such purchases or redemptions shall be payable from money in the Bond Redemption Fund.

**Investment of Funds**

Money in each of the funds created under the Bond Indenture shall, from time to time, at the written direction of a Responsible Officer of the Borrower, hereby designated by the Authority as the agent of the Authority for such purpose, be invested by the Bond Trustee in Authorized Investments and shall mature, or be subject to repurchase, withdrawal without penalty, or redemption at the option of the holder, on or before the dates on which the amounts are reasonably expected to be needed for the purposes of the Bond Indenture.

Accrued interest and premiums, if any, paid at the time of the purchase of such investments shall be paid from available money in the particular fund for which such investment is being made. Upon the written direction of the Borrower or whenever the money in said funds are to be applied and paid out pursuant to any provisions of the Bond Indenture or whenever the Bond Trustee shall deem such action to be advisable, the Bond Trustee may sell all or any part of the obligations in which the money in one or more such funds shall be invested or deposited, and the proceeds of such sale shall be deposited to the credit of the respective fund or funds. Obligations purchased as an investment of money in any such fund and deposits of money in any such Fund shall be deemed at all times to be a part of such

fund and the interest accruing thereon and any profit or loss realized from such investment shall be credited to or charged against such fund.

All funds under the Bond Indenture shall be invested only in Authorized Investments. Investments on deposit in all funds and accounts established under the Bond Indenture shall be valued at market value at least quarterly.

Neither the Authority nor the Bond Trustee shall be liable or responsible for any loss resulting from any investment or deposit made in accordance with the provisions of the Bond Indenture or resulting from any sale by the Bond Trustee of any such investment or deposit. For the purpose of the Bond Indenture, investments and deposits shall be deemed to constitute unexpended money and shall be valued at the then market value thereof. The Bond Trustee may request an opinion of legal counsel satisfactory to it as to whether an investment or deposit directed under the Bond Indenture is appropriate and may rely upon such opinion and, if applicable, may refuse to follow or honor any such direction given under the Bond Indenture.

**Defaults and Remedies**

Each of the following events is an "event of default" under the Bond Indenture:

(A) failure to pay any interest upon any 2012A Bond at any due date expressed therefor; or

(B) failure to pay any part of the principal of, or premium, if any, on any of the 2012A Bonds at maturity as therein expressed or when the same shall become due upon call for redemption, or by declaration or otherwise; or

(C) declaration under the Master Indenture that the principal of all Master Notes issued thereunder is due and payable; or

(D) there shall be an "Event of Default" as defined in the Loan Agreement; or

(E) the Authority shall default in the due and punctual performance (irrespective of any revenues or other money not being available for such purpose) of any other covenant, condition, agreement or provision contained in the 2012A Bonds or in the Bond Indenture on the part of the Authority required to be performed and any such default shall have continued for a period of 30 days after written notice specifying such default and requiring the same to be remedied shall have been given to the Authority by the Bond Trustee, which may give such notice in its discretion and shall give such notice upon written request of Holders of not less than 25% in aggregate principal amount of the 2012A Bonds then outstanding.

Upon the occurrence and during the continuance of an event of default, the Bond Trustee shall have the following rights and remedies:

(i) The Bond Trustee may, and shall, at the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of 2012A Bonds then outstanding, by notice in writing given to the Authority and the Borrower, declare the principal amount of all 2012A Bonds then outstanding to be immediately due and payable, whereupon that portion of the principal of the 2012A Bonds thereby coming due and the interest thereon accrued to the date of payment shall, without further action, become and be immediately due and payable, anything in the Bond

Indenture or in the 2012A Bonds to the contrary notwithstanding. Upon any declaration of acceleration, the Bond Trustee shall: (1) give written notice to the Master Trustee; and (2) give notice to the Bondholders in the same manner as a notice of redemption, stating the date upon which the 2012A Bonds shall be payable, and to the extent that the principal of all the Master Notes issued under the Master Indenture shall not then have been declared to be immediately due and payable, the Bond Trustee shall request the Master Trustee to declare the principal of all Master Notes issued under the Master Indenture to be immediately due and payable, pursuant to the Master Indenture.

(ii) The Bond Trustee may, by mandamus, or other suit, action or proceeding at law or in equity, enforce the right of the Bondholders, and require the Authority or the Borrower or both of them to carry out the agreements with or for the benefit of the Bondholders, and to perform its or their duties, under the Act, the Loan Agreement and the Bond Indenture.

(iii) The Bond Trustee may, by action or suit in equity, require the Authority to account as if it were the trustee for the Bondholders, but any such judgment against the Authority shall be enforceable only against the funds under the Bond Indenture in the hands of the Bond Trustee.

(iv) The Bond Trustee may, by action or suit in equity, enjoin any acts or things which may be unlawful or in violation of the rights of the Bondholders.

(v) The Bond Trustee may, upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Bond Trustee and the Bondholders, have appointed a receiver or receiver of the trust estate with such powers as the court making such appointment shall confer.

No right or remedy is intended to be exclusive of any other right or remedy, but each and every such right or remedy shall be cumulative and in addition to any other remedy given under the Bond Indenture or now or hereafter existing at law or in equity or by statute.

If any event of default shall have occurred and shall be continuing and if requested in writing by the holders of twenty-five percent (25%) in aggregate principal amount of 2012A Bonds then Outstanding, and if indemnified as provided in the Bond Indenture, the Bond Trustee shall be obligated to exercise such rights and powers conferred by the Bond Indenture as it, being advised by counsel, shall deem most expedient in the interests of such Bondholders.

**Application of Moneys in Event of Default**

Any money received by the Bond Trustee or by any receiver from, or in connection with, the Borrower, upon exercise of remedies under the Bond Indenture, shall be applied:

First: to the payment of the compensation, reasonable counsel fees and expenses of the Bond Trustee and then to the payment of the compensation, reasonable counsel fees and expenses of the Authority and of the receivers, if any, and all costs and disbursements allowed by the court, if there be any court action;

Second: to the payment of the whole amount of principal and interest which shall then be owing or unpaid upon the 2012A Bonds to the Holders thereof and in case such amounts shall be insufficient to pay in full the whole sum so due and unpaid, then to the payment of such principal and interest ratably, without preference or priority of principal over interest or of interest over principal or of any installment of interest over any other installment of interest, except as provided in the Bond Indenture; and

Third: to the payment of the surplus, if any, to the Borrower or to whomever is lawfully entitled to receive the same, or as a court of competent jurisdiction may direct.

**Rights and Remedies of Bondholders**

No holder of any of the 2012A Bonds shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Bond Indenture or for execution of any trust under the Bond Indenture, or for any other remedy under the Bond Indenture, unless such holder previously shall have given to the Bond Trustee written notice of an event of default, and unless also the holders of not less than 25% of the 2012A Bonds then outstanding shall have made written request of the Bond Trustee, after the right to exercise such powers or rights of action shall have accrued, and shall have afforded the Bond Trustee a reasonable opportunity either to proceed to exercise the powers hereinabove granted or to institute such action, suit or proceeding in its or their name, nor unless also there shall have been offered to the Bond Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, and the Bond Trustee shall have refused or neglected to comply with such request within a reasonable time; and such notification, request and offer of indemnity are declared in every such case at the option of the Bond Trustee to be conditions precedent to the execution of the powers and trusts of the Bond Indenture and to any action or cause of action for the enforcement of the Bond Indenture or for any other remedy under the Bond Indenture, it being understood and intended that no one or more holders of any 2012A Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Bond Indenture, or to enforce any right under the Bond Indenture, except in the manner therein provided, and that all proceedings at law or in equity shall be instituted and maintained in the manner therein provided and for the ratable benefit (subject to all of the terms, conditions and provisions of the Bond Indenture) of all holders of outstanding 2012A Bonds.

**Amendments and Modifications**

Modifications or amendments of the Bond Indenture and of the rights and obligations of the Authority and of the holders of the 2012A Bonds in any particular may be made by supplemental indenture, authorized by Certified Authority Resolution, but without the consent of the Bondholders:

(A) to cure any ambiguity or formal defect or omission, to correct or supplement any provision in the Bond Indenture that may be inconsistent with any other provision in the Bond Indenture, to make any other provisions with respect to matters or questions arising under the Bond Indenture, or to modify, alter, amend, add to or rescind, in any particular, any of the terms or provisions contained in the Bond Indenture,

(B) to grant to or confer upon the Bond Trustee for the benefit of the Holders any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Holders or the Bond Trustee,

(C) to add to the provisions of the Bond Indenture other conditions, limitations and restrictions thereafter to be observed,

(D) to add to the covenants and agreements of the Authority in the Bond Indenture other covenants and agreements thereafter to be observed by the Authority or to surrender any right or power in the Bond Indenture reserved to or conferred upon the Authority,

(E) to permit the qualification of the Bond Indenture under any federal statute now or hereafter in effect or under any state Blue Sky law, and, in connection therewith, if

the Authority so determines, to add to the Bond Indenture or any supplemental trust indenture such other terms, conditions and provisions as may be permitted or required by such federal statute or Blue Sky law,

(F) to provide for the issuance of 2012A Bonds in bearer form,

(G) to provide for the maintenance of 2012A Bonds under a book-entry system,

(H) to permit the Bond Trustee to comply with any obligations imposed upon it by law,

(I) to make amendments to the provisions of the Bond Indenture relating to arbitrage matters under Section 148 of the Code, if in the opinion of Bond Counsel selected by the Authority, those amendments would not cause the interest on the 2012A Bonds outstanding to become included in the gross income of the Holders thereof for federal income tax purposes, which amendments may, among other things, change the responsibility for making the relevant arbitrage calculations, or

(J) to permit any other amendment which is not materially adverse to the interests of the Bond Trustee or the Holders.

Other modifications and amendments of the Bond Indenture may be made only with the written consent of the Holders of not less than 51% in aggregate principal amount of the 2012A Bonds then Outstanding or, in case one or more but less than all of the 2012A Bonds then Outstanding are affected by any such modification or amendment, then with the written consent of the Holders of not less than 51% in aggregate principal amount of the 2012A Bonds so affected then Outstanding; provided, however, that, without the consent of the Holders of all of the 2012A Bonds affected then Outstanding, no such modification or amendment shall be made so as to (a) alter the date fixed in any of the 2012A Bonds for the payment of the principal of, or interest on, such 2012A Bonds or otherwise modify the terms of payment of the principal at maturity of, or interest on, the 2012A Bonds or impose any conditions with respect to such payment or affect the right of any Bondholder to institute suit for the enforcement of any such payment on or after the respective due dates expressed in the 2012A Bonds, all of which shall always be unconditional, (b) reduce the amount of, or extend the time for making, sinking fund payments required for any 2012A Bonds, (c) alter the amount of principal of, or the rate of interest or premium (if any) payable on, any of the 2012A Bonds, (d) affect the rights of the Holders of less than all the 2012A Bonds then Outstanding, (e) permit the creation by the Authority of any lien prior to or on a parity with the lien of the Bond Indenture upon the trust estate thereunder, or (f) reduce the percentages above stated in this paragraph.

It shall not be necessary for the consent of the Bondholders under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such consent shall approve the substance thereof. Upon the request of the Authority, accompanied by the Certified Authority Resolution and the filing with the Bond Trustee of the evidence of the consent of Bondholders, above provided for, the Bond Trustee shall join with the Authority in the execution of any such supplemental indenture unless the same adversely affects the Bond Trustee's own rights, duties or immunities under the Bond Indenture in which case the Bond Trustee may in its discretion, but shall not be obliged to, enter into such supplemental indenture.

**Defeasance**

(a) If the Authority deposits with the Bond Trustee money or Defeasance Obligations sufficient to pay the principal or redemption price of any particular 2012A Bond or 2012A Bonds becoming due, either at maturity or by call for redemption or otherwise, together with all interest accruing thereon to the due date, interest on the 2012A Bond or 2012A Bonds shall cease to accrue on the due date and all liability of the Authority with respect to such 2012A Bond or 2012A Bonds shall likewise cease, except as provided in subsection (b) below. Thereafter such 2012A Bond or 2012A Bonds shall be deemed not to be Outstanding under the Bond Indenture and the holder or holders of such 2012A Bond or 2012A Bonds shall be restricted exclusively to the funds so deposited for any claim of whatsoever nature with respect to such 2012A Bond or 2012A Bonds, and the Bond Trustee shall hold such funds in trust for such holder or holders.

(b) Money deposited with the Bond Trustee which remains unclaimed four (4) years after the date payment of the interest, premium and/or principal of the 2012A Bond or 2012A Bonds for which such money was deposited becomes due shall, upon request of the Authority, if the Authority is not at the time to the knowledge of the Bond Trustee in default with respect to any covenant in the Bond Indenture or the 2012A Bonds contained, be paid to the Borrower; and the holders of the 2012A Bonds for which the deposit was made shall thereafter be limited to a claim against the Borrower; provided, however, that the Bond Trustee, before making payment to the Borrower, shall, at the expense of the Borrower, cause a notice to be mailed by first class mail, postage prepaid, to the registered owners of the 2012A Bonds for which such money has been so deposited, stating that the money remaining unclaimed will be paid to the Borrower after a date specified in such notice. In the absence of any such written request from the Authority, the Bond Trustee shall from time to time deliver such unclaimed funds to or as directed by pertinent escheat authority, as identified by the Bond Trustee in its sole discretion, pursuant to and in accordance with the applicable unclaimed property laws, rules or regulations. Any such delivery shall be in accordance with the customary practices and procedures of the Bond Trustee and the escheat authority. Any money held by the Bond Trustee pursuant to his Section shall be held uninvested and without any liability for interest.

(c) Whenever money and/or Defeasance Obligations are deposited with the Bond Trustee in accordance with this Section, the Borrower shall provide to the Bond Trustee (i) a verification report from an independent certified public accountant, satisfactory in form and content to the Bond Trustee and the Authority, demonstrating that the money and/or Defeasance Obligations so deposited and the income therefrom shall be sufficient to pay the principal of, premium, if any, and all unpaid interest to maturity, or to the redemption date, as the case may be, on the 2012A Bonds to be paid or redeemed, as such principal, premium, if any, and interest become due, and (ii) an opinion of nationally recognized bond counsel, satisfactory in form and content to the Bond Trustee and the Authority, to the effect that all of the requirements of the Bond Indenture for the defeasance of the 2012A Bonds have been complied with.

**Immunities -- Limitation of Liability**

No recourse shall be had for the payment of the principal of or redemption premium, if any, or interest on any of the 2012A Bonds or for any claim based thereon or upon any obligation, covenant or agreement in the Bond Indenture contained against any past, present or future officer, director, member, employee or agent of the Authority, or of any successor public corporation, as such, either directly or through the Authority or any successor public corporation, under any rule of law or equity, statute or constitution, or by the enforcement of any assessment or penalty or otherwise, all such liability of such officers, directors, members, employees or agents as such is hereby expressly waived and

released as a condition of and consideration for the execution of the Bond Indenture and the issuance of the 2012A Bonds.

**Removal of Bond Trustee**

The Bond Trustee may be removed at any time by a written instrument, executed by (i) the holders of at least a majority in aggregate principal amount of the Outstanding 2012A Bonds or by their attorneys-in-fact duly authorized and filed with the Bond Trustee, the Authority and the Borrower or (ii) so long as no Event of Default shall have occurred and be continuing, the Borrower, with the consent of the Authority, or the Authority, with the consent of the Borrower, and filed with the Bond Trustee, the Authority and the Borrower, as applicable.

**Resignation of Bond Trustee**

The Bond Trustee may resign and be discharged of the trusts under the Bond Indenture by executing a written instrument resigning such trusts, filing the same with the Authority and the Borrower and mailing notice of such resignation by first class mail, postage prepaid, to all Holders of the 2012A Bonds not less than three (3) weeks prior to the date when the resignation is to take effect. Such resignation shall take effect only after such notices shall have been mailed, the appointment of a successor trustee shall have been made and such successor trustee shall have accepted the duties of the trustee under the Bond Indenture.

**Appointment of Successor Bond Trustee**

If the Bond Trustee shall resign or be removed as provided in the Bond Indenture or the office of the Bond Trustee shall become vacant for any reason, a successor may be appointed by the Authority, the Borrower, with the consent of the Authority, or the Holders of at least a majority in aggregate principal amount of the Outstanding 2012A Bonds by a written instrument signed by such Bondholders or by their attorneys-in-fact duly authorized. Such instrument shall be filed with the Authority and the Borrower and a copy thereof shall be promptly delivered by the Authority or the Borrower, as applicable, to the predecessor Bond Trustee and to the trustee so appointed.

After any appointment by the Authority, the Borrower or the Bondholders, the Authority, at the expense of the Borrower, shall cause notice of such appointment to be mailed to all Registered Owners at their addresses shown on the bond register. The Authority covenants in the Bond Indenture that whenever necessary to avoid or fill a vacancy in the office of trustee, it will appoint or cause to be appointed a trustee so that there shall at all times be a trustee eligible under the Bond Indenture.

**Holders of 2012A Bonds Deemed Holders of the 2012A Master Note**

In the event that any request, direction or consent is requested or permitted by the Master Indenture of the registered owners of Master Notes issued thereunder, including the 2012A Master Note, the Holders of 2012A Bonds then Outstanding shall be deemed to be registered owners of the 2012A Master Note for the purpose of any such request, direction or consent in the proportion that the aggregate principal amount of 2012A Bonds then Outstanding held by each such Holder of 2012A Bonds bears to the aggregate principal amount of all 2012A Bonds then Outstanding. The provisions of this section and of the Master Indenture shall govern the execution of any such request, consent or other instrument in writing required or permitted to be signed by Holders and registered owners of the 2012A Master Note, respectively.

## SUMMARY OF THE LOAN AGREEMENT

The following summarizes certain provisions of the Loan Agreement; however, it is not a comprehensive description, and reference is made to the full text of the Loan Agreement for a complete recital of its terms.

### General

The Loan Agreement provides the terms of the loan of all of proceeds of the 2012A Bonds by the Authority to the Borrower and the repayment of such loan by the Borrower.

### Loan Repayments

Pursuant to the Loan Agreement, the Borrower 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 pursuant to the Bond Indenture. Each Loan Repayment shall be made in immediately available funds. Notwithstanding the foregoing, the Borrower agrees to make payments, or cause payments to be made, at the times and in the amounts required to be paid as principal or redemption price of and interest on the 2012A 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 Borrower also agrees to pay certain additional payments in connection with the issuance of the 2012A Bonds, including fees of the Authority, reasonable fees, charges, expenses and indemnities of the Authority and the Bond Trustee under the Loan Agreement and the Bond Indenture, reasonable fees and expenses of such experts engaged by the Authority or the Bond Trustee, certain taxes and assessments charged to the Authority or the Bond Trustee and all other reasonable and necessary fees and expenses attributable to the Loan Agreement or the 2012A Master Note (collectively, the "Additional Payments").

### Prepayment

The Borrower may prepay all or any part of the amounts payable under the Loan Agreement for the purpose of redeeming or providing for the redemption or payment at maturity of all or a portion of the 2012A Bonds, all as permitted under, and in accordance with the provisions of, the Bond Indenture.

### No Set-Off

The obligation of the Borrower to make the payments required by the Loan Agreement shall be absolute and unconditional. The Borrower will pay without abatement, diminution or deduction (whether for taxes, loss of use, in whole or in part, of the Property, Plant and Equipment (as defined in the Master Indenture) of the Borrower or otherwise) all such amounts regardless of any cause or circumstance whatsoever, which may now exist or may hereafter arise, including without limitation, any defense, set-off, recoupment or counterclaim which the Borrower may have or assert against the Authority, the Bond Trustee, any Bondholder or any other Person.

**Tax Covenant**

The Borrower covenants and agrees for itself and on behalf of the Authority that it will at all times do and perform, for itself and on behalf of the Authority, all acts and things permitted by law and the Loan Agreement which are necessary in order for the 2012A Bonds to satisfy the requirements of Sections 103 and 141 through 150 of the Code in order to assure that interest paid on the 2012A Bonds (or any of them) will be excluded from gross income for federal income tax purposes and will take no action that would result in failure of the 2012A Bonds to satisfy those requirements of the Code. Without limiting the generality of the foregoing, the Borrower agrees to comply, and to cause the other members of the Obligated Group to comply, with the provisions of the Tax Certificate and Compliance Agreement. This covenant shall survive payment in full or defeasance of the 2012A Bonds.

**Events of Default**

Each of the following events shall constitute and be referred to as an "Event of Default" with respect to the Loan Agreement:

(a) Failure by the Borrower to pay in full any payment required under the Loan Agreement or by the Obligated Group to pay in full any payment required under the 2012A Master Note when due, whether on an Interest Payment Date or at maturity, upon a date fixed for prepayment, by declaration or upon tender of the 2012A Bonds for purchase pursuant to the Bond Indenture;

(b) If any material representation or warranty made by the Borrower in the Loan Agreement or made by the Borrower or any Member of the Obligated Group in any document, instrument or certificate furnished to the Bond Trustee or the Authority in connection with the issuance of the 2012A Master Note or the 2012A Bonds shall at any time prove to have been incorrect in any respect as of the time made and shall not be brought into compliance within a period of sixty (60) days after written notice has been given to the Borrower by the Authority or the Bond Trustee;

(c) If the Borrower 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 Borrower 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 Borrower by the Authority or the Bond Trustee; except that, if such failure or breach can be remedied but not within such sixty (60) day period and if the Borrower has taken all action reasonably possible to remedy such failure or breach within such sixty (60) day period, such failure or breach shall not become an Event of Default for so long as the Borrower 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 an Event of Default shall occur under the Loan Agreement, then, and in each and every such case during the continuance of such Event of Default, the Bond Trustee on behalf of the Authority, 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 Borrower under the Loan Agreement

or to protect the interests securing the same, and may, without limiting the generality of the foregoing, take one of the following actions:

(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 Borrower's performance under the Loan Agreement (including, without limitation, the 2012A Master Note and the Master Indenture);

(b) By written notice to the Borrower 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 Borrower under the Loan Agreement.

Notwithstanding any other provision of the Loan Agreement or any right, power or remedy existing at law or in equity or by statute, the Bond Trustee shall not under any circumstances declare the entire unpaid aggregate amount of the payment due under the Loan Agreement to be immediately due and payable except in accordance with the directions of the Master Trustee if the Master Trustee shall have declared the aggregate principal amount of the 2012A Master Note and all interest thereon immediately due and payable in accordance with the Master Indenture.

# APPENDIX D

# SUMMARY OF THE MASTER INDENTURE

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## SUMMARY OF THE MASTER INDENTURE

The following is a summary of certain provisions of the Master Indenture. It is not a comprehensive description, however, and is qualified in its entirety by reference to the Master Indenture.

### Definition of Certain Terms

In addition to the terms defined elsewhere in this Official Statement, the following are definitions of certain terms used in the Master Indenture and this Official Statement unless the context clearly otherwise requires. Reference is hereby made to the Master Indenture for complete definitions of all terms.

"Accounts Receivable Indebtedness" shall mean Indebtedness incurred or deemed incurred in connection with any sale or assignment of accounts receivable with recourse, consisting of an obligation to repurchase or accept the reassignment of all or a portion of such accounts receivable upon certain conditions.

"Additional Indebtedness" shall mean any Indebtedness incurred subsequent to the issuance of the Master Indenture Obligations which were issued under the Master Indenture as supplemented by the First Supplemental Indenture.

"Affiliate" shall mean a Person organized under the laws of the United States of America or a state thereof which is directly or indirectly controlled by the Initial Obligated Issuer or any other Affiliate. For purposes of this definition, "control" means the power to direct the management and policies of a Person through the ownership of at least a majority of its voting securities or the right to designate or elect at least a majority of the members of its Governing Body, whether by contract or otherwise.

"Balloon Long-Term Indebtedness" shall mean Long-Term Indebtedness, other than Commercial Paper Indebtedness and Interim Indebtedness, 25% or more of the principal of which matures in a single year and which portion of the principal is not required by the documents governing such Indebtedness to be amortized by redemption prior to such date.

"Bond Insurer" shall mean the provider of a policy of municipal bond insurance with respect to any Related Bonds if any such policy is provided.

"Book Value," when used in connection with Property of any Master Indenture Obligor, shall mean the cost of such property, net of accumulated depreciation, as it is carried on the books of the Obligated Group, TRHMC or any Master Indenture Obligor in conformity with generally accepted accounting principles, determined in such a manner that no portion of such value of such property is included more than once.

"Capitalization Ratio" shall mean the aggregate principal amount of Long-Term Indebtedness divided by Total Capitalization; provided, however, that in calculating the Capitalization Ratio, to the extent Long-Term Indebtedness matures or is subject to prepayment at par at the option of a member of the Obligated Group within one year, both Long-Term Indebtedness and Total Capitalization shall be reduced by the amount specified in an Excess Liquidity Certificate.

"Commercial Paper Indebtedness" shall mean Indebtedness with a stated maturity of 270 days or less which is incurred as part of a program which provides for continuously selling such securities with new maturity dates of 270 days or less as such securities mature.

"Completion Indebtedness" shall mean any Indebtedness incurred for the purpose of financing the completion of the constructing or equipping of facilities for which Indebtedness has heretofore been incurred in accordance with the provisions of the Master Indenture to the extent necessary to provide a completed and equipped facility of the type and scope contemplated at the time that such prior Indebtedness was originally incurred, and in accordance with the general plans and specifications for such facility as originally prepared with only such changes as have been made in conformance with the documents pursuant to which such prior Indebtedness was originally incurred.

"Consultant" shall mean a Person having the skill and experience necessary to render the particular report required by the provision of the Master Indenture in which such requirement appears. In rendering a particular report under the Master Indenture, a Consultant shall be entitled to rely on a report prepared by another Consultant qualified to render such report in accordance with the provisions of the Master Indenture.

"Corporate Trust Office" shall mean an office of the Master Trustee or its agent at which its corporate trust business with respect to the transactions contemplated by the Master Indenture is conducted.

"Discount Indebtedness" shall mean any Indebtedness issued at an original price which is less than 90% of the principal amount thereof at maturity.

"Event of Default" shall mean any one or more of those events set forth under the caption "Event of Default" below.

"Excess Liquidity Certificate" shall mean an Officer's Certificate specifying the amount by which unrestricted plus board restricted assets held in cash or liquid securities by all members of the Obligated Group exceed accumulated depreciation and amortization plus 30 days of operating expenses for all members of the Obligated Group.

"Financial Statements" shall mean the consolidated or combined financial statements of the Obligated Group or the consolidated or combined financial statements of TRHMC and its consolidated or combined Affiliates, including the members of the Obligated Group, which contain certain summarized consolidated or combined financial information concerning the Obligated Group or, if TRHMC is the only Master Indenture Obligor, the financial statements of TRHMC.

"First Supplemental Indenture" shall mean the First Supplemental Master Trust Indenture, dated as of June 1, 1993, between TRHMC and the Master Trustee.

"Governing Body" shall mean, when used with respect to TRHMC or any other Master Indenture Obligor, its board of directors, or other board or group of individuals in which the powers of such Master Indenture Obligor are vested, either generally or solely with respect to the specific matter under consideration.

"Governmental Restrictions" shall mean federal, state or other applicable governmental laws or regulations affecting any Master Indenture Obligor and its health care or other facilities placing restrictions and limitations on the fees and charges to be fixed, charged and collected by such Master Indenture Obligor.

"Gross Revenues" means all revenue, income, receipts and money received in any period by the Obligated Group (other than the proceeds of borrowing), including, but without limiting the generality of the foregoing, (a) gross revenues derived from operations, (b) gifts, grants, bequests, donations and contributions, exclusive of any gifts, grants, bequests, donations and contributions and income therefrom, to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of principal of, redemption premium, if any, and interest on Master Indenture Obligations and (c) proceeds derived from (i) insurance, except to the extent otherwise required by the Indenture, (ii) accounts receivable, (iii) securities and other investments, unless such securities or investments are excluded under clause (b) above, in this definition, (iv) inventory and other tangible and intangible property, (v) medical or hospital insurance or indemnity programs or agreements and (vi) contract rights and other rights and assets now or hereafter owned, held or possessed by or on behalf of the Obligated Group; provided, that no determination of Gross Revenues shall take into account any revenues of an Affiliate which is not a member of the Obligated Group or any gain or loss resulting from either the extinguishment of Indebtedness or the sale, exchange or other disposition of capital assets not made in the ordinary course of business.

"Guaranty" shall mean all obligations of any Master Indenture Obligor guaranteeing in any manner whether directly or indirectly any obligation of any other person not a member of the Obligated Group which obligation of such other person would, if such obligation were the obligation of such Master Indenture Obligor, constitute Indebtedness. The term Guaranty shall also include any Pass-Through Indebtedness.

"Holder" shall mean the holder or the registered owner of any Master Indenture Obligation.

"Income Available for Debt Service" shall mean, with respect to the Obligated Group, as to any period of time, the excess of revenues over expenses, as determined in accordance with generally accepted accounting principles consistently applied, plus depreciation, amortization and interest on Long-Term Indebtedness and other non-cash charges; provided, that no determination thereof shall take into account any gain or loss resulting from either the extinguishment of Indebtedness or any other disposition of capital assets not made in the ordinary course of business or any revenue or expense of an Affiliate which is not a member of the Obligated Group, provided, however, that such determination of Income Available for Debt Service shall take into account "Net Transfers of Liquid Assets." "Net Transfers of Liquid Assets" shall mean (a) the sum of transfers of cash and investments made in the ordinary course of business to a Master Indenture Obligor from an Affiliate which is not a member of the Obligated Group for the corresponding period of time included in the determination of Income Available for Debt Service for which Financial Statements have been examined by Independent Certified Public Accountants minus (b) the sum of transfers of cash and investments made in the ordinary course of business to an Affiliate which is not a member of the Obligated Group from a Master Indenture Obligor during such period (excluding the transfers described in subparagraphs (b), (c), (d) and (e) under the caption "Sale or Other Disposition of Certain

Property; Disposition of Cash and Investments" below). Income Available for Debt Service shall also include any Income Available for Debt Service of any primary obligor for which a Guaranty is Outstanding to the extent of any debt service attributed to the Obligated Group under the Master Indenture.

"Indebtedness" shall mean all outstanding obligations for borrowed money, installment sale obligations and capitalized lease obligations incurred or assumed by any member of the Obligated Group including, without limitation, Guaranties, except obligations of a member of the Obligated Group to another member of the Obligated Group.

"Indenture" shall mean the Master Indenture including all Supplemental Indentures.

"Independent Certified Public Accountant" shall mean a Person (but not an individual) which is independent in accordance with the rules of the American Institute of Certified Public Accountants.

"Initial Obligated Issuer" shall mean TRHMC.

"Interim Indebtedness" shall mean Indebtedness having a term of 60 months or less, other than Commercial Paper Indebtedness, which is incurred in anticipation of the financing of capital improvements for a member of the Obligated Group and which is expected to be refinanced using the proceeds of Long-Term Indebtedness.

"Investment Securities" shall mean:

(a) direct obligations of, or obligations the principal and interest on which are unconditionally guaranteed by, the United States of America (hereinafter referred to as "Government Obligations");

(b) rights to receive the principal of or the interest on Government Obligations through (i) direct ownership, as evidenced by physical possession of such Government Obligations or unmatured interest coupons or by registration as to ownership on the books of the issuer or its duly authorized paying agent or transfer agent, or (ii) purchase of certificates or other instruments evidencing an undivided ownership interest in payments of the principal of or interest on Government Obligations; and

(c) debt obligations of any state or political subdivision thereof or any agency or instrumentality of such a state or political subdivision, provided that the principal or redemption price of and interest on such obligations are secured by and payable from amounts received (without reinvestment) in respect of the principal of and interest on non-callable Government Obligations, and provided further that, at the time of purchase, such obligations are rated by S&P and by Moody's in the highest rating category assigned by each such rating service (or, upon the discontinuance of either such rating service, by another nationally recognized rating service or services).

"Lien" shall mean any mortgage or pledge of, security interest in or encumbrance on any Property which secures any indebtedness to any Person other than a member of the Obligated Group.

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

"Long-Term Debt Service Requirement" shall mean, for any period of time for which such determination is made, the aggregate of the payments to be made in respect of principal and interest on Long-Term Indebtedness of each member of the Obligated Group during such period, as adjusted (i) with respect to Interim Indebtedness, the amount of the principal and interest determined under subparagraph (a) under the caption "Assumptions with Respect to Computations of Maximum Annual Debt Service" below, (ii) with respect to Balloon Long-Term Indebtedness, the amount of principal and interest during such period determined under subparagraph (a) under the caption "Assumptions with Respect to Computations of Maximum Annual Debt Service" below, (iii) with respect to Variable Rate Long-Term Indebtedness, the amount of principal and interest determined under subparagraph (b) under the caption "Assumptions with Respect to Computations of Maximum Annual Debt Service" below, (iv) with respect to Put Indebtedness, the amount of principal and interest determined under subparagraph (b) under the caption "Assumptions with Respect to Computations of Maximum Annual Debt Service" below, and (v) with respect to any Guaranty, the amount of debt service determined under subparagraph (c) under the caption "Assumptions with Respect to Computations of Maximum Annual Debt Service" below, provided, however, that debt service on Long-Term Indebtedness incurred to finance capital improvements shall be excluded from the determination of the Long-Term Debt Service Requirement for the period of construction of such capital improvements. Notwithstanding the foregoing, in calculating the Long-Term Debt Service Requirement for any particular period there shall be excluded any and all amounts payable from funds available in a Qualified Escrow.

"Long-Term Indebtedness" shall mean Indebtedness with an original stated maturity of more than one year and Commercial Paper Indebtedness. In determining the amount of Long-Term Indebtedness outstanding at any time, Discount Indebtedness shall be valued at its then current compounded (semi-annual) accreted value.

"Master Indenture Obligation" shall mean (i) any Note issued, authenticated and delivered under the Master Indenture and (ii) any other contract, agreement or instrument authenticated and delivered under the Master Indenture (including, without limitation, Guaranties) evidencing the obligation of a Master Indenture Obligor to repay amounts or otherwise satisfy and discharge obligations and liabilities set forth in such contract, agreement or instrument.

"Master Indenture Obligor" shall mean the Initial Obligated Issuer and any Affiliate or other Person that has become a Master Indenture Obligor under the Master Indenture in accordance with the provisions thereof or any successor thereto.

"Master Trustee" shall mean The Bank of New York Mellon Trust Company, N.A., a banking association organized under the laws of the United States of America, and its successors.

"Maximum Annual Debt Service" shall mean the highest Long-Term Debt Service Requirement for any succeeding calendar year over the remaining term of Outstanding Master Indenture Obligations using the assumptions provided in the Master Indenture.

"Moody's" shall mean Moody's Investors Service and any successor thereto.

"Non-Recourse Indebtedness" shall mean any Indebtedness secured by a Lien, liability for which is effectively limited to the Property subject to such Lien and any revenues derived therefrom, with no recourse, directly or indirectly, to any other Property of any member of the Obligated Group.

"Note" shall mean any Note issued, authenticated and delivered under the Master Indenture in connection with the issuance of a Related Bond. References to a series of Notes or to Notes of a series shall mean the Notes or series of Notes issued pursuant to a single Supplemental Indenture.

"Obligated Group" shall mean the Initial Obligated Issuer and all other Master Indenture Obligors.

"Officer's Certificate" shall mean a certificate signed by the chief executive officer, chief financial officer or some other individual designated pursuant to a resolution adopted by the Governing Body of TRHMC and of each Master Indenture Obligor whose financial statements are not combined or consolidated with those of TRHMC in accordance with generally accepted accounting principles.

"Opinion of Bond Counsel" shall mean an opinion in writing signed by an attorney or firm of attorneys experienced in the field of municipal bonds whose opinions are generally accepted by purchasers of municipal bonds.

"Opinion of Counsel" shall mean an opinion in writing signed by an attorney or firm of attorneys, who may be counsel (including inside counsel) for TRHMC.

"Outstanding", when used with reference to Master Indenture Obligations, shall mean, as of any date of determination, all Master Indenture Obligations theretofore issued or incurred and not paid and discharged other than (i) Master Indenture Obligations theretofore canceled by the Master Trustee or delivered to the Master Trustee for cancellation, (ii) Master Indenture Obligations deemed paid and no longer Outstanding and Master Indenture Obligations which are defeased pursuant to the Master Indenture, (iii) Master Indenture Obligations paid or in lieu of which other Master Indenture Obligations have been authenticated and delivered pursuant to the Master Indenture and (iv) Master Indenture Obligations held by members of the Obligated Group. For the purposes of making any calculation of Long-Term Debt Service Requirement under the Master Indenture, the term "Outstanding" shall not include any Master Indenture Obligations, or other Indebtedness, issued to refund other obligations during the period when any such Master Indenture Obligations or other Indebtedness is payable solely from its proceeds, the interest earnings thereon, escrowed monies provided from any other source or any letter of credit. In addition, if two or more obligations which constitute Indebtedness represent the same underlying obligation (as when a Master Indenture Obligation secures an issue of Related Bonds and another Master Indenture Obligation secures repayment obligations to a bank incurred in connection with such issue of Related Bonds) for purposes of the various financial covenants contained in the Master Indenture, but only for such purposes, only one of such obligations shall be deemed Outstanding.

"Pass Through Indebtedness" shall mean any Indebtedness the proceeds of which are to be utilized by a Person outside the Obligated Group if an Officer's Certificate is presented to the

Master Trustee stating that the Person utilizing the proceeds has executed a note in favor of a member of the Obligated Group in at least the amount of the Pass Through Indebtedness.

"Permitted Liens" shall have the meaning given under the caption "Limitations on Creation of Liens" below.

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

"Property" shall mean any and all rights, titles and interests in and to any and all tangible property of the Obligated Group, whether real or personal, and wherever situated.

"Property, Plant and Equipment" shall mean all Property which is property, plant and equipment under generally accepted accounting principles.

"Put Indebtedness" shall mean Indebtedness a feature of which is an option on the part of the holders of such Indebtedness to tender such Indebtedness to a member of the Obligated Group or a trustee or other fiduciary for the Obligated Group, prior to its stated maturity date.

"Qualified Escrow" shall mean a segregated escrow fund or other similar fund or account which (a) is established as security for Long Term Indebtedness previously incurred and then outstanding (herein referred to as "Prior Indebtedness") or for Refunding Indebtedness and is held by the holder of the Prior Indebtedness or Refunding Indebtedness secured thereby or by a trustee or agent acting on behalf of such holder and is subject to a perfected security interest in favor of such holder, trustee or agent, (b) is held in cash or invested in Investment Securities, and (c) is to be applied toward a Master Indenture Obligor's payment obligations in respect of the Prior Indebtedness or Refunding Indebtedness, provided that, if the fund or account is funded in whole or in part with the proceeds of Refunding Indebtedness, the documents establishing the same may require specified payments of principal or interest (or both) in respect of the Refunding Indebtedness to be made from the fund or account prior to the date on which the Prior Indebtedness is repaid in full.

"Refunding Indebtedness" shall mean Indebtedness incurred for the purpose of refunding any Outstanding Long-Term Indebtedness if the Governing Body of TRHMC shall have adopted a resolution finding that such refunding is in the best interest of the Obligated Group and stating the reasons for such finding.

"Related Bonds" shall mean the revenue bonds or other obligations issued by any state, territory or possession of the United States or any municipal corporation or political subdivision formed under the laws thereof or any constituted authority or agency or instrumentality of any of the foregoing empowered to issue obligations on behalf thereof ("governmental issuer"), pursuant to a single Related Bond Indenture, the proceeds of which are loaned or otherwise made available to any Master Indenture Obligor in consideration of the execution, authentication and delivery of one or more Master Indenture Obligations to or for the order of such governmental issuer.

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

"Related Bond Issuer" shall mean the issuer of any issue of Related Bonds.

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

"S&P" shall mean Standard & Poor's, a division of The McGraw-Hill Companies, Inc., and any successor thereto.

"Short-Term Indebtedness" shall mean Indebtedness having an original stated maturity of one year or less, other than Commercial Paper Indebtedness, Interim Indebtedness, Put Indebtedness and Non-Recourse Indebtedness.

"Subordinated Indebtedness" shall mean any Long-Term Indebtedness or Short-Term Indebtedness which: (a) is incurred pursuant to the provisions described in paragraph (e) under the caption "Limitations on Incurrence of Additional Indebtedness" below; (b) is unsecured; (c) is payable as to principal, redemption price or interest only if, at the time in question, the principal or redemption price of and interest on all Master Indenture Obligations (except for Non-Recourse Indebtedness or other Subordinated Indebtedness) then due or overdue (by acceleration or otherwise) has first been paid; and (d) is not subject to acceleration upon a default unless all Master Indenture Obligations (except for Non-Recourse Indebtedness or other Subordinated Indebtedness) have also been accelerated.

"Supplemental Indenture" shall mean an indenture supplemental to, and authorized and executed pursuant to the terms of, the Master Indenture for the purpose, among others, of creating a particular series of Master Indenture Obligations thereunder.

"Total Capitalization" shall mean the sum of the aggregate Long-Term Indebtedness Outstanding of the members of the Obligated Group, plus the aggregate unrestricted fund balance of the non-profit members of the Obligated Group, plus the aggregate excess of assets over liabilities of the proprietary members of the Obligated Group, all as calculated in accordance with generally accepted accounting principles, less any Indebtedness not deemed to be Outstanding under the provisions of the Master Indenture; provided that in determining Total Capitalization, Discount Indebtedness shall be valued at its semi-annual compounded accreted value.

"Total Operating Expenses" shall mean the aggregate of operating expenses of each Master Indenture Obligor, determined in accordance with generally accepted accounting principles consistently applied.

"Total Revenues" shall mean, for the period under consideration, the sum of the following for any one or more of the Master Indenture Obligors or, as the context requires, of the entire Obligated Group:

(a) all amounts constituting operating revenues under generally accepted accounting principles, before deduction of operating expenses, but after deduction of (i) contractual allowances and discounts, and (ii) provision for free care and doubtful accounts; and

(b) all amounts constituting nonoperating revenues under generally accepted accounting principles.

"TRHMC" shall mean The Reading Hospital and Medical Center, a not-for-profit corporation organized and existing under the laws of the Commonwealth of Pennsylvania, and its successors and assigns, including, without limitation, any other member of the Obligated Group which shall have been designated to assume certain responsibilities of TRHMC pursuant to the Master Indenture.

"Unsecured Indebtedness" shall mean any Indebtedness not secured by any Lien.

"Value" shall mean Book Value or fair market value, as TRHMC may elect.

"Variable Rate Indebtedness" shall mean any Indebtedness with respect to which the interest rate is not established, at the time in question, at a fixed or constant rate to maturity.

**General Obligation; Pledge of Gross Revenues; Security Interest**

Each Master Indenture Obligation issued pursuant to the Master Indenture will entitle each holder thereof to the protection of the covenants, restrictions and other obligations imposed upon each Master Indenture Obligation by the Master Indenture. Such Master Indenture Obligations will be the joint and several, general obligations of each Master Indenture Obligor. To secure the prompt payment of the principal of, redemption premium, if any, and interest on Master Indenture Obligations and the performance by the members of the Obligated Group of their other obligations under the Master Indenture, each member of the Obligated Group shall pledge and assign to the Master Trustee, for the equal and ratable benefit to the Holders, from time to time, of Master Indenture Obligations, all Gross Revenues.

On or before the date of issuance of a series of Master Indenture Obligations under the Master Indenture, each member of the Obligated Group shall file one or more financing statements evidencing the security interests granted to the Master Trustee in the Master Indenture in such form as is required by applicable law, with copies thereof to be delivered to the Master Trustee.

The pledge, assignment and grant of security interest made by the Master Indenture shall not inhibit, and the Master Indenture allows, the sale or other transfer of Gross Revenues for expenditures of the Obligated Group, provided the Obligated Group is in compliance with the terms of the Master Indenture.

**Conditions to Issue of Master Indenture Obligations**

The following conditions, among others, must be satisfied simultaneously with or prior to the execution, authentication and delivery of any Master Indenture Obligations:

(a) The issuer of such Master Indenture Obligations shall have delivered to the Master Trustee an Opinion or Opinions of Counsel to the effect that (1) registration of such Master Indenture Obligations under the Securities Act of 1933, as amended, and qualification of the Master Indenture or any supplement thereto under the Trust Indenture Act of 1939, as amended, is not required, or, if such registration or qualification is required, that all applicable

registration and qualification provisions of said Acts have been complied with (at the request of the Master Trustee, any other opinions delivered in connection with the issuance of each series of Master Indenture Obligations shall also be addressed to the Master Trustee) and (2) the Master Indenture Obligations are valid, binding and enforceable obligations of the respective Master Indenture Obligors in accordance with their terms, except as limited by bankruptcy laws, insolvency laws and other laws affecting creditors' rights generally and usual equity principles and (3) all applicable corporate policies of members of the Obligated Group respecting issuance of Master Indenture Obligations have been complied with; and

(b) TRHMC shall have delivered to the Master Trustee an Officer's Certificate stating that (1) TRHMC consents to and approves the issuance of the Master Indenture Obligations and (2) no Event of Default has occurred and is continuing.

**Insurance**

Each member of the Obligated Group agrees that it will maintain insurance, which may include self-insurance programs, covering such risks and in such amounts as, in its judgment, are adequate to protect it and its Properties and operations; provided, however, there shall be no self-insurance on Property, Plant and Equipment. The insurance or self-insurance required to be maintained shall be subject to the periodic review of an insurance Consultant. TRHMC agrees that it will follow and cause each member of the Obligated Group to follow any reasonable recommendations of the insurance Consultant and will, annually (for any self-insurance programs) and every third year (with respect to insurance provided by third parties), deliver or cause to be delivered to the Master Trustee as soon as practicable, but in no event later than three months after the end of each such year or third year, as applicable, a report of the insurance Consultant setting forth a description of the insurance or self-insurance maintained, or caused to be maintained, by members of the Obligated Group then in effect and stating whether, in the opinion of the insurance Consultant, such insurance or self-insurance and any reductions or eliminations of the amount of any insurance or self-insurance coverage (including amounts on deposit or to be deposited to self-insurance funds or trusts) during the period covered by such report adequately protect the members of the Obligated Group and their respective Properties and operations. If such Consultant's opinion is that such Properties and operations are not adequately protected, the insurance Consultant's report shall contain recommendations as to what additional types and amounts of insurance are necessary to provide such adequate protection.

Amounts received by any Master Indenture Obligor as insurance proceeds with respect to any casualty loss or as condemnation awards may be used in such manner as the recipient may determine, including, without limitation, applying such moneys to the payment or repayment of any Master Indenture Obligations in accordance with the terms thereof and of any Supplemental Indenture, subject to compliance with the provisions of the Master Indenture respecting the disposition of cash, investments and other liquid assets.

**Limitations on Creation of Liens**

(a) Each member of the Obligated Group agrees that it will not create or suffer to be created or permit the existence of any Lien upon Property now owned or hereafter acquired by it other than Permitted Liens.

(b) Permitted Liens shall consist of the following:

(i) Liens arising by reason of good faith deposits by 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;

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

(iii) Any judgment lien against any member of the Obligated Group so long as such judgment is being contested in good faith and execution thereon is stayed;

(iv) (A) Rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law; (B) any liens on any property for taxes, assessments, levies, fees, water and sewer rents, and other governmental and similar charges and any liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such property, which are not due and payable or which are not delinquent or which, or the amount or validity of which, are being contested and execution thereon is stayed or, if execution with respect to the same has not been stayed, neither the lien of the Master Indenture nor the use of the property in question will be materially impaired or which, with respect to liens of mechanics, materialman, laborers, suppliers or vendors, have been due for less than 4 months; (C) easements, rights-of-way, servitudes, restrictions, oil, gas or other mineral reservation and other minor defects, encumbrances, and irregularities in the title to any property which do not materially impair the use of such property or materially and adversely affect the value thereof; (D) to the extent that it affects title to any property, the Master Indenture; and (E) landlord's liens;

(v) Any Lien which is existing on the date of authentication and delivery of the initial Notes issued under the Master Indenture and of which the Master Trustee has received written notice at the time of such initial issuance;

(vi) Any Lien on Property acquired by a member of the Obligated Group securing Indebtedness permitted by the provisions described under the caption "Limitation on Incurrence of Additional Indebtedness" below that was assumed in connection with the acquisition of such Property;

(vii) Purchase money Liens securing Indebtedness permitted as set forth under the caption "Limitation on Incurrence of Additional Indebtedness" below. Notwithstanding anything contained in the Master Indenture to the contrary, the Book Value of the Property pledged under any Lien permitted by this subsection (vii), subsection (viii) and subsection (xvii) shall not exceed in the aggregate 15% of the Value of all Property, Plant and Equipment of the Obligated Group;

(viii) Liens securing Indebtedness permitted as set forth under the caption "Limitation on Incurrence of Additional Indebtedness" below so long as (A) the Book Value of the Property pledged in aggregate under all such Liens allowed pursuant to this provision is less than the greater of (1) 20% of Total Revenue of the Obligated Group, as shown on the most recent audited Financial Statements, or (2) 10% of the Value of all Property, Plant and Equipment of the Obligated Group, or (B) immediately after the incurrence of such Indebtedness the aggregate principal amount of all Long-Term Indebtedness does not exceed 65% of Total Capitalization, without, in the case of Non-Recourse Indebtedness, including the aggregate Value of the Property so pledged under all Liens allowed pursuant to this provision in Total Capitalization or the Non-Recourse Indebtedness incurred to purchase such Property in Long-Term Indebtedness or Total Capitalization. Notwithstanding anything contained in the Master Indenture to the contrary, the Book Value of the Property pledged under any Lien permitted by subsection (vii), this subsection (viii) and subsection (xvii) shall not exceed in the aggregate 15% of the Value of all Property, Plant and Equipment of the Obligated Group;

(ix) Any Lien in favor of a creditor or a trustee on the proceeds of Indebtedness and any earnings thereon prior to the application of such proceeds and such earnings;

(x) Any Lien securing all Master Indenture Obligations on a parity basis;

(xi) Liens on property received by any member of the Obligated Group through gifts, grants or bequests, such Liens being due to restrictions on such gifts, grants or bequests of property or the income thereon;

(xii) Liens on property due to rights of third party payors for recoupment of amounts paid to any member of the Obligated Group;

(xiii) Rights of the United States of America under Title 42 United States Code Section 291;

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

(xv) Liens on property of Affiliates or other entities that become members of the Obligated Group pursuant to the provisions described under the caption "Parties Becoming Master Indenture Obligors" below that were incurred in the ordinary course of business prior to becoming Members of the Obligated Group;

(xvi) Any Lien arising by virtue of a lease, sub-lease or loan agreement entered into by a Master Indenture Obligor and that is reasonably necessary to the business operations and affairs of such Master Indenture Obligor; and

(xvii) Any Lien on Gross Revenues now or hereafter granted by any member of the Obligated Group to secure Indebtedness permitted as described under the caption "Limitation on Incurrence of Additional Indebtedness" below or granted in connection with the incurrence of such Indebtedness. Notwithstanding anything contained in the Master Indenture to the contrary, the Book Value of the Property pledged under any Lien permitted by subsection (vii), subsection (viii) and this subsection (xvii) shall not exceed in the aggregate 15% of the Value of all Property, Plant and Equipment of the Obligated Group.

**PLEASE NOTE THAT, UNDER THE CIRCUMSTANCES DESCRIBED BELOW, A NEW SUBSECTION (xviii) SHALL BE ADDED TO THE MASTER INDENTURE AND DESCRIBED ABOVE UNDER THE CAPTION "Limitation on Creation of Liens" WHICH WILL READ AS FOLLOWS:**

Upon (i) the consent of 100% of the Holders of all Outstanding Master Indenture Obligations issued prior to December 1, 2008 or (ii) the payment in full of the principal of and interest on all Outstanding Master Indenture Obligations issued prior to December 1, 2008 or upon the defeasance of such Master Indenture Obligations pursuant to Article IX of the Master Indenture, the Section 5.04 of the Master Indenture shall be amended, without any further action of the Borrower, TRHMC or the Master Trustee, by adding a new subparagraph (xviii) which shall read as follows:

"(xviii) Any Lien on assets securing a Derivative Agreement or for the purpose of meeting collateral posting requirements under a Derivative Agreement."

The Master Indenture will also be amended by adding the following new definition:

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

**Limitations on Incurrence of Additional Indebtedness**

Each member of the Obligated Group covenants and agrees that it will not incur any Additional Indebtedness except in the manner and pursuant to the terms set forth below and as described under the caption "Assumptions with Respect to Computation of Maximum Annual Debt Services" below.

(a) Long-Term Indebtedness may be incurred if prior to the incurrence of such Long-Term Indebtedness there is delivered to the Master Trustee:

(i) An Officer's Certificate certifying that:

(A) Immediately after the incurrence of the proposed Long-Term Indebtedness the Capitalization Ratio does not exceed 60%; or

(B) The Long-Term Debt Service Coverage Ratio for any period of twelve (12) full consecutive calendar months during the most recent period of eighteen (18) full consecutive calendar months preceding the date of delivery of the Officer's Certificate for which there are Financial Statements available or the most recent fiscal year, taking all Outstanding Long-Term Indebtedness and the proposed Long-Term Indebtedness into account, is not less than 1.20; or

(ii) A written report of a Consultant demonstrating and stating that (A) the Long-Term Debt Service Coverage Ratio for the period mentioned in paragraph (a)(i)(B) above, excluding the proposed Long-Term Indebtedness, is at least 1.10 and (B) the expected Long-Term Debt Service Coverage Ratio for each of the two full fiscal years succeeding the date of completion of use of the proceeds of such proposed Long-Term Indebtedness is not less than 1.20, as shown by pro forma Financial Statements for each such period, accompanied by a statement of the relevant assumptions upon which such pro forma Financial Statements are based; provided, however, that compliance with the tests set forth in this paragraph (a)(ii) may be evidenced by an Officer's Certificate in lieu of a Consultant's report where (i) the aggregate proceeds of such Long-Term Indebtedness incurred during the time period described in paragraph (a)(i)(B) above is less than 20% of the Total Revenues of the Obligated Group or (ii) the ratios set forth in this paragraph (a)(ii) are equal to or greater than 1.50; provided further, however, that if the report of a Consultant states that Governmental Restrictions have been imposed which make it impossible for the coverage requirements of this paragraph to be met, then such coverage requirements shall be reduced to the maximum coverage permitted by such Governmental Restrictions but in no event less than 1.00.

(b) Refunding Indebtedness may be incurred without limitation if the Master Trustee receives an Officer's Certificate stating and demonstrating that the Maximum Annual Debt Service for any succeeding fiscal year on all Long-Term Indebtedness to be Outstanding will not exceed 110% of the Maximum Annual Debt Service on all Long-Term Indebtedness Outstanding immediately prior to the incurring of the proposed Refunding Indebtedness.

(c) Completion Indebtedness may be incurred without limitation.

(d) Short-Term Indebtedness may be incurred if immediately after the incurrence of such Indebtedness, the unpaid principal balance of all such Indebtedness to be incurred together with the unpaid principal balance of all Short-Term Indebtedness Outstanding does not exceed 20% of the Total Revenues of the Obligated Group for the most recent period of twelve (12) full consecutive calendar months for which Financial Statements are available; provided, however, that the unpaid principal balance of such Short-Term Indebtedness shall not exceed 5% of the Total Revenues of the Obligated Group for a period of at least 15 consecutive calendar days during each fiscal year of TRHMC, and provided further, however, that any failure to comply with the covenant to reduce the aggregate principal amount of outstanding Short Term Indebtedness in accordance with this paragraph (d) shall not constitute an Event of Default under the Master Indenture. However, the principal amount of all Short Term Indebtedness outstanding as of the end of the fiscal year in which such failure occurs shall be treated as Long Term Indebtedness for the purposes of any calculation of Long Term Debt Service Requirements made during the next succeeding fiscal year.

(e) Subordinated Indebtedness may be incurred without limitation.

(f) Long-Term Indebtedness may be incurred without complying with the provisions of paragraph (a) above if the Master Trustee receives an Officer's Certificate stating and demonstrating that the principal amount of the Long-Term Indebtedness to be incurred, together with the principal amount of all other Long-Term Indebtedness incurred during the current fiscal year of TRHMC pursuant to the provisions of this paragraph (f), does not exceed 5% of the Total Revenues of the Obligated Group for the fiscal year of TRHMC immediately preceding the incurrence in question. For the purpose of any Officer's Certificate delivered pursuant to this paragraph (f), the principal amount of all Non-Recourse Indebtedness and Subordinated Indebtedness shall be excluded.

(g) Non-Recourse Indebtedness may be incurred without limitation.

(h) Accounts Receivable Indebtedness may be incurred without limitation, provided that the amount of such Indebtedness shall not exceed the monetary consideration actually received from any such sale or assignment; and provided further that, the Master Trustee receives an Officer's Certificate stating and demonstrating that the aggregate amount of Accounts Receivable Indebtedness incurred pursuant to this subparagraph (h) shall not exceed 35% of the outstanding accounts receivable of the Obligated Group.

Notwithstanding the foregoing provisions, nothing shall preclude a member of the Obligated Group from incurring any obligation under a line of credit, letter of credit, standby bond purchase agreement or similar credit enhancement or liquidity facility established in connection with any Related Bonds incurred in accordance with this section which are required to be purchased at the option of the holders thereof.

**Assumptions with Respect to Computations of Maximum Annual Debt Service**

For purposes of the computation of Maximum Annual Debt Service for the purposes of the provisions described under "Limitations on Incurrence of Additional Indebtedness" above, and generally for any covenants or computations required by the Master Indenture, the following rules shall apply:

(a) For any Balloon Long-Term Indebtedness, Commercial Paper Indebtedness or Interim Indebtedness it shall be assumed that the principal balance of such Indebtedness is to be amortized over a twenty-five year period or such shorter period which is the useful life of the assets being financed, beginning on the date of incurrence of such Indebtedness, assuming level annual debt service and a rate of interest equal to the higher of (i) ninety percent (90%) of the interest rate borne by United States Treasury obligations having a comparable maturity; or (ii) the equivalent of the 25-year Revenue Bond Index published by The Bond Buyer, or its successors, for the most recent week preceding the date of calculation; provided, however, that in the case of Interim Indebtedness which is expected to be refinanced using a taxable borrowing, the assumed rate of interest shall be equal to one hundred and ten percent (110%) of the interest rate borne by United States Treasury obligations having a comparable maturity.

(b) The interest on Variable Rate Indebtedness or Put Indebtedness shall be assumed to be the higher of (i) the interest rate in effect on similar securities as of the date of calculation; or (ii) the average interest rate on similar securities in effect for the twelve (12) month period preceding the date of such calculation; or (iii) the equivalent of the 25-year Revenue Bond Index published by The Bond Buyer, or its successors, for the most recent week preceding the date of calculation. For purposes of this paragraph, the interest rate on similar securities shall be the rates on such Indebtedness or, if such Indebtedness has been Outstanding for less than one year, the rates on securities identified as comparable in a certificate of (i) a nationally known investment banking firm or (ii) a commercial bank.

(c) Guaranties (including Pass-Through Indebtedness) shall be treated as Indebtedness for all purposes hereunder, except there shall be excluded from the Indebtedness of any member of the Obligated Group an amount equal to 80% of the obligation incurred under such Guaranty during each fiscal year of such member of the Obligated Group in which no payment is made pursuant to such Guaranty. In the event that any such payment is made, such Guaranty shall be treated as Indebtedness for all purposes under the Master Indenture during the remaining term of the Guaranty.

For the purposes of the calculations described in paragraph (c) above, the amount of hypothetical Long-Term Indebtedness referred to above shall be reduced to the extent that a Guaranty is a joint and several obligation of any Person not a member of the Obligated Group that has Outstanding Long-Term Indebtedness rated at least investment grade by S&P and Moody's.

(d) (i) For any Indebtedness for which a binding commitment, letter of credit or other credit arrangement providing for the extension of such Indebtedness beyond its original maturity date exists, the computation of Maximum Annual Debt Service shall, at the option of the member of the Obligated Group, be made on the assumption that such Indebtedness will be amortized in accordance with such credit arrangement.

(ii) For any Indebtedness which converts to a different form, the conversion shall not be deemed to be an incurrence of Indebtedness but for purposes of all subsequent calculations of Maximum Annual Debt Service such debt shall be considered in its converted form; provided, however, if the conversion is not at the

election of the Obligated Group and can be reversed (as in the conversion of Put Indebtedness to Short-Term Indebtedness because of a failed remarketing of the Put Indebtedness and a corresponding draw on a credit facility), the provisions of this paragraph shall not apply until the conversion has remained in effect for 30 days.

(e) In the event that any member of the Obligated Group incurs a form of Long-Term Indebtedness which is neither fixed rate Long-Term Indebtedness nor any of the other types of Indebtedness referred to in this section, upon the prior written consent of a Bond Insurer, the Maximum Annual Debt Service on such Indebtedness shall be that stated in a certificate of a nationally known investment banking firm or Consultant which determines such Maximum Annual Debt Service using principles consistent with the provisions of the Master Indenture.

(f) Notwithstanding anything contained in this section to the contrary, the maximum term of any Balloon Long-Term Indebtedness or Variable Rate Indebtedness incurred by any member of the Obligated Group shall be twenty-five years.

**Debt Service Coverage Ratio**

(a) Each member of the Obligated Group covenants to set rates and charges for its facilities such that the Long-Term Debt Service Coverage Ratio, calculated at the end of each fiscal year of the Obligated Group, will not be less than 1.10.

(b) If the Long-Term Debt Service Coverage Ratio required by paragraph (a) above is not met, the Obligated Group covenants to retain a Consultant to make recommendations to increase such Long-Term Debt Service Coverage Ratio for subsequent fiscal years of the Obligated Group to the level required or, if in the opinion of the Consultant the attainment of such level is impracticable, to the most practicable level. Each member of the Obligated Group agrees that it will, to the extent permitted by law, follow the recommendations of the Consultant. In the event the recommendations of the Consultant are implemented by each member of the Obligated Group affected thereby and the Long-Term Debt Service Coverage Ratio does not meet the requirements of the foregoing rate covenant, there shall be no Event of Default under the Master Indenture, so long as the Long-Term Debt Service Coverage Ratio is not less than 1.00, but the Obligated Group shall be under a continuing obligation to engage a Consultant for the purposes set forth above.

(c) If a report of a Consultant is delivered to the Master Trustee stating that Governmental Restrictions have been imposed which make it impossible for the ratios in paragraph (a) above to be met, then such ratio requirement shall be reduced to the maximum coverage permitted by such Governmental Restrictions, but in no event less than 1.00.

**Sale or Other Disposition of Certain Property; Disposition of Cash and Investments**

Nothing hereinafter contained in this section shall be construed as limiting the ability of any member of the Obligated Group to purchase or sell Property in the ordinary course of business or to transfer cash, securities and other investment properties in connection with ordinary investment transactions where such purchases, sales and transfers are for substantially equivalent value. To the extent that any such transaction is for partially equivalent value, only that part of the transaction for which no value is received shall be subject to the provisions of this

section (e.g., if a piece of equipment with a fair market value of $100,000 is sold for $50,000 to any Person not a member of the Obligated Group, such transaction shall be subject to the provisions of this section to the extent of $50,000).

Each member of the Obligated Group agrees that it will not sell, transfer (including, without limitation, any transaction which is deemed to be a sale or transfer of the assets in question under generally accepted accounting principles) or otherwise dispose of (all of the foregoing activities being collectively referred to as "Dispositions") (i) Property or (ii) cash and other liquid assets except (A) in the case of any member other than TRHMC, with the prior consent of TRHMC, and (B) in accordance with one or more of the following:

(a) Dispositions of Property may be made to any Person not a member of the Obligated Group if prior to such Disposition there is delivered to the Master Trustee an Officer's Certificate stating that, in the judgment of the signer, such Property has become inadequate, obsolete, worn out, unsuitable, unprofitable, undesirable or unnecessary, and the sale, lease, removal or other disposition thereof will not impair the structural soundness, efficiency or economic value of any remaining Property;

(b) Dispositions of cash and other liquid assets in any fiscal year of such member may be made to any Person not a member of the Obligated Group if the aggregate value of such cash and other liquid assets is less than 2% of the Total Revenues of the Obligated Group;

(c) Dispositions of Property in any fiscal year of such member may be made to any Person not a member of the Obligated Group if the aggregate Value of such Property is less than 10% of the Value of the Property, Plant and Equipment of the Obligated Group;

(d) Dispositions may be made to any Person not a member of the Obligated Group if prior to such Disposition there is delivered to the Master Trustee an Officer's Certificate stating and demonstrating that any condition described in paragraph (a) under the caption "Limitations on Incurrence of Additional Indebtedness" above has been satisfied for the incurrence of an additional one dollar ($1.00) of Additional Indebtedness, assuming such Disposition occurred at the beginning of the period of twelve (12) full consecutive calendar months for which Financial Statements were available; provided, however, that neither cash nor other liquid assets with an aggregate value greater than 5% of Total Revenues of the Obligated Group, nor Property with an aggregate Value greater than 15% of the Value of Property, Plant and Equipment of the Obligated Group, may be transferred in any fiscal year unless the Master Trustee receives an Officer's Certificate stating and demonstrating that immediately after such transfer:

(i) The Long-Term Debt Service Coverage Ratio for the most recent period of twelve (12) full consecutive calendar months preceding the proposed date of such transaction for which Financial Statements have been examined by Independent Certified Public Accountants, assuming such transaction actually occurred at the beginning of such period, would not have been reduced or, if reduced, would not have been reduced to less than 1.50; or

(ii) The average of the Long-Term Debt Service Coverage Ratios for the two periods of 12 full consecutive calendar months immediately succeeding the

proposed date of such transaction is expected to be greater than the Long-Term Debt Service Coverage Ratio for the most recent period of twelve (12) full consecutive calendar months preceding the proposed date of such transaction for which Financial Statements have been examined by Independent Certified Public Accountants; or

(iii) The Long-Term Debt Service Coverage Ratio for the period of 12 full consecutive calendar months immediately succeeding the proposed date of such transaction is expected to be greater than it would have been had the transaction not occurred;

(e) Dispositions may be made to another member of the Obligated Group;

(f) Dispositions may be made to an Affiliate that is not a Master Indenture Obligor if such Affiliate immediately thereafter becomes a Master Indenture Obligor;

(g) Dispositions may be made to a successor corporation pursuant to a merger or consolidation permitted by the Master Indenture;

(h) Dispositions may be made if such disposition will increase the projected Long-Term Debt Service Coverage Ratio of the Person making such Disposition in the fiscal year of such Person immediately following such Disposition over what such Long-Term Debt Service Coverage Ratio would have been in such fiscal year had such Disposition not occurred; or

(i) Dispositions of accounts receivable may be made to any Person not a member of the Obligated Group if such Disposition is made pursuant to an arms-length transaction or upon terms at least as favorable as an arms-length transaction.

Any loan to, guaranty for the benefit of, or any other financial arrangement for or with, any referring physician, staff physician or other professional staff person, in connection with the establishment of any professional staff or referral physician recruitment or similar program established by or for any member of the Obligated Group, shall not be deemed a transfer of assets or otherwise be prohibited by this section; provided, however, that such program shall be reviewed by nationally recognized bond counsel acceptable to the issuer of any federally tax-exempt obligations secured by a Master Indenture Obligation, and such counsel's opinion, to the effect that such program and any financial transaction undertaken thereunder shall not adversely affect the validity or tax exemption of any such obligations, shall be delivered to such issuer.

**Consolidation, Merger, Sale or Conveyance**

(a) Each member of the Obligated Group covenants that it will not merge or consolidate with, or sell or convey all or substantially all of its assets to, or acquire all or substantially all of the assets from, any Person which is not a member of the Obligated Group without the prior consent of TRHMC, and unless:

(i) Either a member of the Obligated Group will be the successor corporation, or if the successor corporation is not a member of the Obligated Group such successor corporation shall execute and deliver to the Master Trustee an appropriate

instrument, satisfactory to the Master Trustee, containing the agreement of such successor corporation to become a Master Indenture Obligor pursuant to the applicable provisions of the Master Indenture; and

(ii) No member of the Obligated Group immediately after such merger or consolidation, or such sale or conveyance, would be in default in the performance or observance of any covenant or condition of the Master Indenture; and

(iii) If all amounts due or to become due on any Related Bond have not been fully paid to the holder thereof, there shall have been delivered to the Master Trustee an Opinion of 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 delivery of such Related Bond, would not adversely affect the exemption from Federal income taxation of interest payable on such Related Bond; and

(iv) There is delivered to the Master Trustee an Officer's Certificate stating and demonstrating that (1) any condition described in paragraph (a) under the caption "Limitations on Incurrence of Additional Indebtedness" above has been satisfied for the issuance of an additional one dollar ($1.00) of Additional Indebtedness, assuming such merger, consolidation or sale of assets had occurred at the beginning of the most recent period of twelve (12) full consecutive calendar months for which Financial Statements are available or (2) the Long-Term Debt Service Coverage Ratio for the period of 12 full consecutive calendar months immediately succeeding the proposed date of the applicable transaction is expected to be greater than it would have been had the transaction not occurred; and

(v) There is delivered to the Master Trustee an Officer's Certificate stating and demonstrating that the unrestricted fund balance of the Obligated Group, calculated in accordance with generally accepted accounting principles consistently applied, immediately following such merger, consolidation, sale or conveyance will be not less than 90% of the unrestricted fund balance of the Obligated Group immediately preceding such merger, consolidation, sale or conveyance.

(b) In case of any such consolidation, merger, sale or conveyance and upon any such assumption by the successor corporation, such successor corporation shall succeed to and be substituted for its predecessor, with the same effect as if it had been named as a Master Indenture Obligor or had become a Master Indenture Obligor pursuant to the applicable provisions of the Master Indenture, as the case may be. Any successor corporation may cause to be signed, and may issue in its own name, Master Indenture Obligations; and upon the order of such successor corporation and subject to all the terms, conditions and limitations in the Master Indenture prescribed, the Master Trustee shall authenticate and shall deliver Master Indenture Obligations that such successor corporation shall have caused to be signed and delivered to the Master Trustee. All Outstanding Master Indenture Obligations so issued by such successor corporation under the Master Indenture shall in all respects have the same legal rank and benefit under the Master Indenture as Outstanding Master Indenture Obligations theretofore or thereafter issued in accordance with the terms of the Master Indenture as though all such Master Indenture

Obligations had been issued under the Master Indenture without any such consolidation, merger, sale or conveyance having occurred.

(c) In case of any such consolidation, merger, sale or conveyance such changes in phraseology and form (but not in substance) may be made in Master Indenture Obligations thereafter to be issued as may be appropriate.

(d) The Master Trustee may accept an Opinion of Counsel as conclusive evidence that any such consolidation, merger, sale or conveyance, and any such assumption, complies with the provisions of this section and that it is proper for the Master Trustee under the Master Indenture to join in the execution of any instrument required to be executed and delivered.

**Filing of Financial Statements, Certificate of No Default, Other Information**

Each member of the Obligated Group covenants that it will:

(a) As soon as practicable but in no event later than six (6) months after the end of each fiscal year, file with the Master Trustee a copy of its audited Financial Statements as of the end of such fiscal year accompanied by the opinion of Independent Certified Public Accountants. Such audited Financial Statements shall be prepared in accordance with generally accepted accounting principles and shall include such statements as are necessary for a fair presentation of unrestricted fund financial position, results of operations and changes in unrestricted fund balance and financial position as of the end of such fiscal year.

(b) As soon as practicable but in no event later than six (6) months after the end of each fiscal year, file with the Master Trustee, and with each Holder who may have so requested in writing or on whose behalf the Master Trustee may have so requested, an Officer's Certificate and a report of Independent Certified Public Accountants stating the Long-Term Debt Service Coverage Ratio for such fiscal year and stating that nothing has come to their attention which would lead them to believe that any Master Indenture Obligor is in default in the performance of any covenant contained in the Master Indenture or specifying each default of which the signers have knowledge.

(c) If an Event of Default shall have occurred and be continuing, (i) file with the Master Trustee such other financial statements and information concerning its operations and financial affairs (or of any consolidated or combined group of companies, including TRHMC and its consolidated or combined Affiliates, including any other Master Indenture Obligor) as the Master Trustee may from time to time reasonably request, excluding specifically donor records, patient records and personnel records and (ii) provide access to its facilities for the purpose of inspection by the Master Trustee during regular business hours or at such other times as the Master Trustee may reasonably request.

(d) Within ten (10) days after its receipt thereof, file with the Master Trustee a copy of each report which any provision of the Master Indenture required to be prepared by a Consultant or an Insurance Consultant.

**Parties Becoming Master Indenture Obligors**

Any Affiliate which is not a Master Indenture Obligor may become a Master Indenture Obligor, if:

(a) The Affiliate which is becoming a Master Indenture Obligor shall execute and deliver to the Master Trustee an appropriate instrument, satisfactory to the Master Trustee, containing the agreement of such Affiliate (i) to become a Master Indenture Obligor under the Master Indenture and thereby become subject to compliance with all provisions of the Master Indenture pertaining to a Master Indenture Obligor, including the performance and observance of all covenants and obligations of a Master Indenture Obligor thereunder, and (ii) guaranteeing to the Master Trustee and each other member of the Obligated Group that all Master Indenture Obligations Outstanding will be paid in accordance with the terms thereof and of the Master Indenture, when due.

(b) Each instrument executed and delivered to the Master Trustee in accordance with paragraph (a) shall be accompanied by an Opinion of Counsel, addressed to and satisfactory to the Master Trustee, to the effect that such instrument has been duly authorized, executed and delivered by such Affiliate, and constitutes a valid and binding obligation enforceable in accordance with its terms, except as limited by bankruptcy laws, insolvency laws and other laws affecting creditors' rights generally.

(c) The Master Trustee shall also have received (i) an Officer's Certificate stating and demonstrating that, (A) immediately upon any Affiliate becoming a Master Indenture Obligor, TRHMC and each other Master Indenture Obligor would not, as part of such transaction, be in default in the performance or observance of any covenant or condition to be performed or observed by it under the Master Indenture (including any covenant or provision applicable to the Master Indenture Obligors); (B)(1) TRHMC or any other Master Indenture Obligor could meet any condition described in paragraph (a) under the caption "Limitations on Incurrence of Additional Indebtedness" above for the incurrence of one dollar of Additional Indebtedness or (2) the Long-Term Debt Service Coverage Ratio for the period of 12 full consecutive calendar months immediately succeeding the proposed date of the applicable transaction is expected to be greater than it would have been had the transaction not occurred; and (C) the unrestricted fund balance of the Obligated Group, calculated in accordance with generally accepted accounting principles consistently applied, immediately upon an Affiliate becoming a Master Indenture Obligor will not be less than 90% of the unrestricted fund balance of the Obligated Group immediately preceding such Affiliate becoming a Master Indenture Obligor, and (ii) if all amounts due or to become due on any Related Bond have not been paid to the Holder thereof, an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that under then existing law the consummation of such transaction will not adversely affect the exemption from federal income taxation of interest payable on any such Related Bond.

(d) TRHMC shall have approved in writing any such Affiliate becoming a Master Indenture Obligor.

Persons that are not Affiliates and that are not Master Indenture Obligors may become Master Indenture Obligors upon compliance with the provisions of subparagraphs (a), (b), (c) and (d) above.

**Cessation of Status as Master Indenture Obligor**

(a) Each member of the Obligated Group covenants that it will not take any action which would cause it to cease to be a Master Indenture Obligor unless prior to taking any such action there is delivered to the Master Trustee an Officer's Certificate stating and demonstrating that immediately after such action (i) the Long-Term Debt Service Coverage Ratio for the period of 12 full consecutive calendar months immediately succeeding the proposed date of the applicable transaction is expected to be greater than it would have been had the transaction not occurred or (ii) TRHMC or any other Master Indenture Obligor could meet any condition described in paragraph (a) under the caption "Limitations on Incurrence of Additional Indebtedness" above for the incurrence of one dollar of Additional Indebtedness on the date immediately succeeding the proposed transaction.

(b) Anything in the preceding paragraph to the contrary notwithstanding, in no event shall any entity or entities the Total Revenues of which constituted more than 40% of the Total Revenues of the Obligated Group in the most recent year for which Financial Statements are available take any action which would cause such entity to cease being a member of the Obligated Group unless the Officer's Certificate delivered pursuant to the preceding paragraph either (A) meets condition (i) of such paragraph or (B) demonstrates that the remaining members of the Obligated Group (i) have a Capitalization Ratio not in excess of 65% or (ii) would have had a Long Term Debt Service Coverage Ratio greater than 1.50 in the most recent year for which Financial Statements are available. No member of the Obligated Group will take any action which would cause it to cease to be a Master Indenture Obligor without the prior written consent of TRHMC.

**Events of Default**

Event of Default, as used in the Master Indenture, shall mean any of the following events:

(a) Any Master Indenture Obligor shall fail to make any payment required by any Master Indenture Obligation when and as the same shall become due and payable, in accordance with the terms thereof and of the Master Indenture and any supplement thereto and any grace period with respect thereto shall have expired.

(b) Any Master Indenture Obligor shall fail duly to observe or perform any covenant or agreement on its part to be observed or performed under the Master Indenture for a period of thirty (30) days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to TRHMC by the Master Trustee, or to TRHMC and the Master Trustee by the Holders of at least 20% in aggregate principal amount of Master Indenture Obligations then Outstanding; provided, however, if said failure be such that it cannot be corrected within the applicable period, it shall not constitute a Default if corrective action is instituted by TRHMC or any other Master Indenture Obligor within the applicable period and diligently pursued until the failure is corrected and provided further, however, that there shall be no Event of Default by reason of the breach of the covenant set forth in paragraph (a) under the

caption "Debt Service Coverage Ratio" above if a Consultant has been hired in accordance with the provisions of paragraph (b) under such caption.

(c) An event of default shall occur under a Related Bond Indenture or upon a Related Bond.

(d) Any Master Indenture Obligor shall fail to make any required payment with respect to any Indebtedness the principal amount of which is greater than 5% of the Total Revenues of the Obligated Group (other than Non-Recourse Indebtedness), whether such Indebtedness now exists or shall hereafter be created, and any period of grace with respect thereto shall have expired, or an event of default as defined in any mortgage, indenture or instrument under which there may be issued, or by which there may be secured or evidenced, any Indebtedness, whether such Indebtedness now exists or shall hereafter be created, shall occur, provided, however, that such failure shall not constitute an Event of Default 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) TRHMC or such other Master Indenture Obligor, or both, in good faith commence proceedings to contest the existence or payment of such Indebtedness, and (ii) sufficient moneys are escrowed with a bank or trust company for the payment of such Indebtedness.

(e) The entry of a decree or order by a court having jurisdiction in the premises adjudging any Master Indenture Obligor a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of any Master Indenture Obligor under the Federal Bankruptcy Code or any other applicable federal or state law, or appointing a receiver, liquidator, assignee, or sequestrator (or other similar official) of any Master Indenture Obligor or of any substantial part of its Property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order unstayed and in effect for a period of ninety (90) consecutive days.

(f) The institution by any Master Indenture Obligor of proceedings to be adjudicated a bankrupt or insolvent, or the consent by it to the institution of bankruptcy or insolvency proceedings against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under the Federal Bankruptcy Code or any other similar applicable federal or state law, or the consent by it to the filing of any such petition or to the appointment of a receiver, liquidator, assignee, trustee or sequestrator (or other similar official) of any Master Indenture Obligor or of any substantial part of its Property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due.

(g) An Event of Default as defined in any agreement or instrument delivered by an Affiliate pursuant to Section 5.11(a) of the Master Indenture (Parties Becoming Master Indenture Obligors) shall occur and such event shall be continuing from and after the expiration of any grace period permitted with respect thereto.

**Acceleration; Annulment of Acceleration**

(a) Upon the occurrence and during the continuation of an Event of Default, the Master Trustee may and, upon the written request of the Holders of not less than 51% in aggregate principal amount of Master Indenture Obligations Outstanding, shall, by notice to the

members of the Obligated Group, declare all Master Indenture Obligations Outstanding immediately due and payable, anything in the Master Indenture Obligations or in the Master Indenture to the contrary notwithstanding. In such event, there shall be due and payable on the Master Indenture Obligations an amount equal to the total principal amount of all such Master Indenture Obligations, plus all interest accrued thereon and, to the extent permitted by applicable law, interest on such interest which accrues to the date of payment.

(b) At any time after the principal of the Master Indenture 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 then due (other than the principal then due only because of such declaration) of all Master Indenture Obligations Outstanding; (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 of such Master Indenture 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 Master Indenture Obligations or portions thereof not then due by their terms. No such annulment shall extend to or affect any subsequent Event of Default or impair any right consequent thereon.

**Additional Remedies and Enforcement of Remedies**

Upon the occurrence and continuance of any Event of Default, the Master Trustee may, and upon the written request of the Holders of not less than 51% in aggregate principal amount of the Master Indenture Obligations Outstanding, together with indemnification of the Master Trustee to its satisfaction therefor, shall proceed forthwith to protect and enforce its rights and the rights of the Holders of Master Indenture Obligations by such suits, actions or proceedings as the Master Trustee, being advised by counsel, shall deem expedient, including but not limited to:

(i) enforcement of the right of the Holders of Master Indenture Obligations to collect and enforce the payment of amounts due or becoming due under the Master Indenture Obligations;

(ii) suit upon all or any part of the Master Indenture Obligations;

(iii) civil action to require any person holding moneys, documents or other property pledged to secure payment of amounts due or to become due on the Master Indenture Obligations to account as if it were the trustee of an express trust for the Holders of Master Indenture Obligations;

(iv) civil action to enjoin any acts or things which may be unlawful or in violation of the rights of the Holders of Master Indenture Obligations; and

(v) enforcement of any other right of the Holders of Master Indenture Obligations conferred by law or by the Master Indenture.

**Establishment of Default Revenue Fund; Application of Revenues and Other Moneys after Default**

Upon the occurrence and during the continuance of an Event of Default, the Master Trustee shall maintain a separate fund established under the Master Indenture known as the "Default Revenue Fund."

During the continuance of an Event of Default all money received by the Master Trustee pursuant to any Master Indenture Obligation or pursuant to any right given or action taken under the provisions of Article VI of the Master Indenture (entitled "Default and Remedies"), after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses and advances incurred or made by the Master Trustee with respect thereto and all other fees and expenses of the Master Trustee under the Master Indenture, shall be deposited in the Default Revenue Fund and applied as follows:

(a) Unless the principal of all Outstanding Master Indenture Obligations shall have become or have been declared due and payable:

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

Second: To the payment to the persons entitled thereto of the unpaid principal installments of any Master Indenture Obligations which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and if the amounts available shall not be sufficient to pay in full all the Master Indenture Obligations due on any date, then to the payment thereof ratably, according to the amounts of principal installments due on such date, to the persons entitled thereto, without any discrimination or preference.

(b) If the principal of all Outstanding Master Indenture Obligations shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Master Indenture Obligations without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Master Indenture Obligation over any other Master Indenture Obligation, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference.

(c) If the principal of all Outstanding Master Indenture Obligations shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled, then, subject to the provisions of paragraph (b) of this section in the event that the principal of all Outstanding Master Indenture Obligations shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions of paragraph (a) of this section.

Whenever moneys are to be applied by the Master Trustee pursuant to the provisions of this section, such moneys shall be applied by it at such times, and from time to time, as the Master Trustee shall determine, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Master Trustee shall apply such moneys it shall fix the date upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such dates shall cease to accrue. The Master Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and shall not be required to make payment to the Holder of any unpaid Master Indenture Obligation until such Master Indenture Obligation shall be presented to the Master Trustee for appropriate endorsement of any partial payment or for cancellation if fully paid.

Whenever all Master Indenture Obligations and interest thereon have been paid in accordance with these provisions and all expenses and charges of the Master Trustee have been paid, any balance remaining shall be paid to the person entitled to receive the same; if no other person shall be entitled thereto then the balance shall be paid to the members of the Obligated Group, their successors, or as a court of competent jurisdiction may direct.

**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 Master Indenture Obligations then Outstanding shall have the right, at any time, by any instrument in writing executed and delivered to the Master Trustee and accompanied by indemnity satisfactory 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 thereof and provided further, that the Master Trustee shall have the right to decline to follow any such direction if the Master Trustee in good faith shall determine that the proceeding so directed would involve it in personal liability, and, in the sole judgment of the Master Trustee, is not unduly prejudicial to the interest of Holders of Master Indenture Obligations not joining in such direction and provided further that nothing in this section 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 is not inconsistent with such direction by Holders of Master Indenture Obligations.

**Supplemental Indentures Not Requiring Consent of Holders**

TRHMC, and every other Master Indenture Obligor, when authorized by resolution or other action of equal formality by its Governing Body, and the Master Trustee may, without the consent of or notice to any of the Holders, enter into one or more Supplemental Indentures 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, in the opinion of the Master Trustee, 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 that may lawfully be granted or conferred upon them.

(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 a series of Master Indenture Obligations as permitted under the Master Indenture.

(f) To obligate a successor to any Master Indenture Obligor, or an Affiliate or other Person becoming a Master Indenture Obligor, as permitted under the Master Indenture.

**Supplemental Indentures Requiring Consent of Holders**

(a) Other than Supplemental Indentures referred to in the preceding section and subject to the terms and provisions and limitations contained in this section, the Holders of not less than a majority in aggregate principal amount of the Master Indenture Obligations then Outstanding shall have the right, from time to time, anything contained in the Master Indenture to the contrary notwithstanding, to consent to and approve the execution by TRHMC and each other Master Indenture Obligor, when authorized by resolution or other action of equal formality by its Governing Body, and the Master Trustee of such Supplemental Indentures as shall be deemed necessary and desirable for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Master Indenture; provided, however, nothing in this section shall permit or be construed as permitting a Supplemental Indenture which would:

(i) extend the stated maturity of or time for paying interest on any Note or reduce the principal amount of or the redemption premium or rate of interest payable on any Note, or in comparable fashion change the payment terms of other Master Indenture Obligations, without the consent of the Holder of such Note or other Master Indenture Obligation;

(ii) modify, alter, amend, add to or rescind any of the terms or provisions contained in Article V of the Master Indenture (which contain covenants of the Master Indenture Obligors regarding, among other things, Additional Indebtedness, disposition of assets and entry into and departure from the Obligated Group) in any manner which would in the opinion of the Master Trustee, materially and adversely affect the interests of the Holders or any of them without the consent of the Holders of all Master Indenture Obligations then Outstanding; or

(iii) reduce the aggregate principal amount of Master Indenture Obligations then Outstanding the consent of the Holders of which is required to authorize such Supplemental Indentures without the consent of the Holders of all Master Indenture Obligations then Outstanding.

(b) If at any time the Master Indenture Obligors, or TRHMC on their behalf, shall request the Master Trustee to enter into a Supplemental Indenture, which request is accompanied by a copy of the resolution or other action of the Governing Body of each Master Indenture Obligor certified by its secretary or if it has no secretary, its comparable officer, and the proposed Supplemental Indenture and if within such period, not exceeding three years, as shall be prescribed by the Master Indenture Obligors, or TRHMC on their behalf, following the request, the Master Trustee shall receive an instrument or instruments purporting to be executed by the Holders of not less than the aggregate principal amount or number of Master Indenture Obligations specified in paragraph (a) above for the Supplemental Indenture in question which instrument or instruments shall refer to the proposed Supplemental Indentures and shall specifically consent to and approve the execution thereof in substantially the form of the copy thereof as on file with the Master Trustee, thereupon, but not otherwise, the Master Trustee may execute such Supplemental Indenture in substantially such form, without liability or responsibility to any Holder of any Master Indenture Obligation, whether or not such Holder shall have consented thereto.

(c) Any such consent shall be binding upon the Holder of the Master Indenture Obligation giving such consent and upon any subsequent Holder of such Master Indenture Obligation and of any Master Indenture Obligation issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the Holder of such Master Indenture Obligation giving such consent or by a subsequent Holder thereof by filing with the Master Trustee, prior to the execution by the Master Trustee of such Supplemental Indenture, such revocation. At any time after the Holders of the required principal amount or number of Master Indenture Obligations shall have filed their consents to the Supplemental Indenture, the Master Trustee shall make and file with TRHMC a written statement to that effect. Such written statement shall be conclusive that such consents have been so filed.

**PLEASE NOTE THAT, UNDER THE CIRCUMSTANCES DESCRIBED BELOW, SUBSECTION (a) ABOVE UNDER THIS CAPTION "Supplemental Indentures Requiring Consent of Holders" WILL BE REVISED AS FOLLOWS:**

Upon (i) the consent of 100% of the Holders of all Outstanding Master Indenture Obligations issued prior to May 1, 2005 or (ii) the payment in full of the principal of and interest on all Outstanding Master Indenture Obligations issued prior to May 1, 2005 or upon the defeasance of such Master Indenture Obligations pursuant to Article IX of the Indenture, Section 8.02(a) of the Indenture shall be amended and restated in its entirety, without any further action of TRHMC or the Master Trustee, to read as follows:

"(a) Other than Supplemental Indentures referred to in Section 8.01 (Supplemental Indentures Not Requiring Consent of Holders) and subject to the terms and provisions and limitations contained in this Article and not otherwise, the Holders of not less than a majority in aggregate principal amount of the Master Indenture Obligations then Outstanding shall have the right, from time to time, anything contained in the Master Indenture to the contrary notwithstanding, to consent to and approve the execution by TRHMC and each other Master Indenture Obligor, when authorized by resolution or other action of equal formality by its Governing Body, and the Master Trustee of such Supplemental Indentures as shall be deemed necessary and desirable for the purpose of modifying, altering, amending, adding to or

rescinding, in any particular, any of the terms or provisions contained in the Master Indenture, including, but not limited to the provisions contained in Article V hereof; provided, however, nothing in this section shall permit or be construed as permitting a Supplemental Indenture which would:

(i) extend the stated maturity of or time for paying interest on any Note or reduce the principal amount of or the redemption premium or rate of interest payable on any Note, or in comparable fashion change the payment terms of other Master Indenture Obligations, without the consent of the Holder of such Note or other Master Indenture Obligation; or

(ii) reduce the aggregate principal amount of Master Indenture Obligations then Outstanding the consent of the Holders of which is required to authorize such Supplemental Indentures without the consent of the Holders of all Master Indenture Obligations then Outstanding."

**Satisfaction and Discharge of Indenture**

If (i) TRHMC or any other Master Indenture Obligor shall deliver to the Master Trustee for cancellation all Master Indenture Obligations theretofore authenticated (other than any Master Indenture Obligations which shall have been mutilated, destroyed, lost or stolen and which shall have been replaced or paid as provided therein) and not theretofore canceled, or (ii) all Master Indenture Obligations not theretofore canceled or delivered to the Master Trustee for cancellation shall have become due and payable and have been paid, or (iii) the members of the Obligated Group shall deposit with the Master Trustee (or with a bank or trust company acceptable to the Master Trustee) as trust funds the entire amount of money or direct general obligations of, or obligations the payment of principal and interest on which are unconditionally guaranteed by, the United States of America, or both, the principal of and the interest on which, when due, will be sufficient to pay at maturity or upon redemption all Master Indenture Obligations not theretofore canceled or delivered to the Master Trustee for cancellation, including principal and interest due or to become due to such date of maturity or redemption date, as the case may be, and if in either case the members of the Obligated Group shall also pay or cause to be paid all other sums payable hereunder by the members of the Obligated Group, then the Master Indenture shall cease to be of further effect, and the Master Trustee, on demand of the members of the Obligated Group, and at the cost and expense of the members of the Obligated Group, shall execute proper instruments acknowledging satisfaction of and discharging the Master Indenture.

**Payment of Master Indenture Obligations**

Notwithstanding the discharge of the Master Indenture, the Master Trustee shall nevertheless retain such rights, powers and duties thereunder as may be necessary and convenient for the payment of amounts due or to become due on the Master Indenture Obligations and the registration, transfer, exchange and replacement of Master Indenture Obligations as provided therein. Nevertheless, any moneys held by the Master Trustee or any paying agent for the payment of amounts due on the Master Indenture Obligations remaining unclaimed for five years after all such amounts have become due and payable, whether at maturity or upon proceedings for redemption or by declaration as provided therein or otherwise,

shall then be paid to the members of the Obligated Group and the Holders of any Master Indenture Obligations not theretofore presented for payment shall thereafter be entitled to look only to the members of the Obligated Group for payment thereof as unsecured creditors and all liability of the Master Trustee or any paying agent with respect to such moneys shall thereupon cease.

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# APPENDIX E

# FORM OF APPROVING OPINION OF BOND COUNSEL

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# STEVENS & LEE

LAWYERS & CONSULTANTS

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June 28, 2012

$160,065,000 The Berks County Municipal Authority
Fixed Rate Revenue Bonds
(The Reading Hospital and Medical Center Project),
Series A of 2012

TO THE REGISTERED OWNERS OF THE ABOVE-CAPTIONED BONDS:

We have served as Bond Counsel in connection with the issuance by The Berks County Municipal Authority (the "Authority") of its Fixed Rate Revenue Bonds (The Reading Hospital and Medical Center Project), Series A of 2012 (the "Bonds") in the aggregate principal amount of $160,065,000.

The Bonds are being issued under the Municipality Authorities Act of the Commonwealth of Pennsylvania (Act of June 19, 2001, P.L. 22, as amended) (the "Act") and pursuant to the provisions of a Trust Indenture, dated as of June 1, 2012 (the "Indenture") between the Authority and Manufacturers and Traders Trust Company, as trustee (the "Trustee") for the purpose of making a loan of the proceeds of the Bonds to The Reading Hospital, a not-for-profit corporation organized under the laws of the Commonwealth of Pennsylvania (the "Hospital").

To effect the financing of a portion of the costs of the Project (as defined in the Indenture), the Authority and the Hospital will execute and deliver a certain Loan Agreement dated as of June 1, 2012 (the "Loan Agreement") pursuant to which the Authority will lend the proceeds of the Bonds to the Hospital and the Hospital will agree to repay such loan, in installment amounts, and at times, sufficient to, among other things, pay the principal of, and interest on, the Bonds when due. To evidence and secure the Hospital's obligations under the Loan Agreement, the Hospital and The Reading Hospital and Medical Center ("TRHMC") will issue its Series A of 2012 Master Note (Berks County Municipal Authority) dated June 28, 2012 to the Authority (the "Master Note"), under and pursuant to the terms of a Master Trust Indenture dated as of June 1, 1993, as previously amended and supplemented (the "Master Indenture"), and as further amended and supplemented by a Twenty-Fourth Supplemental Master Trust Indenture dated as of June 1, 2012 (the "Twenty-Fourth Supplemental Master Trust

Indenture"), among the Hospital, TRHMC and The Bank of New York Mellon Trust Company, N.A., as master trustee (the "Master Trustee").

Pursuant to an Assignment dated as of June 1, 2012 (the "Assignment"), all of the Authority's right, title and interest in and to the Loan Agreement (excluding the Authority's rights to, among other things, payment of its fees and expenses and to indemnification as set forth in the Loan Agreement) and the Master Note are being assigned to the Trustee for the benefit of the holders of the Bonds.

The Bonds issued this date are dated, mature and bear interest and are subject to redemption prior to maturity upon the terms and conditions stated therein and in the Indenture. The Bonds are issuable as registered bonds in denominations of $5,000 and integral multiples of $5,000 in excess thereof.

All capitalized terms and phrases used herein and not defined shall have the same meanings as in the Indenture.

In our capacity as Bond Counsel, we have reviewed the following:

1. The Act;

2. A certified copy of the Articles of Incorporation of the Authority;

3. Section 103 and Sections 141 through 150 of the Internal Revenue Code of 1986, as amended (the "Code") and the regulations and rulings promulgated thereunder;

4. The General Certificate of the Authority and all exhibits thereto;

5. The General Certificate of the Hospital and all exhibits thereto;

6. The General Certificate of TRHMC and all exhibits thereto;

7. The opinion of Masano Bradley in their capacity as counsel to the Authority;

8. The opinion of Roland Stock, LLC, in their capacity as counsel to the Hospital and TRHMC;

9. The Bond Purchase Contract dated June 14, 2012, executed by Merrill Lynch, Pierce, Fenner & Smith Incorporated, as representative, on behalf of itself, Morgan Stanley & Co. LLC and RBC Capital Markets, LLC, and accepted by the Authority, the Hospital and TRHMC;

10. A specimen copy of the Bonds;

11. An executed Confirmation Certificate of the Hospital and TRHMC delivered this day;

12. An executed Nonarbitrage Certificate and Compliance Agreement of the Authority delivered this day (the Confirmation Certificate and the Nonarbitrage Certificate and Compliance Agreement are collectively referred to herein as the "Tax Agreement");

13. Original counterparts or certified copies of the Loan Agreement, the Master Note, the Assignment, the Indenture and the Master Indenture; and

14. The information return of the Authority on Form 8038.

In addition, we have reviewed the opinion dated this date of Roland Stock, LLC, as counsel to the Hospital and TRHMC, regarding, among other matters, the current qualification of the Hospital and TRHMC as organizations described in Section 501(c)(3) of the Code. For purposes of our opinion, we are relying on the correctness of the opinions of Roland Stock, LLC and have assumed that each of the Hospital and TRHMC is (and at all times the Bonds are outstanding, will remain) an organization described in Section 501(c)(3) of the Code. Also, we have assumed that the proceeds of the Bonds will be expended as required by and described in the Loan Agreement, the Master Note, the Assignment, the Indenture, the Master Indenture, the Tax Agreement and the other relevant documents, agreements, instruments and certificates executed and delivered in connection with the issuance of the Bonds (collectively, the "Bond Documents"). Finally, we have assumed that each party to the Bond Documents will carry out all obligations imposed on such party by the Bond Documents in accordance with the terms thereof and that all representations and certifications contained in the Bond Documents are accurate, true and complete.

Certain agreements, requirements and procedures contained or referred to in the Indenture, the Loan Agreement, the Master Indenture, the Master Note, the Tax Agreement and other relevant documents, certificates and agreements may be changed and certain actions (including, without limitation, defeasance of Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

Based and in reliance upon the foregoing and our attendance at the closing held this day, and subject to the caveats, qualifications, exceptions and assumptions set forth herein, it is our opinion that, as of the date hereof, under existing law:

1. The Authority is a body corporate and politic, validly existing under the laws of the Commonwealth of Pennsylvania (the "Commonwealth"), with full power and authority to

execute and deliver the Indenture, the Loan Agreement and the Assignment and to issue and sell the Bonds.

2. The Indenture, the Loan Agreement and the Assignment have each been duly authorized, executed and delivered by the Authority and each such document constitutes the valid and binding obligation of the Authority enforceable against the Authority in accordance with their respective terms.

3. The issuance of the Bonds has been duly authorized by the Authority. The Bonds have been duly and validly authorized, executed and delivered by the Authority and, when duly authenticated by the Trustee, will constitute valid and binding obligations of the Authority enforceable against the Authority in accordance with their respective terms.

4. Under the laws of the Commonwealth, the Bonds and interest on the Bonds shall be free from taxation for State and local purposes within the Commonwealth, but this exemption does not extend to gift, estate, succession or inheritance taxes or any other taxes not levied directly on the Bonds or the interest thereon. Under the laws of the Commonwealth, profits, gains, or income derived from the sale, exchange or other disposition of the Bonds are subject to state and local taxation within the Commonwealth.

5. Interest on the Bonds is not includable in gross income under Section 103(a) of the Code.

6. Under the Code, interest on the Bonds held by persons other than corporations (as defined for federal tax purposes) does not constitute an item of tax preference under Section 57 of the Code and thus is not subject to alternative minimum tax for federal income tax purposes.

7. Under the Code, interest on the Bonds held by a corporation (as defined for federal tax purposes) does not constitute an item of tax preference under Section 57 of the Code; however, corporations subject to alternative minimum tax will be required to include, among other things, amounts treated as interest on the Bonds as an adjustment in computing alternative minimum taxable income in the manner provided in Section 56 of the Code.

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In connection with providing the foregoing opinions, we call to your attention the following:

A. The opinions expressed herein are based on an analysis of existing laws, regulations, rulings, and court decisions, all of which authorities are subject to change or revocation, possibly with retroactive effect, and cover certain matters not directly addressed by such authorities. We

have not undertaken to determine, or to inform any person, whether any actions taken or omitted after the date hereof or events occurring after the date hereof or any other matters come to our attention after the date hereof. Our engagement as Bond Counsel has concluded with the issuance of the Bonds and we disclaim any obligation to update this letter.

B. We have relied upon the representations, statements, expectations and certifications contained in the documents and other certified proceedings reviewed by us (including representations and expectations as to the use of proceeds of the Bonds), without undertaking to verify the same by independent investigation. We have also relied upon the genuineness, authenticity, truthfulness and completeness of all facts, information, representations, and certifications contained in the agreements, certificates, documents, records and other instruments executed and delivered at or in connection with the closing held this day and have assumed compliance with the state and federal securities law. We have also assumed the genuineness of the signatures appearing upon all the certificates, documents and instruments executed and delivered at the closing held this day.

C. In providing the opinion set forth in paragraph 5 above, we have assumed continuing compliance by the Authority, the Hospital and TRHMC with requirements of the Code and applicable regulations thereunder which must be met subsequent to the issuance of the Bonds in order that the interest thereon be and remain excluded from gross income for federal income tax purposes. The Authority, the Hospital and TRHMC have covenanted to comply with such requirements. Failure to comply with such requirements could cause the interest on the Bonds to be included in gross income retroactive to the date of issuance of such Bonds. We further advise you that we have not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may affect the tax status of interest on the Bonds.

D. In providing the opinions set forth in paragraphs 6 and 7 above, we have assumed continuing compliance by the Authority, the Hospital and TRHMC with requirements of the Code and applicable regulations thereunder which must be met subsequent to the issuance of the Bonds in order that the interest thereon not constitute an item of tax preference under Section 57 of the Code. Failure to comply with such requirements could cause the interest on the Bonds to constitute an item of tax preference under Section 57 of the Code retroactive to the date of issuance of the Bonds.

E. In connection with the opinions set forth in paragraphs 2 and 3 above, we call to your attention that the validity, legality, enforceability and binding nature of the documents referred to therein may be limited by: (a) the availability or unavailability of equitable remedies including, but not limited to, specific performance and injunctive relief; (b) the effect of bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or other similar laws or equitable principles generally affecting creditors' rights or remedies; and (c) the effect of certain laws and

judicial decisions limiting on constitutional or public policy grounds any provisions set forth in such documents purporting to waive rights of due process and legal procedure.

F. Except as specifically set forth above, we express no opinion regarding other federal income tax consequences arising with respect to the Bonds, including, without limitation, the treatment for federal income tax purposes of the gain or loss, if any, upon the sale, redemption or other disposition of the Bonds subject to original issue discount and the effects, if any, of certain other provisions of the Code which could result in collateral federal income tax consequences to certain investors as a result of adjustments in the computation of tax liability dependent on tax-exempt interest.

G. The Bonds are special limited obligations of the Authority, payable only out of amounts that may be held by or available to the Trustee under the Indenture, including amounts payable pursuant to the Loan Agreement and the Master Note. The Bonds do not pledge the credit or taxing power of the County of Berks, Pennsylvania, the Commonwealth or any political subdivision thereof. The Authority has no taxing power.

H. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver 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 property described in or as subject to the lien of the Indenture or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property.

I. We have not been engaged to verify, nor have we independently verified, nor do we herein express any opinion to the registered owners of the Bonds with respect to, the accuracy, completeness or truthfulness of any statements, certifications, information or financial statements set forth in the Preliminary Official Statement dated May 31, 2012 (the "Preliminary Official Statement"), or in the Official Statement dated June 14, 2012 (the "Official Statement") or with respect to any other materials used in connection with the offer and sale of the Bonds.

J. We express no opinion with respect to whether the Authority, the Hospital or TRHMC, in connection with the sale of the Bonds or the preparation of the Preliminary Official Statement or the Official Statement has made any untrue statement of a material fact or omitted to state a material fact necessary in order to make any statements made, not misleading. Further, we have not verified, and express no opinion as to the accuracy of, any "CUSIP" identification number which may be printed on any Bond.

STEVENS & LEE

# APPENDIX F

# FORM OF CONTINUING DISCLOSURE AGREEMENT

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## CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this "Disclosure Agreement") dated as of _____ 1, 2012 is executed and delivered by The Reading Hospital (the "Borrower"), The Reading Hospital and Medical Center ("TRHMC" and, together with the Borrower, the "Obligated Group"), and Manufacturers and Traders Trust Company, Harrisburg, Pennsylvania, as trustee (the "Trustee"), in connection with the issuance of $_____ aggregate principal amount of The Berks County Municipal Authority Fixed Rate Revenue Bonds (The Reading Hospital and Medical Center Project) Series A of 2012 (the "Bonds"). The Bonds are being issued pursuant to a Bond Indenture, dated as of _____ 1, 2012 (the "Indenture") between The Berks County Municipal Authority (the "Authority") and the Trustee. The Authority is lending the proceeds of the Bonds to the Borrower pursuant to a Loan Agreement dated as of _____ 1, 2012 (the "Loan Agreement") between the Authority and the Borrower. The payment obligations of the Borrower under the Loan Agreement initially will be evidenced by a promissory note (the "Note") issued pursuant to a Master Trust Indenture dated as of June 1, 1993, as amended and supplemented to the date hereof, between TRHMC and The Bank of New York Mellon Trust Company, N.A., as master trustee. The parties hereto agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Obligated Group and the Trustee for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Underwriters in complying with the Rule. The Obligated Group and the Trustee acknowledge that the Authority has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under this Disclosure Agreement, and has no liability to any person, including any Holder or Beneficial Owner of the Bonds, with respect to the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" means any Annual Report provided by each member of the Obligated Group pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

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

"Disclosure Representative" means the Chief Financial Officer of each member of the Obligated Group, or his or her designee, or such other person as such member shall designate in writing to the Dissemination Agent and the Trustee from time to time.

"Dissemination Agent" means the Trustee, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by each member of the Obligated Group and which has filed with the Trustee a written acceptance of such designation.

"EMMA" means Electronic Municipal Market Access system of the MSRB as provided at http://www.emma.msrb.org, or any similar system that is acceptable to or as may be prescribed by the MSRB for purposes of the Rule and approved by the SEC from time to time.

A current list of such systems may be obtained from the SEC at http://www.sec.gov/info/municipal/nrmsir.htm.

"Listed Events" means any of the events listed in Section 5(a) of this Disclosure Agreement.

"MSRB" means the Municipal Securities Rulemaking Board.

"Underwriters" means Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. LLC, and RBC Capital Markets, LLC, the underwriters for the Bonds.

"Rule" means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the Commonwealth of Pennsylvania.

SECTION 3. Provision of Annual Reports and Quarterly Reports.

(a) Each member of the Obligated Group shall, or shall cause the Dissemination Agent to, not later than 150 days after the end such member's fiscal year (presently June 30), commencing with the report for the 2012 Fiscal Year, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. In addition, each member of the Obligated Group shall, or shall cause the Dissemination Agent to, not later than 60 days after the end of each of such member's fiscal quarters, commencing with the report for the fiscal quarter ending June 30, 2012, provide to each Repository quarterly unaudited consolidated financial statements ("Quarterly Reports") which are consistent with the requirements of Section 4 of this Disclosure Agreement. In each case, the Annual Report and Quarterly Reports may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided, that the audited financial statements of the Obligated Group may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the fiscal year of any member of the Obligated Group changes, such member of the Obligated Group, as the case may be, shall give notice of such change in the same manner as for a Listed Event under Section 5(g) herein.

(b) Not later than 15 Business Days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, each member of the Obligated Group shall provide its Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). If by such date the Trustee has not received a copy of each member's Annual Report, the Trustee shall contact the applicable institution and the Dissemination Agent to determine if such member, as the case may be, is in compliance with the first sentence of this subsection (b).

(c) If the Trustee is unable to verify that an Annual Report has been provided to the MSRB by the date required in subsection (a), the Trustee shall send a notice to the MSRB in substantially the form attached as Exhibit 1.

SECTION 4. Content of Annual Reports.

(a) Each member of the Obligated Group's Annual Report shall contain or include by reference the following:

(i) The audited financial statements of each member of the Obligated Group for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated from time to time by the Financial Accounting Standards Board. If audited financial statements of any member of the Obligated Group are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(ii) For the prior year, the financial information and operating data set forth under the following headings in Appendix A to the Official Statement, to the extent not included in the financial statements of the respective member of the Obligated Group included in the Annual Report:

- Medical Staff,
- Employees,
- Historical Utilization of Services,
- Summary of Financial Information – Summary of Revenues and Expenses – Obligated Group,
- Summary of Financial Information – Sources of Revenue, and
- Summary of Financial Information – Management's Discussion and Analysis.

(b) Each Quarterly Report shall contain the unaudited financial statements of each member of the Obligated Groups for the applicable fiscal quarter, prepared in accordance with generally accepted accounting principles (except for the exclusion of footnotes required under generally accepted accounting principles), including all adjustments necessary to present fairly the financial position and operating results of the Company for such fiscal quarter.

(c) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which any member of the Obligated Group is an "obligated person" (as defined by the Rule), which have been filed with the MSRB or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. TRHMC and the Borrower shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) In a timely manner not in excess of ten business days after the occurrence of the event, the Obligated Group shall file, or deliver to the Dissemination Agent for filing, with the MSRB notice of the occurrence of any of the following events with respect to the Bonds:

1. principal and interest payment delinquencies;

2. non-payment related defaults, if material;

3. Unscheduled draws on debt service reserves reflecting financial difficulties;

4. Unscheduled draws on credit enhancements reflecting financial difficulties;

5. Substitution of credit or liquidity providers, or their failure to perform;

6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701–TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;

7. Modifications to rights of the Holders of the Bonds, if material;

8. Bond calls, if material, and tender offers;

9. Defeasances;

10. Release, substitution, or sale of property securing repayment of the Bonds, if material;

11. Rating changes;

12. Bankruptcy, insolvency, receivership or similar event of a member of the Obligated Group;

13. The consummation of a merger, consolidation, or acquisition involving a member of the Obligated Group or the sale of all or substantially all of the assets of the Obligated Group, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Concurrently with the delivery to the MSRB of any information required pursuant to Section 3(a), Section 3(b), or Section 5(a) above, the Dissemination Agent shall file a certificate with the Obligated Group, the Authority, and (if the Dissemination Agent is not the Trustee) the Trustee certifying that such information has been provided to the MSRB pursuant to this Disclosure Agreement and stating the date it was provided.

(c) The Trustee shall, within one Business Day of obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform such person of the event, and request that such member of the Obligated Group, as the case may be, promptly notify the Trustee in writing whether or not to report the event pursuant to subsection (g).

(d) Whenever any member of the Obligated Group obtains knowledge of the occurrence of a Listed Event, because of a notice from the Trustee pursuant to subsection (c) or otherwise, such member, as the case may be, shall as soon as possible determine if such event would be material under applicable federal securities laws.

(e) If any member of the Obligated Group has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, such member, as the case may be, shall promptly notify the Trustee in writing. Such notice shall instruct the Trustee to report the occurrence pursuant to subsection (g).

(f) If in response to a request under subsection (c), any member of the Obligated Group determines that the Listed Event would not be material under applicable federal securities laws, such member, as the case may be, shall so notify the Trustee in writing and instruct the Trustee not to report the occurrence pursuant to subsection (g).

(g) If the Trustee has been instructed by any member of the Obligated Group to report the occurrence of a Listed Event, the Trustee shall file a notice of such occurrence with the MSRB with a copy to the Obligated Group. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the Holders of affected Bonds pursuant to the Indenture.

SECTION 6. Termination of Reporting Obligation.

The obligations of each member of the Obligated Group under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If the Obligated Group's obligations under the Note are assumed in full by some other entity, such person shall be responsible for compliance with this Disclosure Agreement in the same manner as if it were such Obligated Group member, and such original Obligated Group member shall have no further responsibility hereunder. If the termination or substitution occurs prior to the final maturity of the Bonds, the Obligated Group shall give notice of such termination or substitution in the same manner as for a Listed Event under Section 5(g).

SECTION 7. Dissemination Agent. Any member of the Obligated Group may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by such member pursuant to this Disclosure Agreement. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent. The initial Dissemination Agent shall be the Trustee.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Obligated Group and the Trustee may amend this Disclosure Agreement (and the Trustee shall agree to any amendment so requested by the Obligated Group) and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders, or (ii) does not, in the opinion of the Trustee or nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, each member of the Obligated Group shall describe such amendment in its next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Obligated Group. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(g), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent any member of the Obligated Group from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If any member of the Obligated Group chooses to include any information in any

Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Agreement, such member, as the case may be, shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of any member of the Obligated Group or the Trustee to comply with any provision of this Disclosure Agreement, the Trustee may (and, at the request of the Underwriters or the Holders of at least 25% aggregate principal amount of Outstanding Bonds, shall), or any Holder or Beneficial Owner of the Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause such member of the Obligated Group or the Trustee, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture or the Loan Agreement and the sole remedy under this Disclosure Agreement in the event of any failure of any member of the Obligated Group or the Trustee to comply with this Disclosure Agreement shall be an action to compel specific performance.

SECTION 11. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. The Dissemination Agent (if other than the Trustee or the Trustee in its capacity as Dissemination Agent) shall have no responsibility or liability for the Obligated Group's compliance with this Disclosure Agreement or in connection with the Obligated Group's obligations under this Disclosure Agreement, or for the compliance of this Disclosure Agreement or the contents of the Annual Report or Quarterly Report or notices provided hereunder with the requirements of the Rule. The Dissemination Agent shall have only those duties specifically set forth in this Disclosure Agreement and no further duties or responsibilities shall be implied. The Dissemination Agent shall not have any liability under, nor duty to inquire into the terms and provisions of any agreement or instructions, other than as outlined in the Disclosure Agreement. The Dissemination Agent may rely and shall be protected in acting or refraining from acting upon any written notice, instruction or request furnished to it hereunder and believed by it to be genuine and to have been signed or presented by the proper party or parties. The Dissemination Agent shall be under no duty to inquire into or investigate the validity, accuracy or content of any such document. The Dissemination Agent shall not be liable for any action taken or omitted by it in good faith unless a court of competent jurisdiction determines that the Dissemination Agent's own negligence or willful misconduct was the primary cause of any loss to the Obligated Group. The Dissemination Agent shall not incur any liability for following the instructions herein contained or expressly provided for, or written instructions given by the parties hereto. In the administration of this Disclosure Agreement, the Dissemination Agent may execute any of its powers and perform its duties hereunder directly or through agents or attorneys and may consult with counsel, accountants and other skilled persons to be selected and retained by it. The Dissemination Agent shall not be liable for anything done, suffered or omitted in good faith by it in accordance with the advice or opinion of any such counsel, accountants or other skilled persons. The Dissemination Agent may resign and be discharged of its duties and obligations hereunder by giving notice in writing of such resignation specifying a date when such resignation shall take effect. The Obligated Group agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents (the "Indemnitees") harmless against any claim, loss, expense or liability (including reasonable attorneys' fees and expenses and the allocated costs and expenses of in-house counsel and legal staff) ("Losses") that may be

imposed on, incurred by, or asserted against the Indemnitees or any of them for following any instruction or other direction upon which the Dissemination Agent is authorized to rely pursuant to the terms of this Disclosure Agreement. In addition to and not in limitation of the immediately preceding sentence, the Obligated Group also covenants and agrees to indemnify and hold the Indemnitees and each of them harmless from and against any and all Losses that may be imposed on, incurred by, or asserted against the Indemnitees or any of them in connection with or arising out of the Dissemination Agent's performance under this Disclosure Agreement, except to the extent such Losses resulted from the Dissemination Agent's own negligence or willful misconduct. The provisions of this Section 11 shall survive the termination of this Disclosure Agreement and the resignation or removal of the Dissemination Agent for any reason. Anything in this Disclosure Agreement to the contrary notwithstanding, in no event shall the Dissemination Agent be liable for special, indirect or consequential loss or damage of any kind whatsoever (including but not limited to lost profits), even if the Dissemination Agent has been advised of such loss or damage and regardless of the form of action. Any corporation or association into which the Dissemination Agent in its individual capacity may be merged or converted or with which it may be consolidated, or any corporation or association resulting from any merger, conversion or consolidation to which the Dissemination Agent in its individual capacity shall be a party, or any corporation or association to which all or substantially all the corporate trust business of the Dissemination Agent in its individual capacity may be sold or otherwise transferred, shall be the Dissemination Agent under this Disclosure Agreement without further act.

This Section 11 shall survive termination of this Agreement and the resignation or removal of the Trustee for any reason.

SECTION 12. Indemnification of Authority. The Authority shall have no responsibility or liability for the Obligated Group's compliance with this Disclosure Agreement or in connection with the Obligated Group's obligations under this Disclosure Agreement, or for the compliance of this Disclosure Agreement or the contents of the Annual Report or Quarterly Report or notices provided hereunder with the requirements of the Rule. The Obligated Group agrees to indemnify and save the Authority, its members, officers, employees and agents, harmless against any claim, loss, expense (including reasonable attorneys' fees and expenses) or liability arising from or based upon (i) any breach by the Obligated Group of this Disclosure Agreement or (ii) any Annual Report or Quarterly Report or notices provided under this Disclosure Agreement or any omission therefrom.

SECTION 13. Transmission of Information and Notices. Unless otherwise required by law, all documents provided to the MSRB in compliance with Sections 3 and 4 hereof shall be provided to the MSRB in an electronic format and shall be accompanied by identifying information, in each case as prescribed by the MSRB. As of the date of this Disclosure Agreement, the MSRB has established EMMA as its continuing disclosure service for purposes of the Rule, and unless and until otherwise prescribed by the MSRB, all documents provided to the MSRB in compliance with Sections 3 and 4 hereof shall be submitted through EMMA in the format prescribed by the MSRB. The filings required to be made pursuant to Sections 3 and 4 hereof shall be made by, or at the direction of, such member of TRHMC's financial staff as may be designated by its Chief Financial Officer.

SECTION 14. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To TRHMC:

The Reading Hospital and Medical Center
Sixth Avenue and Spruce Streets
West Reading, Pennsylvania 19611
Attention: Richard W. Jones, Senior Vice President,
Chief Financial Officer and Treasurer
Telephone: (610) 988-8181
Fax: (610) 988-5193

To the Borrower:

The Reading Hospital
Sixth Avenue and Spruce Streets
West Reading, Pennsylvania 19611
Attention: Richard W. Jones, Senior Vice President,
Chief Financial Officer and Treasurer
Telephone: (610) 988-8181
Fax: (610) 988-5193

To the Trustee:

Manufacturers and Traders Trust Company
213 Market Street
Mail Code: PA1-HM22
Harrisburg, Pennsylvania 17101
Attention: Corporate Trust Department
Telephone: (717) 255-2264
Fax: (717) 231-2615

To the Dissemination Agent:

Manufacturers and Traders Trust Company
213 Market Street
Mail Code: PA1-HM22
Harrisburg, Pennsylvania 17101
Attention: Corporate Trust Department
Telephone: (717) 255-2264
Fax: (717) 231-2615

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

SECTION 15. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Authority, the Obligated Group, the Trustee, the Dissemination Agent, the Underwriters,

and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 16. Severability. In case any one or more of the provisions of this Agreement shall for any reason be held to be illegal or invalid, such illegality or invalidity shall not affect any other provision of this Agreement, but this Agreement shall be construed and enforced as if such illegal or invalid provision had not been contained herein.

SECTION 17. Governing Law. This Disclosure Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania.

SECTION 18. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Continuing Disclosure Agreement to be executed and delivered as of the date first indicated above.

THE READING HOSPITAL

By:_____
Name:
Title:

THE READING HOSPITAL AND MEDICAL CENTER

By:_____
Name:
Title:

MANUFACTURERS AND TRADERS TRUST COMPANY, as Trustee

By:_____
Name:
Title:

**EXHIBIT 1**

**NOTICE TO REPOSITORIES OF**
**FAILURE TO FILE ANNUAL REPORT**

| | |
|---|---|
| Name of Issuer: | The Berks County Municipal Authority |
| Name of Bond Issue: | The Berks County Municipal Authority Fixed Rate Revenue Bonds (The Reading Hospital and Medical Center Project), Series A of 2012 |
| Name of Borrower: | The Reading Hospital |
| Date of Issuance: | _____, 2012 |
| Trustee: | Manufacturers and Traders Trust Company |

NOTICE IS HEREBY GIVEN that [TRHMC] [the Borrower] has not provided an Annual Report with respect to the above-named Bonds as required by Section 3(a) of the Continuing Disclosure Agreement dated as of _____ 1, 2012 between the Issuer and the Trustee. [TRHMC] [the Borrower] anticipates that the Annual Report will be filed by _____.

Dated _____, 20___

Manufacturers and Traders Trust Company,
as Trustee on behalf of [TRHMC] [the Borrower]

Cc: [TRHMC] [the Borrower]

The Reading Hospital and Medical Center



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