NEW ISSUE—BOOK ENTRY ONLY

RATINGS: Moody's: "Aa3"
S&P: "AA-"
Fitch: "AA-"
(See "RATINGS" herein)

In the opinion of Co-Bond Counsel under existing laws, regulations and judicial decisions, interest on the 2008A Bonds is excluded from gross income for federal income tax purposes. Furthermore, in the opinion of Co-Bond Counsel, interest on the 2008A Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, with respect to corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on such corporations. Furthermore, in the opinion of Co-Bond Counsel, under the laws of the Commonwealth of Pennsylvania, as presently enacted and construed, the 2008A Bonds are exempt from personal property taxes in Pennsylvania and interest on the 2008A Bonds is exempt from Pennsylvania personal income tax and from Pennsylvania corporate net income tax. Co-Bond Counsel's opinion is subject to continuing compliance with tax covenants contained in the Bond Indenture and the Agreement to satisfy certain provisions of the Internal Revenue Code of 1986, as amended (See "TAX EXEMPTION AND OTHER TAX MATTERS").

$490,825,000
ALLEGHENY COUNTY HOSPITAL DEVELOPMENT AUTHORITY
UNIVERSITY OF PITTSBURGH MEDICAL CENTER REVENUE BONDS
SERIES 2008A

DATED: Date of Delivery **MATURITY: As shown herein**

The 2008A Bonds will be issued as fully registered bonds, and shall initially be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("***DTC***"), New York, New York that will act as securities depository for the 2008A Bonds. Purchasers will not receive certificates representing their ownership interest in the 2008A Bonds. So long as Cede & Co. is the registered owner, as nominee of DTC, references herein to "Owners", "registered owners" or "Bondholders" shall mean Cede & Co., as aforesaid, and shall not mean the beneficial owners of the 2008A Bonds. Beneficial ownership of the 2008A Bonds may be acquired in denominations of $5,000 or any integral multiple thereof.

Principal of and interest on the 2008A Bonds will be paid by The Bank of New York Trust Company, N.A., Pittsburgh, Pennsylvania, as trustee (the "***Bond Trustee***"). So long as DTC or its nominee, Cede & Co., is the registered owner, such payments will be made directly to Cede & Co. Disbursements of such payments to the DTC Participants is the responsibility of DTC and disbursements of such payments to the beneficial owners is the responsibility of the DTC Participants and the Indirect Participants, as more fully described herein. Interest will be payable on September 1, 2008 and semiannually on each March 1 and September 1 thereafter by check mailed to the registered Bondholders as of the close of business on the applicable record date preceding each Interest Payment Date. The 2008A Bonds are subject to extraordinary optional redemption prior to maturity as set forth herein.

The 2008A Bonds will be issued pursuant to a Trust Indenture dated as of March 1, 2008 (the "***Bond Indenture***") between the Bond Trustee and the Allegheny County Hospital Development Authority (the "***Authority***"). The principal of, premium, if any, and interest on the 2008A Bonds will be payable solely from, and secured by, the Authority's pledge and assignment to the Bond Trustee of the Trust Estate, which includes payments to be made under a Loan Agreement dated as of March 1, 2008 (the "***Agreement***") between the Authority and UPMC (the "***Corporation***"), a Pennsylvania nonprofit corporation. The payment obligation of the Corporation under the Agreement will be evidenced through the issuance by the Corporation of a promissory note (the "***2007 MTI Note***") to the Authority and assigned to the Bond Trustee, pursuant to the terms of a Master Indenture dated as of May 1, 2007, as previously supplemented (the "***2007 Master Indenture***"), between the Corporation and The Bank of New York Trust Company, N.A., as master trustee. The Corporation, UPMC Presbyterian Shadyside, Magee Womens Hospital of University of Pittsburgh Medical Center, UPMC Passavant and UPMC St. Margaret are members of the obligated group under the 2007 Master Indenture (the "***2007 Obligated Group***"). The 2007 MTI Note will be an obligation issued under the 2007 Master Indenture secured by a gross revenue pledge of the 2007 Obligated Group.

UPMC | University of Pittsburgh Medical Center

THE 2008A BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM THE TRUST ESTATE. NEITHER THE PRINCIPAL OF THE 2008A BONDS, NOR THE INTEREST ACCRUING THEREON, SHALL EVER CONSTITUTE A GENERAL INDEBTEDNESS OF THE AUTHORITY OR AN INDEBTEDNESS OF THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION OR INSTRUMENTALITY THEREOF, INCLUDING THE COUNTY OF ALLEGHENY, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION WHATSOEVER OR SHALL EVER CONSTITUTE OR GIVE RISE TO A PECUNIARY LIABILITY OF THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION OR INSTRUMENTALITY THEREOF, INCLUDING THE COUNTY OF ALLEGHENY, NOR WILL THE 2008A BONDS BE, OR BE DEEMED TO BE, AN OBLIGATION OF THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION OR INSTRUMENTALITY THEREOF, INCLUDING THE COUNTY OF ALLEGHENY. THE AUTHORITY HAS NO TAXING POWER.

The 2008A Bonds are offered when, as and if issued by the Authority and accepted by the Underwriters, subject to prior sale, withdrawal of or modification of the offer without notice, and subject to the approving legal opinion of Eckert Seamans Cherin & Mellott, LLC, and Houston Harbaugh, P.C, both of Pittsburgh, Pennsylvania, Co-Bond Counsel, to be furnished upon delivery of the 2008A Bonds. Certain legal matters will be passed upon for the Authority by its counsel, Thorp Reed & Armstrong, LLP, Pittsburgh, Pennsylvania, for the Corporation by its counsel, William G. Shaffner, Esquire, and for the Underwriters by Buchanan Ingersoll & Rooney PC, Pittsburgh, Pennsylvania. It is expected that the 2008A Bonds will be available for delivery on or about March 27, 2008.

This cover page is for quick reference only and does not summarize the issue. Investors must read the entire Official Statement to obtain information essential to an informed investment decision. Unless indicated, capitalized terms have the meanings given in the Official Statement.

MELLON FINANCIAL MARKETS LLC RBC CAPITAL MARKETS

NATCITY INVESTMENTS, INC.

The date of this Official Statement is March 17, 2008.

$490,825,000
ALLEGHENY COUNTY HOSPITAL DEVELOPMENT AUTHORITY
UNIVERSITY OF PITTSBURGH MEDICAL CENTER REVENUE BONDS
SERIES 2008A

MATURITIES, INTEREST RATES, PRICES AND CUSIPS

Due	Principal Amount	Interest Rate	Price	CUSIP
09/01/2008	14,875,000	4.00%	100.743%	01728A L79
03/01/2009	3,000,000	4.00%	101.652%	01728A L87
09/01/2009	15,425,000	5.00%	102.645%	01728A L95
03/01/2010	3,000,000	4.00%	101.295%	01728A M29
09/01/2010	18,200,000	5.00%	103.861%	01728A M37
09/01/2011	115,000,000	5.00%	104.638%	01728A M45
09/01/2011	10,000,000	4.00%	101.438%	01728A N44
09/01/2012	16,475,000	5.00%	104.928%	01728A M52
09/01/2013	10,275,000	5.00%	105.081%	01728A M60
09/01/2014	179,550,000	5.00%	104.979%	01728A M78
09/01/2015	13,950,000	5.00%	104.796%	01728A M86
09/01/2016	25,500,000	5.00%	104.398%	01728A M94
09/01/2017	32,300,000	5.00%	103.648%	01728A N28
09/01/2018	33,275,000	5.00%	103.029%	01728A N36

REGARDING USE OF THIS OFFICIAL STATEMENT

The information set forth herein under the caption "THE AUTHORITY" has been provided by the Authority. The information set forth herein under the caption "BOOK ENTRY ONLY SYSTEM" has been furnished by The Depository Trust Company. All other information set forth herein has been provided by the Corporation or obtained from other sources identified herein that are believed to be reliable. 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 Depository Trust Company, or the Corporation since the date hereof. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representation other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the Authority, the Underwriters, the Corporation or any other person. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2008A Bonds by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

THE 2008A BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAVE THE BOND INDENTURE OR THE MASTER INDENTURES BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE 2008A BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAWS OF THE STATES IN WHICH THE 2008A BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THESE STATES NOR ANY OF THEIR AGENCIES NOR THE SECURITIES AND EXCHANGE COMMISSION HAS PASSED UPON THE MERITS OF THE 2008A BONDS OR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

THE UNDERWRITERS HAVE PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT. THE UNDERWRITERS HAVE REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS A PART OF, THEIR RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITERS DO NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

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" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Section 27A of the United States Securities Act of 1933, as amended (the "Securities Act"). Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVES KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH 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. THE CORPORATION DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED, OCCUR.

In connection with the offering of the 2008A Bonds, the Underwriters may over allot or effect transactions which stabilize or maintain the market price of the 2008A 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 notice.

The 2008A Bonds may be offered and sold to certain dealers (including dealers depositing the 2008A Bonds into investment accounts) and to others at prices lower than the public offering prices.

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER THE BLUE SKY LAWS AND REGULATIONS WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF THAT STATE THAT ANY DOCUMENT FILED UNDER THE UNIFORM SECURITIES ACT (RSA SECTION 421-B) IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR TRANSACTION MEANS THAT THE SECRETARY OF THE STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF SECTION 421-B:20 OF THE UNIFORM SECURITIES ACT OF NEW HAMPSHIRE.

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OFFICIAL STATEMENT

$490,825,000
ALLEGHENY COUNTY HOSPITAL DEVELOPMENT AUTHORITY
University of Pittsburgh Medical Center Revenue Bonds
Series 2008A

INTRODUCTION

This Introduction is subject in all respects to the more complete information set forth in this Official Statement. The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each such document for the complete details of all terms and conditions. All statements herein regarding any such document are qualified in their entirety by reference to such document. See APPENDIX C for the definitions of certain capitalized terms used herein. Each of the Appendices hereto is an integral part of this Official Statement and should be read in its entirety.

Purpose of the Official Statement. The purpose of this Official Statement, including the cover page and Appendices hereto (the "***Official Statement***"), is to furnish certain information with respect to the sale and delivery of $490,825,000 aggregate principal amount of Allegheny County Hospital Development Authority, University of Pittsburgh Medical Center Revenue Bonds, Series 2008A (the "***2008A Bonds***").

Plan of Financing. The 2008A Bonds will be issued under and secured by a Trust Indenture dated as of March 1, 2008 (the "***Bond Indenture***"), by and between the Allegheny County Hospital Development Authority (the "***Authority***") and The Bank of New York Trust Company, N.A., as bond trustee (the "***Bond Trustee***"). Proceeds of the 2008A Bonds (as hereinafter defined) will be loaned by the Authority to UPMC, a Pennsylvania nonprofit corporation doing business as the University of Pittsburgh Medical Center (the "***Corporation***") pursuant to a Loan Agreement, dated as of March 1, 2008 (the "***Loan Agreement***"), by and between the Authority and the Corporation. The proceeds of such loan will be used to provide the funds necessary to undertake a project (the "***Project***") consisting of: (a) refunding certain series of bonds (the "***Prior Bonds***", as detailed below under the heading "THE PLAN OF FINANCING") previously issued for the benefit of the Corporation and its Subsidiary Hospitals (defined below); (b) funding certain capital projects of the Corporation and its Subsidiary Hospitals; and (c) the payment of the costs of issuing the 2008A Bonds. For a more detailed description of the uses of 2008A Bond proceeds, see "ESTIMATED SOURCES AND USES OF FUNDS" herein. For a more detailed description of the Project, see "PLAN OF FINANCING" herein.

The Corporation and System. The Corporation is a Pennsylvania non-profit corporation which was established in 1982 exclusively for charitable, educational and scientific purposes and is exempt from federal income taxation under Section 501(a) of the Internal Revenue Code of 1986, as amended (the "***Code***"), as an organization described in Section 501(c)(3) of the Code. The Corporation is a supporting organization pursuant to Section 509(a)(3) of the Code with respect to its affiliated exempt hospitals and with respect to the University of Pittsburgh -- Of the Commonwealth System of Higher Education (the "***University***"). The Corporation is the parent corporation of its Subsidiary Hospitals and numerous other owned and controlled entities (collectively, the "***System***"). The System is the largest health care system in Pennsylvania and operates primarily in Western Pennsylvania, while providing specialized services to patients from throughout the United States and the world.

The System includes UPMC, UPMC Presbyterian Shadyside and the following hospitals in Western Pennsylvania: Children's Hospital of Pittsburgh of the UPMC Health System ("***Children's***"); UPMC Bedford Memorial; UPMC Braddock; UPMC Horizon; UPMC McKeesport; UPMC Mercy; UPMC Northwest, UPMC Passavant; UPMC St. Margaret; UPMC South Side and Magee-Womens Hospital of University of Pittsburgh Medical Center (each a "***Subsidiary Hospital***" and collectively, the "***Subsidiary Hospitals***").

The Corporation, UPMC Presbyterian Shadyside, Magee-Womens Hospital of University of Pittsburgh Medical Center, UPMC Passavant and UPMC St. Margaret are the sole obligated group members under the 2007 Master Indenture (defined below). The Corporation and UPMC Presbyterian Shadyside are also obligated group members under the 1995 Master Indenture (defined below).

The Authority. The Authority is a body politic and corporate, constituting a public corporation and a governmental instrumentality of the Commonwealth of Pennsylvania, created pursuant to the Municipality Authorities Act, as amended (the "***Act***"). See "THE AUTHORITY" herein for certain information concerning the Authority.

Sources of Payment and Security for the 2008A Bonds. The 2008A Bonds are limited obligations of the Authority, payable solely from the Trust Estate created under the Bond Indenture which includes payments to be made by the Corporation under the Loan Agreement. Under the Loan Agreement, the Corporation is obligated to make loan payments which have been scheduled to be sufficient to pay, inter alia, the principal of and interest on the 2008A Bonds, when due, and certain other payments. The payment obligations of the Corporation under the Loan Agreement with respect to the 2008A Bonds will be evidenced through the issuance of two promissory notes, each in the aggregate principal amount of the 2008A Bonds.

The first promissory note (the "***2007 MTI Note***") shall be issued pursuant to a Master Trust Indenture dated as of May 1, 2007, as previously supplemented and as supplemented by a Supplemental Master Trust Indenture No. 5 dated as of March 1, 2008 (collectively, the "***2007 Master Indenture***"), between the Corporation, on behalf of itself and as Obligated Group Agent, as defined therein, and The Bank of New York Trust Company, N.A., as master trustee thereunder. As of the date of this Official Statement, the Corporation, UPMC Presbyterian Shadyside (which includes Western Psychiatric Institute and Clinic, the former UPMC Presbyterian, UPMC Shadyside, Eye and Ear Hospital and UPMC Montefiore), Magee-Womens Hospital of University of Pittsburgh Medical Center, UPMC Passavant and UPMC St. Margaret constitute the members of the obligated group under the 2007 Master Indenture (such obligated group of members, together with any future members of such obligated group, is hereafter referred to herein as the "***2007 Obligated Group***"). The 2007 MTI Note shall be an obligation of the 2007 Obligated Group, issued in favor of the Authority, assigned to the Bond Trustee and secured by a lien upon the gross revenues of the 2007 Obligated Group. See "SOURCES OF PAYMENT AND SECURITY FOR THE 2008A BONDS" herein.

The second promissory note (the "***1995 MTI Note***") shall be issued pursuant to the Master Trust Indenture dated as of December 1, 1995, as amended and supplemented by, among other things, a Supplemental Master Trust Indenture No. 45 dated as of March 1, 2008 (collectively, the "***1995 Master Indenture***"), between the Corporation, on behalf of itself and as Obligated Group Representative, as defined therein, and The Bank of New York Trust Company, N.A. (successor master trustee to Mellon Bank, N.A.), as master trustee thereunder. As of the date of this Official Statement, the Corporation and UPMC Presbyterian Shadyside constitute the members of the obligated group under the 1995 Master Indenture (such obligated group of members, together with any future members of such obligated group, is hereafter referred to herein as the "***1995 Obligated Group***"). The 1995 MTI Note shall be an obligation of the 1995 Obligated Group, issued in favor of the Authority, assigned to the Bond Trustee and secured by a lien upon the gross revenues of the 1995 Obligated Group.

Prior to the final maturity date of the 2008A Bonds, the 1995 MTI Note may be defeased. Upon such defeasance, the 1995 MTI Note will no longer secure the Corporation's payment obligations under the Loan Agreement and will no longer provide security for payment of the 2008A Bonds. The release and discharge of the 1995 MTI Note and the 1995 Master Indenture is subject to the receipt of the consent of holders of notes previously issued under the 1995 Master Indenture, as well as certain bond insurers. The Corporation is uncertain as to the timing of the receipt of such consents. **BY PURCHASING THE 2008A BONDS, OWNERS OF THE 2008A BONDS CONSENT TO THE RELEASE AND DISCHARGE OF THE 1995 MTI NOTE AND THE 1995 MASTER INDENTURE. THE 1995 MASTER INDENTURE AND THE 1995 MTI NOTE MAY BE RELEASED WITHOUT NOTICE TO THE 2008A BONDHOLDERS, WHO SHOULD NOT RELY ON THE PROVISIONS OF THE 1995 MASTER INDENTURE AND THE 1995 MTI NOTE WHEN PURCHASING THE 2008A BONDS**. See APPENDIX C hereto for summaries of certain provisions of the 2007 Master Indenture. The provisions of the 1995 Master Indenture are not summarized in this Official Statement.

The 1995 MTI Note and the 2007 MTI Note are being issued on a parity basis with certain other outstanding indebtedness of the Corporation. See "SOURCES OF PAYMENT AND SECURITY FOR THE 2008A BONDS" herein.

Limited Obligations. THE 2008A BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM THE TRUST ESTATE. NEITHER THE PRINCIPAL OF THE 2008A BONDS, NOR THE INTEREST ACCRUING THEREON, SHALL EVER CONSTITUTE A GENERAL INDEBTEDNESS OF THE AUTHORITY OR AN INDEBTEDNESS OF THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION OR INSTRUMENTALITY THEREOF, INCLUDING THE COUNTY OF ALLEGHENY, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION WHATSOEVER OR SHALL EVER CONSTITUTE OR GIVE RISE TO A PECUNIARY LIABILITY OF THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION OR INSTRUMENTALITY THEREOF, INCLUDING THE COUNTY OF ALLEGHENY, NOR WILL THE 2008A BONDS BE, OR BE DEEMED TO BE, AN OBLIGATION OF THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION OR INSTRUMENTALITY THEREOF, INCLUDING THE COUNTY OF ALLEGHENY. THE AUTHORITY HAS NO TAXING POWER.

THE 2008A BONDS

General Description.

The 2008A Bonds are scheduled to mature on the dates and in the principal amounts set forth on the inside cover page of this Official Statement. The 2008A Bonds are issuable only as fully registered bonds without coupons in denominations of $5,000 and any integral multiple thereof. The 2008A Bonds will bear interest (computed on the basis of a 360-day year with twelve 30-day months) at the rates set forth on the inside cover page of this Official Statement. Interest on the 2008A Bonds will be payable on March 1 and September 1 (each an "***Interest Payment Date***") of each year, commencing September 1, 2008. Interest on each Bond shall accrue from the Interest Payment Date which immediately precedes the date of authentication unless (1) such 2008A Bond is authenticated as of an Interest Payment Date, in which event it will bear interest from said Interest Payment Date, (2) such 2008A Bond is authenticated prior to September 1, 2008, in which event it will bear interest from the date of issuance and delivery of the 2008A Bonds, (3) such 2008A Bond is authenticated on or after a Regular Record Date (hereinafter defined) and before the next succeeding Interest Payment Date, in which case such 2008A Bond shall bear interest from such succeeding Interest Payment Date, or (4) unless interest on the 2008A Bonds shall be in default, in which event such 2008A Bond will bear interest from the date on which interest was last paid or provided for.

Subject to the provisions described under "BOOK-ENTRY ONLY SYSTEM" below, the principal or redemption price of the 2008A Bonds is payable upon presentation and surrender thereof at the designated corporate trust office of the Bond Trustee as the same shall become due and payable. Interest will be paid by check mailed on each Interest Payment Date to the persons appearing as registered owners on the registration books (the "***Bond Register***") kept by the Bond Trustee on each Regular Record Date, which is the fifteenth day of the month (whether or not such day is a Business Day) immediately preceding each Interest Payment Date; provided, however, that if funds on an Interest Payment Date are insufficient to pay the interest then due, any defaulted interest will cease to be payable to the registered owner as of the relevant Regular Record Date but will instead be payable on a special interest payment date established by the Bond Trustee for payment of such defaulted interest when sufficient funds are available to the registered owners as of a Special Record Date established by the Bond Trustee in accordance with the provisions of the Bond Indenture. Upon written request to the Bond Trustee on file at least one Business Day prior to a Regular Record Date, registered owners of $1,000,000 or more in aggregate principal amount of Bonds may elect to receive payments of interest by wire transfer to a designated account of a member bank of the Federal Reserve System commencing on the first Interest Payment Date following such Regular Record Date or in such other manner as is agreed upon between the registered owner and the Bond Trustee.

So long as The Depository Trust Company ("***DTC***"), New York, New York, or its nominee, Cede & Co., is the registered owner of the 2008A Bonds, payments of the principal or redemption price of and interest on the 2008A Bonds will be made by the Bond Trustee directly to Cede & Co. Disbursements of such payments to the DTC Participants (as hereinafter defined) is the responsibility of DTC. Disbursement of such payments to the owners of beneficial interests in the 2008A Bonds is the responsibility of the DTC Participants and the Indirect Participants (as hereinafter defined). See "BOOK-ENTRY ONLY SYSTEM" below.

Delivery of Certificates; Registered Owners. Subject to the provisions described under "BOOK-ENTRY ONLY SYSTEM" below, bond certificates in fully registered form will be delivered to, and registered in the names of the Bondholders, in authorized denominations. The ownership of the 2008A Bonds so delivered (and any 2008A Bonds thereafter delivered upon a transfer or exchange described below) shall be registered in the Bond Register to be kept by the Bond Trustee at its designated corporate trust office, and the Authority, the Corporation, and the Bond Trustee shall be entitled to treat the registered owners of such 2008A Bonds, as their names appear in such Bond Register as of the appropriate dates, as the owners thereof for all purposes described herein and in the Bond Indenture.

Transfers and Exchanges

Subject to the provisions described under "BOOK-ENTRY ONLY SYSTEM" below, a 2008A Bond may be transferred only upon surrender thereof to the Bond Trustee. Such 2008A Bond must be accompanied by an endorsement duly executed by the registered owner or a duly appointed attorney. Upon surrender of any 2008A Bonds to be transferred or exchanged, the Bond Trustee shall record the transfer or exchange in its Bond Register and shall authenticate and deliver new 2008A Bonds of the same maturity appropriately registered and in appropriate authorized denominations. The Bond Trustee shall not be required to effect or register any transfer or exchange of any 2008A Bond between the Record Date and the related Interest Payment Date or during a period beginning at the opening of business 15 days before the date of mailing of notice of redemption of 2008A Bonds selected for redemption and ending at the close of business on the day of such mailing or for any 2008A Bonds so selected for redemption in whole or in part, except that 2008A Bonds properly surrendered for partial redemption may be exchanged for new 2008A Bonds in authorized denominations equal in the aggregate to the unredeemed portion. No transfer or exchange made other than as described above and in the Bond Indenture shall be valid or effective for any purpose under the Bond Indenture. No charge will be imposed in connection with any transfer or exchange, except for taxes or governmental charges related thereto.

Redemption of the 2008A Bonds

Extraordinary Redemption. The 2008A Bonds are subject to extraordinary redemption in whole or in part at any time, by the Authority, in authorized denominations of no less than $5,000, at the written request of the Corporation, in the event of condemnation, damage or destruction of the Corporation's Property (as defined in the Bond Indenture and Appendix C hereto) or any part thereof, as qualified within the Bond Indenture, but only out of the Net Proceeds (as defined in the Bond Indenture and Appendix C hereto) deposited with or held by the Bond Trustee for such purpose, at a redemption price equal to 100% of the principal amount thereof plus interest accrued to the redemption date. Any such redemption shall be made in such maturities designated by the Corporation and within any maturity by lot, as selected by the Bond Trustee.

Notice of Redemption. Notice of any redemption shall be given at least 30 days and not more than 60 days prior to the date fixed for redemption by mailing by first class mail a notice to the registered owners of the 2008A Bonds to be redeemed as provided in the Bond Indenture, but failure to mail any such notice and any defect in any such notice or the mailing thereof, as it affects any particular Bond, shall not affect the validity of the proceedings for such redemption of any other 2008A Bond. If the Authority deposits funds (as more fully described in the Bond Indenture) with the Bond Trustee sufficient to pay the redemption price of any 2008A Bonds, together with interest accrued to the redemption date, as provided in and limited by the terms of the Bond Indenture, interest on such 2008A Bonds will cease to accrue on the redemption date and thereafter such 2008A Bonds will be payable as to principal and interest only from funds so deposited and shall not be deemed to be outstanding under the provisions of the Bond Indenture.

If at the time of mailing of any notice of redemption, the Authority shall not have deposited with the Bond Trustee monies sufficient to redeem all the 2008A Bonds called for redemption, such notice shall state that it is subject to the deposit of the redemption monies with the Bond Trustee not later than the opening of business on the redemption date and shall be of no effect unless such monies are so deposited.

So long as DTC or its nominee is the registered owner of the 2008A Bonds, any failure on the part of DTC or failure on the part of a nominee of a beneficial owner (having received notice from a DTC Participant or otherwise) to notify the beneficial owner affected by any redemption of such redemption shall not affect the validity of the redemption. So long as DTC or its nominee is the registered owner of the 2008A Bonds, if less than all of the 2008A Bonds of any one maturity shall be called for redemption, the particular Bonds or portions of Bonds of such maturity to be redeemed shall be selected by lot by DTC, the DTC Participants and Indirect Participants in such manner as they may determine.

BOOK-ENTRY ONLY SYSTEM

THE INFORMATION PROVIDED UNDER THIS CAPTION CONCERNING DTC AND DTC's BOOK-ENTRY SYSTEM HAS BEEN PROVIDED BY DTC. NO REPRESENTATION IS MADE BY THE AUTHORITY, THE CORPORATION OR THE UNDERWRITERS AS TO THE ACCURACY OR ADEQUACY OF SUCH INFORMATION PROVIDED BY DTC OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF.

The Depository Trust Company ("***DTC***"), New York, New York, will act as securities depository for the 2008A Bonds. The 2008A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2008A Bond certificate will be issued for each maturity of the 2008A Bonds set forth on the inside front cover page of this Official Statement, each in the aggregate principal amount of such maturity and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC 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, in turn, is owned by a number of the Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, FICC and EMCC, also subsidiaries of DTCC) as well as the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("***Indirect Participants***"). DTC has Standard & Poor's highest rating: AAA. The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about the DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the 2008A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2008A Bonds on DTC's records. The ownership interest of each actual purchaser of each 2008A 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 2008A 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 2008A Bonds, except in the event that use of the book-entry only system for the 2008A Bonds is discontinued.

To facilitate subsequent transfers, all 2008A 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 2008A 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 2008A Bonds. DTC's records reflect only the identity of the Direct Participants to whose accounts such 2008A 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 2008A Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2008A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2008A Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the 2008A 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 the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2008A Bonds within a maturity of the 2008A Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2008A Bonds unless authorized by a Direct Participant in accordance with DTC's 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 such bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of and interest on the 2008A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Bond Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Bond Trustee, the Authority or the Corporation, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Bond Trustee. Disbursement of such payments to Direct Participants will be the responsibility of DTC and disbursement of such payments to the Beneficial Owners will be the responsibility of the Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2008A Bonds at any time by giving reasonable notice to the Authority or the Bond Trustee. Under such circumstances, in the event that a successor securities depository is not required under the Bond Indenture or obtained, 2008A Bond certificates are required to be printed and delivered in accordance with the Bond Indenture.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or successor securities depository). In that event 2008A Bond certificates will be printed and delivered to DTC.

The above information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority and Corporation believe to be reliable but the Authority and Corporation take no responsibility for the accuracy thereof.

NEITHER THE AUTHORITY NOR THE BOND TRUSTEE NOR THE CORPORATION WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS, BENEFICIAL OWNERS OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS FOR (1) SENDING TRANSACTION STATEMENTS; (2) MAINTAINING, SUPERVISING OR REVIEWING, OR THE ACCURACY OF, ANY RECORDS MAINTAINED BY DTC OR ANY PARTICIPANT OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS; (3) PAYMENT OR THE TIMELINESS OF PAYMENT BY DTC TO ANY PARTICIPANT, OR BY ANY PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNER, OF ANY AMOUNT DUE IN RESPECT OF THE PRINCIPAL OF OR REDEMPTION PREMIUM,

IF ANY, OR INTEREST ON BOOK-ENTRY BONDS; (4) DELIVERY OR TIMELY DELIVERY BY DTC TO ANY PARTICIPANT, OR BY ANY PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNERS, OF ANY NOTICE (INCLUDING NOTICE OF REDEMPTION) OR OTHER COMMUNICATION WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE APPLICABLE INDENTURE TO BE GIVEN HOLDERS OR OWNERS OF BOOK-ENTRY BONDS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF BOOK-ENTRY BONDS; OR (6) ANY ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF BOOK-ENTRY BONDS.

SOURCES OF PAYMENT AND SECURITY FOR THE 2008A BONDS

The 2008A Bonds are limited obligations of the Authority, equally and ratably secured under the Bond Indenture, and payable solely from the Trust Estate created under the Bond Indenture. For a more detailed description of the Trust Estate, see APPENDIX C "DEFINITIONS OF TERMS AND SUMMARIES OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS" hereto. The Authority has pledged and assigned to the Bond Trustee its interest in the Trust Estate as security for the payment of the 2008A Bonds and the performance and observance of the covenants in the Bond Indenture.

In connection with the issuance of the 2008A Bonds, the Authority and the Corporation will enter into the Loan Agreement under which the Corporation will agree to make installment payments sufficient to pay, inter alia, the principal of, interest on, and redemption price of the 2008A Bonds as and when due.

The payment obligations of the Corporation under the Loan Agreement with respect to the 2008A Bonds will be secured by the 2007 MTI Note issued pursuant to the 2007 Master Indenture and by the 1995 MTI Note issued pursuant to the 1995 Master Indenture. Both the 2007 MTI Note and the 1995 MTI Note shall be issued in favor of the Authority and assigned to the Bond Trustee. The 2007 MTI Note is an obligation of the 2007 Obligated Group secured by a lien upon the gross revenues of the 2007 Obligated Group. As of the date of this Official Statement, the Corporation, UPMC Presbyterian Shadyside, Magee-Womens Hospital of University of Pittsburgh Medical Center, UPMC Passavant and UPMC St. Margaret constitute the members of the 2007 Obligated Group under the 2007 Master Indenture. The 1995 MTI Note is an obligation of the 1995 Obligated Group secured by a lien upon the gross revenues of the 1995 Obligated Group. As of the date of this Official Statement, the Corporation and UPMC Presbyterian Shadyside constitute the members of the 1995 Obligated Group under the 1995 Master Indenture.

The Corporation anticipates that the 1995 MTI Note may be defeased. Upon such defeasance the 1995 MTI Note will no longer secure the Corporation's payment obligations under the Loan Agreement and will no longer provide security for payment of the 2008A Bonds. The release and discharge of the 1995 MTI Note and the 1995 Master Indenture is subject to the receipt of the consent of holders of notes previously issued under the 1995 Master Indenture, as well as certain bond insurers. The Corporation is uncertain as to the timing of the receipt of such consents. **BY PURCHASING THE 2008A BONDS, OWNERS OF THE 2008A BONDS CONSENT TO THE RELEASE AND DISCHARGE OF THE 1995 MTI NOTE AND THE 1995 MASTER INDENTURE. THE 1995 MASTER INDENTURE AND THE 1995 MTI NOTE MAY BE RELEASED WITHOUT NOTICE TO THE 2008A BONDHOLDERS, WHO SHOULD NOT RELY ON THE PROVISIONS OF THE 1995 MASTER INDENTURE AND THE 1995 MTI NOTE WHEN PURCHASING THE 2008A BONDS.** See APPENDIX C hereto for summaries of certain provisions of the 2007 Master Indenture. The provisions of the 1995 Master Indenture are not summarized in this Official Statement.

The Loan Agreement is an obligation of the Corporation and is not an obligation of the Subsidiary Hospitals or other affiliates. The 2007 MTI Note is an obligation of the 2007 Obligated Group and is not an obligation of any Subsidiary Hospital or other affiliate that is not a member of the 2007 Obligated Group and no such Subsidiary Hospital or other affiliate is contractually obligated to make payments on the 2007 MTI Note, the Loan Agreement or the 2008A Bonds. Likewise, the 1995 MTI Note is an obligation of the 1995 Obligated Group and is not an obligation of any Subsidiary Hospital or other affiliate that is not a member of the 1995 Obligated Group and no such Subsidiary Hospital or other affiliate is contractually obligated to make payments on the 1995 MTI Note, the Loan Agreement or the 2008A Bonds. See APPENDIX C for a description of the 2007 Master Indenture.

The 2007 MTI Note is being issued on a parity basis with certain other indebtedness of the 2007 Obligated Group, including, without limitation, notes that have been issued under the 2007 Master Indenture prior to the date of issuance of the 2008A Bonds, and notes to be issued in the future under the 2007 Master Indenture, if any.

The 1995 MTI Note is being issued on a parity basis with certain other indebtedness of the 1995 Obligated Group, including, without limitation, notes that have been issued under the 1995 Master Indenture prior to the date of issuance of the 2008A Bonds, and notes to be issued in the future under the 1995 Master Indenture, if any.

BY PURCHASING THE 2008A BONDS, OWNERS OF THE 2008A BONDS CONSENT TO THE RELEASE AND DISCHARGE OF THE 1995 MTI NOTE AND THE 1995 MASTER INDENTURE. THE 1995 MASTER INDENTURE AND THE 1995 MTI NOTE MAY BE RELEASED WITHOUT NOTICE TO THE 2008A BONDHOLDERS, WHO SHOULD NOT RELY ON THE PROVISIONS OF THE 1995 MASTER INDENTURE AND THE 1995 MTI NOTE WHEN PURCHASING THE 2008A BONDS.

The Corporation, its Subsidiary Hospitals and numerous other owned and controlled entities had approximately $2.43 billion in outstanding long-term debt as of December 31, 2007 on a consolidated basis. Of this amount, approximately $2.2 billion is secured on a parity basis with the 2008A Bonds under the 1995 Master Indenture and $610 million on a parity basis with the 2008A Bonds under the 2007 Master Indenture.

If moneys or obligations of the type described in the Bond Indenture sufficient to pay the principal or redemption price of any particular 2008A Bonds becoming due, either at maturity or by call for redemption or otherwise, together with all interest accruing thereon to the due date, shall have been deposited with the Bond Trustee, interest on such 2008A Bonds shall cease to accrue on the due date and all liability of the Authority and the Corporation with respect to such 2008A Bonds shall likewise cease. Thereafter such 2008A Bonds shall be deemed not to be Outstanding under the Bond Indenture and the holder or holders shall be restricted exclusively to the funds so deposited for any claim of whatsoever nature with respect to such 2008A Bonds, and the Bond Trustee shall hold such funds in trust for such holder or holders.

THE 2008A BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM THE TRUST ESTATE. NEITHER THE PRINCIPAL OF THE 2008A BONDS, NOR THE INTEREST ACCRUING THEREON, SHALL EVER CONSTITUTE A GENERAL INDEBTEDNESS OF THE AUTHORITY OR AN INDEBTEDNESS OF THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION OR INSTRUMENTALITY THEREOF, INCLUDING THE COUNTY OF ALLEGHENY, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION WHATSOEVER OR SHALL EVER CONSTITUTE OR GIVE RISE TO A PECUNIARY LIABILITY OF THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION OR INSTRUMENTALITY THEREOF, INCLUDING THE COUNTY OF ALLEGHENY, NOR WILL THE 2008A BONDS BE, OR BE DEEMED TO BE, AN OBLIGATION OF THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION OR INSTRUMENTALITY THEREOF, INCLUDING THE COUNTY OF ALLEGHENY. THE AUTHORITY HAS NO TAXING POWER.

THE PLAN OF FINANCING

In response to recent developments in the municipal bond market, the Corporation is undertaking the refunding of all of its debt that was issued in the form of Auction Rate Securities (the "***ARS Bonds***"). The Corporation has developed a financing plan that eliminates any debt in the form of ARS Bonds and replaces that debt with fixed rate bonds. The Corporation will also finance certain capital projects related to the exempt activities of the System from proceeds of the 2008A Bonds. Below is a summary of the steps that the Corporation has taken and intends to take in this financing plan.

Existing ARS Bonds

As of December 31, 2007, approximately $464 million of the Corporation's $2.43 billion of outstanding debt was in an ARS Bonds mode. The table below summarizes the outstanding principal amount of the ARS Bonds as of December 31, 2007.

Issuer	Series	Principal Amount Outstanding(000)	Cusip
Allegheny County Hospital Development Authority	Series 2002A1	$50,000	01728AXX9
Allegheny County Hospital Development Authority	Series 2002A2	42,550	01728AXY7
Allegheny County Hospital Development Authority	Series 2003A	63,000	01728AYQ3
Pennsylvania Higher Education Facilities Authority	Series 2003C1	47,250	70917NZX5
Pennsylvania Higher Education Facilities Authority	Series 2003C2	42,250	70917NZY3
Allegheny County Hospital Development Authority	Series 2004B1	32,125	01728AB47
Allegheny County Hospital Development Authority	Series 2004B2	32,100	01728AB54
Allegheny County Hospital Development Authority	Series 2005A1	52,500	01728AC38
Allegheny County Hospital Development Authority	Series 2005A2	52,500	01728AC46
Allegheny County Hospital Development Authority	Series 2007A3	50,000	01728AF84
		$464,275	

The first step in the financing plan was to increase a previously existing line of credit from $300 million to $650 million in order to provide sufficient funds to redeem the ARS Bonds as soon as possible to provide interim financing.

Tender Program

On February 18, 2008, UPMC launched a program requesting that holders of all of the outstanding ARS Bonds tender their bonds for purchase by the Corporation (the "***Tender Program***"). The Tender Program was phased in as auction dates occurred on the various series of ARS Bonds On February 27, 2008, the Corporation initiated the final tenders on the ARS Bonds.

As of the close of business on March 13, 2008, the principal amount of ARS Bonds remaining outstanding was reduced to $304.9 million. The table below summarizes the status of the Tender Program. The Corporation expects that the principal amount of ARS Bonds outstanding will be further reduced during March, 2008.

Series	February 11 Amount Outstanding(000)	Amount Cancelled (000)	Current Amount Outstanding(000)
Series 2002A1	$50,000	$41,300	$8,700
Series 2002A2	42,550	27,550	15,000
Series 2003A	63,000	47,250	15,750
Series 2003C1	47,250	1,800	45,450
Series 2003C2	42,250	3,250	39,000
Series 2004B1	32,125	2,250	29,875
Series 2004B2	32,100	100	32,000
Series 2005A1	52,500	3,150	49,350
Series 2005A2	52,500	4,400	48,100
Series 2007A3	41,950	20,275	21,675
	$456,225	$151,325	$304,900

Permanent Financing

The permanent financing will consist of the issuance of the 2008A Bonds. In addition to the funds needed to retire the ARS Bonds, the Corporation will also use a portion of the proceeds of the 2008A Bonds to fund various capital projects. See "SOURCES AND USES" below.

ESTIMATED SOURCES AND USES OF FUNDS

Sources of Funds:	
Bond Proceeds	$490,825,000.00
Net Original Issue Premium	21,037,615.50
Total Sources:	$511,862,615.50
Uses of Funds:	
Cost to retire Prior Bonds	$456,300,000.00
Capital Expenditures	52,560,000.00
Financing Fees and Expenses[(1)]	3,002,615.50
Total Uses:	$511,862,615.50

(1) These fees include Underwriters' fee, and estimated fees and expenses of the Authority, Co-Bond Counsel, Underwriters' counsel and Trustee, rating agencies' fees, printing costs and miscellaneous expenses.

ANNUAL DEBT SERVICE REQUIREMENTS

The following table sets forth the amount required to be made available for the payment of principal of and interest on the 2008A Bonds during each fiscal year of the Corporation.

Date	Principal	Interest	Total Principal and Interest	Fiscal Year Total
09/01/2008	$14,875,000.00	$10,366,125.00	$25,241,125.00	-
03/01/2009	3,000,000.00	11,818,750.00	14,818,750.00	-
06/30/2009	-	-	-	$40,059,875.00
09/01/2009	15,425,000.00	11,758,750.00	27,183,750.00	-
03/01/2010	3,000,000.00	11,373,125.00	14,373,125.00	-
06/30/2010	-	-	-	41,556,875.00
09/01/2010	18,200,000.00	11,313,125.00	29,513,125.00	-
03/01/2011	-	10,858,125.00	10,858,125.00	-
06/30/2011	-	-	-	40,371,250.00
09/01/2011	125,000,000.00	10,858,125.00	135,858,125.00	-
03/01/2012	-	7,783,125.00	7,783,125.00	-
06/30/2012	-	-	-	143,641,250.00
09/01/2012	16,475,000.00	7,783,125.00	24,258,125.00	-
03/01/2013	-	7,371,250.00	7,371,250.00	-
06/30/2013	-	-	-	31,629,375.00
09/01/2013	10,275,000.00	7,371,250.00	17,646,250.00	-
03/01/2014	-	7,114,375.00	7,114,375.00	-
06/30/2014	-	-	-	24,760,625.00
09/01/2014	179,550,000.00	7,114,375.00	186,664,375.00	-
03/01/2015	-	2,625,625.00	2,625,625.00	-
06/30/2015	-	-	-	189,290,000.00
09/01/2015	13,950,000.00	2,625,625.00	16,575,625.00	-
03/01/2016	-	2,276,875.00	2,276,875.00	-
06/30/2016	-	-	-	18,852,500.00
09/01/2016	25,500,000.00	2,276,875.00	27,776,875.00	-
03/01/2017	-	1,639,375.00	1,639,375.00	-
06/30/2017	-	-	-	29,416,250.00
09/01/2017	32,300,000.00	1,639,375.00	33,939,375.00	-
03/01/2018	-	831,875.00	831,875.00	-
06/30/2018	-	-	-	34,771,250.00
09/01/2018	33,275,000.00	831,875.00	34,106,875.00	-
06/30/2019	-	-	-	34,106,875.00
Total	**$490,825,000.00**	**$137,631,125.00**	**$628,456,125.00**	**$628,456,125.00**

THE CORPORATION

The Corporation is the parent corporation of the System. The System is the largest health care system in Pennsylvania and operates primarily in Western Pennsylvania, while providing specialized services to patients from throughout the United States and the world. The System includes UPMC, UPMC Presbyterian Shadyside and the following hospitals in Western Pennsylvania: Children's Hospital of Pittsburgh of the UPMC Health System; UPMC Bedford Memorial; UPMC Braddock; UPMC Horizon; UPMC McKeesport; UPMC Mercy; UPMC Northwest, UPMC Passavant; UPMC St. Margaret; UPMC South Side and Magee-Womens Hospital of University of Pittsburgh Medical Center.

The Corporation is an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "***Code***"), is exempt from federal income taxation under Section 501(a) of the Code, except for unrelated trade or business income, and is not a private foundation within the meaning of Section 509(a) of the Code. See APPENDICES A, B and E hereto for further information regarding the Corporation.

The Corporation believes, as of the date hereof, that there has been no material adverse change in its financial condition since June 30, 2007, which is the most recent fiscal year for which audited financial statements are available. There can be no assurance that the financial results achieved in the future will be similar to historical results. Such future results will vary from historical results, and actual variations may be material. The historical operating results of the Corporation contained in this Official Statement cannot be taken as a representation that the Corporation will be able to generate sufficient revenues in the future to make principal and interest payments.

THE AUTHORITY

The Authority is a body corporate and politic, constituting a public corporation and a governmental instrumentality of the Commonwealth of Pennsylvania (the "***Commonwealth***") created pursuant to the Municipality Authorities Act, as amended (the "***Act***"). The Authority was created in 1971. An amendment to the Authority's Articles of Incorporation was filed by the Authority with the Secretary of the Commonwealth on May 9, 1995, extending the Authority's existence for 50 years from that date. The Authority is empowered under the Act, among other things, to acquire, finance, construct, improve, maintain, own, operate, and lease, in the capacity as lessor or lessee, hospitals and health centers and other projects acquired, constructed or improved for hospital purposes. The Authority's address is 425 Sixth Avenue, Suite 800, Pittsburgh, Pennsylvania 15219. Resolutions authorizing the issuance of the 2008A Bonds have been adopted by the Authority.

The governing body of the Authority is a board consisting of up to twelve members (the "***Authority Board***") presently appointed by the Chief Executive of the County, with the approval of County Council. Members of the Authority Board are appointed for staggered terms and may be reappointed. The present members of the Authority Board* are as follows:

Name	Title
James M. Edwards	Chairman
John Brown, Jr.	Vice Chairman
Marilyn Liggett	Treasurer
Glenn R. Flickinger	Assistant Treasurer
Jacques Moye	Secretary
Victor Diaz	Assistant Secretary
Barney C. Guttman	Member

*As of March 1, 2008 there were five (5) Authority Board Member vacancies.

The Authority has previously issued revenue bonds and notes for various projects. Each of the bond and note issues are payable from receipts and revenues derived by the Authority from the entity on whose behalf the bonds or notes were issued and is secured separately and distinctly from the issues of every other entity. The Authority expects from time to time to enter into separate indentures or other agreements for projects that will provide for the issuance of bonds or notes to be secured by revenues derived from such entities.

The Authority has not prepared or assisted in the preparation of this Official Statement except for the statement under this section captioned "THE AUTHORITY" in respect of the Authority and except as aforesaid, the Authority is not responsible for any statements made herein, and will not participate in or otherwise be responsible for the offer, sale or distribution of the 2008A Bonds. Accordingly, except as aforesaid, the Authority disclaims responsibility for the disclosure set forth herein in connection with the offer, sale and distribution of the 2008A Bonds.

THE 2008A BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM THE TRUST ESTATE. NEITHER THE PRINCIPAL OF THE 2008A BONDS, NOR THE INTEREST ACCRUING THEREON, SHALL EVER CONSTITUTE A GENERAL INDEBTEDNESS OF THE AUTHORITY OR AN INDEBTEDNESS OF THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION OR INSTRUMENTALITY THEREOF, INCLUDING THE COUNTY OF ALLEGHENY, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION WHATSOEVER OR SHALL EVER CONSTITUTE OR GIVE RISE TO A PECUNIARY LIABILITY OF THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION OR INSTRUMENTALITY THEREOF, INCLUDING THE COUNTY OF ALLEGHENY, NOR WILL THE 2008A BONDS BE, OR BE DEEMED TO BE, AN OBLIGATION OF THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION OR INSTRUMENTALITY THEREOF, INCLUDING THE COUNTY OF ALLEGHENY. THE AUTHORITY HAS NO TAXING POWER.

BONDHOLDERS' RISKS

Payment of the principal of and interest on the 2008A Bonds to the registered owners thereof depends entirely upon the ability of the Corporation to make the payments required under the Loan Agreement. The 2008A Bonds are limited obligations of the Authority and are secured by and payable solely from the Trust Estate created pursuant to the Bond Indenture which includes payments made by the Corporation pursuant to the Loan Agreement, the 1995 MTI Note and the 2007 MTI Note, and certain funds held by the Bond Trustee pursuant to the Bond Indenture. No representation or assurance can be given to the effect that the Corporation will meet its payment obligations under the Loan Agreement. No representation or assurance can be given to the effect that the Corporation or any other member of the 1995 Obligated Group will generate sufficient revenues to meet its payment obligations under the 1995 MTI Note or that the Corporation or any other member of the 2007 Obligated Group will generate sufficient revenues to meet its payment obligations under the 2007 MTI Note.

Various factors could adversely affect the Corporation's ability to pay the obligations under the Loan Agreement, the 1995 MTI Note or the 2007 MTI Note. Moreover, such factors could also adversely affect the ability of any other member of the 1995 Obligated Group or 2007 Obligated Group, as applicable, to pay its obligations under the 1995 MTI Note or 2007 MTI Note, as applicable. The future financial condition of the System could be adversely affected by, among other things, economic conditions in the service area, levels and methods of federal reimbursement under Medicare, federal and state reimbursement under Medicaid, reimbursement from other third-party payors, legislation, regulatory actions, increased competition from other health care providers or payors, changes in the demand for health care services, demographic changes, malpractice claims, litigation and changes in the Corporation's relationship with the University of Pittsburgh (the "***University***"). Some of such risk factors are described below.

All of the risk factors described below apply to the System, which is comprised of the Corporation and its operating divisions, including the Subsidiary Hospitals. However, not all of the Subsidiary Hospitals and other affiliates of the Corporation have a direct obligation with respect to the 2008A Bonds. The Authority has made no independent investigation of the extent to which any such factors may have an adverse effect on the revenues of the System.

The following is intended only as a summary of certain risk factors attendant to an investment in the 2008A Bonds and is not intended to be exhaustive. In order to identify risk factors and to make an informed judgment as to whether the 2008A Bonds are an appropriate investment, potential investors should be thoroughly familiar with the entire Official Statement, including each Appendix. Potential investors are advised to consult their tax advisors as to the tax consequences of purchasing or holding the 2008A Bonds. See "TAX EXEMPTION AND OTHER TAX MATTERS" herein.

The descriptions set forth below of certain governmental policies affecting health care and other matters are not intended as a complete discussion of all aspects of laws and regulations and such other matters as may affect the financial performance of health care providers such as the Corporation. Health care providers operate in a complicated regulatory environment, many aspects of which may adversely affect the revenues and operations of such providers.

General; Adequacy of Revenues.

The System is a health care provider that derives significant portions of its revenues from the federal Medicare program ("***Medicare***"), the Pennsylvania Medical Assistance Program ("***Medicaid***"), Highmark Blue Cross Blue Shield ("***Highmark***"), HMOs and other payors, including those affiliated with the System. The System is subject to governmental regulation applicable to health care providers and the receipt of future revenues by the System 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 the System, changes in federal and state laws and regulations affecting payments for health services, the continued increase in managed care or development of new payment policies which reduce provider revenues, competition from other health care providers or payors, and changes in demand for health services. The receipt of future revenues by the System is also subject to demand for System services, the ability to provide the services required by patients, physicians' relationships with the System, management capabilities of the System, economic developments in the service area, the System's ability to control expenses, reimbursement, the continued funding by the Commonwealth of Pennsylvania (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 System from its operations will remain stable or increase. The Corporation expects that it will experience increases in operating costs due to inflation and other factors. There is no assurance that cost increases will be matched by increased patient revenue in amounts sufficient to generate an excess of revenues over expenses.

Discussed below are certain of these factors which could have a significant impact on the future operations and financial condition of the System.

Medicare Reimbursement and Related Federal Legislation

Background. Congress is frequently engaged in intense debate over federal budget commitments, and, in particular, the extent of the government's financial commitment to the Medicare program. Prospective changes in Medicare payments to providers could have an adverse effect on revenues of the System.

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, the largest health care purchaser in the world, 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. These programs reflect the national policy that persons who are aged and persons who are poor should be entitled to receive medical care regardless of ability to pay. Medicare provides certain health care benefits to beneficiaries who are 65 years of age or older, disabled or qualify for the End Stage Renal Disease Program. Medicare Part A covers inpatient hospital, home health, nursing home care and certain other services, and Medicare Part B covers certain physicians services, medical supplies and durable medical equipment. Medicare Part C, the Medicare Advantage program (formerly known as the Medicare+Choice Program) enables Medicare beneficiaries who are entitled to Part A and are enrolled in Part B to choose to obtain their benefits through a variety of private, managed care, risk-based plans.

In December 2003, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 ("***MMA***") was signed into law. This law provided for a new Medicare Part D, under which outpatient prescription drug benefits became available to Medicare beneficiaries. MMA also enhanced the Medicare Part C managed care programs.

Medicare reimbursement for outpatient prescription drug benefits provided by private plans became available as of January 1, 2006 through a voluntary enrollment program. 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 that wait to enroll beyond their initial point of eligibility are penalized with additional surcharges which increase over time.

Medicaid is designed to pay providers for care given to the medically indigent and others who receive federal aid. Medicaid is funded by federal and state appropriations and is administered by an agency of the applicable state.

In Fiscal Year 2007, approximately 42% of net patient service revenues of the System were derived from the Medicare program, and 12% of net patient service revenues of the System were derived from the Medicaid program.

Medicare. Medicare is administered by the Centers for Medicare and Medicaid Services ("***CMS***") of the U.S. Department of Health and Human Services ("***DHHS***"), which delegates to the states the process for certifying those organizations to which CMS will make payment. The DHHS's rule-making authority is substantial and the rules are extensive and complex. Substantial deference is given by courts to rules promulgated by DHHS.

Hospital Inpatient Services. Medicare payments for operating expenses incurred in the delivery of in-patient hospital services are based on a prospective payment system ("***PPS***") which essentially pays hospitals a fixed amount for each Medicare in-patient discharge based upon patient diagnosis and certain other factors used to classify each patient into a Diagnosis Related Group ("***DRG***"). Each DRG is given a relative value from which a fixed payment can then be established. With limited exceptions, such payments are not adjusted for actual costs, variations in intensity of illness, or length of stay. 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.

If a hospital treats a patient and incurs less cost than the applicable DRG-based payment, the hospital will be entitled to retain the difference. Conversely, if a hospital's cost for treating the patient exceeds the DRG-based payment, the hospital generally will not be entitled to any additional payment. There can be no assurance that payments under PPS will be sufficient to cover all actual costs of providing in-patient hospital services to Medicare patients.

Going forward, the Deficit Reduction Act of 2005 ("***DRA***") presents several areas of uncertainty for the System with respect to reimbursement. The DRA, much like the revised inpatient prospective payment system, has provided for the redistribution of Medicare funds towards preferred services to the possible detriment of others. Under the DRA, reimbursement for nosocomial infections has been reduced while funds for colorectal screenings, dialysis centers and rural hospitals have been increased. The DRA has also expanded penalties for failure to participate in Medicare quality initiatives. Depending on the mix of future services delivered, the overall result of the DRA may be to reduce Medicare reimbursement to the System.

Hospital Outpatient Services. Effective August 1, 2000, CMS instituted a PPS methodology for Medicare hospital outpatient services. Under the outpatient PPS methodology, procedures, evaluations and management services, and drugs and devices in outpatient departments are classified into one of approximately 750 groups called Ambulatory Payment Classifications ("***APC***"). 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. CMS determines the portion of the median labor related hospital costs and adjusts those costs for variations in hospital labor costs across geographic regions.

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

Additionally, CMS has adjusted the reimbursement rates for Ambulatory Surgery Centers to reflect the reimbursement for equivalent procedures being delivered in hospital outpatient departments. Overall, these changes to the outpatient prospective payment system may result in decreased reimbursement for services, depending on the service mix that the System is called upon to deliver in the future.

Under 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 the System's actual costs of providing hospital outpatient services to Medicare patients.

Physician Payments. Payment for physician fees is covered under 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 new methodology for computing practice expense relative value units ("***RVUs***") provides for higher practice expense RVUs for services performed in a doctor's office, the patient's home, or a facility or institution other than a hospital, skilled nursing facility (SNF) or ambulatory surgical center (ASC), and lower practice expense RVUs for services furnished to hospital, SNF, and ASC patients. The data upon which the RVUs are based is several years old and does not necessarily reflect current market conditions, particularly with respect to the malpractice expense RVUs. 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 the System under the Medicare program will be adequate to cover the System's costs of providing physician services.

Hospital Capital Expenditures. Medicare payments for capital costs are based upon a PPS system similar to that applicable to operating costs. Effective for cost reporting periods beginning on or after October 1, 2001, payment for capital related costs for all hospitals is 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.

There can be no assurance that payments under the PPS inpatient capital regulations will be sufficient to fully reimburse the System for its 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 graduate medical education ("***DGME***") 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 medical education 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 includes 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 the System 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 DIMS ("***OIG***") began investigating past outlier billing practices, and CMS amended the regulations on how outlier payments were to be calculated in the future.

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 the System believes that it has calculated its outlier payments appropriately, there can be no assurance that the System 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 the System.

The new methodology for calculating outlier payments went into effect in August 2003. It was designed to prevent hospitals from manipulating the outlier formula to maximize reimbursement and allows for recovery of overpayments in certain cases. There can be no assurance that any future revisions to the formula for calculating outlier payments will not reduce the payments to the System, or that any such reduction will not have a material adverse impact on the System.

Mental Health Services. In-patient psychiatric services began a transition from cost reimbursement subject to a per-case limit, to a prospective payment methodology beginning July 1, 2005. The phase-in of a case-mix adjusted prospective payment will be fully implemented by June 30, 2008.

These changes in Medicare inpatient psychiatric payments dramatically affect the way psychiatric hospitals and units are paid for Medicare psychiatric inpatient services.

There can be no assurance that the new Medicare psychiatric PPS payments will be sufficient to cover all of the actual costs in providing inpatient psychiatric hospital services.

Skilled Nursing Care Services. Medicare reimburses skilled nursing facilities for costs, including routine service costs, ancillary costs and capital-related costs of covered services under various per diem rates known as RUGs (Resource Utilization Groups). Each of the 53 RUG payment groups reflects different levels of resource utilization for each patient day based on periodic assessments of the patient's needs. There can be no assurance that payments under this system will be sufficient to cover all of the actual costs in providing skilled nursing care to Medicare patients.

Home Health. Under the prospective payment system, all home health goods and services provided during a 60-day episode of home health care are included in the PPS payment rate. The rates are case-mix adjusted by an 80-category classification system called the Home Health Resource Group ("***HHRG***") as determined based upon patient assessment at admission. As with any prospective payment system, there can be no assurance that the payments under this system will be sufficient to cover all of the actual costs of providing home health services to Medicare patients.

Medicare Managed Care Program. BBA-97 established a new Part C of the Medicare program, with a Medicare managed care program called "Medicare+Choice. Since January 1, 1999, 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. The shift of Medicare eligible beneficiaries from traditional Part A and Part B coverage to Part C Medicare Advantage programs is intended to increase competitive pressure to improve benefits, reduce premiums and effect cost reductions. These changes may result in reduced utilization of health care services and have a material negative impact upon the revenue of the System.

Audits, Exclusions, Fines and Enforcement Actions. Hospitals participating in Medicare are subject to audits and retroactive audit adjustments by fiscal intermediaries under the Medicare program. From an audit, a fiscal intermediary may conclude that a patient discharge has been claimed under an incorrect 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 retroactively disallowed. 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.

Medicaid Reimbursement

Medicaid is a jointly funded federal and state health insurance program for certain low-income and medically needy people. Under federal guidelines, each state establishes eligibility standards, scope of services, payment rates for services, and an administrative framework for management of the program. The Pennsylvania Department of Public Welfare ("***DPW***") administers the Medicaid program in the Commonwealth.

Federal cost cutting initiatives and the Commonwealth's current budget shortfall in Medicaid revenues, may lead the Commonwealth to reduce the Medicaid reimbursement received by hospitals. On a federal level, the budget for Medicaid will be cut by one billion dollars in fiscal year 2007 per the DRA. This and other reform measures may necessitate changes to the Pennsylvania Medicaid system and such changes may affect hospital reimbursement. Similar changes have occurred in the past and can be expected to occur in the future, particularly in response to federal and state budgetary constraints, coupled with increased costs for covered services.

Inpatient Services. Since July 1984, Medicaid payment for acute care services in the Commonwealth has been based on a prospective payment system similar to the federal Medicare DRG-based prospective payment system explained above.

Disproportionate Share Payments (DSH) and Medical Education Payments. DSH and medical education payments are paid to providers under the traditional MA payment contract. Provider eligibility for inpatient DSH payments is based on an annual redetermination formula, while payments are based on prior period payouts with small increases as determined per the contract.

Outpatient Services. Medicaid generally pays for hospital outpatient services rendered based on the lower of the usual charge to the general public for the same service or the Medicaid maximum allowable fee, or the upper limit established by Medicare or Medicaid.

Inpatient Mental Health and Rehabilitation Services. Medicaid provides payment for inpatient mental health and rehabilitation services rendered to eligible recipients by private psychiatric hospitals and rehabilitation distinct part units at a per diem rate.

HealthChoices. In February 1997, the Commonwealth began rolling out a new program for Medicaid recipients called HealthChoices. The HealthChoices program requires Medicaid recipients to enroll in managed care plans. The program was implemented in the System's primary service area in July 1999.

Under HealthChoices, Medicaid recipients receive physical health services through one managed care organization and behavioral health services through another managed care organization. The implementation of HealthChoices results in providers contracting with the managed care organizations which are responsible for providing health services to Pennsylvania Medicaid recipients and changes the reimbursement methodology for care delivered to Medicaid recipients. There can be no assurance that the System 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 the Commonwealth's Medicaid recipients.

Other DPW Funding. In addition to the funding described above, DPW also provides funding to hospitals that provide a significant amount of uncompensated care. Funding for this includes payments by DPW to hospitals for inpatient and outpatient Disproportionate Share (DSH) and Community Access Funds (CAF).

These payments are based on historic levels of care provided to indigent patients. Eligibility for participation in this funding is determined based on data provided to DPW through annual cost reports. Funding for DSH payments is dependent on Federal Medicare and Medicaid funding and regulations. The MMA included revisions to state DSH allotment levels. There can be no assurance that DPW's funding levels will remain at current levels.

Also, as a result of the national class action tobacco settlement, DPW has created an uncompensated care pool to provide grants to hospitals that meet certain levels of uncompensated care. DPW began funding these grants in 2002. There can be no assurance that this resource will be available at current levels, if at all, in the future.

Third Party Reimbursement

A significant portion of the net patient service revenue of the System is received from Highmark 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 the System. The reimbursement currently paid by Highmark 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.

The Corporation holds various interests in health care financing products and network care delivery operations, as more fully described in APPENDIX A. Membership in the UPMC health insurance companies exceeded 1.2 million as of December 31, 2007. Utilization by members of the UPMC Health Plan represented eight per cent of UPMC patient service revenue for the six-month period ended December 31, 2007.

Certain private insurance companies contract with hospitals on an exclusive or preferred-provider basis, and some insurers have introduced plans known as preferred provider organizations (“PPOs”). Under these plans, there may be financial incentives for subscribers to use only those hospitals and physicians which contract with the plans. Under an exclusive provider plan, which 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.

Most PPOs and HMOs currently 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 such 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 the hospital may be adversely affected.

The current Highmark indemnity and managed care hospital contracts for the Subsidiary Hospitals are effective through June 30, 2012. The Security Blue acute care hospital contracts, which relate to Medicare recipients, are effective through January 1, 2011. Children’s Hospital of Pittsburgh of UPMC has a separate multi-year contract with Highmark. There is no assurance that the Subsidiary Hospitals will maintain such contracts or obtain other similar contracts in the future. Failure to maintain such Highmark contracts could have the effect of reducing the revenues of the System.

There is no assurance that contracts of the System or its physicians with Highmark, HMOs, PPOs or other payors will be maintained or 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 of the System or its physicians in providing hospital services to its or their beneficiaries. Failure to execute and maintain such contracts could have the effect of reducing the patient base or gross revenues of the System. Conversely, participation may maintain or increase the patient base, but may result in reduced payments.

The System also may be affected by the financial instability of HMOs and other third-party payors with which the System contracts and/or from which it receives reimbursement for furnished health care services. For example, if the 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 third-party payor. Also, health care providers 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.

Private employers have begun to revise the way in which health care benefits are provided to their employees in order to create incentives for cost containment and to reduce their costs of providing health care benefits. Traditional health insurance programs, which pay for services on a fee-for-service basis and allow employees to elect which hospitals they utilize, are being supplemented or replaced by a wide range of health insurance programs being offered with economic incentives for employees to choose those plans which promise to be most cost efficient. These types of insurance programs are expected to cover an increasing share of health care services being provided in the future.

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.

Retroactive Adjustments of Payments

Funds received from Medicare, Medicaid and some third-party payors relating to certain types of services and years may be subject to audit. These audits can result in retroactive adjustments of payments received. If an audit determines that an overpayment was made, the excess amount must be repaid. If, on the other hand, it is determined that an underpayment was made, payors will make additional payments to the provider. Provisions for adjustments related to these programs are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Final settlements may differ materially from amounts currently recorded.

Regulatory Environment

The System 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. As a result, the health care industry is sensitive to legislative and regulatory changes in such programs, and is affected by reductions and limitations in government spending for such programs as well as changing health care policies. Over the past several years, Congress has consistently attempted to curb the growth of federal spending on health care programs. In addition, Congress and governmental agencies have focused on the provision of care to indigent and uninsured patients, the prevention of the transfer of such patients to other hospitals in order to avoid the provision of uncompensated care, activities of tax-exempt institutions that are unrelated to their exempt purposes, and other issues. Some of the legislation and regulations affecting the health care industry are discussed below.

Additionally, laws and regulations require that hospitals meet various detailed standards relating to the adequacy of medical care, equipment, personnel, 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 results of operations of the System.

Federal False Claims Act and Civil Money Penalties Law. 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 providers. The coding, billing and reporting obligations of Medicare 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.

The federal Civil False Claims Act prohibits knowingly filing a false or fraudulent claim for payment by 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 Civil False Claims Act include fines of up to $10,000, plus treble damages. Under the federal Criminal False Claims Act, anyone who knowingly makes a false statement or representation in any claim to the Medicare or Medicaid programs is subject as well to fines and imprisonment.

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 Civil or Criminal False Claims Acts or Civil Money Penalties Law could have an adverse financial impact on the System, regardless of the merits of the case.

"Fraud and Abuse" Laws and Regulations. Federal law (known as the Anti-Kickback Law) prohibits the knowing and willful offer, solicitation, payment or receipt of remuneration in exchange for or as an inducement to make or influence a referral of a patient for goods or services, or the purchase, lease, order or arrangement for the provision of goods or services, that may be reimbursed under Medicare, Medicaid or other health benefit programs funded by the federal government. 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, civil penalties of up to $50,000 per violation and damages of up to three times the amount of the illegal remuneration, as well as exclusion from the federal health care programs.

Safe harbor regulations describe certain payment practices that will be exempt from prosecution or other enforcement action under one of the federal laws prohibiting referrals in exchange for remuneration. In the fall of 2006, CMS added two new safe harbors to the existing anti-kickback regulations. One safe harbor protects certain arrangements involving the distribution of electronic prescribing technology to physicians and the other protects the provision of information technology necessary to create electronic health records. The new rule with respect to prescribing technology classifies technology necessary and used solely to receive and transmit any prescription information as protected non-monetary remuneration. The final safe harbor involving electronic health records software protects arrangements that provide physicians with information technology and training services necessary and used predominantly to create, maintain, transmit, or receive electronic health records.

Notable recent cases of fraud in other hospitals include billing for observation services, billing for unwarranted expenses and accounting fraud associated with submitted cost reports. As the exceptions are narrowly drawn, there can be no assurances that the System will not be found to be in violation of the Anti-Kickback Law. If such a violation were found, any sanctions imposed could have a material adverse effect upon the future operations and financial condition of the System.

Restrictions on Referrals. Current federal law (the "***Stark Law***") prohibits a physician who has a financial relationship with an entity that provides certain health services from referring Medicare and Medicaid patients to that entity for the provision of such health services, with limited exceptions. These restrictions currently apply to referrals for a number of health services and goods, including clinical laboratory services, physical therapy services, occupational therapy services, radiology or other diagnostic services, 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 and outpatient hospital services.

Unlike the Anti-Kickback Law, which is an intent-based statute, the Stark Law absolutely prohibits specific referral arrangements and the accompanying claims for payment from Medicare or Medicaid by the provider unless an exception applies. Sanctions for violations of the Stark Law include refunds of the amounts collected for services rendered pursuant to a prohibited referral, civil money penalties of up to $15,000 for each claim arising out of such referral, plus up to three times the reimbursement claimed, and exclusion from the Medicare and Medicaid programs. The Stark Law also provides for a civil penalty of up to $100,000 for entering into an arrangement with the intent of circumventing its provisions.

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 the System will not violate 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 System.

Expanded Enforcement Activity. Congress enacted The Health Insurance Portability and Accountability Act of 1996 ("***HIPAA***") in August 1996 as part of a broad health care reform effort. Among other things, HIPAA established a program administered jointly by the Secretary of DHHS 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, in HIPAA, Congress greatly increased funding for health care fraud enforcement activity, enabling the OIG to substantially expand its investigative staff and the Federal Bureau of Investigation to plan 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 Civil and Criminal False Claims Acts. This expanded enforcement activity, together with the whistleblower provisions of the Civil False Claims Act, have significantly increased the likelihood that all health care providers, including the System, could face inquiries or investigations concerning compliance with the many laws governing claims for payment and cost reporting under the federal health care programs.

Emergency Medical Treatment and Active Labor Act. In 1986, 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 the 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.

EMTALA imposes significant costs on hospitals, including the costs of treatment of individuals who may not be able to pay for such services, costs of development and implementation of protocols concerning medical screening examinations and 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 the training of personnel and the development of protocols for screening, stabilization and transportation of patients.

If a hospital violates EMTALA, whether knowingly and willfully or negligently, it is subject to a civil money penalty of up to $50,000 per violation. Failure to satisfy the requirements of EMTALA may also 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 with respect to EMTALA violations has increased dramatically in recent years, and because of the broad interpretation of the reach of EMTALA, there can be no assurance that the System 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 System.

HIPAA's Administrative Simplification Provisions. 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 healthcare clearinghouses (collectively "***Covered Entities***"). Various requirements of HIPAA apply to virtually all healthcare organizations, and significant civil and criminal penalties may result from a failure to comply with the Administrative Simplification regulations. Compliance requires changes in information technology platforms, major operational and procedural changes in the handling of data, and vigilance in the monitoring of ongoing compliance with the various regulations. The financial costs of compliance with the Administrative Simplification regulations are substantial.

Covered Entities are now required to conduct certain electronic transactions in compliance with the applicable transactions and code sets standards published by DHHS, and are also required to comply with the privacy regulations. Compliance with the electronic security regulations has been required since April 20, 2005. The System is actively engaged in achieving compliance with the HIPAA regulations; however, in light of the complexity of the regulations, and the absence of further guidance from DHHS with respect to numerous provisions of the regulations, it is impossible to accurately assess the financial and operational impact HIPAA has on the System.

Patient Records and Confidentiality. HIPAA also established, among other things, a program to address the confidentiality and security of individuals' health information. Disclosure of certain broadly defined protected health information is prohibited unless expressly permitted under the provisions of the HIPAA statute and regulations or authorized by the patient. HIPAA's confidentiality and electronic data security requirements extend not only to patient medical records, but also to a wide variety of health care clinical and financial transactions where patient privacy restrictions often impose new communication, operational, accounting and billing restrictions. These add costs and create potentially unanticipated sources of legal liability.

HIPAA imposes civil monetary penalties for violations and criminal penalties for knowingly obtaining or using individually identifiable health information. The penalties range from $50,000 to $250,000 and/or imprisonment if the information was obtained or used with the intent to sell, transfer or use the information for commercial advantage, personal gain or malicious harm.

A 2006 regulation adopted by DHHS amends the existing rules relating to the investigation of noncompliance to make them apply to all of the HIPAA Administrative Simplification rules, rather than exclusively to the privacy standards.

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 the System will not encounter such risks in the future, and such risks may result in material adverse consequences to the operations or financial condition of the System.

Transparency in Pricing. Recent federal legislation has been introduced that would require states to publicly report hospital charges for inpatient and outpatient services. In August 2006, President Bush signed an executive order requiring the same public reporting of cost and quality data at four federal agencies. CMS, per the DRA, has made outcomes reporting a condition of Medicare participation going forward. These examples illustrate a trend in which hospitals will be required to divulge proprietary information to the general public in order to participate in federal programs. The disclosure of proprietary information may have a negative impact on the System's ability to gain advantages in negotiations with payors. This, in turn, could negatively influence the System's revenues. Due to the relative novelty of these requirements, it is impossible to predict the effect, if any, that cost and outcomes reporting will have on the System's finances.

Future Federal Legislation. Future legislation, regulation, or other actions by the federal government are expected to 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 upon the forecasted financial performance of the System cannot be determined at this time.

Any future changes to the Medicare and Medicaid programs could result in substantial reductions in the amounts of public and private payments to hospital providers, which could substantially reduce the revenues available to the System. Any reduction in the levels of payment in these government payment programs could substantially adversely affect the System's financial condition.

Medical Care Availability and Reduction of Error Act. In March 2002, the Commonwealth enacted the Medical Care Availability and Reduction of Error Act (the "***Mcare Act***"). The Mcare Act includes significant patient safety initiatives, professional liability tort reforms, professional liability insurance reforms, and administrative requirements. Although the new law was initially intended to address the malpractice insurance crisis that was developing in Pennsylvania, it was substantially revised by the Pennsylvania Senate before being signed into law, and the law as signed imposes numerous burdens on health care providers in the Commonwealth.

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. Hospitals, ambulatory surgical centers, and birth centers are subject to administrative fines of $1,000 per day for failure to comply with the patient safety requirements of the Mcare Act.

The Mcare Act also eliminated the Pennsylvania Medical Professional Liability Catastrophe Loss Fund (the "***CAT Fund***") and established the Medical Care Availability and Reduction of Error Fund (the "***Mcare Fund***"). The Mcare Fund provides coverage for professional liability claims in excess of a basic limit of insurance, and participation in the Mcare Fund is mandatory for licensed health care providers. The Mcare Act provides for the transition of all professional liability coverage from the Mcare Fund to commercial insurance by 2009. The liabilities of the CAT Fund, which are estimated at over two billion dollars, were transferred into the Mcare Fund and will be paid through the imposition of annual assessments on health care providers in the Commonwealth until such time as all liabilities are satisfied. The administrative provisions under the Mcare Act require physicians in the Commonwealth to report to the appropriate licensing board each time they are named in a lawsuit, and provide for additional civil penalties of up to $10,000 for violations of the Mcare Act by licensees. The administrative and financial burdens imposed on health care providers by the Mcare Act are substantial, and there can be no assurance that compliance with the Mcare Act will not have a material adverse effect upon the future operations and financial condition of the System.

Regulatory Inquiries

The laws and regulations governing federal reimbursement programs and the laws governing the healthcare industry generally (such as the Civil and Criminal False Claims Acts, the Civil Money Penalties Law, the Anti-Kickback Law and the Stark Law) are complex and subject to varying interpretations, and the System is subject to contractual reviews and program audits in the normal course of business. Penalties for violations of federal regulations governing healthcare 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: (i) teaching hospitals, (ii) home healthcare services, (iii) investigational devices, (iv) laboratory billing, and (v) cost reporting. The System expects that the level of review and audit to which it and other healthcare providers are subject will increase. The System 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 the System'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 System.

Deficit Reduction Act of 2005 Quality Reporting Requirements

The Deficit Reduction Act of 2005 (the "***DRA***") includes significant new quality reporting initiatives for hospitals. Under the DRA, the System is required to submit quality performance measures; the penalty for hospitals not reporting quality measures is a reduction in federal funding.

The DRA has 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 to educate their employees (and certain contractors and agents) and to provide detailed information about the federal False Claims Act, the federal Program Fraud Civil Remedies Act, various other federal and state laws pertaining to civil or criminal penalties for false claims and statements, any whistleblower protections provided under such laws, the role of such laws in preventing and detecting fraud, waste and abuse, and the provider (or other party's) policies and procedures that are in place for the prevention and detection of fraud, waste and abuse. Additionally, covered health care providers and other applicable parties are required to make specific revisions to their existing employee handbooks to incorporate the above items, and to specifically disseminate pertinent information regarding these items to all employees and certain categories of contractors and agents making sure that covered contractors and agents agree to the adoption of certain policies and procedures. These DRA mandates went into effect on January 1, 2007, although additional federal and/or state guidance regarding compliance with these mandates is expected to be forthcoming. Because compliance with these DRA requirements is a condition of payment under Medicaid, 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 their entitlement to receive Medicaid reimbursements to which they otherwise would be entitled and/or risk potential liability under the False Claims Act and other federal and state fraud and abuse authorities.

Tax-Exempt Status of Interest on the 2008A Bonds

The Code imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the 2008A Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of proceeds of the 2008A Bonds, limitations on the investment earnings of proceeds of the 2008A Bonds prior to expenditure, a requirement that certain investment earnings on proceeds of the 2008A Bonds be paid periodically to the United States, and a requirement that the Authority file an information report with the IRS. The Authority, to the extent so required, and the Corporation have covenanted in the Tax Certificate and Agreement relating to the 2008A Bonds, that they will comply with such requirements. Future failure by the Corporation to comply with the requirements stated in the Code and related regulations, rulings and policies may result in the treatment of interest on the 2008A Bonds as taxable, retroactively to the date of issuance. In such event, the Bond Indenture does not contain any specific provision for mandatory acceleration of the 2008A Bonds nor does it provide that any additional interest will be paid to the holders of the 2008A Bonds.

Future legislation, if enacted into law, may cause interest on the 2008A 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 may also affect the market price for, or marketability of, the 2008A Bonds. Prospective purchasers of the 2008A Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation.

The opinion of Co-Bond Counsel with respect to the 2008A Bonds is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Co-Bond Counsel's judgment as to the proper treatment of interest on the 2008A Bonds for federal income tax purposes. It is not binding on the IRS or the courts. Furthermore, Co-Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Corporation or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof, or the enforcement thereof by the IRS.

Tax-Exempt Status of the Corporation and Subsidiary Hospitals

The tax-exempt status of the 2008A Bonds presently depends upon the maintenance by the Corporation and its Subsidiary Hospitals that receive proceeds of the 2008A Bonds of their status as organizations described in Section 501(c)(3) of the Code. The maintenance of such status is contingent on compliance with 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 which may cause their earnings or assets to inure to the benefit of private individuals. As these general principles were developed primarily for public charities which do not conduct large-scale technical operations and business activities, they often do not adequately address the myriad of operations and transactions entered into by modern health care organizations.

In order to retain tax-exempt status under Section 501(c)(3) of the Code, a hospital must satisfy a "community benefit" standard, set out initially in IRS Revenue Ruling 69-545, issued in 1969, and refined in Revenue Ruling 83-157, issued in 1983. The standard is applied on a facts and circumstances basis, and there is no bright-line test that determines when the standard is met. Elements include the operation of an emergency room open to all regardless of ability to pay; participation in public programs, such as Medicare and Medicaid; use of revenues to support medical training, research and education; an open medical staff policy; and a board drawn from the community. While the standard does not specifically require the provision of medical care to indigents outside the emergency room context, this may be an important factor in the analysis. At the federal level, the IRS has ruled in Revenue Ruling 69-545 that the tax-exempt status of non-profit hospitals is not dependent upon their acceptance of patients who cannot pay. This holding may also apply to other healthcare facilities. It is also possible that future legislative, administrative or judicial proceedings will have the effect of requiring the System to increase its services to indigent patients to retain its tax-exempt status. Increased services to indigent patients could have an adverse effect on the revenues of the System. With increasing frequency, the IRS has imposed substantial monetary penalties and future charity care or public benefit obligations on tax-exempt organizations that own and operate hospitals in lieu of revoking tax-exempt status, as well as requiring that certain transactions be altered, terminated or avoided in the future and/or requiring governance or management changes. These penalties and obligations typically are imposed on the tax-exempt organization pursuant to a "closing agreement." The System may be at risk for incurring monetary and other liabilities imposed by the IRS. These liabilities could be materially adverse.

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

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

The loss of tax-exempt status by the Corporation or any Subsidiary Hospital receiving proceeds of the 2008A Bonds could result in loss of tax-exemption of interest on the 2008A Bonds retroactively to the date of issuance, and defaults in covenants regarding the 2008A Bonds would likely result. Loss of tax-exempt status could also result in substantial tax liabilities on income of the System. For these reasons, loss of the tax-exempt status of the Corporation or any Subsidiary Hospital receiving proceeds of the 2008A Bonds could have a material adverse effect on the financial condition of the System.

Other Legislative and Regulatory Actions

The System is subject to regulation, certification and accreditation by various federal, state and local government agencies and by certain nongovernmental agencies such as the Joint Commission on Accreditation of Healthcare Organizations 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 System 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) regulatory limitations affecting the ability of the System to undertake capital projects or develop new services; and (d) a requirement that not-for-profit health care institutions pay real estate property tax and sales tax on the same basis as for-profit entities.

Healthcare reform has been identified as a priority by business leaders, public advocates, political leaders and candidates for office at the federal, state and local levels. Proposals include: (1) establishing universal healthcare coverage or purchasing pools; (2) modifying how hospitals, physicians and other healthcare providers are paid; and (3) evaluating hospitals, physicians and other healthcare providers on a variety of quality and efficacy standards to support pay-for-performance systems. Other initiatives affecting hospitals as major employers include: (1) imposing higher minimum or living wages; (2) enhancing occupational health and safety standards; and (3) penalizing employers of undocumented immigrants. Legislation or regulation on any of the above or related topics could have a material adverse effect on the System.

In March 2007, the Health Care Reform Act (the "***HCRA***”) was introduced into the Pennsylvania General Assembly as House Bill 700. The legislation is a comprehensive attempt to expand access to healthcare through quality improvement and cost reduction.

Among its key features, the HCRA provides for the creation of the Cover All Pennsylvanians (“***CAP***”) program. CAP is intended to provide health insurance coverage to uninsured adult Pennsylvanians through the private sector. The CAP program would be funded through multiple sources, including Tobacco Settlement appropriations, CAP program premiums and revenues generated from a fair share tax levied on employers not providing health care coverage to employees.

The HCRA seeks to lower costs to the consumer through the implementation of statewide quality initiatives and cost reporting requirements. Each hospital operating as a charitable institution would be required to report the amount and value of uncompensated goods and services delivered to the community as part of a community needs assessment. Each hospital would be required to report cost data, including the rates charged across consumer classes for the most commonly treated diagnoses and most commonly prescribed drugs. These data would be made available to the general public for comparison purposes.

Under the HCRA, a hospital may not deny admission to any prospective patient for reasons not based on sound medical practice. Hospitals would be limited in the amount that they can charge uninsured and self-pay patients. A hospital would not be able to charge these patients more than the Medicare reimbursement rate for the services provided. Additionally, hospitals would face limitations on their ability to collect bad debt; recovery actions would only be permitted where evidence existed that the responsible party has the ability to meet the financial obligation in question.

It is unclear if this legislation will be implemented and, if so, what effect the HCRA will have on System finances. Should the HCRA have the effect of raising costs to the System while limiting its ability to generate revenues, the HCRA could have a material adverse effect on the financial condition of the System.

Antitrust

The System, like other providers of health care services, is 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 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.

Recent 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 1983, the United States Department of Justice and the Federal Trade Commission issued “Statements of Antitrust Enforcement Policy in the Health Care Area” and these statements have been revised from time to time. The statements 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 cannot be any assurances that enforcement authorities or private parties will not assert that the System, or any transaction in which it is involved, is in violation of the antitrust laws.

Licensing, Surveys and Accreditations

Health care facilities, including the System, are subject to numerous legal, regulatory, professional and private licensing, certification and accreditation requirements. Those requirements include, but are not limited to, requirements relating to Medicare and Medicaid participation and payment, state licensing agencies, private payors, the Joint Commission on Accreditation of Healthcare Organizations, the National Labor Relations Board and other federal, state and local government agencies. Renewal and continuance of certain of these licenses, certifications and accreditations is 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. The System currently expects to renew or maintain all currently held licenses, certifications and accreditations. However, 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 System.

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 effect of these developments has been to increase the operating costs of hospitals, including those of the System. In addition, the dramatic 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 System's region. 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 System.

Insurance Coverage Limits

The System may be required to maintain prescribed levels of professional liability and property hazard insurance. The System believes that present insurance coverage limits are sufficient to cover any reasonably anticipated malpractice or property hazard exposures. No assurance can be given, however, that the System will always be able to procure or maintain such levels of insurance in the future.

The System is occasionally named as a defendant in malpractice actions and there remains a risk that individual or aggregate judgments or settlements will exceed the System's coverage limits, or that some allegations or damages will not be covered by the System's existing insurance coverages. To the extent that the professional liability insurance coverage maintained by the System is inadequate to cover settlements or judgments against it, claims may have to be discharged by payments from current funds and such payments could have a material adverse impact.

Nursing Shortage

The health care industry is facing a nationwide shortage of nursing professionals, including registered nurses. Nurses are leaving the profession citing stress, irregular working hours, high nurse to patient ratios, deteriorating working conditions, and low morale as some of the reasons. Additionally, the average age of the existing workforce has risen substantially over the last two decades. As a result of these factors, the health care industry is facing a severe nursing shortage. The Bureau of Health Professions of DHHS's Health Resources and Services Administration estimates that by 2010 there will be 275,000 more registered nurses needed then are available. A shortage of nursing staff could result in escalating labor costs, delays in providing care, and patient care management issues, among other adverse effects. 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 System.

Fluctuations in Market Value of Investments

Earnings on its investments provide the System an important source of funds to support its programs and services, to finance its capital expenditure investments and to build its cash reserves**.** Although the System's overall financial returns on its investments have been positive over recent years (See "Management Discussion" in APPENDIX A hereto), the value of these investment securities has fluctuated and, in some instances, the fluctuations have been significant. No assurances can be given that the market value of the System's investments will not decline at some time in the future.

Changes in market interest rates and fluctuations in the value of investment securities also potentially could have an impact on the System's pension fund liabilities and its requirements for funding its related pension expenses. Like any other entity with pension fund liabilities, the System finds 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 System's current pension funding requirements. No assurance can be given that the System will not be required to make increased pension funding payments in this or other circumstances.

Potential Effects of Bankruptcy

If the System were to file a petition for relief under the federal Bankruptcy Code, the filing would act as an automatic stay against the commencement or continuation of judicial or other proceedings against the petitioner and its property.

Any petitioner for relief may file a plan for the adjustment of its debts in a proceeding under the federal Bankruptcy Code which could include provisions modifying or altering the rights of creditors generally, or any class of them, secured or unsecured. The plan, when confirmed by the court, would bind all creditors who had notice or knowledge of the plan and discharge all claims against the petitioner provided for in the plan. No plan may be confirmed unless certain conditions are met, including that the plan is in the best interests of creditors, is feasible and has been accepted by each class of claims impaired thereunder. Each class of claims will be deemed to have accepted the plan if at least two-thirds in dollar amount and more than one-half in number of the allowed claims of the class that are voted with respect to the plan are cast in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

Derivative Products

The System has used various derivative contracts in connection with certain prior obligations and investments. Although minimum credit ratings are required for counterparties, this does not eliminate the risk that a counterparty may fail to honor its obligations.

Derivative contracts are subject to periodic "mark-to-market" valuations. A derivative contract may, at any time, have a positive or negative value to the System. If the System were to choose to terminate a derivative contract or if a derivative contract were terminated pursuant to an event of default or a termination event as described in the derivative contract, the System could be required to pay a termination payment to the counterparty, and such payment could adversely affect the System's financial condition.

Enforceability of Certain Covenants

The 1995 MTI Note is an obligation of the 1995 Obligated Group issued under the 1995 Master Indenture secured by a gross revenue pledge of the 1995 Obligated Group. The 2007 MTI Note is an obligation of the 2007 Obligated Group issued under the 2007 Master Indenture secured by a gross revenue pledge of the 2007 Obligated Group. No facilities or other assets of the 1995 Obligated Group or the 2007 Obligated Group are pledged as security for the 2008A Bonds. The practical realization of value upon any default will depend upon the exercise of various remedies specified in the 1995 Master Indenture or 2007 Master Indenture, as applicable, the Bond Indenture and the Loan Agreement. These and other remedies may, in many respects, require judicial actions which are often subject to uncertainty, expense, discretion and delay. The various legal opinions to be delivered concurrently with the delivery of the 2008A Bonds will contain customary qualifications as to the enforceability of the various legal instruments by limitations imposed by state and federal laws, rulings and decisions affecting remedies and by bankruptcy, reorganization, fraudulent conveyances, or other laws affecting the enforcement of creditors' rights generally.

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

Facilities

The facilities of the System are not general-purpose buildings and generally would not be suitable for industrial or commercial use. Such facilities are not pledged as security for the 1995 MTI Note, the 2007 MTI Note or the Series 2008A Bonds. It could be difficult to find a buyer or lessee for such facilities, and, upon a default, the Bond Trustee or the Master Trustee under the 1995 Master Indenture or 2007 Master Indenture may not obtain an amount equal to the aggregate liabilities of the 1995 Obligated Group or 2007 Obligated Group, as applicable, (including liabilities in respect of the defaulted bonds then outstanding) from the sale or lease of such facilities, whether pursuant to a judgment against any Subsidiary Hospital, the System or otherwise.

Factors Affecting Real Estate Tax Exemption

In recent years various State and local legislative, regulatory and judicial bodies have reviewed the exemption of nonprofit corporations from real estate taxes. Various state and local government bodies have challenged with increasing frequency and success the tax-exempt status of such institutions and have sought to remove the exemption of property from real estate taxes of part or all of the property of various nonprofit institutions on the grounds that a portion of such property was not being used to further the charitable purposes of the institution. Several of these disputes have been determined in favor of the taxing authorities or have resulted in settlements. No assurance can be given that the System will retain its real estate tax exemptions without challenge throughout the term of the 2008A Bonds.

Competition and Integrated Delivery Systems

One of the primary effects of health care reform has been an increase in competition among providers and the initiation of alternative forms of health care delivery. The System could face additional competition in the future from other hospitals, providers and managed care organizations offering similar or new services to the population now being served by the System. This could include the initiation of new health care services and the construction or renovation of hospitals, skilled nursing or subacute care facilities; primary care centers staffed by physicians; ambulatory surgical centers; and private laboratories and imaging centers. Alternative and new forms of health care services are being pursued by providers and payors as a way to reduce costs and improve quality and utilization controls. No assurance can be given that activities of other providers or managed care organizations will not adversely affect the operations or financial condition of the System.

Consolidation of Health Care Market

The health care market has become increasingly dynamic and competitive in recent years. The challenges presented by the movement towards managed care and the uncertainties as to the appropriate response have led health care providers to explore affiliations of various forms and types. Some providers have merged or entered into direct affiliation or similar agreements, leading to predictions by some observers of a significant consolidation in the market to a limited number of networks or systems of health care providers. Other types of relationships are being explored, however, not only with other providers but also with health care insurers. In response to this changing health care market the System continuously conducts discussions with third parties relating to possible additional affiliations and strategic alliances. Any strategic affiliations resulting from such discussions could involve an investment by and/or expense to the System.

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 members of the 1995 Obligated Group and the 2007 Obligated Group, respectively, created by the 1995 Master Indenture and the 2007 Master Indenture, respectively (the "***Gross Revenues***") may be limited by a number of factors, including: (1) provisions of the Social Security Act that may limit the ability of the Bond 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 applicable 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 "Enforceability of Obligations Under the Federal Bankruptcy Code"; and (8) rights of third parties in Gross Revenues not in possession of the Bond Trustee.

Other Factors

In the future, the following factors, among others, may adversely affect the operations of the System and other health care providers to an extent that cannot be determined at this time:

1. Employment risks including strikes and other related work actions, contract disputes, discrimination claims, personal tort actions, work-related injuries, exposure to hazardous materials, and other risks that may flow from the relationships between employer and employee or between physicians, patients and employees.

2. The fact that the System includes teaching hospitals is of considerable importance in attracting patients and highly qualified and skilled physicians; consequently, any adverse change in the System's relationship with the School of Medicine of the University or loss of approved status for the System's residency programs could have a significant adverse effect on the System's revenues.

3. Adoption of legislation which would establish a national health program.

4. Occurrences of natural disasters or acts of terrorism which could damage some or all of the facilities, interrupt utility service to some or all of the facilities or otherwise impair the operation of some or all of the facilities operated by the System or the generation of revenues from some or all of such facilities.

5. Reduced need for hospitalization or other services arising from increased utilization management by third party payors or from future medical and scientific advances.

6. Reduced demand for the services provided by the System that might result from decreased population.

7. Imposition of wage and price controls for the health care industry.

8. Increased unemployment or other adverse economic conditions in the service area of the System which would increase the proportion of patients who are unable to pay fully for the cost of their care.

9. Any increase in the quantity of indigent care provided which is mandated by law or required due to increased needs of the community in order to maintain the charitable status of the Subsidiary Hospitals.

10. Efforts by insurers and governmental agencies to limit the cost of hospital services, to reduce the number of beds and to reduce the utilization of hospital facilities by such means as preventive medicine, improved occupational health and safety measures and increased outpatient care.

11. Regulatory actions which might limit the ability of the System to undertake capital improvements to its facilities or to develop new institutional health services.

12. Decreased availability or receipt of grants, or in receipt of contributions or bequests.

13. Inflation or other adverse economic conditions.

14. Cost and availability of energy.

15. Potential depletion of the Medicare trust fund.

16. Increased regulation of health care facilities in matters involving the environment which may increase costs of operation or subject hospitals to claims involving existing environmental contamination.

17. A reduction in hospitalization trends as a result of fewer inpatient admissions and shorter lengths of stay for those who are admitted and cost containment by third party payors effectuated by reviewing and questioning the need for certain inpatient admissions and length of hospital stays.

18. Developments adversely affecting the federal or state tax-exemption of municipal bonds.

19. Fluctuations in market value of investments held by the System, its affiliates or pension plans.

THE BOND TRUSTEE AND THE MASTER TRUSTEE

The Bank of New York Trust Company, N.A., Pittsburgh, Pennsylvania is serving as Bond Trustee, Bond Registrar and authentication, transfer and paying agent for the 2008A Bonds and the Owners thereof. The Bank of New York Trust Company, N.A., Pittsburgh, Pennsylvania, is serving as Master Trustee under the 1995 Master Indenture and the 2007 Master Indenture, respectively.

The obligations of the Bond Trustee and the Master Trustee are set forth in the Bond Indenture, the 1995 Master Indenture and the 2007 Master Indenture, respectively. The Bond Trustee and the Master Trustee have undertaken only those duties and obligations which are expressly set forth in the Bond Indenture, the 1995 Master Indenture and the 2007 Master Indenture, respectively. In executing and negotiating the terms of the Bond Indenture, the 1995 Master Indenture, and 2007 Master Indenture, the Bond Trustee and the Master Trustee are not acting in any fiduciary capacity; the Bond Trustee and the Master Trustee act only for their own respective interests, rather than on behalf of the holders or prospective holders of the 2008A Bonds. After issuance of the 2008A Bonds, the Bond Trustee and the Master Trustee act only pursuant to the specific terms of the Bond Indenture and the applicable Master Indenture, respectively. The Bond Trustee and the Master Trustee have not independently passed upon the validity of the 2008A Bonds, the security for the payment thereof, the value or condition of any assets pledged to the payment thereof, the adequacy of the provisions for such payment, the status for federal or state income tax purposes of the interest on the 2008A Bonds, or any other matter with respect to the issuance of the 2008A Bonds.

MATERIAL LITIGATION

The Authority. In the Bond Purchase Contract (hereinafter described) and the Loan Agreement, the Authority will represent, as of the respective dates of the execution and delivery thereof, that there is no litigation pending or, to the best of the Authority's knowledge, threatened against the Authority questioning the Authority's sale, issuance, execution, delivery or payment of the 2008A Bonds; the Authority's execution, delivery or performance of the Loan Agreement or the Bond Indenture; the organization, powers or authority of the Authority; or the right of the officers of the Authority to hold their respective offices.

The Corporation. There is no litigation or proceeding pending or, to the knowledge of management of the Corporation, threatened against the Corporation except (i) litigation in which the probable recoveries will be entirely within the Corporation's applicable insurance policy limits (subject to applicable deductibles) or are not in excess of the total reserves held under its applicable self-insurance program, if any, and (ii) litigation in which the probable recoveries would not have a materially adverse effect on the operations or condition, financial or otherwise, of the Corporation. There is no litigation pending or, to the knowledge of management of the Corporation, threatened which in any manner questions the right of the Corporation to use the proceeds of the 2008A Bonds as described herein or to enter into the Loan Agreement, the Supplemental Master Indenture No. 45, the Supplemental Master Indenture No. 5, the 1995 MTI Note, the 2007 MTI Note or which in any manner questions the validity or enforceability of such documents.

TAX EXEMPTION AND OTHER TAX MATTERS

In the opinion of Eckert Seamans Cherin & Mellott, LLC and Houston Harbaugh, P.C. ("***Co-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 2008A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code. Co-Bond Counsel is of the further opinion that interest on the 2008A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Co-Bond Counsel observes that such interest is included in adjusted current earnings in calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Co-Bond Counsel is set forth in APPENDIX D hereto.

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 2008A Bonds. The Authority and Corporation have made certain representations and have covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the 2008A Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the 2008A Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 2008A Bonds. The opinion of Co-Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Co-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) after the date of issuance of the 2008A Bonds may adversely affect the value of, or the tax status of interest on, the 2008A Bonds.

In addition, Co-Bond Counsel has relied, among other things, on the opinion of William Shaffner, Esquire, Counsel to the Corporation, regarding the current qualification of the Corporation as an organization described in Section 501(c)(3) of the Code. Such opinion is subject to a number of qualifications and limitations. Co-Bond Counsel has also relied upon representations of the Corporation concerning the Corporation's "unrelated trade or business" activities as defined in Section 513(a) of the Code. Neither Co-Bond Counsel nor Counsel to the Corporation has given any opinion or assurance concerning Section 513(a) of the Code and neither Co-Bond Counsel nor Counsel to the Corporation can give or has given any opinion or assurance about the future activities of the Corporation or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the resulting changes in enforcement thereof by the IRS. Failure of the Corporation to be organized and operated in accordance with the IRS's requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code or to operate the facilities financed by the 2008A Bonds in a manner that is substantially related to the Corporation's charitable purpose under Section 513(a) of the Code may result in interest payable with respect to the 2008A Bonds being included in federal gross income, possibly from the date of the original issuance of the 2008A Bonds.

Although Co-Bond Counsel is of the opinion that interest on the 2008A Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of or the accrual or receipt of interest on the 2008A Bonds may otherwise affect a Beneficial Owner's federal, state, or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Co-Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislation, if enacted into law, may cause interest on the 2008A Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent the Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation may also affect the market price for or marketability of the 2008A Bonds. Prospective purchasers of the 2008A Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation, as to which Co-Bond Counsel express no opinion.

The opinion of Co-Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Co-Bond Counsel's judgment as to the proper treatment of the 2008A Bonds for federal income tax purposes. It is not binding on the IRS or the courts. Furthermore, Co-Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority or the Corporation or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof, or the enforcement thereof by the IRS. The Authority and Corporation have covenanted, however, to comply with the requirements of the Code.

An amount equal to the excess of the purchase price of a 2008A Bond over its stated redemption price or principal due at maturity constitutes a premium on such 2008A Bond. Those maturities of the 2008A Bonds sold at such a premium are referred to herein as "***OIP Bonds***." A purchaser of an OIP Bond must amortize any premium over such OIP Bond's term using constant yield principles, based on the OIP Bond's yield to maturity. As premium is amortized, the purchaser's basis in such OIP Bond and the amount of tax-exempt interest received will be reduced by the amount of amortizable premium properly allocable to such purchaser. This will result in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes on sale or disposition of such OIP Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of any bond at a premium, whether at the time of initial issuance or subsequent thereto, should consult their tax advisors with respect to the determination and treatment of premium for federal income tax purposes, and with respect to state and local tax consequences of owning such 2008A Bonds.

Co-Bond Counsel's engagement with respect to the 2008A Bonds ends with the issuance of the 2008A Bonds, and, unless separately engaged, Co-Bond Counsel is not obligated to defend the Authority or the Beneficial Owners regarding the tax-exempt status of the 2008A Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority legitimately disagree may not be practicable. Any action of the IRS, including but not limited to selection of the 2008A Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the 2008A Bonds, and may cause the Authority, the Corporation, or the Beneficial Owners to incur significant expense.

Co-Bond Counsel is expected to issue an opinion on the date of closing to the effect that, under the laws of the Commonwealth, as presently enacted and construed, the 2008A Bonds are exempt from personal property taxes in the Commonwealth and interest on the 2008A Bonds is exempt from Pennsylvania personal income tax and from Pennsylvania corporate net income tax.

CONTINUING DISCLOSURE

To comply with the requirements of Rule 15c2-12 (the "***Rule***") promulgated by the Securities and Exchange Commission, the Corporation will undertake in a written agreement (the "***Disclosure Agreement***") to provide to a Dissemination Agent (who is, initially, Digital Assurance Certification, L.L.C., "***DAC***") in a timely manner after the end of each fiscal year of the Corporation, commencing with the fiscal year ending June 30, 2008, certain financial and operating data (referred to herein as "***Annual Information***"), including its annual financial statements prepared in accordance with generally accepted accounting principles, which may be the combined or consolidated financial statements of the System. The Dissemination Agent will file the Annual Information with each nationally recognized municipal securities information repository designated by the Securities and Exchange Commission (the "***Repository***"), and if and when one is established, a Commonwealth of Pennsylvania information depository (the "***State Information Depository***"). The Disclosure Agreement is executed and delivered by the Corporation for the benefit of the owners and Beneficial Owners of the 2008A Bonds and in order to assist the Participating Underwriter (as defined in the Disclosure Agreement) in complying with the Rule. The Authority has undertaken no responsibility with respect to any reports, notices or information provided or required under the Disclosure Agreement, and has no liability to any person, including any owner or Beneficial Owner of the 2008A Bonds, with respect to any such reports, notices or disclosures.

If, and only if and to the extent that it receives the Annual Information, the Dissemination Agent will provide such information and financial statements, as soon as practicable but in no event later than three business days after receipt thereof, to each Repository and to the State Information Depository, if any. In addition, the Dissemination Agent will provide to each Repository or to the Municipal Securities Rulemaking Board ("***MSRB***"), and to the State Information Depository, in a timely manner, the notices required to be provided by the Rule.

Annual Information. The Annual Information shall consist of audited combined or consolidated financial statements of the System prepared in accordance with generally accepted accounting principles. In addition, the Corporation has covenanted to provide in a timely manner to the Dissemination Agent, who shall thereafter provide such notice to each repository, notice of failure to provide the required Annual Information on or before the date specified in the Disclosure Agreement.

Quarterly Information. Although not required by the Rule, the Corporation will also agree in the Disclosure Agreement to provide quarterly financial and operating data of the System to the Dissemination Agent. The quarterly information will be delivered by the Corporation to the Dissemination Agent within 60 days of the end of each quarter of the fiscal year. The quarterly information (which will be unaudited) includes information relating to consolidated utilization statistics, sources of revenues and consolidated financial information (including combining or consolidating divisional income statements).

Material Event Notices. The notices required to be provided by the Rule, which the Dissemination Agent will undertake to provide as described above, include notices of any of the following events with respect to the 2008A Bonds, if material: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancement reflecting financial difficulties; (5) substitution of a credit enhancer or liquidity provider, or its failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the 2008A Bonds; (7) modification to the rights of registered or beneficial owners of the 2008A Bonds; (8) bond redemptions (other than mandatory or sinking fund redemptions); (9) defeasances; (10) release, substitution, or sale of property securing repayment of the 2008A Bonds; and (11) rating changes.

Limitations and Amendments. The Corporation has agreed to update information and to provide notices of material events only as described above. The Corporation does not make, and expressly disclaims, any representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell the 2008A Bonds at any future date.

The Disclosure Agreement may be amended to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status or type of operations of the Corporation. The Corporation may also amend or repeal the Disclosure Agreement if the applicable provisions of the Rule are repealed or a final court judgment is entered that the provisions are invalid, or in any other circumstance or manner, if the agreement, as supplemented or amended, would permit a purchaser to purchase the 2008A Bonds in the offering made hereby in compliance with the Rule.

The sole and exclusive remedy for breach or default under the Disclosure Agreement described above is an action to compel specific performance of the undertakings of the Dissemination Agent and the Corporation and no person, including a holder of the 2008A Bonds, may recover monetary damages thereunder under any circumstances. A breach or default under the Disclosure Agreement shall not constitute an Event of Default under the Bond Indenture or under the Loan Agreement. The obligations of the Corporation and the Dissemination Agent may be terminated if the Corporation is no longer an “obligated person” as defined in the Rule. In addition, if all or any part of the Rule ceases to be in effect for any reason, then the information required to be provided under the Disclosure Agreement, insofar as the provision of the Rule no longer in effect required the provision of such information, shall no longer be required to be provided.

The Corporation has complied with all of its prior continuing disclosure obligations under the Rule to the best of its knowledge.

CERTAIN LEGAL MATTERS

The 2008A Bonds are offered when, as and if issued by the Authority and accepted by Mellon Financial Markets, LLC, RBC Capital Markets Corporation, and NatCity Investments, Inc. (the “***Underwriters***”), subject to prior sale, or withdrawal or modification of the offer without notice, and to the approval of the legality of the 2008A Bonds by Eckert Seamans Cherin & Mellott, LLC, and Houston Harbaugh, P.C, both of Pittsburgh, Pennsylvania, Co-Bond Counsel, to be furnished upon delivery of the 2008A Bonds. Certain legal matters will be passed upon for the Authority by its counsel, Thorp Reed & Armstrong, LLP, Pittsburgh, Pennsylvania, for the Corporation by its counsel, William G. Shaffner, Esquire, and for the Underwriters by Buchanan Ingersoll & Rooney PC, Pittsburgh, Pennsylvania.

RELATIONSHIPS

Eckert Seamans Cherin & Mellott, LLC, and Houston Harbaugh, P.C., Co-Bond Counsel, and Buchanan Ingersoll & Rooney PC, Underwriters’ Counsel, periodically perform work for the Corporation. A shareholder in Buchanan Ingersoll & Rooney PC and a member of Eckert Seamans Cherin & Mellott, LLC are members of the Board of Directors of the Corporation. Affiliates of Mellon Financial Markets LLC and NatCity Investments, Inc. are each lenders to the Corporation. An employee of an affiliate of Mellon Financial Markets LLC is a member of the Board of Directors of the Corporation. An affiliate of Mellon Financial Markets LLC serves as Bond Trustee and Master Trustee.

RATINGS

General. Long-term ratings of "Aa3", "AA-" and "AA-" for the 2008A Bonds have been assigned by Moody's Investors Service ("***Moody's***"), by Standard and Poor's Rating Services, a division of The McGraw Hill Companies, Inc. ("***Standard & Poor's***"), and by Fitch Ratings ("***Fitch***"), respectively. The ratings and an explanation of their significance may be obtained from the rating agency furnishing such rating. Such ratings reflect only the respective views of the ratings agencies.

Generally, rating agencies base their ratings on the information and materials so furnished and on investigations, studies and assumptions by the ratings agencies. There is no assurance that a particular rating will be maintained for any given period of time or that it will not be lowered or withdrawn entirely, if, in the judgment of the agency originally establishing the rating, circumstances so warrant. The Authority, the Underwriters and the Corporation have undertaken no responsibility to bring to the attention of the Owners of the 2008A Bonds any proposed revision or withdrawal of the rating of the 2008A Bonds or to oppose any such proposed revision or withdrawal. Any such change or withdrawal of such rating could have an adverse effect on the market price of the 2008A Bonds.

Other Ratings of the Corporation Not Related to the 2008A Bonds. Moody's has assigned a "Global Scale Rating" of "Aa1" to certain unenhanced obligations of the Corporation to make payments under various derivative contracts, but has not assigned the "Global Scale Rating" to the 2008A Bonds. Additionally, short term ratings of "VMIG1"; "A-1+" and "F1+" have been assigned to certain of the Corporation's other unenhanced debt by Moody's, Standard & Poor's, and Fitch, respectively. The short-term ratings have similarly **not** been assigned to the 2008A Bonds.

INDEPENDENT AUDITORS

The consolidated financial statements of the Corporation as of June 30, 2007 and 2006 and for the years then ended, included in APPENDIX B, have been audited by Ernst & Young LLP, independent auditors, as stated in their report appearing herein.

INTERIM FINANCIAL STATEMENTS

The unaudited interim consolidated financial statements of the Corporation as of December 31, 2007, and for the six-month periods ended December 31, 2007 and 2006 are included in Appendix E hereto. The unaudited consolidated interim financial statements were prepared by management of the Corporation in accordance with accounting principles accepted in the United States (GAAP). Operating results for the six months ended December 31, 2007 are not necessarily indicative of the results that may be expected for the entire year ending June 30, 2008. The unaudited interim consolidated financial statements for the Corporation should be read in conjunction with the audited consolidated financial statements, related notes, and other financial information included in this Official Statement, including the Appendices.

UNDERWRITING

The Underwriters have entered into a Bond Purchase Contract with the Authority and the Corporation pursuant to which Underwriters will purchase the 2008A Bonds from the Authority at an aggregate price of $509,408,490.50 (representing the principal amount of the 2008A Bonds less $2,454,125.00 Underwriters' discount plus $21,037,615.50 net original issue premium).

The obligation of the Underwriters to purchase the 2008A Bonds is subject to certain terms and conditions set forth in the Bond Purchase Contract, the approval of certain legal matters by Co-Bond Counsel and certain other conditions. The terms of sale provide that the Underwriters will purchase all the 2008A Bonds, if any are purchased.

The Underwriters may offer and sell the 2008A Bonds to certain dealers (including dealers depositing the 2008A Bonds into investment trusts) and others at prices lower than such initial public offering prices as are stated inside the cover page hereof. The public offering prices may be changed from time to time by the Underwriters upon notice to the Corporation and the Authority.

MISCELLANEOUS

All quotations from, and summaries and explanations of, the Act, the Bond Indenture, the Loan Agreement, the 1995 Master Indenture, the 2007 Master Indenture, the 1995 MTI Note, the 2007 MTI Note, and other documents referred to herein do not purport to be complete, and reference is made to said documents for full and complete statements of their provisions. All projections, forecasts, 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.

It is anticipated that CUSIP identification numbers will be printed on the 2008A Bonds, but neither the failure to print such numbers on any 2008A Bond nor any error in the printing of such number shall constitute cause for a failure or refusal by the purchaser thereof to accept delivery of and pay for any 2008A Bonds.

This Official Statement is not to be construed as a contract or agreement between the Authority or the Corporation and the purchasers or owners of any of the 2008A Bonds.

The Authority has not assisted in the preparation of this Official Statement, except for the statements under the section captioned "THE AUTHORITY" and "MATERIAL LITIGATION" (solely as it relates to the Authority) herein and, except for those sections, the Authority is not responsible for any statements made in this Official Statement. Except for the authorization, execution and delivery of documents required to effect the issuance of the 2008A Bonds, the Authority has not otherwise assisted in the public offer, sale or distribution of the 2008A Bonds. Accordingly, except as aforesaid, the Authority assumes no responsibility for the disclosures set forth in this Official Statement.

The attached Appendices are integral parts of this Official Statement.

The execution and delivery of this Official Statement has been duly authorized by the Authority and duly approved by the Corporation.

ALLEGHENY COUNTY HOSPITAL DEVELOPMENT AUTHORITY

By: /s/ James M. Edwards
Chairman

Approved:

UPMC

By: /s/ C. Talbot Heppenstall, Jr.
Treasurer

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APPENDIX A

UPMC

APPENDIX A
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Introduction

UPMC, doing business as the University of Pittsburgh Medical Center, is one of the nation's leading integrated health enterprises. UPMC is based in Pittsburgh, Pennsylvania, and primarily serves residents of Western Pennsylvania. It also draws patients for highly specialized services from across the nation and around the world

With the addition of UPMC Mercy, UPMC's 20 hospitals and more than 400 clinical locations compose one of the largest non-profit health care systems in the United States. UPMC also exports its expertise to other parts of the world and the health care industry. About 5,000 physicians are affiliated with UPMC, including nearly 2,500 who are employed by the organization. UPMC also offers a variety of insurance products, including UPMC Health Plan, UPMC Health Network and Community Care Behavioral Health, which cover a total of more than 1,200,000 persons.

UPMC has evolved over the last two decades from its core as an academic medical center into one of the largest not-for-profit health care systems in the country. UPMC is widely recognized for its innovations in patient care, research, technology and health care management. UPMC is also:

- The largest healthcare system in Pennsylvania;
- The largest employer in the region with more than 45,000 employees and one of the largest non-governmental employers in Pennsylvania;
- Closely affiliated with the University of Pittsburgh of the Commonwealth System of Higher Education (the "University") which is among the top ten recipients of National Institutes of Health research funding;
- One of 16 hospitals nationwide named to the America's Best Hospital's Honor Roll by *U.S. News & World Report* in 2007;
- The largest and busiest organ transplant center in the world performing more than 12,000 transplants since 1981; and
- One of the largest cancer networks in the country with more than forty locations and more than 180 employed and affiliated oncologists.

Total assets and total revenues of UPMC were $7.4 billion and $6.8 billion, respectively, for the fiscal year ended June 30, 2007. These total revenues do not include research funding which is accounted for separately through the University and totaled more than $425 million during fiscal year 2005. UPMC's 2006 Annual Report is available for download at www.upmc.com.

Governance

UPMC is governed by a single parent corporation of the same name (the "Corporation") which was established in 1982 as a Pennsylvania nonprofit corporation and is exempt from federal income taxation under Section 501(a) of the Internal Revenue Code of 1986, as amended (the "Code"), as an organization described in Section 501(c)(3) of the Code. The Corporation was formerly named UPMC Health System, University of Pittsburgh Medical Center System and Presbyterian University Health System, Inc. The Corporation is operated exclusively for charitable, educational and scientific purposes, and in furtherance of such purposes, guides, directs, develops and supports activities related to the construction, purchase, ownership, maintenance, operation and financing of hospitals and related educational and service facilities. The Corporation provides governance and supervision for UPMC's subsidiary corporations, including, among others, various hospitals (the "Subsidiary Hospitals") for which the Corporation serves as the sole member, holding certain reserved powers and having the power to initiate certain actions, and in several cases any action, at the subsidiary level. The Corporation is a supporting organization pursuant to Section 509(a)(3) of the Code with respect to its affiliated exempt hospitals and with respect to the University. UPMC voluntarily complied with all applicable provisions of the Sarbanes-Oxley Act for its fiscal year ended June 30, 2007.

Board of Directors, Officers & Committees. The Bylaws of the Corporation provide for a Board of Directors (the "Board") consisting of individuals exercising up to ninety votes. Approximately one-third of the Board's total votes are held by individuals appointed by the University, approximately one-third of the total votes are held by individuals elected from the community at-large, and up to one-third of total votes are held by individuals appointed by or historically involved in the governance of Subsidiary Hospitals. With the exception of certain specified appointments, directors serve a term of three years and are limited to three consecutive terms, subject to a one-year hiatus before being able to serve again. The full Board meets semi-annually.

The officers of the Board include: the Chairperson, First Vice Chairperson, other Vice Chairpersons, and the Chairperson of the Finance Committee. Corporate officers, who are to be elected by the Board, include the President and Chief Executive Officer, Chief Financial Officer, Treasurer, Secretary, and such other officers as the Board may elect from time to time. The following individuals currently hold the offices so noted:

Chairperson
G. Nicholas Beckwith III
Chairman and Chief Executive Officer
Arch Street Management, LLC

First Vice Chairperson
The Honorable Ralph J. Cappy
Partner, Buchanan Ingersoll & Rooney PC

Second Vice Chairperson
Mark J. Laskow
Chief Executive Officer
Greycourt & Co. Inc.

Third Vice Chairperson/Chair Emeritus
George H. Taber
Vice President and Director (Retired)
Richard King Mellon Foundation

Chairperson, Finance Committee
Robert M. Hernandez
Chairman
RTI International Metals, Inc.

President and Chief Executive Officer
Jeffrey A. Romoff
President and CEO; UPMC

Chief Financial Officer
Robert A. DeMichiei
Chief Financial Officer; UPMC

Treasurer
C. Talbot Heppenstall, Jr.
Treasurer; UPMC

Secretary
Michele P. Jegasothy, Esq.
Corporate Secretary; UPMC

Standing committees of the Board include: Executive, Finance, Audit, Quality Patient Care, Conflict of Interest, Executive Compensation, Diversity, and Nominating. Ad-hoc committees of the Board include: Community Health, Governance Review, Information Technology, Insurance Services Division, Investment, Physician Services Division, International and Commercial Services Division, and Strategic Planning and Operational Effectiveness. The Executive Committee of the Board consists of individuals exercising between nine and forty-two votes. The Executive Committee meets monthly between sessions of the Board and exercises the full powers of the Board except as restricted by law, the Bylaws of the Corporation or a Board resolution. The Executive Committee consists of the following individuals:

Esther Barazzone, Ph.D.
President
Chatham University

G. Nicholas Beckwith III
Chairman and Chief Executive Officer
Arch Street Management, LLC

Timothy R. Billiar, M.D.
George Vance Foster Professor and Chair
Department of Surgery
University of Pittsburgh

Esther L. Bush
President and Chief Executive Officer
Urban League of Pittsburgh

The Honorable Ralph J. Cappy
Partner, Buchanan Ingersoll & Rooney PC

J. W. Connolly
Former Senior Vice President
H. J. Heinz Company

William S. Dietrich
Managing Director
The Dietrich Charitable Trusts

James C. Diggs
Senior Vice President,
General Counsel & Secretary
PPG Industries

Mary Jo Dively
Vice President and General Counsel
Carnegie Mellon University

David B. Fawcett
Senior Partner
Dickie, McCamey & Chilcote

Ira J. Gumberg
President and Chief Executive Officer
J.J. Gumberg Co

James E. Knarr
Oral and Maxillofacial Surgeon (Retired)

Mark J. Laskow
Chief Executive Officer
Greycourt & Co., Inc.

Arthur S. Levine, M.D.
Senior Vice Chancellor for Health Sciences
Dean School of Medicine
University of Pittsburgh

Robert G. Lovett
Partner
Lovett Bookman Harmon Marks LLP

Martin G. McGuinn
Former Chairman and CEO
Mellon Financial Corporation

Mark A. Nordenberg
Chancellor and CEO
University of Pittsburgh

Robert A. Paul
Chairman and CEO
Ampco – Pittsburgh

William Pietragallo II
Partner
Pietragallo, Bosick and Gordon

William E. Strickland, Jr.
President and CEO
Manchester Bidwell Corporation

George H. Taber
Third Vice Chairperson
Vice President and Director (Retired)
Richard King Mellon Foundation

Thomas J. Usher
Chairman
Marathon Oil Corporation

Audrey Hillman Fisher
Former President
Westminister Designs, Inc

Stephen Halpern
President
Woodland Management

Richard S. Hamilton
President and CEO
AAA East Central

Howard W. Hanna III
President and Chief Executive Officer
Hanna Holdings

Robert M. Hernandez
Chairman
RTI International Metals Inc.

Margaret P. Joy
Partner
McCarthy, McDonald, Schulberg & Joy

Neil Y. Van Horn
Managing Director
Guyasuta Investment Advisors

Sunil Wadhwani
Chief Executive Officer and Co-Founder
iGate Corporation

Dean George W. Werner
Dean Emeritus
Trinity Cathedral, Pittsburgh

Donald D. Wolff, Jr.
President
Guyasuta Investment Advisors

Leo Yochum
Former Senior Executive Vice President, Finance
Westinghouse

Executive Management. The following individuals are responsible for policy implementation and management of the programs, services, facilities and support operations of UPMC:

Jeffrey A. Romoff, President and Chief Executive Officer, UPMC. Bachelor's degree, City College of New York, 1967. Master's Degree, Political Science, Yale University, 1971. Previous positions include: Executive Vice President, UPMC and Vice Chancellor for Health Sciences, University of Pittsburgh; Administrator and Associate Director for Western Psychiatric Institute and Clinic ("WPIC"), 1975-1987; Teaching Associate, Yale University, 1970-1971; and Teaching Fellow, Yale University, 1969-1970.

Charles E. Bogosta, Executive Vice President, UPMC, President, Commercial and International Services. Bachelor's Degree, State University of New York, 1980. Master's Degree, Bowling Green University, 1981. Previous positions include: Chief Financial Officer and Executive Vice President for Business Development, Corporate Health Dimensions, Inc, 1991-1998; Chief Financial Officer and Chief Operating Officer, Health Enterprises Management, Inc., 1985-1991.

Robert J. Cindrich, Esquire, Senior Vice President, UPMC, and Chief Legal Officer. Wittenberg Univ., A.B., 1965; Univ. of Pittsburgh School of Law, J.D., 1968. Adjunct Professor, University of Pittsburgh and Duquesne University Schools of Law. Previous positions include: Judge, United States District Court for the Western District of Pennsylvania 1994-2004; United States Attorney, W.D. Pa. 1978-1981. Assistant District Attorney, Allegheny County 1970-1972; Assistant Public Defender, Allegheny County Office of the Public Defender, 1969-1970.

Elizabeth B. Concordia, Executive Vice President, UPMC; President, Hospital and Community Services Division. Bachelor’s Degree, Duke University, 1985. Master’s Degree, Administrative Science Management, Johns Hopkins University, 1988. Previous positions include: Executive Vice President and Chief Operating Officer and other positions, Johns Hopkins Bayview Medical Center, 1993-2001. Associate and Assistant Director, Montefiore Medical Center, The Jack D. Weiler Hospital of the Albert Einstein College of Medicine, 1990-1993.

Sandra N. Danoff, Senior Vice President, UPMC and Chief Communications Officer. Bachelor’s Degree University of Western Ontario. Master’s Degree, Georgia Institute of Technology. Previous positions include: Manager, Corporate Planning and Marketing, 1990-1993, Director of Planning, Montefiore Hospital, 1989-1990, Health Care Consultant, 1983-1989.

Leslie C. Davis, Vice President, Women and Infants Health Services/President, Magee-Womens Hospital. Bachelor’s Degree, University of South Florida, 1980. Master’s Degree, Healthcare Administration and Social Policy, Harvard University, 1981. Previous positions include: President, Graduate Hospital in Philadelphia, 2003-2004. Chief Operating Officer, Presbyterian Medical Center of Philadelphia, 1998-1999. Chief Marketing and Planning Officer, University of Pennsylvania Health System, 1997-2002. Various positions at Thomas Jefferson University Hospital.

Robert A. DeMichiei, Senior Vice President, UPMC and Chief Financial Officer. Bachelor’s Degree, University of Pittsburgh, 1987. Certified Public Accountant. Previous positions include: Manager of Finance, Global Business Development and Integration, GE Power Systems, 2001-2004. Chief Financial Officer, Global Services Operation and Global Controller, GE Transportation Systems, 1997-2001. Senior Manager and Staff Accountant-Manager, Price Waterhouse, LLP, 1987-1997.

Daniel S. Drawbaugh, Senior Vice President, UPMC and Chief Information Officer. Bachelor’s Degree, Temple University, 1982. Master’s Degree, Business Administration, Duquesne University, 1992. Previous positions include: Chief Information Officer, Shadyside Hospital, 1992-1997; President, BioTronics, Inc., Shadyside Hospital; and Director, Clinical Engineering, Shadyside Hospital, 1983-1992.

David M. Farner, Senior Vice President, UPMC and Chief of Staff, Office of the President. Bachelor’s Degree, Westminster College, 1985. Previous positions include: Associate Executive Vice President, UPMC, 1996-2003; Financial Analyst, Presbyterian University Hospital, 1986-1995; and Staff Auditor, Arthur Andersen & Company, 1985-1986.

Philip D. Green, Senior Vice President, UPMC and Strategic Business Initiatives. Bachelor's Degree, University of Pennsylvania, 1971. J.D., George Washington University, 1974. Previous positions include: partner, Drinker Biddle & Reath and partner, Akin Gump Strauss Hauer & Feld LLP.

C. Talbot Heppenstall, Jr., Senior Vice President, UPMC and Treasurer. Bachelor’s Degree, University of Virginia, 1982. Master’s Degree, Industrial Administration, Carnegie Mellon University, 1985. Previous positions included Managing Director, RBC Dain Rauscher, Inc., 1999-2003, President, PriMuni LLC, 2001-2003, Senior Vice President and various other positions, PNC Capital Markets, 1989-1999 and Vice President, Butcher & Singer, 1985-1989.

Diane P. Holder, Executive Vice President, UPMC; President, Health Insurance Division; President, UPMC Health Plan. Master's of Science Degree, Columbia University. Previous positions include: President, Western Psychiatric Institute and Clinic, Senior Vice President, UPMC Presbyterian, Vice President Behavioral Health Services, and President and CEO, Community Care Behavioral Health Organization.

Clyde B. Jones III, Chief Development Officer, Medical and Health Sciences Foundation, UPMC. Bachelor's Degree, Pennsylvania State University. Previous positions include: Director of Development, New York-Presbyterian Hospital and Weill Medical College of Cornell University; Director of Annual Campaigns and Special Projects, Lenox Hill Hospital; Director of Development, New York Civil Liberties Union; Vice President, The Gilbert Jonas Company; Director of Operations, Strub/Dawson, Inc.

Roger A. Oxendale, Vice President, Children's Health/President, Children's Hospital. Master's and Bachelor's degree, Business Administration, Clarion University of Pennsylvania. Previous positions include: Executive Vice President and Chief Operating Officer, Children's Hospital of Pittsburgh; Senior Financial Executive, Allegheny Health, Education and Research Foundation; and Senior Audit Manager, PricewaterhouseCoopers, Pittsburgh.

Gregory K. Peaslee, Senior Vice President, UPMC, and Chief Human Resource and Administrative Services Officer. UPMC. Bachelor's degree, Duquesne University, 1982. Certified Public Accountant. Previous positions include: Executive Director, University of Pittsburgh Physicians, 1996-2000; Executive Director, University Radiologists, 1992-1996; Chief Financial Officer, Montefiore University Hospital/Eye and Ear Hospital, 1987-1992; Chief Financial Officer, Monsour Medical Center, 1985-1987; and Senior Consultant, Ernst & Whinney 1982-1985.

Claudia M. Roth, Ph.D., Vice President, Behavioral Health Services/President, WPIC. Bachelor of Science Degree, 1988, Master of Science Degree, 1992, and Doctoral Degree in Public Health and Psychology, 1999, University of Pittsburgh. Previous positions at WPIC include: Vice President of Ambulatory Operations, 1999–2004; Senior Administrator, 1996-1999; Director of Social Work and Utilization Review, 1997–2000; Clinical Administrator of the Division of Child and Adolescent Psychiatry, 1993–1996.

Pamela K. Triolo, Ph.D, R.N., FAAN, Chief Nursing Officer, UPMC. Bachelor of Science Degree, College of St. Teresa and Mayo Medical Center, Masters of Science Degree, St. Louis University, Doctor of Philosophy Degree in Health Sciences Education, Instructional Design and Technology, University of Iowa. Previous positions include: Chief Nursing Executive and Senior Vice President, The Methodist Hospital, Houston, Texas, Associate Dean and Chief Nursing Officer, University of Nebraska Medical Center, various positions held at the University of Iowa Hospitals and Clinics, Director of Nursing Strategy and Innovation for the University of Texas M.D. Anderson Cancer Center, Houston, Texas.

Marshall W. Webster, M.D., Executive Vice President, UPMC; President, Physician Services Division, UPMC. Graduate of the Johns Hopkins University School of Medicine. Residency training in General and Thoracic Surgery, UPMC. On the faculty of the University of Pittsburgh since 1973, currently holds the Mark M Ravitch Chair in Surgery. Past service as Chief of Vascular Surgery, Executive Vice-Chair, and Interim Chair of the Department of Surgery.

Business Affiliation Agreements

Mercy Hospital of Pittsburgh. Effective January 1, 2008, the Sisters of Mercy transferred ownership of Mercy Hospital of Pittsburgh ("MHP") to UPMC. The transaction is designed to continue the 160-year-old mission of the hospital by operating the renamed UPMC Mercy under the Catholic directives as overseen by the Diocese of Pittsburgh.

UPMC Mercy will continue its Catholic tradition by operating under the Catholic directives as overseen by the Diocese of Pittsburgh. Prior to the transaction, MHP transferred $70 million to Pittsburgh Mercy Foundation. UPMC then assumed responsibility for substantially all liabilities and assets of MHP and will donate approximately $30 million to the Pittsburgh Mercy Foundation in equal amounts over a six-year period to support its ongoing mission. The transaction ensures the region's healthcare consumers continue to have a choice of a Catholic hospital; provides a catalyst to the redevelopment of the Downtown-Oakland corridor; and allows UPMC to avoid capital expenditures at other campuses by redeveloping the MHP assets.

Children's Hospital of Pittsburgh of UPMC. Pursuant to an amended merger and affiliation agreement with Children's Hospital of Pittsburgh of UPMC ("Children's"), the Corporation committed to fund the construction of a new hospital and a new pediatric research facility (the "New Children's Facilities") up to a total of $622 million. As of December 31, 2007, the total remaining commitment to construct the New Children's Facilities was approximately $216 million. Children's Foundation is required to contribute approximately $73 million toward the remaining commitment to construct the New Children's Facilities. The new facilities are expected to be completed in 2009. The transfer of assets from Children's is restricted until a new hospital facility is constructed.

The Corporation also has agreed to cause the additional funding of pediatric research and clinical programs for Children's to increase by $250 million over a period of ten years commencing in 2003. The additional funding may come from external sources including government or private grants and awards. As of December 31, 2007, the Corporation's outstanding commitment to fund pediatric research and clinical programs for Children's was approximately $84 million.

Related Foundations. Certain affiliation agreements include separate foundations (the "Foundations") organized exclusively for the benefit of the respective Subsidiary Hospital they were incorporated to support. The assets of the Foundations are restricted for use by the Foundation's respective Subsidiary Hospital and require Foundation board approval. Generally, the Foundation boards are not controlled by UPMC or the Subsidiary Hospitals. The assets of these Foundations total $490 million as of December 31, 2007 and are shown on UPMC's consolidated balance sheet as either beneficial interest in Foundations ($410 million), as part of Board designated, trusteed, restricted and other investments ($56 million) or as part of other noncurrent assets ($24 million). These Foundations include Children's ($304 million), Passavant ($56 million), Magee, ($48 million), Northwest ($31 million), Shadyside ($24 million), St. Margaret ($22 million), and Sherwood Oaks ($5 million).

Operating Structure

UPMC has three major operating components: Provider Services, Insurance Services and International and Commercial Services. Listed below are the major units of each operating component.

Provider Services

- Academic and Community Hospitals
- Regional Hospitals
- Specialty Services/Service Lines
- Physician Services
- Community Provider Services

Insurance Services

- UPMC Health Plan
- UPMC Health Network
- Community Care Behavioral Health
- UPMC For You
- UPMC Work Partners

International and Commercial Services

- International
- Commercial Services
- Joint Ventures

To support these operating components, UPMC has an array of integrated enterprise capabilities, including information services, human resources, regulatory/compliance, finance, treasury, risk management, facilities, quality and community relations. The costs of these services are allocated to the operating components.

Below is a brief description of each of the operating components followed by a description of certain of the Enterprise Services.

Provider Services

The major operating units within Provider Services include Academic and Community Hospitals, Specialty Services, Regional Hospitals, Physician Services and Community Provider Services. Before consolidations, Provider Services accounted for approximately $4.7 billion in operating revenues for the fiscal year ended June 30, 2007. UPMC's Subsidiary Hospitals include:

Academic and Community Hospitals

- UPMC Presbyterian Shadyside
- UPMC St. Margaret
- UPMC Passavant
- UPMC McKeesport
- UPMC Braddock
- UPMC South Side
- UPMC Mercy

Specialty Facilities

- Children's Hospital of Pittsburgh of UPMC
- Magee-Womens Hospital of UPMC
- Western Psychiatric Institute and Clinic
- Hillman Cancer Center

Regional Hospitals

- UPMC Horizon
- UPMC Northwest
- UPMC Bedford

Table 1 provides information about these Subsidiary Hospitals as of December 31, 2007. Effective January 1, 2008, UPMC Mercy became a Subsidiary Hospital.

Table 1
Subsidiary Hospitals
(Dollars in Thousands)

Legal Entity (Number of Hospital Facilities)	Location	Beds in Service[(a)]	Net Patient Service Revenues Six Months Ended December 31, 2007	Year of Affiliation
UPMC Presbyterian Shadyside (5)	Pittsburgh	1,512	$847,953	(b)
Children's	Pittsburgh	260	179,026	2001
Magee-Womens	Pittsburgh	296	158,538	1999
UPMC Passavant (2)	Ross/Cranberry	316	127,021	1997
UPMC St. Margaret	Pittsburgh	249	103,034	1997
UPMC McKeesport	McKeesport	207	52,086	1998
UPMC Horizon (2)	Greenville/Farrell	187	54,870	1998
UPMC Northwest (3)	Franklin/Oil City	162	52,272	2001
UPMC South Side	Pittsburgh	150	40,234	1996
UPMC Braddock	Braddock	176	27,222	1996
UPMC Bedford	Bedford	27	18,754	1998
Total		**3,542**	**$1,661,010**	

(a) For the six months ended December 31, 2007
(b) Presbyterian Hospital and WPIC constitute the original hospitals of UPMC. Shadyside Hospital affiliated with UPMC in 1997 and Montefiore Hospital and Eye & Ear Hospital affiliated with UPMC in 1990.
Source: UPMC Records

UPMC Presbyterian Shadyside. UPMC Presbyterian Shadyside was created by the merger of UPMC Presbyterian and UPMC Shadyside, two of the largest acute care medical/surgical and quaternary hospitals in Pittsburgh, Pennsylvania. The merger of UPMC Presbyterian and UPMC Shadyside was completed on May 30, 2003. UPMC Presbyterian Shadyside is a Pennsylvania nonprofit corporation whose sole member is the Corporation. The Corporation has broad reserved powers with respect to UPMC Presbyterian Shadyside.

UPMC Presbyterian Shadyside operates facilities on two campuses located approximately two miles apart, referred to as the "Oakland Campus" and the "Shadyside Campus."

The Oakland Campus of UPMC Presbyterian Shadyside includes the following structures: Presbyterian Hospital, Montefiore Hospital, Eye and Ear Institute, Falk Clinic and a distinct-part psychiatric unit known as Western Psychiatric Institute and Clinic ("WPIC"). The University leases WPIC's physical plant from the Commonwealth of Pennsylvania (the "Commonwealth"). UPMC Presbyterian Shadyside operates WPIC under a sublease with the University. Children's Hospital of Pittsburgh, Magee-Womens Hospital and the main campus of the University are also located in the Oakland area. A number of these facilities are connected by a series of walkways, pedestrian bridges and underground tunnels.

The Shadyside Campus includes the main Shadyside Hospital facilities, the Hillman Cancer Center, and the UPMC Cancer Pavilion. The Hillman Cancer Center is a 355,000 square-foot facility dedicated to research and outpatient services for cancer patients. The UPMC Cancer Pavilion is a five-story 100,000 square-foot office building that accommodates administrative and physician offices. The Hillman Cancer Center and the UPMC Cancer Pavilion serve as the hub of UPMC's regional cancer network.

UPMC Presbyterian Shadyside is licensed by the Department of Health of the Commonwealth and is fully accredited by the Joint Commission on Accreditation of Health Care Organizations. UPMC Presbyterian Shadyside is accredited by the Pennsylvania Trauma Systems Foundation as a Level I Regional Resource Trauma Center, one of only four in southwestern Pennsylvania.

As an academic medical center, in collaboration with the University, UPMC uses research, educational, and clinical programs to translate advances in medical science into enhanced medical capabilities. UPMC Presbyterian Shadyside is a major resource facility for the extensive research programs of its medical staff, the University's School of Medicine, and the University's Schools of the Health Sciences. For the eigth time in nine years, the University of Pittsburgh Medical Center has been placed on *U.S. News & World Report* magazine's America's Best Hospitals Honor Roll as one of the top ranked hospitals in the United States.

UPMC Presbyterian Shadyside is the primary clinical site for students of the University's Schools of Medicine and Nursing. It is also a major clinical practice site for the Nursing baccalaureate programs at Duquesne University, Indiana University of Pennsylvania, Carlow University and Franciscan University. UPMC Presbyterian Shadyside offers opportunities to participate in clinical, educational and administrative programs to undergraduates and graduates enrolled in the University's School of Health and Rehabilitation Sciences, the School of Pharmacy, the Graduate School of Public Health, and the School of Dental Medicine. In addition, UPMC Presbyterian Shadyside operates Schools of Nursing and Radiologic Technology and participates in a wide range of training programs with other educational institutions.

Specialty Services

Transplantation Services and The Thomas E. Starzl Transplantation Institute. The Starzl Transplantation Institute at UPMC was the cradle for development of modern organ transplant technology. UPMC's transplant program is the world's largest and busiest, where surgeons perform more types of organ transplants than at any other institution. On average, a transplant is performed every twelve hours at UPMC, resulting in more clinical transplantation experience than any other center in the world. Since 1981, more than 12,000 transplants have been performed at UPMC, a single-center experience that is unmatched by any other program. Although the transplant team has a tradition of caring for some of the most medically compromised patients, the Starzl Institute has maintained patient and graft survival rates that are significantly higher than the national average.

UPMC's transplant programs are internationally renowned for having had a far-reaching influence on the entire field. Researchers and surgeons have made many of transplantation's most important advances. In recent years, clinical research programs have involved novel approaches to induce tolerance of transplanted organs and pioneering efforts to explore alternative sources to human organs, such as organs from animal donors or artificial organs. One of the most important developments in recent years at the Starzl Transplantation Institute has been the institution of protocols for "weaning" patients from antirejection drugs. While these medications make transplantation possible in most cases, higher doses of antirejection drugs can also cause serious long-term side effects. UPMC experts have developed a method designed to minimize or even eliminate antirejection drugs in a way that provides excellent protection against organ rejection and reduces serious side effects.

UPMC's clinical transplant services are not limited to those provided in the United States. The Mediterranean Institute for Transplantation and Specialized Therapies ("ISMETT") is an international center for specialized medicine serving the people of the Mediterranean region, located in Palermo, Sicily, Italy. With the training of UPMC transplant surgeons, transplantation medicine specialists and other clinical specialists and a new building dedicated in early 2004, ISMETT has become a world-class hospital that offers lifesaving transplants to the people of the region.

Pediatric Services. Children's Hospital of Pittsburgh of UPMC is the region's only hospital dedicated to the care of children. It is one of the nation's leading pediatric facilities. Children's, a specialty acute care teaching and research hospital located on the Oakland Campus, provides a comprehensive range of health care services for infants and children and functions as a referral center for secondary, tertiary, and quaternary levels of care. Children's operates three outpatient satellites located east, north and south of Pittsburgh to increase the accessibility and availability of pediatric sub-specialty services within the community. Children's operates two primary care sites and provides care via a "clinic-on-wheels" in underserved communities throughout the area. Children's also owns Children's Community Pediatrics, which is comprised of twenty-two physician practices consisting of more than one hundred physicians practicing at twenty-eight sites.

In addition to providing general acute care and ambulatory pediatric services, Children's is nationally recognized for pediatric centers of excellence in areas such as cardiology, cardiothoracic surgery, critical care medicine, diabetes, hematology/oncology, neurosurgery, organ and tissue transplantation, orthopedics, otolaryngology and pediatric surgery. Children's Pediatric Intensive Care Unit ("PICU") is one of the nation's most comprehensive care facilities of its type, and the Pediatric Trauma Unit is the only accredited pediatric trauma program in western Pennsylvania and the surrounding tri-state area. The area's first and only pediatric cardiac intensive care unit is also located at Children's.

Children's also functions as a teaching and research institution affiliated with the University's School of Medicine. Children's houses the University's Department of Pediatrics and serves as the primary teaching site for the clinical training of resident pediatric physicians. Children's has been ranked among the "Best Hospitals" for pediatrics by *U.S News & World* Report for 17 consecutive years and was ranked 13^{th} in 2007.

In connection with Children's affiliation with the Corporation, the Corporation agreed to construct a new facility for Children's to replace the existing Children's facilities located on the Oakland Campus (See "Governance – Business Affiliation Agreements" above).

Women's Services. As a National Center of Excellence in Women's Health, Magee-Womens Hospital of UPMC leads the development of women's health services across UPMC. Consistently ranked among the nation's top hospitals in obstetrics and gynecology, Magee is a pioneer in gender-based medicine with the first interdisciplinary research institute focusing exclusively on the health issues of women and infants and the numerous biological differences that are gender specific. Magee is an acute care, research and teaching center devoted to the care of women and newborns. Magee is the largest private women's hospital in the United States with more than 55,000 outpatient visits a year, 9,000 deliveries and 10,000 surgeries. Magee's 63-bed neonatology intensive care unit (NICU) is one of the largest in the country. Magee's main facility is located approximately three blocks from UPMC Presbyterian Shadyside's Oakland Campus. In addition to the main hospital facility, Magee operates a network of five suburban and five neighborhood health centers. Nationally renowned core programs include reproductive science, neonatology and women's cancer. Magee is one of the original six recipients of the U. S. Department of Health and Human Services award as a National Center of Excellence in Women's Health. Additionally, Magee's gynecology services have been ranked among the nation's leading programs in *U.S News & World Report*'s "Best Hospital" rankings for ten consecutive years.

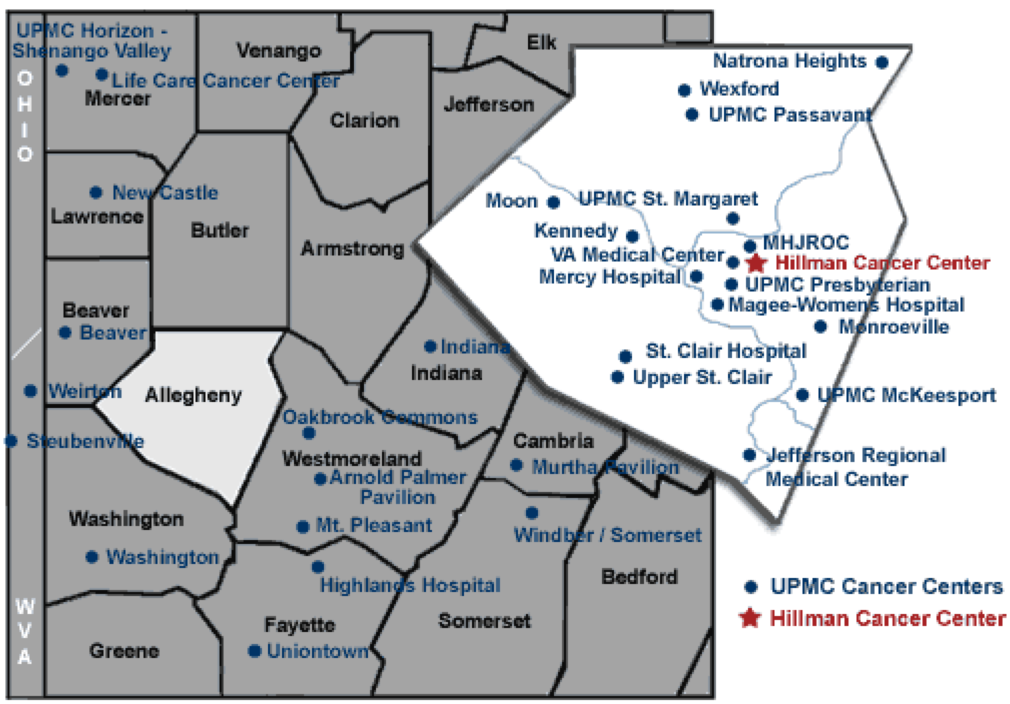
Minimally Invasive endoNeurosurgery Center. Traditional treatment for serious brain, spine, vascular, and neurological conditions often required extensive, potentially disfiguring surgery and long recovery periods. Thanks to innovative surgical techniques developed by physicians at the Minimally Invasive endoNeurosurgery Center ("MINC") at UPMC, surgeons can now treat many patients using custom surgical tools and powerful imaging technology to visualize and access hard-to-reach areas with minimal or no incisions. As a result, patients typically can return to normal activities within hours or days of their treatment.

With more than 1,500 patients treated each year, MINC is one of the leading minimally invasive neurosurgical facilities in the world. The center serves as a local, national and international resource for patients seeking the most current approaches to structural neurologic disorders.

Cancer Services. In an effort to address the needs for cancer care throughout western Pennsylvania, UPMC has coordinated cancer services under one operating unit with the University. The University of Pittsburgh Cancer Institute ("UPCI") is comprised of more than 500 scientists and health care professionals in more than 30 disciplines. UPCI is designated a Comprehensive Cancer Center by the National Cancer Institute ("NCI") and is the only NCI-designated comprehensive cancer center in the region. UPCI is ranked as one of the top recipients of funding from the National Cancer Institute.

As part of the development of cancer services for the region, in September 2002, UPMC opened the Hillman Cancer Center on the Shadyside Campus. The Hillman Cancer Center provides a single, central location for virtually all of the UPCI programs including cancer care services, research and clinical trials, practitioner training, prevention and early detection services and other aspects of cancer care.

UPMC has partnered with community-based hospitals throughout the region to develop UPMC Cancer Centers, one of the largest integrated community networks of cancer physicians and health care specialists in the country. Along with the Hillman Cancer Center, the establishment of numerous regional cancer centers and more than forty sites with approximately 180 affiliated oncologists covers a geographic area of more than 200 miles around greater Pittsburgh. The regional cancer centers house comprehensive cancer treatment services encompassing thirteen areas of expertise including medical and radiation oncology, oncology surgical consult services and lab facilities, as well as education and cancer prevention services. The map below shows the existing UPMC Cancer Center locations in western Pennsylvania.



Behavioral Health Services. At the core of UPMC's Behavioral Health capabilities is Western Psychiatric Institute and Clinic ("WPIC"), one of the largest academic psychiatric facilities in the United States. With 289 beds in service as of December 31, 2007, WPIC operates as a distinct-part psychiatric unit of UPMC Presbyterian Shadyside.

Behavioral health services offered at WPIC include: childhood and adolescent mood disorders; childhood attention deficit, anxiety and conduct disorders; treatment regimes for dual diagnosis disorders; adult sleep disorders; post-partum depression; adult anxiety disorders; schizophrenia; substance abuse; and eating disorders. WPIC's geriatric psychiatry program offers comprehensive care attuned to the physical and emotional needs of older adults. WPIC's Alzheimer's Disease Research Center, designated and funded by the National Institute on Aging, provides outpatient evaluation and referral services for patients displaying symptoms of Alzheimer's disease. WPIC is also involved with community outreach activities and projects intended to advance the understanding of mental illness and the quality of care for patients.

Through its affiliation with the University School of Medicine, WPIC is consistently the top-ranked recipient nationally of research funding from the National Institutes of Health ("NIH"). In 2006, total research funding exceeded $79 million and of this, funding from the National Institute of Mental Health ("NIMH") exceeded $47 million, representing approximately 4% of the NIMH extramural budget.

Other Specialty Services available at UPMC include:

- Center for Sports Medicine
- University of Pittsburgh Institute on Aging
- Cardiovascular Institute
- Comprehensive Lung Center
- The McGowan Institute for Regenerative Medicine
- The Peter M. Winter Institute for Simulation Education and Research ("WISER")
- The Center for Biosecurity
- Lupus Center of Excellence
- UPMC Stroke Institute
- University of Pittsburgh Diabetes Institute
- UPMC Digestive Disorders Center
- UPMC Institute for Rehabilitation and Research
- UPMC Heart, Lung, and Esophageal Surgery Institute

Physician Services

UPMC employed 2,478 physicians as of December 31, 2007. The majority of these physicians are included in UPMC's faculty practice plan, the University of Pittsburgh Physicians ("UPP") and a network of community physicians called Community Medicine, Inc. ("CMI"). UPP was founded in 1999 through the consolidation of sixteen independent clinical faculty practice plans. At that time, UPP became a subsidiary of UPMC. UPP was created to provide the intellectual and financial resources to support UPMC's academic commitment to the University's School of Medicine and to foster a collegial environment.

CMI was created on January 1, 2001, through the consolidation of over 100 community-based physician practice corporations into one legal, tax-exempt entity. The CMI physician practices are comprised primarily of primary care physicians (representing family medicine and internal medicine), as well as specialists in orthopedic surgery and neurosurgery

The management staff and practice management functions of UPP and CMI were combined to form the UPMC Physician Services Division to provide centralized management oversight and services to the physicians/practices of UPP, CMI and Emergency Resource Management, Inc. Other employed physicians of UPMC focus on pediatrics, cancer care, and women care.

UPMC and the University of Pittsburgh School of Medicine have a cooperative program for the recruitment of physicians and faculty. UPMC's medical staff includes nationally and internationally recognized leaders in their respective fields.

In the 2007 "Top Doctors" survey published by Pittsburgh magazine, 97 of the 131 physicians named were UPMC or UPMC-affiliated physicians. These UPMC physicians were included in each of the 38 areas of expertise, from adolescent medicine to urology. The list was compiled by Castle Connolly Medical Ltd., a physician-led research team that scrutinizes a doctor's medical education, training, and experience. The result is a rigorously screened selection of highly ranked doctors on the national and regional levels.

The table below lists the total number of physicians by specialty including their board certification as of December 31, 2007.

Table 2
Medical Staff - UPMC Subsidiary Hospitals

Specialty	Number of Physicians	Number Board Certified	Percent Certified
CRITICAL CARE MEDICINE	41	28	68%
DERMATOLOGY	45	41	91%
EMERGENCY MEDICINE	208	107	51%
FAMILY MEDICINE	356	327	92%
HOSPITAL BASED PHYSICIANS	558	495	89%
MEDICINE			
Cardiology	214	189	88%
Endocrinology	34	30	88%
Gastroenterology	87	76	87%
General Medicine	517	447	86%
Geriatric Medicine	43	35	81%
Hematology/Oncology	100	81	81%
Infectious Disease	29	23	79%
Nephrology	72	65	90%
Pulmonology	97	77	79%
Rheumatology	41	38	93%
NEUROLOGY	76	67	88%
NEUROSURGERY	50	35	70%
OBSTETRICS/GYNECOLOGY	220	169	77%
OPHTHALMOLOGY	154	138	90%
ORAL SURGERY/DENTAL MEDICINE	78	51	65%
ORTHOPAEDICS	252	204	81%
OTOLARYNGOLOGY	75	62	83%
PEDIATRICS	524	431	82%
PHYSICAL MEDICINE/REHABILITATION	58	50	86%
PSYCHIATRY	193	154	80%
SURGERY			
General Surgery	52	40	77%
Cardiovascular & Thoracic Surgery	201	145	72%
Plastic Surgery	48	37	77%
UROLOGY	72	69	96%
TOTAL	4,495	3,711	83%

Source: UPMC Records, Credentials Verification Office and Children's Hospital of Pittsburgh.

The following table shows the number of UPMC employed physicians by specialty for each of the last five fiscal years and as of December 31, 2007.

Table 3 **SUMMARY OF UPMC EMPLOYED PHYSICIANS** **(Excludes physicians directly employed by UPMC Hospitals)**						
	As of June 30,					As of December 31,
	2003	2004	2005	2006	2007	2007
ADMINISTRATION	0	0	7	5	0	0
CRITICAL CARE MEDICINE	37	39	44	47	55	57
DERMATOLOGY	14	17	23	23	20	24
EMERGENCY MEDICINE	184	169	192	186	195	212
FAMILY MEDICINE	32	32	30	33	53	61
HOSPITAL BASED PHYSICIANS	305	325	336	376	416	434
MEDICINE	532	471	460	458	505	532
NEUROSURGERY	18	17	20	26	27	33
NEUROLOGY	31	27	28	29	35	37
OBSTETRICS & GYNECOLOGY	80	75	88	95	111	115
OPHTHALMOLOGY	18	17	18	19	22	25
ORTHOPAEDICS	36	31	29	35	41	42
OTOLARYNGOLOGY	31	32	32	36	39	48
PEDIATRICS	224	233	249	278	287	296
PHYSICIAL MED. & REHAB.	16	19	18	20	22	21
PSYCHIATRY	165	165	159	169	174	181
HEMATOLOGY ONCOLOGY	85	88	90	95	93	96
SURGERY	108	112	121	114	131	131
CARDIOLOGY	45	47	54	70	71	76
UROLOGY	15	12	12	14	15	17
CARDIOVASCULAR AND THORASIC SURGERY	0	0	0	37	38	40
	1,976	**1,928**	**2,010**	**2,165**	**2,350**	**2,478**
Source: UPMC records						

Community Provider Services

Community Provider Services includes senior living, skilled nursing, homecare services, and ambulatory rehabilitation (CRS). Sixteen facilities listed below, certain of which are joint ventures, provide comprehensive long term care services to support and assist nearly 3,000 senior residents each day in maintaining their health and quality of life. The levels of care offered include independent living, assisted living, skilled nursing and dementia care. Community Provider Services is also responsible for a continuum of homecare services, a network of over forty ambulatory rehabilitation centers that provide physical and occupational therapy, and the University of Pittsburgh Institute on Aging which offers information and services and programs available for older adults through its toll-free information and referral number, 1-866-430-8742.

Facility	Location	County
Beatty Pointe Village	Monroeville	Allegheny
Canterbury Place	Lawrenceville (City of Pittsburgh)	Allegheny
Cranberry Place	Cranberry Township	Butler
Cumberland Crossing	McCandless Township	Allegheny
The Heritage	Shadyside/Squirrel Hill (City of Pittsburgh)	Allegheny
Lighthouse Pointe at Chapel Harbor	O'Hara Township	Allegheny
Seneca Hills Village	Penn Hills	Allegheny
Seneca Manor	Penn Hills	Allegheny
Seneca Place	Penn Hills	Allegheny
Sherwood Oaks	Cranberry Township	Butler
Strabane Trails Village(1)	South Strabane Township	Washington
Strabane Woods of Washington(1)	South Strabane Township	Washington
Sugar Creek Station	Franklin	Venango
Vanadium Woods Village	Scott Township	Allegheny
The Village at Hampton Fields	Allison Park	Allegheny
Weatherwood Manor	Greensburg	Westmoreland
(1) Joint ventures with The Washington Hospital.		

Insurance Services

UPMC holds various interests in health care financing products and network care delivery operations. These investments were undertaken in response to the evolving influence of the managed care marketplace and the need to integrate the full continuum of services necessary to effectively meet customer expectations. Insurance Services accounted for approximately $1.2 billion in operating revenues for the six months ended December 31, 2007. A significant portion of medical costs of Insurance Services is provided through contracts with the Subsidiary Hospitals and employed physicians in Physician Services. As of December 31, 2007, net assets of Insurance Services of $154 million are required to meet statutory requirements of the Department of Insurance of the Commonwealth of Pennsylvania. The entities in the Insurance Services Division and their current operating status are as follows:

UPMC Health Plan, Inc. UPMC Health Plan is a UPMC-controlled, federally taxable, Pennsylvania non-profit managed care organization. The mission of the Health Plan is to provide a comprehensive managed care program that will demonstrate measurable improvement in the health status and well being of members while controlling overall health care costs. It is licensed as a Health Maintenance Organization ("HMO") by the Commonwealth and currently operates three lines of business: (i) commercial fully insured managed care products, (ii) Medicare managed care products, and (iii) Medicare special needs products.

UPMC for You, Inc. UPMC for You is a UPMC-controlled, federally tax exempt, Pennsylvania non-profit corporation that offers Medicaid products for eligible beneficiaries who select a managed care program.

UPMC Health Network, Inc. UPMC Health Network is a sister company of UPMC Health Plan that offers Preferred Provider Organization ("PPO") products on a fully insured basis and a Medicare PPO product.

UPMC Health Benefits, Inc. UPMC Health Benefits, Inc. ("Health Benefits"), a for-profit entity, is licensed by the Insurance Department of the Commonwealth of Pennsylvania, the West Virginia Offices of the Insurance Commissioner, and the Ohio Department of Insurance. Health Benefits provides managed care and related insurance services primarily to Medicare beneficiaries.

Community Care Behavioral Health ("Community Care"). Community Care is a not-for-profit managed care organization that was chartered to meet marketplace demand for the "carve-out" of behavioral health benefits under both governmental and commercial health benefit plans. Community Care has a license from the Commonwealth as a risk-bearing PPO. Currently, the principal source of business revenue is subcontracting arrangements that cover 35 counties in the Commonwealth including Allegheny County. These counties, in certain cases through the Commonwealth, contract with Community Care to manage the behavioral health services for all County Medical Assistance eligible's enrolled through a mandatory managed care program. Community Care also has a subcontracting arrangement with UPMC Health Plan for managing the behavioral health benefits of its commercial plan and Medicare enrollees.

EAP Solutions. EAP Solutions operates as a division of Community Care and provides comprehensive employee assistance services to employees and family members under contractual agreements with employer groups.

UPMC Benefits Management, Inc. UPMC Benefits Management is a UPMC-controlled taxable Pennsylvania corporation providing comprehensive and integrated workers compensation, disability, health promotion case management, medical consultative services and administrative services organization ("ASO") products to self-insured employer groups.

<u>Enrollment Trends</u>. Total enrollment in products offered by Insurance Services has grown substantially. The table below shows the membership, by plan and product, as of December 31 for each of the last eight years.

Table 4
Enrollment in Insurance Service Products

As of December 31,	Commercial – Fully Insured	Commercial – ASO	Medical Assistance	Medicare	Physical Health Subtotal	EAP Solutions	Work Partners	Community Care (1)	Total Enrollment
2007	179,484	141,895	99,020	65,550	485,949	105,211	101,924	523,899	1,216,983
2006	177,660	127,479	90,910	48,569	444,618	97,479	68,682	352,876	**963,655**
2005	182,665	125,413	99,785	29,620	437,483	107,847	66,682	267,237	**879,249**
2004	204,402	125,008	94,033	22,131	445,574	78,478	65,290	243,297	**832,639**
2003	200,509	110,122	80,968	14,994	406,593	62,348	64,690	201,818	**735,449**
2002	222,210	74,958	72,924	8,717	378,809	55,564	59,000	189,177	**682,550**
2001	196,051	59,907	73,465	1,439	330,862	41,249	58,700	146,411	**577,222**
2000	125,975	52,168	71,153	-	249,296			118,111	**367,407**

Source: UPMC Records

International and Commercial Services Division

The goal of UPMC's International and Commercial Services Division ("ICSD") is to leverage UPMC's capabilities to generate new revenue streams. This is accomplished by exporting medical expertise and management know-how internationally, pursuing commercialization opportunities and developing strategic partnerships with industry leaders. These ventures support UPMC's core mission and help to revitalize the economy of western Pennsylvania. ICSD accounted for approximately $39 million in operating revenues for the six months ended December 31, 2007. Major initiatives within ICSD are summarized below.

International. UPMC's longest international involvement is through the *Istituto Mediterraneo per i Trapianti e Terapie ad Alta Specializzazione* ("ISMETT"), a joint venture of UPMC and the Italian Region of Sicily, including two public hospitals in Palermo. ISMETT, a transplant and specialty surgery hospital, is celebrating its 10th anniversary and has passed the 500-transplant milestone. The collaboration has brought world-class transplant and other specialty health care services to southern Italy. UPMC has provided management and professional medical staffing to ISMETT under a management contract since October 1997. In spring 2004, ISMETT relocated from its temporary 16-bed facility within Civico Hospital, to a newly constructed 70-bed facility owned by the Region of Sicily. UPMC and the Region of Sicily recently extended the management contract for ISMETT through 2014.

Building on the initial successes in Italy, UPMC is exporting its facilities, talent and expertise to other parts of the world. UPMC signed a 4 and 1/2 year $100 million contract with Hamad Medical Corporation in Qatar in June 2006 to provide emergency management services including but not limited to education, training and overall improvement of emergency medical care. Additionally, in late 2006, UPMC has partnered with two separate entities in Ireland to jointly operate cancer clinics that will deliver high quality radiation-oncology services. The clinics are located in Waterford and Dublin, Ireland. Recently, UPMC reached an agreement to manage the Beacon Hospital, a 183-bed private hospital in Dublin, Ireland. UPMC continues to identify and pursue additional opportunities both in Western Europe, the Mediterranean area, and the Middle-East.

Commercial Services. Commercial Services is the nexus for making direct investments in, or forming joint ventures with, external companies who are leaders in their respective fields. The strategy in this sector is to work closely and actively with these companies in further developing their products, implementing them into the UPMC system and ultimately demonstrating their value proposition to facilitate broader market acceptance. This strategy is executed in the context of UPMC being both an equity owner in the company as well as a user of the product, technology or service. UPMC's investment in dbMotion is a case in point. dbMotion is a provider of web-based technology that facilitates interoperability and health information exchange by providing secure access to patients' medical files at facilities that are otherwise unconnected or have no common data-sharing technologies. UPMC owns a significant portion of dbMotion and is working collaboratively with the company in further refining their products as well as implementing them within the UPMC network. Additionally, ICSD is actively involved in business development and technology expansion initiatives with dbMotion's management.

Similarly, UPMC holds a significant equity position in TheraDoc, TheraDoc has developed a real-time decision support system for monitoring and tracking infections. The system allows clinical staff and infection control specialists to better assess infection risks and support infection reduction initiatives. ICSD structured a deal with TheraDoc that, in addition to the standard customer/vendor relationship involves an equity ownership component. The rationale for this relationship is UPMC's ongoing involvement in TheraDoc's product development as well as UPMC serving as a strong reference site.

Strategic Relationships. The third area of focus of ICSD is the formation of strategic relationships with global leaders in technology, finance and industry. UPMC has created joint development funds with IBM, General Electric, Alcatel-Lucent and Cerner to develop technologies and build businesses that will improve the quality of health care and reduce its costs. The strategic partnerships that UPMC has established will collectively provide $170 million to develop solutions to challenging problems facing health care today. Several specific programs are currently underway with these partners in such areas as telemedicine and oncology.

Enterprise Services

Information Technology. Over the past decade, UPMC information technology has adapted and expanded to meet the needs of a rapidly growing health system. UPMC has achieved a national reputation for its advances in healthcare information technology and is considered on the cutting-edge of technological integration. UPMC views information technology as the backbone of a fully integrated self regulating health care system and has invested over $1 billion (capital and operating) in information technology over the past 5 years to improve the quality, safety and efficiency of patient care. The following accolades illustrate the respect UPMC commands in this area:

- UPMC was recognized as one of the "100 Most Wired" hospitals and health systems in the U.S. by *Hospital and Health Networks* magazine. UPMC is one of only **seven** organizations nationwide to make the list for the eight years the award has recognized "technically savvy" hospitals.
- UPMC is consistently recognized by *InformationWeek* as one of the top 100 organizations in the annual "*InformationWeek 500*" which recognizes the most innovative users of information technology.
- In 2006, *InformationWeek* selected Dan Drawbaugh, senior vice president and chief information officer at UPMC from among information technology leaders in all industries as "Chief of the Year" for his aggressive development and use of technology to address cost and quality problems in health care.
- UPMC was honored as a 2006 "Laureate" by the Computerworld Honors Program®, which is governed by the Computerworld Information Technology Awards Foundation. The Computerworld Honors Program recognizes companies and organizations from around the world whose use of information technology has been especially noteworthy for the originality of its conception, the breadth of its vision and the significance of its benefit to society.
- UPMC has been recognized by *CIO* magazine as one of the top 100 organizations to achieve the highest level of operational and strategic excellence in information technology.

Risk Management. UPMC is insured for professional and general liability losses through wholly owned multi-provider insurance companies ("Captives"). The Captives provide primary and excess coverage on an occurrence basis to UPMC subsidiaries and excess coverage on a claims-made basis to employed physicians of UPMC subsidiaries and other entities not included in the consolidated UPMC financial statements. The professional insurance agreements have retrospective clauses, which permit additional premiums or refunds to be made based on actual experience. The Medical Care Availability and Reduction of Error ("MCARE") Act, enacted by the Commonwealth of Pennsylvania ("Commonwealth"), created the MCARE Fund which provides coverage for claims exceeding the primary layer of professional liability insurance coverage provided by the Captives.

The Captives are comprised of five separate companies that provide different lines of insurance coverage for UPMC and subsidiaries, as well as other affiliated companies and physicians. The UPMC insurance program has been in existence for over 30 years in a variety of different structures and provides the following lines of insurance coverage: primary, excess and reinsurance coverage for professional liability risks; primary coverage for general liability, directors and officers, and managed care errors and omissions ("E&O"); and a layer of reinsurance coverage for the UPMC Health Plan. The professional liability insurance program represents the most significant aspect of the risks and activity and insures over 4,000 physicians. All five companies provide professional liability insurance and/or reinsurance coverage for UPMC and subsidiaries and other affiliated entities and physicians as deemed appropriate.

Reserves for professional liability losses and loss adjustment expenses are determined using individual case-based evaluations and statistical analyses and represent an estimate of reported claims and claims incurred but not reported. Those estimates are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management believes that the reserves for professional liability losses and loss adjustment expenses are reasonable. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known. Such adjustments are included in current operations.

The MCARE Fund replaced the Pennsylvania Medical CAT Fund as the agency for the Commonwealth to facilitate the payment of professional liability claims exceeding the primary layer of professional liability insurance carried by the hospital and other health care providers practicing in the Commonwealth. The MCARE Fund is funded on a "pay as you go basis" and assesses health care providers based upon a percentage of the rates established by the Joint Underwriting Association (also a Commonwealth agency) for this basic coverage. The MCARE Act provides for the gradual phase-out of MCARE Fund coverage.

Mediation has become an accepted and in many instances the preferred method of both plaintiffs and defendants to resolve professional liability claims. Although not every claim is suited to mediation, and many claims can be settled by direct negotiations between the parties, complex issues of medicine, valuation and other issues lend themselves to resolution through the mediation process.

UPMC implemented a program just over two years ago that has resolved almost 90% of mediated cases. Since October, 2004 through mid-January 2007, UPMC has mediated 77 cases and settled 68 of them at the mediation session or shortly thereafter. Of the nine that did not settle, one resulted in a defense verdict and one went to arbitration with a five figure award for plaintiff. One settled on the first day of trial for costs. The rest are still pending. Several of the successful mediations involved pre-litigation claims.

Over the course of the mediation program, the expenses incurred in mediated cases compared to those in cases that were tried to plaintiffs' verdicts or were settled in the same dollar range have averaged between $65,000 and $75,000 less per case. The timing of the mediation process is also substantially less than comparable cases. UPMC has recently added language to patient documents to mandate that any claimant must first mediate before litigation. UPMC does not condition treatment on acceptance of this section, nor does a patient waive his/her right to file a lawsuit if mediation fails to resolve the claim.

Quality of Patient Care. UPMC is dedicated to making quality inherent in every aspect of the care provided. UPMC's quality initiatives cover a wide range of areas including:

- Focused clinical efforts that deploy evidence-based medicine impacting clinical and operational practices and involving physicians, nurses, and other clinical and administrative staff;
- Use of advanced simulation capabilities to train clinical personnel in emergency and routine procedures; and
- Implementation of advanced information technology to facilitate care quality processes.

Among UPMC's array of quality initiatives are major system-wide clinical efforts sponsored by UPMC's Center for Quality Improvement and Innovation (CQII). CQII has developed and implemented initiatives that focus on enhancing care related to diabetes, congestive heart failure, pneumonia, heart attack and coronary artery bypass graft procedures, as well as reducing all hospital acquired infections and improving hand hygiene. These initiatives involve implementing evidence-based treatment processes.

CQII improvement specialists also partner with health care professionals and leaders across the UPMC to support the goal of building the hospital of the future by providing the right care to the right patient at the right time, in the right way, every time. An example of this is Condition H (Help), a patient and family initiated rapid response program that has achieved outstanding outcomes at UPMC Shadyside. It is now in place at all UPMC hospitals and has received national recognition. Other examples of innovative quality initiatives led by CQII include a leadership role as one of three initial hospitals in the country to participate in the national effort to Transform Care at the Bedside co-sponsored by the Institute for Healthcare Improvement and the Robert Wood Johnson Foundation, our ongoing initiative to transform care delivery at the Hillman Cancer Center by creating extraordinary patient experiences, integrating patients and families in the evaluation and redesign of care delivery processes in UPMC hospitals, and creation of the Patient-Controlled, Liberalized Diet Program, which has also achieved impressive clinical outcomes and has gained international attention.

UPMC has made major investments in information technology as a strategic component of quality, including integrated inpatient and outpatient electronic health records, medication lists and patient care "alerts" for physicians, as well as computerized physician order entry capabilities.

Many of these quality efforts have been described and published in peer-reviewed, scholarly and professional journals so that innovations and care delivery improvements can be shared and replicated by others.

Consolidated Utilization Statistics

The following table presents selected consolidated statistical indicators of medical/surgical, psychiatric, sub-acute and rehabilitation patient activity for the six-month periods ended December 31, 2007 and 2006 and the twelve month periods ended June 30, 2007 and 2006.

Table 5

Consolidated Utilization Statistics

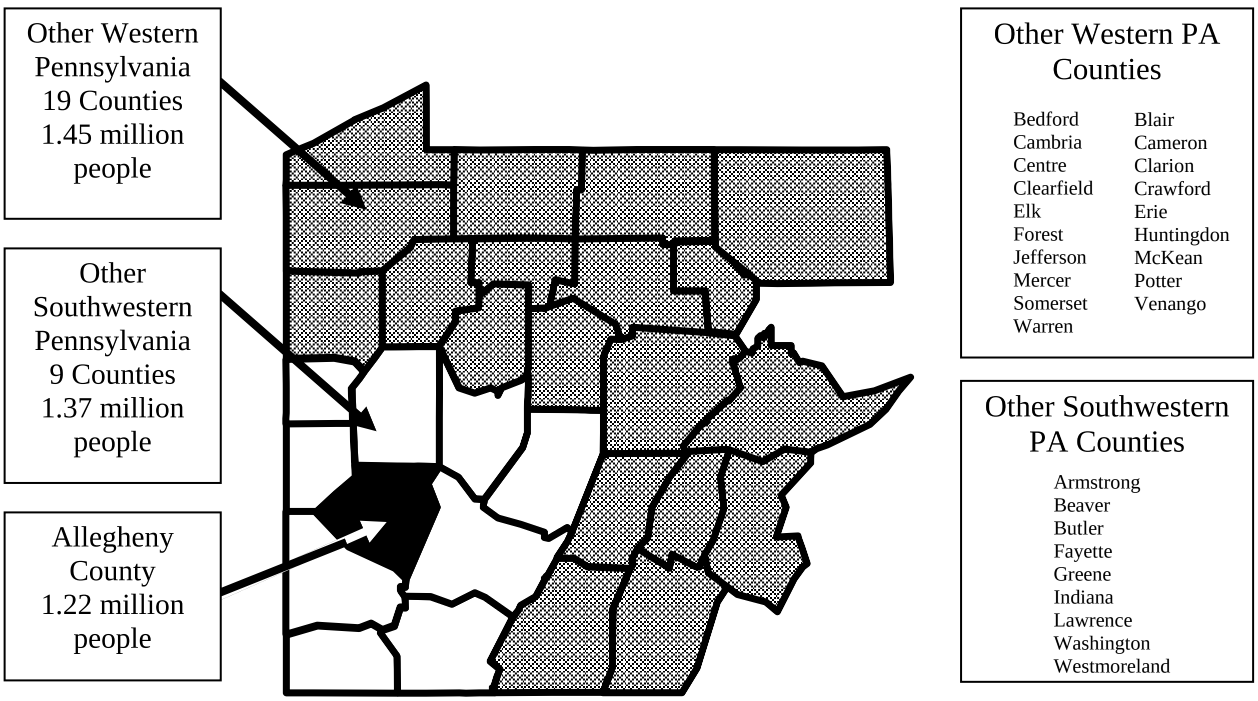
	Six Months Ended December 31		Twelve Months Ended June 30	
	2007	**2006**	**2007**	**2006**
Licensed Beds	3,752	3,749	3,741	3,740
Beds in Service				
Medical-Surgical	2,841	2,749	2,816	2,663
Psychiatric	389	351	367	354
Rehabilitation	162	161	159	173
Skilled Nursing	150	151	151	151
Total Beds in Service	3,542	3,412	3,493	3,341
Patient Days				
Medical-Surgical	393,826	388,246	791,488	751,897
Psychiatric	59,416	58,869	117,136	115,400
Rehabilitation	19,944	21,431	43,092	43,964
Skilled Nursing	21,181	20,436	42,129	36,353
Total Patient Days	494,367	488,982	993,845	947,614
Observation Days	18,633	16,225	34,280	29,722
Average Daily Census	2,788	2,746	2,817	2,678
Admissions				
Medical-Surgical	76,655	75,168	153,233	149,415
Psychiatric	4,872	4,821	9,856	10,804
Rehabilitation	1,739	1,788	3,608	3,878
Skilled Nursing	1,766	1,718	3,456	3,266
Total Admissions	85,032	83,495	170,153	167,363
Overall Occupancy	79%	80%	81%	80%
Average Length of Stay (Admissions Calculation)				
Medical/Surgical	5.1	5.2	5.2	5.0
Psychiatric	12.2	12.2	11.9	10.7
Rehabilitation	11.5	12.0	11.9	11.3
Skilled Nursing	12.0	11.9	12.2	11.1
Overall Average Length of Stay	5.8	5.9	5.8	5.7
Emergency Room Visits	215,196	209,500	420,833	407,106
Transplants (Pittsburgh)				
Liver	105	106	219	223
Kidney	85	145	244	321
All Other	172	193	370	374
Total	362	444	833	918
Transplants (ISMETT)				
Liver	47	47	87	92
Other	28	21	47	46
Total	75	68	134	138

Source: UPMC Records

Service Area and Market Share

UPMC's market includes 29 counties in western Pennsylvania, with a population base of approximately 4.04 million. This population includes a large proportion of people aged 65 and over – more than 17% are senior citizens. This age distribution is a significant factor in the mix and scope of health care services delivered.

The following map shows counties that are included in UPMC's service area. The population figures are 2007 estimates derived from 2000 Census data.



Source: 2007 Population estimates based on 2000 U.S. Census Data.

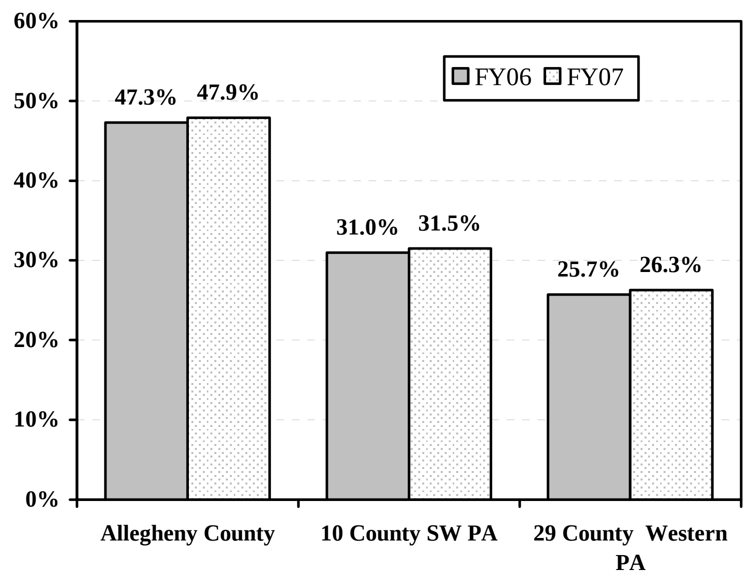
Provider Market Share. Table 6 shows the number of medical-surgical discharges from all hospitals for the fiscal years ended June 30, 2006 and 2007, which represents the most current market share data available.

Table 6
All Discharges Within Service Areas
Fiscal Years 2006 and 2007

	FY2006	FY2007
Allegheny County	174,097	173,336
Southwestern Pennsylvania (10-County Region)	369,678	368,960
Western Pennsylvania (29-County Region)	547,955	544,522

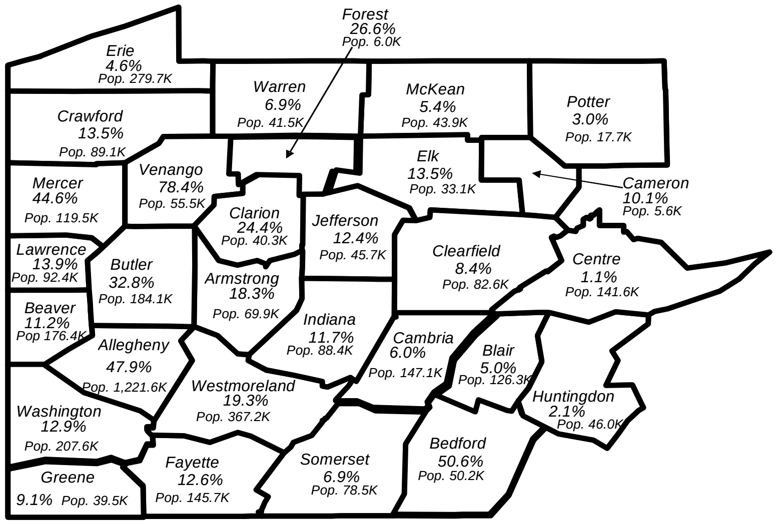
Source: Pennsylvania Health Care Cost Containment Council

The following chart shows UPMC's medical-surgical market share in its service area for fiscal years 2006 and 2007. This is the most recent market share data currently available.



Source: Pennsylvania Health Care Cost Containment Council

The following map summarizes UPMC's medical-surgical market share by County for the fiscal year ended June 30, 2007:



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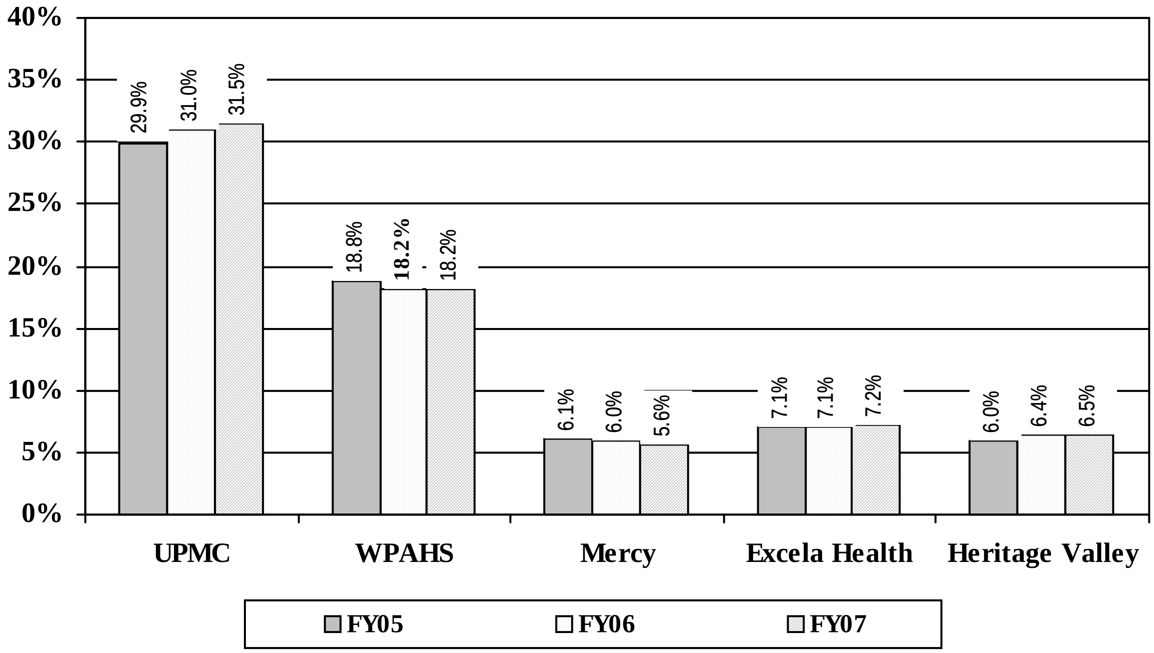
Source: Pennsylvania Health Care Cost Containment Council and U.S. Census Bureau (2007 population estimate based on 2000 Census of population)

Competitor Data. There are about seventy general acute care hospitals in the 29-county region, including six systems. There are five health systems in the 10-county Southwestern Pennsylvania region: UPMC; West Penn Allegheny Health System ("WPAHS") which includes: West Penn Hospital (including Forbes Regional Campus), Allegheny General Hospital (including AGH Suburban Campus), Alle-Kiski Medical Center and Canonsburg Hospital; Pittsburgh Mercy Health System ("Mercy") which includes Mercy Hospital and Mercy Jeannette Hospital; Heritage Valley Health System ("Heritage Valley") which includes: the Medical Center, Beaver and Sewickley Valley Hospital; and Excela Health which includes Westmoreland Regional Hospital, Frick Hospital, and Latrobe Area Hospital. The following chart compares medical-surgical market share for these five systems for the fiscal years 2005, 2006 and 2007 for the 10-county region. Effective January 1, 2008, Mercy Hospital became a Subsidiary Hospital of the Corporation known as UPMC Mercy.



NOTE: All above data is based on health system configurations as of December 31, 2007.
Source: Pennsylvania Health Care Cost Containment Council

In addition to the health systems in the 10-county region, there are also independent community hospitals. The following table illustrates medical-surgical market share trends for some of the larger (200+ staffed bed) hospitals for fiscal years ended June 30, 2005, 2006 and 2007:

Table 7
Medical-Surgical Market Share for the 10-County Southwest Pennsylvania Region
Independent Community Hospitals With More Than 200 Staffed Beds

Facility Name	County	FY 2005	FY 2006	FY 2007
Jefferson Regional Medical Center	Allegheny	4.2%	4.3%	4.5%
St. Clair Memorial Hospital	Allegheny	3.6%	3.6%	3.8%
Butler Health System	Butler	2.8%	2.8%	2.8%
Jameson Memorial Hospital	Lawrence	2.7%	2.7%	2.5%
Monongahela Valley Hospital	Washington	2.5%	2.4%	2.4%
Washington Hospital	Washington	3.4%	3.5%	3.5%

Sources: Bed Size – Annual Hospital Questionnaire, Pennsylvania Department of Health
Market Share – Pennsylvania Health Care Cost Containment Council

Material Contracts

Academic Affiliation Agreement. The University and UPMC have entered into an Academic Affiliation Agreement, which addresses UPMC's role as the primary clinical and teaching site for the University's School of Medicine and the Schools of Health Related Professions, the role of the University's School of Medicine faculty and supporting financial arrangements, and a Support Services Agreement, addressing contractual and financial terms for numerous services provided by either party to the other. These agreements commenced on July 1, 1998, and were recently extended to June 30, 2016. Among other provisions, the Services Agreement governs the various services to the University in connection with research grants related to the health sciences.

Highmark Contract. With the exception of Children's, UPMC's Subsidiary Hospitals have various contracts with Highmark for indemnity and managed care which expire on June 30, 2012. Children's contract with Highmark expires on June 30, 2022.

Employees

For the six months ended December 31, 2007, employee salaries and benefits represented approximately 39% of UPMC's total operating expenses. UPMC's affiliations with the Schools of the Health Sciences and other local universities, colleges, and technical schools contribute to the recruiting of clinicians, allied health care staff, and other employees, as do innovations in scheduling and compensation. As a result of UPMC's association with the above-mentioned schools, UPMC's ability to recruit and retain nursing and other personnel has been enhanced. Approximately 3% of UPMC's employees are covered by collective bargaining agreements. Below is a summary of UPMC's full time equivalent ("FTE") employees as of December 31, 2007 by operating components including an allocation of enterprise services FTE's among these components:

Provider Services	33,653
International and Commercial Services	306
Insurance Services	1,798
Total full time equivalent employees	35,757

Pension Plans. UPMC and its subsidiaries maintain defined benefit pension plans, defined contribution plans, and nonqualified pension plans that cover substantially all of UPMC's employees. Benefits under the defined benefit plans vary and are generally based upon the employee's earnings and years of participation. Under the defined contribution plans, employees may elect to contribute a percentage of their salary, which is matched in accordance with the provisions of the plans. Contributions to the nonqualified pension plans are based on a percentage of salary or contractual arrangements. UPMC's defined benefit pension plans are in compliance with all funding requirements under the Employee Retirement Income Security Act ("ERISA") of 1974. UPMC's policy is to contribute amounts to these plans that are sufficient to avoid additional funding charges from the PBGC. During fiscal year 2007, UPMC contributed $13.5 million to its defined benefit pension plans. During the six months ended December 31, 2007, UPMC contributed an additional $42 million to these plans.

Investment Management

In addition to funds held for working capital, UPMC maintains several long term investment portfolios including unrestricted investments held by the Corporation and the Subsidiary Hospitals, assets held by insurance subsidiaries, restricted assets, foundation assets, and pension fund assets. The restricted portfolio includes donor-restricted assets. The Investment Committee of the Board meets quarterly to review asset allocation and manager performance for a majority of the portfolios. The Investment Committee meets as needed for manager selection. The following table shows the market value in each of these categories by asset type as of December 31, 2007:

Table 8
Summary of Investments
(Dollars in Thousands)

	Working Capital and Donor Restricted	Investment Portfolio	Total Cash and Investments	Pension
Cash and cash equivalents	$ 69,303	$ 231,184	$ 300,487	$7,725
Corporate debt obligations	4,647	115,677	120,324	5,574
U.S. Government obligations	3,509	87,239	90,748	55,962
Marketable equity securities	54,496	1,401,590	1,456,086	374,730
Mortgage and asset backed securities and miscellaneous	8,955	286,285	295,240	40,008
Limited partnerships	41,525	1,042,068	1,083,593	276,788
Total	**$ 182,435**	**$ 3,164,043**	**$ 3,346,478**	**$ 760,787**

Source: UPMC Records

During the first six months of fiscal year 2008, UPMC's investment portfolio returned 2.7%. This return was driven primarily by the returns on UPMC's alternative equity investments, which returned 11.0%. As of December 31, 2007, UPMC employed 114 external managers including 33 traditional investment managers, 20 hedge fund managers and 61 private equity managers. UPMC's investment portfolio has a long-term perspective and has generated annualized returns of 11.8%, 11.7% and 11.9% for the trailing one-year, three-year, and five-year periods.

Effective December 1, 2006, UPMC classified investments in certain debt and equity securities as trading securities under Statement of Financial Accounting Standards No. 124. Previously, UPMC classified these investments as non-trading. This change in classification requires UPMC to recognize unrealized gains and losses on substantially all of its investment securities as investment revenue in the consolidated statements of operations. Previously, changes in the fair value of most of these investment securities were recorded as other changes in net assets.

Net unrealized losses included in investment revenue for the six-month period ended December 31, 2007 were ($78 million) compared to net unrealized gains of $183 million included in the six-month period ended December 31, 2006. The financial statement below shows investment revenue, investment income and net income for the six-month period ended December 31, 2006 as previously reported and as it would have been reported had UPMC classified the above referenced investments as trading securities effective June 30, 2006 rather than December 1, 2006. As previously reported, investment revenue for December 31, 2006 included $48 million of appreciation that accrued prior to July 1, 2006.

Table 9
SUMMARY CONSOLIDATED STATEMENTS OF OPERATIONS
(DOLLARS IN MILLIONS)

	Six Months Ended December 31		
	2007	**2006 (pro-forma)**	**2006 (as previously reported)**
Operating income	$100	$124	$124
Investing activity			
Investing revenue	49	217	265
Interest expense	(46)	(45)	(45)
Investment income	3	172	220
Income tax expense	(2)	(2)	(2)
Net income	$101	$294	$342

Source: UPMC records

Indebtedness

As of December 31, 2007, UPMC had approximately $2.43 billion of debt outstanding as shown in Table 10. The amount of debt and other obligations outstanding as of December 31, 2007 that will be secured on parity with the Series 2008A Bonds was approximately $2.2 billion for the 1995 Master Indenture and $610 million for the 2007 Master Indenture. The annualized weighted average interest cost of the debt for the six months ended December 31, 2007 was approximately 4.41% and the annualized cost of capital during the period was 4.65%. This cost of capital includes the accrual of interest payments, the amortization of original financing costs and original issue discount or premium, ongoing costs of variable rate debt, the impact of sixteen derivative contracts used to convert the interest rates on certain portions of the debt and the amortization of gains and losses from certain prior period derivative transactions. As of December 31, 2007, the interest rates on UPMC's long term debt were approximately 58% variable and 42% fixed after giving effect to the above mentioned derivative contracts. The interest cost for the variable and fixed rate debt for the period averaged 3.9% and 5.0% respectively.

Table 10
Outstanding Indebtedness
As of December 31, 2007
(Dollars in Thousands)

Issuer	Original Borrower	Series	Amount Outstanding
Allegheny County Hospital Development Authority	Presbyterian University Hospital	1988B	$37,375
	Presbyterian University Health System, Inc.	1990	81,800
	Presbyterian University Health System, Inc.	1992B	72,715
	Magee-Womens Hospital	1993	33,215
	UPMC Health System	1997B	43,973
	Canterbury Place	1998	20,086
	UPMC Health System	1998A	29,186
	UPMC Health System	1998B	82,271
	UPMC Health System	1999B	87,352
	UPMC Health System	2002A	92,550
	UPMC	2003A	63,000
	UPMC	2003B	56,978
	UPMC	2004B	64,225
	UPMC	2005A	105,000
	UPMC	2005B	93,450
	UPMC	2006A	84,000
	UPMC	2007A	225,000
	UPMC	2007B	165,000
	UPMC	2007C	120,000
	UPMC	2007D	100,000
	UPMC Senior Communities	2003	37,500
Pennsylvania Higher Educational Facilities Authority	UPMC Health System	1999A	189,649
		2001A	247,755
	UPMC	2003C	89,500
Allegheny County Industrial Development Authority	UPMC Health System	2002C	5,970
	UPMC	2004A	80,000
Miscellaneous	Various	Various	125,518
Total			**$2,433,068**

Includes original issue discount and premium and other.
Source: UPMC Records

Use of Derivatives. UPMC uses a combination of fixed and variable rate debt to finance capital needs. To manage the amount and type of this debt, UPMC enters into derivative financial contracts in conjunction with the issuance or refunding of indebtedness. UPMC currently has sixteen outstanding interest rate swap agreements related to debt management as described below.

On April 3, 2003, UPMC completed a tender offer for $83,270,000 of the Allegheny County Hospital Development Authority, Health Center Revenue Refunding Bonds, Series 1992B, which were issued on behalf of Presbyterian University Health System, Inc. In connection with this tender offer, UPMC entered into a BMA-based fixed-to-floating total return swap with a maturity date of May 15, 2008, that effectively converted the interest rate on these bonds from a fixed to a variable interest rate. UPMC has the right to terminate this contract at a market price at any time. The counterparty on this contract is currently rated “A1” by Moody’s and “A+” by Standard and Poor’s. This contract qualifies for hedge accounting treatment.

On June 30, 2003, UPMC purchased an interest rate cap in connection with $37,500,000 Allegheny County Hospital Development Authority, Variable Rate Demand Revenue Bonds, Series of 2003 (UPMC Senior Communities, Inc.) The maturity of the cap is July 15, 2008. The counterparty on this contract is currently rated "Aaa" by Moody's and "AA" by Standard and Poor's.

On September 25, 2003, UPMC entered into a $168,090,000 LIBOR-based forward starting floating-to-fixed interest rate swap with a maturity date of December 1, 2025. Payments on the swap began to accrue on July 1, 2004. This swap converts certain of the 2005 A & B Bonds to a fixed interest rate. UPMC has the right to terminate this contract at a market price at any time. The counterparty on this contract is currently rated “Aaa” by Moody’s and “AAA” by Standard and Poor’s.

On October 1, 2003, UPMC completed a purchase in lieu of redemption for $28,980,000 of the Allegheny County Hospital Development Authority, Health Center Revenue Bonds, Series 1993, which were issued on behalf of Magee-Womens Hospital. In connection with this purchase, UPMC entered into a BMA-based fixed-to-floating total return swap with a maturity date of October 1, 2008 that effectively converted the interest rate on these bonds from a fixed to a variable interest rate. UPMC has the right to terminate this contract at a market price at any time. The counterparty on this contract is currently rated “A1” by Moody’s and “A+” by Standard and Poor’s. This contract qualifies for hedge accounting treatment.

On March 28, 2006, UPMC entered into two $85,000,000 swaps that converted the interest on its 2006A Bonds from fixed rate to variable rate. One swap was a fixed-to-floating swap with a maturity date of January 15, 2036 and the other is a hedged total return swap with a maturity date of January 15, 2011. The counterparty on this contract is currently rated "Aaa" by Moody's and "AA" by Standard & Poor's.

On May 16, 2007, UPMC entered into two swaps that convert the interest on its 2007A1 bonds from a LIBOR based to a BMA based variable rate. The notional amount of the swaps are based on the maturity date of the underlying bonds with $53,905,000 of the bonds due on February 1, 2021 and $46,095,000 of the bonds due on February 1, 2037. The bonds are subject to a mandatory sinking fund redemption and the notional amount of the swaps decrease by the same amounts and dates. The counterparty on this contract is currently rated "Aaa" by Moody's and "AAA" by Standard & Poor's.

On May 23, 2007, UPMC entered into a $75,000,000 swap that converted the interest on its 2007A2 Bonds from fixed rate to variable rate. The maturity date of this swap is February 1, 2011. The counterparty on this contract is currently rated "A1" by Moody's and "A+" by Standard & Poor's.

On July 12, 2007, UPMC entered into two $100,000,000 swaps with two different counterparties that converted the interest on its 2007B1 Bonds from fixed rate to variable rate. One swap was a fixed-to-floating swap with a maturity date of April 15, 2039 and the other is a hedged total return swap with a maturity date of October 15, 2010. The counterparty on the fixed-to-floating contract is currently rated "Aa3" by Moody's and "AA-" by Standard & Poor's and the counterparty on the hedged total return contract is currently rated "Aaa" by Moody's and "AA" by Standard & Poor’s.

On July 12, 2007, UPMC entered into two $65,000,000 swaps that converted the interest on its 2007B2 Bonds from fixed rate to variable rate. One swap was a fixed-to-floating swap with a maturity date of April 15, 2039 and the other is a hedged total return swap with a maturity date of October 15, 2012. The counterparty on this contract is currently rated "Aaa" by Moody's and "AA-" by Standard & Poor's.

On November 8, 2007, UPMC entered into two $120,000,000 swaps with two different counterparties that converted the interest on its 2007C Bonds from fixed rate to variable rate. One swap was a fixed-to-floating swap with a maturity date of August 1, 2037 and the other is a hedged total return swap with a maturity date of February 1, 2011. The counterparty on the fixed-to-floating contract is currently rated "Aaa" by Moody's and "AAA" by Standard & Poor's and the counterparty on the hedged total return contract is currently rated "Aaa" by Moody's and "AA" by Standard & Poor’s.

On November 8, 2007, UPMC entered into a $100,000,000 swap that converted the interest on its 2007D Bonds from fixed rate to variable rate. The maturity date of this swap is April 9, 2010. The counterparty on this contract is currently rated "A1" by Moody's and "A+" by Standard & Poor's.

Future Financing Plans. In addition to the 2008A Bonds, UPMC expects to issue up to $250 million in long term debt prior to June 30, 2008 of which approximately $200 million will be used to retire existing debt and $50 million will be used for new capital projects. As of December 31, 2007, UPMC had drawn $21.5 million of its $300 million bank line of credit. It is expected that this amount will be repaid in full prior to June 30, 2008. The bank line of credit was increased in February 2008 on a temporary basis to provide interim financing for the purchase of up to $456 million of auction rate bonds (See "The Plan of Financing").

UPMC projects capital expenditures of $2.09 billion for the four-year period from July 1, 2007 through and including June 30, 2011. These expenditures include the capital required to construct the New Children’s Facilities. UPMC expects to issue additional long-term indebtedness each year to finance a portion of these capital expenditures. UPMC will also consider issuing new debt to refinance certain of its existing debt over this time period.

Source of Revenues

The patient service revenues of UPMC are derived from third-party payors, which reimburse or pay UPMC for the services it provides to patients covered by such payors. Third-party payors include the federal Medicare Program, the federal and state Medical Assistance Program ("Medicaid"), Highmark Blue Cross Blue Shield ("Highmark") and other third-party insurers, such as health maintenance organizations and preferred provider organizations. The following table is a summary of the percentage of the Subsidiary Hospitals' gross patient service revenue by payor source for the six month periods ended December 31, 2007 and 2006 and the twelve month periods ended June 30, 2007 and 2006.

Table 11
UPMC Payor Mix

	Six Months Ended December 31		**Twelve Months Ended June 30**	
	2007	**2006**	**2007**	**2006**
Medicare	42%	43%	42%	43%
Medicaid	12%	12%	12%	12%
Highmark	24%	24%	24%	23%
UPMC Health Plan	8%	8%	9%	9%
Other	14%	13%	13%	13%
	100%	100%	100%	100%

Source: UPMC Records

Consolidating Statements of Operations

The activities of the various units within UPMC include transactions with other units of UPMC. The revenues reported by each division include all of the revenue of each division prior to elimination of revenues with other UPMC entities. Table 12 shows the Consolidating Statement of Operations by Unit for the twelve-month period ended June 30, 2007. Table 13 shows the Consolidating Statement of Operations by Unit for the six-month period ended December 31, 2007.

Table 12
Consolidating Statement of Operations for the Twelve Months Ended June 30, 2007
(Dollars in Millions)

	Unit				
	Provider Services	**ICSD**	**Insurance Services**	**Eliminations**	**Consolidated**
Revenues:					
Net patient service revenue	$4,209	$0	$0	($533)	$3,676
Insurance enrollment revenue	0	0	2,074	0	2,074
Other revenue	456	75	38	(42)	527
Total operating revenues	4,665	75	2,112	(575)	6,277
Expenses:					
Salaries, professional fees and benefits	2,341	39	98	(19)	2,459
Supplies, purchased services and general	1,697	29	1,946	(556)	3,116
Depreciation and amortization	293	1	5	0	299
Provision for bad debts	183	0	0	0	183
Total operating expenses	4,514	69	2,049	(575)	6,057
Operating income	$151	$6	$63	$0	$220

Source: UPMC Records

Table 13
Consolidating Statement of Operations for the Six Months Ended December 31, 2007
(Dollars in Millions)

	Unit				
Revenues:	**Provider Services**	**ICSD**	**Insurance Services**	**Eliminations**	**Consolidated**
Net patient service revenue	$2,179	$0	$0	($270)	$1,909
Insurance enrollment revenue	0	0	1,198	0	1,198
Other revenue	231	39	24	(27)	267
Total operating revenues	2,410	39	1,222	(297)	3,374
Expenses:					
Salaries, professional fees and benefits	1,216	23	57	(17)	1,279
Supplies, purchased services and general	885	19	1,111	(280)	1,735
Depreciation and amortization	157	1	2	0	160
Provision for bad debts	100	0	0	0	100
Total operating expenses	2,358	43	1,170	(297)	3,274
Operating income	$52	($4)	$52	$0	$100

Source: UPMC Records

Management Discussion and Analysis

The following information is provided to compare UPMC's financial performance for the six-month period ended December 31, 2007 to the six-month period ended December 31, 2006. For information on prior periods, potential investors may access UPMC's prior quarterly bondholder disclosure statements at Digital Assurance Corp's website www.dacbond.com.

Consolidated Financial Highlights

(Dollars in Millions)

Table 14

Financial Results for Six Months Ended December 31

	2007	**2006**
Operating Revenues	$3,374	$3,028
Operating Income	$100	$124
Operating Margin	3.0%	4.1%
Investment Income	$3	$220
Net Income	$101	$342
Operating EBIDA	$260	$270
Capital Expenditures	$243	$231
Reinvestment Ratio	1.52	1.58
Average Age of Plant	7.96	7.96
Uncompensated Care Expense	$160	$139
Selected Other Information as of and for the Periods Ended		
	December 31, 2007	**June 30, 2007**
Total Cash and Investments	$3,346	$3,297
Unrestricted Cash and Investments	$2,777	$2,810
Unrestricted Cash and Investments Over Long Term Debt	$527	$703
Days Cash on Hand	167	181
Days in Accounts Receivable	34	33

- **Operating revenues increased by 11% or $346 million.**
- **UPMC generated $260 million of operating earnings before interest, depreciation and amortization ("Operating EBIDA").**
- **Total and Unrestricted Cash and Investments increased slightly with ratios declining slightly due to growth initiatives**

- Operating revenues increased $346 million (11%) from the six-month period ended December 31, 2006 due to a $249 million increase in Insurance Services operating revenue driven primarily by higher membership. The remainder of the increase in operating revenues was generated from Provider Services volumes and inflationary increases in payor contracts.
- Operating income decreased $24 million from the prior six-month period primarily due to depreciation and the expense of the Pittsburgh Promise.
- Investment income of $3 million, less interest expense, reflects a return on UPMC's investment portfolio of 2.7% for the first six months of the fiscal year.
- UPMC funded $243 million of capital investments to enhance information technology, create new programs/services and maintain infrastructure. Major projects included the ongoing construction of a new Children's Hospital and research complex, the re-engineering of information technology infrastructure, and investments in various patient care software applications.
- UPMC contributed $42 million to its defined benefit (cash balance) pension plan during the period in order to maintain the funding ratio required under the Pension Protection Act of 2006.
- UPMC added 642 full-time employees to support volume growth and International and Commercial Services development.

Key Financial Indicators

(Dollars in Millions)

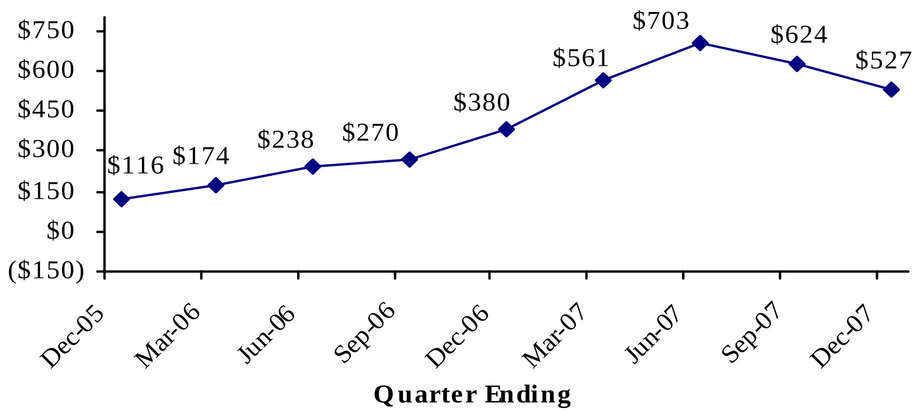
Operating Income and EBIDA

For the Six Months Ended December 31:	2007	2006
Operating Income	$100	$124
Depreciation and Amortization	160	146
Operating EBIDA	$260	$270

Operating EBIDA (Operating Income before interest, depreciation and amortization) declined slightly.

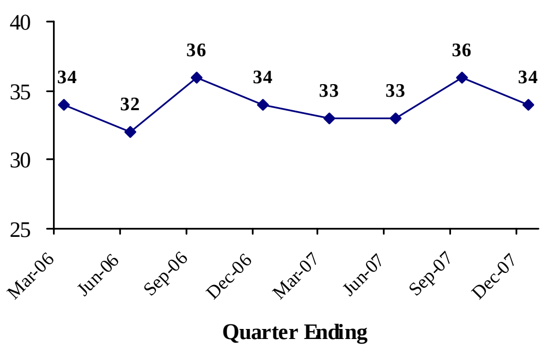
Unrestricted Cash Over Long-Term Debt

Unrestricted cash over long-term debt has increased by $411 million over the last two fiscal years excluding the debt issued for the Mercy affiliation.



Days in Accounts Receivable

Consolidated Days in Accounts Receivable continue to be lower than industry averages.



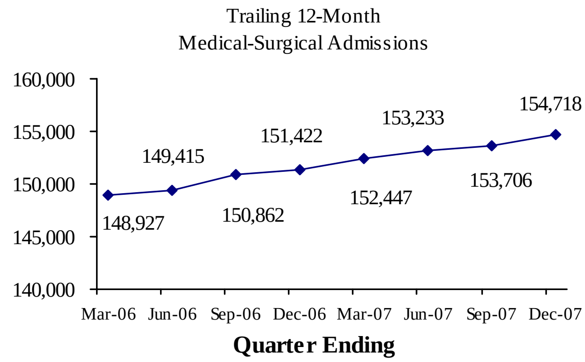
By Division as of December 31	2007 Balance	Days: 2007	Days: 2006
Provider Services	$466	41	41
International and Commercial Services	$14	65	62
Insurance Services	$138	21	17
All Divisions	$618	34	34

Revenue Metrics - Provider Services
(dollars in millions)

Medical-Surgical Admissions

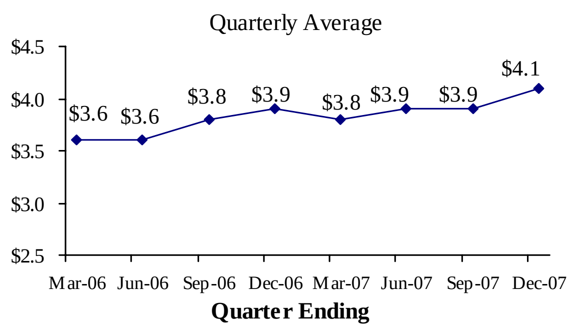
Inpatient activity at UPMC hospitals as measured by medical-surgical admissions was up 2.0% for the six months ended December 31, 2007 compared to the same period December 31, 2006.

For the Six Months Ended December 31: (in thousands)	2007	Variance	2006
Academic	45.4	3.7%	43.8
Community	23.2	-0.4%	23.3
Regional	8.1	0.0%	8.1
Total	76.7	2.0%	75.2



Outpatient Revenue per Workday

UPMC's outpatient activity for 2007 as measured by average revenue per workday increased by 4% from 2006. Hospital outpatient activity is measured on an equivalent workday (EWD) basis to adjust for weekend and holiday hours.

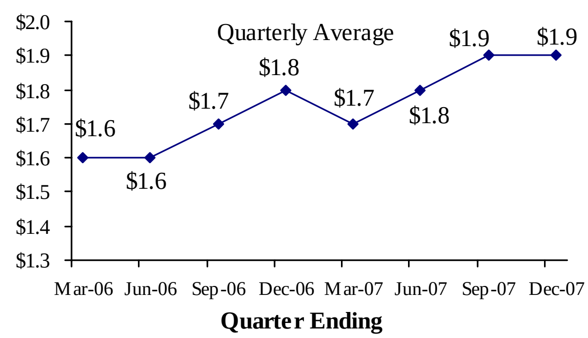


Average for the Six Months Ended December 31:	2007	Variance	2006
Academic	$2.503	6%	$2.372
Community	$.981	2%	$0.963
Regional	$0.478	1%	$0.471
Total	$3.962	4%	$3.806

Physician Service Revenue per Weekday

UPMC's physician activity at the University of Pittsburgh Physician division for the six months ended December 31, 2007 as measured by average revenue per workday increased by 11% from the prior fiscal year. Physician services activity is measured on a weekday basis.

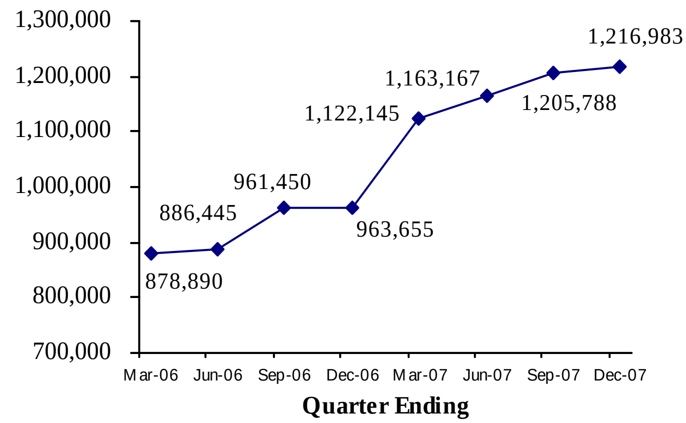
Average for the Six Months Ended December 31:	2007	Variance	2006
Anesthesiology	$0.291	4%	$0.280
Radiology	$0.261	11%	$0.236
Surgery	$0.218	5%	$0.208
Other	$1.136	14%	$0.997
Total	$1.906	11%	$1.721



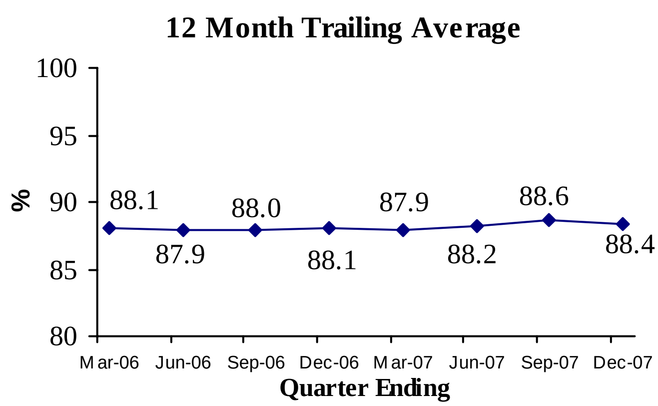
Operating Metrics – Insurance Services

Membership

Membership in the UPMC health insurance companies increased to 1,216,983 as of December 31, 2007. The increase in membership since December 2006 is the result of strong Medicare growth, implementation of additional Medicaid behavioral health contracts representing 170,000 new members, and the implementation of a disability product.



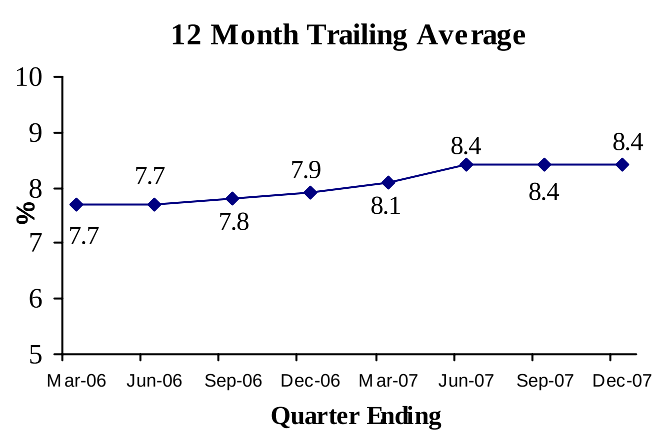
Health Care Spending Ratio



Stability in UPMC Insurance Services health care spending ratios as a percent of revenue reflects the impact of UPMC's integrated disease and care management services.

Administrative Expense Ratio

UPMC Insurance Services maintains one of the lowest administrative expense ratios as a percent of revenue in the insurance industry.



APPENDIX B

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF UPMC FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND JUNE 30, 2006

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AUDITED CONSOLIDATED FINANCIAL STATEMENTS

UPMC | University of Pittsburgh Medical Center
Years Ended June 30, 2007 and 2006
With Report of Independent Auditors

UPMC | University of Pittsburgh Medical Center

Audited Consolidated Financial Statements

Years Ended June 30, 2007 and 2006

Contents

Ernst & Young LLP
2100 One PPG Place
Pittsburgh, Pennsylvania 15222

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Report of Independent Auditors

The Board of Directors
UPMC | University of Pittsburgh Medical Center
Pittsburgh, Pennsylvania

We have audited the accompanying consolidated balance sheets of UPMC as of June 30, 2007 and 2006, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of UPMC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of UPMC at June 30, 2007 and 2006, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of UPMC's internal control over financial reporting as of June 30, 2007, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated August 30, 2007, expressed an unqualified opinion thereon.

Ernst & Young LLP

August 30, 2007

UPMC | University of Pittsburgh Medical Center

Consolidated Balance Sheets

(In Thousands)

	June 30	
	2007	**2006**
Assets		
Current assets:		
Cash and cash equivalents	**$ 154,620**	$ 16,507
Patient accounts receivable, net of allowance for uncollectible accounts of $65,100 in 2007 and $61,700 in 2006	**378,239**	357,201
Other receivables	**202,699**	161,811
Securities lending receivable	**373,522**	39,067
Other current assets	**83,437**	79,252
Total current assets	**1,192,517**	653,838
Board-designated, restricted, trusteed, and other investments	**2,775,045**	2,597,713
Investments on loan under securities lending arrangements	**367,283**	37,827
Beneficial interests in foundations	**410,424**	341,490
Property, buildings, and equipment:		
Land and land improvements	**135,278**	131,966
Buildings and fixed equipment	**2,534,379**	2,462,731
Movable equipment and internal-use software development costs	**1,620,169**	1,504,316
Construction in progress	**493,067**	319,508
	4,782,893	4,418,521
Less allowance for depreciation	**(2,393,457)**	(2,179,726)
	2,389,436	2,238,795
Other assets	**219,190**	206,195
Total assets	**$ 7,353,895**	$ 6,075,858

	June 30	
	2007	**2006**
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 273,050**	$ 248,733
Accrued salaries and related benefits	**263,837**	229,279
Current portion of insurance reserves	**212,329**	173,890
Current portion of long-term obligations	**84,534**	75,984
Securities lending collateral payable	**373,522**	39,067
Other current liabilities	**176,401**	180,874
Total current liabilities	**1,383,673**	947,827
Long-term obligations:		
Revenue bonds	**2,053,768**	1,895,330
Notes payable and other	**53,351**	62,166
	2,107,119	1,957,496
Long-term insurance reserves	**117,121**	113,275
Other long-term liabilities	**122,951**	160,795
Total liabilities	**3,730,864**	3,179,393
Net assets:		
Unrestricted	**3,032,936**	2,386,830
Restricted	**590,095**	509,635
Total net assets	**3,623,031**	2,896,465
Total liabilities and net assets	**$ 7,353,895**	$ 6,075,858

See accompanying notes.

UPMC | University of Pittsburgh Medical Center

Consolidated Statements of Operations and Changes in Net Assets

(In Thousands)

	Year Ended June 30	
	2007	2006
Unrestricted net assets		
Revenues:		
Net patient service revenue	**$ 3,676,383**	$ 3,503,346
Insurance enrollment revenue	**2,073,459**	1,726,586
Other revenue	**526,778**	469,210
Total operating revenues	**6,276,620**	5,699,142
Expenses:		
Salaries, professional fees, and employee benefits	**2,458,235**	2,231,372
Supplies, purchased services, and general	**3,115,477**	2,725,994
Depreciation and amortization	**299,472**	271,592
Provision for bad debts	**183,350**	148,955
Total operating expenses (excluding interest and income tax expenses)	**6,056,534**	5,377,913
Operating revenues over operating expenses (excluding interest and income tax expenses)	**220,086**	321,229
Investing activity:		
Net investment revenue	**492,681**	294,437
Interest expense	**(89,674)**	(87,859)
Net investing activity	**403,007**	206,578
Income tax expense	**(4,839)**	(2,474)
Excess of revenues over expenses (excluding loss on extinguishment and other-than-temporary losses on investments)	**618,254**	525,333
Loss on extinguishment of debt	**(6,708)**	(9,268)
Other-than-temporary losses on investments	**–**	(2,028)
Excess of revenues over expenses (carried forward)	**611,546**	514,037

UPMC | University of Pittsburgh Medical Center

Consolidated Statements of Operations
and Changes in Net Assets (continued)

(In Thousands)

	Year Ended June 30	
	2007	**2006**
Excess of revenues over expenses (brought forward)	**611,546**	514,037
Other changes in unrestricted net assets:		
Net change in unrealized investment appreciation	**(47,621)**	(33,135)
Decrease in additional minimum pension liability	**64,562**	91,264
Assets released from restriction for capital purchases	**22,724**	2,540
Adjustment to initially apply recognition provisions of Statement 158	**(8,937)**	–
Increase in unrestricted net assets before discontinued operations and cumulative effect of change in accounting principle	**642,274**	574,706
Gain (loss) on discontinued operations	**3,832**	(2,197)
Cumulative effect of change in accounting principle	**–**	(5,162)
Increase in unrestricted net assets	**646,106**	567,347
Restricted net assets		
Contributions	**29,168**	26,263
Net realized gains and change in unrealized investment appreciation	**13,973**	5,664
Assets released from restriction for operations and capital purchases	**(31,615)**	(21,694)
Net increase in beneficial interests in foundations	**68,934**	27,352
Increase in restricted net assets	**80,460**	37,585
Increase in net assets	**726,566**	604,932
Net assets, beginning of year	**2,896,465**	2,291,533
Net assets, end of year	**$ 3,623,031**	$ 2,896,465

See accompanying notes.

UPMC | University of Pittsburgh Medical Center

Consolidated Statements of Cash Flows

(In Thousands)

	Year Ended June 30	
	2007	**2006**
Operating activities		
Increase in net assets	**$ 726,566**	$ 604,932
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	**299,472**	271,592
Net change in unrealized investment appreciation	**47,621**	33,135
Decrease in additional minimum pension liability	**(64,562)**	(91,264)
Adjustment to initially apply recognition provisions of Statement 158	**8,937**	–
(Gain) loss on discontinued operations	**(3,832)**	2,197
Cumulative effect of change in accounting principle	**–**	5,162
Net increase in beneficial interests in foundations	**(68,934)**	(27,352)
Restricted contributions and investment income	**(43,141)**	(31,927)
Net increase in trading securities	**(244,335)**	–
Changes in operating assets and liabilities	**63,293**	8,669
Net cash provided by operating activities	**721,085**	775,144
Investing activities		
Purchase of property and equipment, net of disposals	**(458,470)**	(396,187)
Net increase in investments designated as nontrading	**(310,074)**	(520,988)
Net increase in other assets	**(15,741)**	(19,641)
Net cash used in investing activities	**(784,285)**	(936,816)
Financing activities		
Repayments of long-term obligations	**(239,859)**	(245,052)
Borrowings of long-term obligations	**398,031**	306,891
Restricted contributions and investment income	**43,141**	31,927
Net cash provided by financing activities	**201,313**	93,766
Increase (decrease) in cash and cash equivalents	**138,113**	(67,906)
Cash and cash equivalents, beginning of year	**16,507**	84,413
Cash and cash equivalents, end of year	**$ 154,620**	$ 16,507

See accompanying notes.

1. Organizational Overview and Summary of Significant Accounting Policies

UPMC, doing business as the University of Pittsburgh Medical Center ("UPMC"), is a Pennsylvania nonprofit corporation and is exempt from federal income tax pursuant to Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) of the Code. Headquartered in Pittsburgh, Pa., UPMC is one of the leading medical centers in the United States. UPMC is an integrated health enterprise that has the medical expertise, geographic reach, and financial stability to develop models of excellence that are transforming health care nationally and internationally. UPMC comprises nonprofit and for-profit entities offering medical and health care-related services, including insurance products. UPMC is closely affiliated with the University of Pittsburgh Schools of the Health Sciences ("University"). Together, their combined mission is to deliver outstanding patient care, train tomorrow's health care specialists and biomedical scientists, and conduct groundbreaking research to advance the understanding of the causes and course of disease. This mission is realized through shared academic and research objectives and cross-appointment rights to each other's Board of Directors.

The accompanying consolidated financial statements include the accounts of UPMC and its subsidiaries. Intercompany accounts and transactions are eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of cash and investments, which are so near to maturity (maturity of three months or less when purchased) that they present insignificant risk of changes in value.

Net Patient Service Revenue and Accounts Receivable

Net patient service revenue is reported at estimated net realizable amounts in the period in which services are provided. The majority of UPMC's services are rendered to patients under Medicare, Highmark Blue Cross Blue Shield ("Highmark"), and Medical Assistance programs. Reimbursement under these programs is based on a combination of prospectively determined rates and historical costs. Amounts received under Medicare and Medical Assistance programs are subject to review and final determination by program intermediaries or their agents.

1. Organizational Overview and Summary of Significant Accounting Policies (continued)

Provisions for adjustments related to these programs are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Net patient service revenue for 2007 and 2006 was increased by approximately $10,600 and $45,400, respectively, for prior-year settlements.

Net patient service revenue from Medicare accounted for approximately 42% and 43% and from Medical Assistance programs accounted for approximately 12% and 12% of total net patient service revenue in 2007 and 2006, respectively. Laws and regulations governing the Medicare and Medical Assistance programs are complex and subject to interpretation. Compliance with such laws and regulations are subject to government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medical Assistance programs. As a result, there is at least a reasonable possibility that the recorded estimates may change by a material amount in the near term.

Significant concentrations of patient accounts receivable at June 30, 2007 and 2006, respectively, include: Medicare 31% and 32%, Highmark 20% and 19%, and Medical Assistance 18% and 18%.

The provision for bad debts is based upon management’s assessment of historical and expected net collections considering historical business and economic conditions, trends in health care coverage, and other collection indicators. Periodically throughout the year management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience by payor category. The results of this review are then used to make any modifications to the provision for bad debts to establish an appropriate allowance for uncollectible accounts.

Board-Designated, Restricted, Trusteed, and Other Investments

In December 2006, UPMC changed the accounting classification of substantially all of its investments in debt and equity securities from nontrading to trading. This change in classification requires UPMC to recognize unrealized gains and losses on substantially all of its investments in debt and equity securities as net investment revenue in the consolidated statements of operations and changes in net assets. Previously, changes in the fair value of these investment securities were recorded as other changes in net assets. Total unrealized gains included in net investment revenue for the 12-month period ended June 30, 2007, were $193,900. The effect of this change increased reported net investment revenue by $154,000, including $48,000 in net unrealized gains relating to prior periods. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value using quoted market prices.

1. Organizational Overview and Summary of Significant Accounting Policies (continued)

Investments in limited partnerships that invest in marketable securities (hedge funds) are reported using the equity method of accounting based on information provided by the respective partnership. The values provided by the respective partnerships are based on historical cost, appraisals, or other estimates that require varying degrees of judgment. Generally, the fair value of UPMC's holdings reflects net contributions to the partnership and an allocated share of realized and unrealized investment income and expenses. The investments may individually expose UPMC to securities lending, short sales, and trading in futures and forward contract options and other derivative products. UPMC's risk is limited to its carrying value. Amounts can be divested only at specified times. The financial statements of the limited partnerships are audited annually, generally as of December 31. Investments in limited partnerships that invest in nonmarketable securities (private equity) are primarily recorded at cost if the ownership percentage is less than 20% and are periodically evaluated for impairment. Investments in entities in which UPMC has the ability to exercise significant influence, generally 20% to 50% ownership, are reported using the equity method of accounting.

Prior to the classification change in December 2006, UPMC evaluated investments for conditions that indicate an other-than-temporary decline in market value has occurred. In conducting this review, numerous factors were considered which, individually or in combination, may indicate that a decline is other-than-temporary. Based on this evaluation, no other-than-temporary losses on investments were recorded in 2007 and other-than-temporary losses on investments of $2,028 were recorded in 2006.

Gains and losses on the sales of securities are determined by the average cost method. Changes in equity values on limited partnership hedge funds and other-than-temporary losses on unrestricted investments are included in excess of revenues over expenses.

Financial Instruments

Cash and cash equivalents and investments aggregated $3,296,948 and $2,652,047 at June 30, 2007 and 2006, respectively. The fair value of long-term obligations at June 30, 2007 and 2006, including derivatives, is $2,255,595 and $2,083,220, respectively, based on market prices as estimated by financial institutions.

1. Organizational Overview and Summary of Significant Accounting Policies (continued)

Beneficial Interests in Foundations

Several of UPMC's subsidiary hospitals have foundations that, according to their bylaws, were formed for the exclusive purpose of supporting and furthering the mission of the respective hospital. The foundations are separate corporations and are not liable for the obligations of UPMC, including any claims of creditors of any UPMC entities. Certain of the foundations are consolidated in the accompanying financial statements. The net assets of other foundations are included in the consolidated balance sheets as beneficial interests in foundations and restricted net assets because the hospitals' use of these assets is at the discretion of the foundations' independent board of directors.

Beneficial interests in foundations of $410,424 and $341,490 and the restricted and unrestricted net assets of the other foundations of $80,410 and $141,324 as of June 30, 2007 and 2006, respectively, are not pledged as collateral for UPMC's debt.

Property, Buildings, and Equipment

Property, buildings, and equipment are recorded at cost or, if donated or impaired, at fair market value at the date of receipt or impairment. Interest cost incurred on borrowed funds (net of interest earned on such funds) during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Net interest expense of $9,963 and $5,078 was capitalized in 2007 and 2006, respectively.

Costs associated with the development and installation of internal use software are expensed or capitalized depending on whether they are incurred in the preliminary project stage, application development stage, or postimplementation stage.

Depreciation is computed using the straight-line method at rates designed to amortize the assets over their estimated useful lives (ranging from 3 to 40 years) and includes amortization related to capitalized leases.

1. Organizational Overview and Summary of Significant Accounting Policies (continued)

Asset Impairment

UPMC evaluates the recoverability of the carrying value of long-lived assets by reviewing long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable and adjusts the asset cost to fair value if undiscounted cash flows are less than the carrying amount of the asset. Based on this evaluation, no asset impairment was recorded in 2007 and an asset impairment of $8,800 was recorded in 2006, $6,600 of which was recorded as supplies, purchased services, and general expenses and the remaining $2,200 was recorded as depreciation expense.

Other Assets

Other assets include approximately $63,600 and $58,400 at June 30, 2007 and 2006, respectively, relating to investments in partnerships that provide health care, management, and other goods and services to UPMC, its affiliates, and the community at large. Investments in which UPMC has the ability to exercise significant influence but does not control, generally 20% to 50% ownership, are reported using the equity method of accounting. All other noncontrolled investments are carried at cost.

Health Insurance Revenue and Costs

UPMC's insurance subsidiaries (collectively, "Health Plans") provide health care services on a prepaid basis under various contracts. The Health Plans provide medical services to subscribing participants under agreements that provide for capitated payments based on the number of subscribing enrollees, regardless of the medical services actually performed. Insurance enrollment revenues are recognized as income in the period in which enrollees are entitled to receive health care services. Enrollment revenue includes approximately 70% and 65% for the years ended June 30, 2007 and 2006, respectively, from Medicare and Medical Assistance.

Health care costs were approximately $1,813,245 and $1,502,825, of which $521,567 and $442,589 were eliminated in consolidation representing medical services performed by other UPMC entities for the years ended June 30, 2007 and 2006, respectively. Such costs are included in supplies, purchased services, and general expenses. These costs include estimates of payments to be made on claims reported as of the balance sheet date and estimates of health care services rendered but not reported to the Health Plans. Such estimates include the cost of services that will continue to be rendered after the balance sheet date when the Health Plans are obligated to render such services in accordance with contract provisions or regulatory requirements. Current accrued insurance reserves include approximately $158,363 and $119,302 at June 30, 2007 and 2006, respectively, relating to estimates of claims payable for health care services.

1. Organizational Overview and Summary of Significant Accounting Policies (continued)

The Health Plans purchase reinsurance that provides coverage for catastrophic inpatient hospital claims. The deductibles under these policies range from $200 to $300 of allowable expenses per member per contract year with a maximum reinsurance indemnity for each member of $1,000. The Health Plans are contingently liable for reinsured losses to the extent that the reinsurance companies cannot meet their obligations under the reinsurance contracts.

Unrestricted net assets required to meet statutory requirements of the Health Plans were $130,500 and $114,800 at June 30, 2007 and 2006, respectively.

Derivatives

UPMC uses derivatives to modify the interest rates and manage risks associated with its outstanding debt. UPMC records derivative financial instruments, such as interest rate swaps, as assets or liabilities in the consolidated balance sheets at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. UPMC has entered into interest rate swap agreements to convert a portion of fixed rate debt to a variable interest rate. These agreements meet the criteria of a hedge and accordingly, are recorded at fair value along with the related debt with no residual effect of changes in the fair value. UPMC also entered into interest rate swap agreements that convert a portion of its variable rate debt to fixed rate debt. The agreements do not qualify for hedge treatment and changes in the fair value are included in net investment revenue.

Restricted Net Assets

Unconditional promises to give cash and other assets are reported at fair value as of the date the promise is received. Conditional promises to give are reported at fair value at the date the condition is met. Contributions are reported as restricted if they are received with donor stipulations that limit the use of the donated assets.

Restricted net assets include $182,000 and $165,000 of permanently restricted net assets held in perpetuity at June 30, 2007 and 2006, respectively. The remainder of restricted net assets is temporarily restricted and primarily represents beneficial interests in foundations and support research and other health care programs. Temporarily restricted net assets are limited by donors and the foundations to a specific time period or purpose. Temporarily restricted net assets are reclassified to unrestricted net assets and included in the consolidated statements of operations and changes in net assets as other revenue or assets released from restriction for capital purchases when the restriction is met.

1. Organizational Overview and Summary of Significant Accounting Policies (continued)

Excess of Revenues Over Expenses

The consolidated statements of operations and changes in net assets include excess of revenues over expenses as a performance indicator. Excess of revenues over expenses includes all changes in unrestricted net assets except for contributions for the purchase of property and equipment, adjustments for minimum pension liability, discontinued operations, and the cumulative effect of changes in accounting principles.

Use of Estimates

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

Reclassifications

Certain reclassifications were made to the 2006 accompanying financial statements to conform to the 2007 presentation. These reclassifications had no impact on the change in net assets previously reported.

New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued FASB Statement No. 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Benefit Plans, an amendment of FASB Statements No. 87, 88, 106, and 132 (R)* ("Statement 158"). Statement 158 requires plan sponsors of defined benefit pension and other postretirement benefit plans (collectively, "postretirement benefit plans") to recognize the funded status of their postretirement benefit plans in the statement of financial position, measure the fair value of plan assets and benefit obligations as of the date of the fiscal year-end statement of financial position, and provide additional disclosures. On June 30, 2007, UPMC adopted the recognition and disclosure provisions of Statement 158. The effect of adopting Statement 158 on UPMC's financial condition at June 30, 2007, has been included in the accompanying consolidated financial statements. Statement 158 did not have an effect on UPMC's consolidated balance sheet at June 30, 2006. Statement 158's provisions regarding the change in the measurement date of postretirement benefit plans are not applicable as UPMC already uses a measurement date of June 30 for its pension plans. See Note 7 for further discussion of the effect of adopting Statement 158 on UPMC's consolidated financial statements.

2. Business Combinations and Affiliation Agreements

On October 31, 2001, UPMC entered into an Integration and Affiliation Agreement ("Children's Agreement") with Children's Hospital of Pittsburgh ("Children's") and Children's Hospital Foundation ("Children's Foundation") whereby UPMC became the sole corporate member of Children's. The Children's Agreement includes UPMC's commitment to pay the costs of constructing a new hospital for Children's ("New Hospital Facility") and a commitment to cause the funding of pediatric research and clinical programs (collectively, "Additional Funding") to increase by $250,000 over ten years commencing in 2003. The Additional Funding may come from external sources including government or private grants and awards. Children's Foundation agreed to provide annual financial support for a minimum of 20 years for pediatric care, research, and/or education computed at 5% of the rolling average of the corpus (defined as the value of all of the Foundation's assets less any funds held by the Foundation where the donor has directed a different spending provision.) In advance of the fiscal year, the Foundation computes the rolling average of the prior calendar year to determine the 5% payment for the upcoming fiscal year. Pursuant to the Children's Agreement, the Children's Foundation maintains a mortgage and security interest in Children's existing land, buildings, and equipment until the New Hospital Facility is completed. Upon completion, the mortgage and security interest will be terminated and title to Children's land, buildings, and equipment will transfer to UPMC.

The Children's Foundation agreed to provide $50,000 of base funding for the project from any private or public source. On October 19, 2005, UPMC entered into an amendment to the Children's Agreement. The amendment established $575,000 as the maximum project cost for the design and construction of the New Hospital Facility including a new pediatric research facility. The maximum project cost includes certain equipment and other ancillary costs related to the project. However, if the maximum project cost for both the pediatric research facility and the clinical facility are reached, UPMC will be entitled to a credit of $97,000 against the Additional Funding obligation. If the final project cost falls below the maximum project cost, such credit is subject to reduction.

An agreement is pending between UPMC and the Children's Foundation by which the Children's Foundation will provide additional funding of $46,800, which is in addition to its base commitment of $50,000. This will fund various project scope changes and other costs and the maximum project cost for the project will be increased by an equal amount of $46,800.

2. Business Combinations and Affiliation Agreements (continued)

UPMC's outstanding commitment to construct the New Hospital Facility for Children's is approximately $236,000 at June 30, 2007. Completion of the construction of the New Hospital Facility is expected to occur in fiscal year 2009. UPMC's outstanding commitment to cause the Additional Funding of pediatric research and clinical programs is approximately $116,000 at June 30, 2007.

3. Uncompensated Care and Other Community Benefits (Unaudited)

Consistent with UPMC's tax-exempt status and community service responsibilities, UPMC provides financial assistance in the form of free or discounted care to patients who need health care services and meet program eligibility criteria. UPMC does not pursue collection of amounts determined to qualify as charity care or other free care services and such amounts are not reported as net patient service revenue.

Total uncompensated care, including charity care and amounts classified as bad debts, amounted to $279,200 and $227,700 for the years ended June 30, 2007 and 2006, respectively. Charity care, measured at established rates, amounted to $96,100 and $78,700 for the years ended June 30, 2007 and 2006, respectively.

UPMC provides charitable donations and performs services at no charge or less than cost that benefit the community, such as public health screenings, health care publications, workplace wellness programs, health related educational programs, and other activities. Expenses relating to these services amounted to $70,700 and $59,500 for the years ended June 30, 2007 and 2006, respectively.

(In Thousands)

4. Cash and Investments

Following is a summary of cash and investments included in the consolidated balance sheets:

	June 30	
	2007	**2006**
Internally designated:		
Funded depreciation	**$ 77,463**	$ 388,092
Employee benefit and workers' compensation self-insurance programs	**46,177**	42,574
Professional and general liability insurance program	**200,276**	162,014
Health insurance programs	**306,067**	277,835
	629,983	870,515
Externally designated:		
Trusteed assets for capital and debt service payments	**7,773**	33,110
Donor restricted assets	**111,101**	101,715
	118,874	134,825
Other long-term investments	**2,026,188**	1,592,373
Board-designated, trusteed, and other investments	**2,775,045**	2,597,713
Investments on loan under securities lending arrangements	**367,283**	37,827
Cash and cash equivalents	**154,620**	16,507
	$ 3,296,948	$ 2,652,047

Following is a summary of the composition of cash and investments:

	June 30	
	2007	**2006**
Cash and cash equivalents designated for operating activities	**$ 154,620**	$ 16,507
Cash and cash equivalents in investment portfolio	**197,900**	286,453
Corporate debt obligations	**86,283**	84,054
U.S. government obligations	**171,019**	54,869
Mortgage and asset-backed securities and miscellaneous	**178,179**	199,834
Marketable equity securities	**1,575,280**	1,386,737
Hedge fund and other limited partnerships reported using the equity method of accounting	**543,134**	441,761
Private equity limited partnerships recorded at cost	**345,482**	157,514
Direct investments	**45,051**	24,318
	$ 3,296,948	$ 2,652,047

(In Thousands)

4. Cash and Investments (continued)

Investments are primarily maintained in a Master Trust Fund ("MTF") administered using a bank as trustee. As of June 30, 2007, 105 external investment managers handled the investment of the portfolio assets. Nineteen of these firms manage equity investments, 15 manage fixed income investments, and 71 manage alternative investment strategies including hedge funds and private equity. The largest allocation to any alternative strategy manager is $31,000. Certain managers use various equity and interest rate derivatives. These instruments are subject to various risks similar to nonderivative financial instruments including market, credit, liquidity, operational, and foreign exchange risk. As of June 30, 2007, UPMC has remaining commitments to invest approximately $883,000 in private equity limited partnerships at various times and amounts over the next ten years.

UPMC's agreement with the bank trustee of the MTF allows various brokers to borrow certain designated securities that are secured primarily with cash collateral ranging from 102% to 104% of the securities market value. Any borrowed securities remain on UPMC's consolidated balance sheets, and fee income is recorded in net investment revenue. At June 30, 2007 and 2006, brokers borrowed $367,000 and $38,000, respectively.

Investment return from cash and investments comprises the following for the years ended June 30, 2007 and 2006, respectively:

	Year Ended June 30	
	2007	**2006**
Interest income	**$ 47,370**	$ 37,077
Dividend income	**26,279**	22,718
Net securities lending revenue	**2,618**	799
Unrealized investment revenue	**253,082**	–
Net realized gains on sales of securities	**103,514**	171,160
Net gains on limited partnerships	**70,400**	49,638
Net (losses) gains on direct investments	**(7,014)**	8,685
Derivative contracts mark to market	**4,797**	10,602
Total investment revenue	**501,046**	300,679
Traditional investment manager and trustee fees	**(8,365)**	(6,242)
Net investment revenue	**$ 492,681**	$ 294,437

(In Thousands)

4. Cash and Investments (continued)

The pro forma financial information below shows net investment revenue, net investing activity, and excess of revenue over expenses for 2007 and 2006 as they would have been reported had UPMC classified its investments in debt and equity securities as trading securities during these periods.

	Year Ended June 30	
	2007	**2006**
Operating revenues over operating expenses (excluding interest and income tax expenses)	**$ 220,000**	$ 321,000
Investing activity:		
Net investment revenue	**445,000**	259,000
Interest expense	**(90,000)**	(88,000)
Net investing activity	**355,000**	171,000
Income tax expense	**(5,000)**	(2,000)
Excess of revenues over expenses (excluding loss on extinguishment of debt)	**570,000**	490,000
Loss on extinguishment of debt	**(7,000)**	(9,000)
Excess of revenues over expenses	**$ 563,000**	$ 481,000

5. Credit Arrangements

UPMC has a revolving line and letter of credit facility (the “Revolving Facility”) that was amended and restated as of October 26, 2006, in order to increase the available line from $110,000 to $300,000. The Revolving Facility expires on October 25, 2011. The Revolving Facility is used to manage cash flow during the year and to provide for a consolidated method of issuing various letters of credit for certain business units. A note to secure UPMC’s repayment obligation with respect to the Revolving Facility was issued under the 1995 UPMC Master Trust Indenture (“1995 UPMC MTI”) and is secured by a pledge of and security interest in UPMC parent corporation’s gross revenues and UPMC Presbyterian Shadyside’s gross revenues as members of the obligated group under the 1995 UPMC MTI.

No amounts were outstanding as of June 30, 2007, on the Revolving Facility. Advances may be variable rate based on the prime rate or the Federal Funds effective rates, or advances may be fixed on the date of the advance based on the British Bankers’ Association Interest Settlement Rate and the reserve requirement on Eurocurrency liabilities.

(In Thousands)

5. Credit Arrangements (continued)

As of June 30, 2007, UPMC has issued $80,501 of outstanding letters of credit under the Revolving Facility. These letters of credit predominantly support the capital requirements of certain insurance subsidiaries and the self-insured workers' compensation liability. No borrowings were outstanding under the letters of credit.

6. Long-Term Obligations and Interest Rate Swaps

Long-term obligations consist of the following:

	June 30	
	2007	**2006**
Fixed rate revenue bonds	**$ 1,209,930**	$ 1,174,087
Variable rate revenue bonds	**912,595**	780,615
Notes payable and other	**70,478**	79,504
Par value of long-term obligations	**2,193,003**	2,034,206
Net premium and other	**(1,350)**	(726)
	2,191,653	2,033,480
Less current portion	**(84,534)**	(75,984)
Total long-term obligations	**$ 2,107,119**	$ 1,957,496

Revenue bonds outstanding represent funds borrowed by the UPMC parent corporation and various subsidiaries pursuant to loan agreements and lease and sublease financing arrangements with governmental authorities. The bonds were used for the purchase, construction, and renovation of hospital facilities, certain buildings and equipment, as well as the extinguishment of debt. Notes payable and other consist of capital leases and various mortgages that are secured by certain equipment and properties.

The fixed rate revenue bonds bear interest at fixed coupon rates ranging from 4.25% to 6.25%. The average total cost for the variable rate bonds was 4.04% during fiscal year 2007. Revenue bonds have varying principal payments and final maturities from 2015 through 2037. Certain revenue bonds are secured by bond insurance ($888,119 and $1,088,872 in 2007 and 2006, respectively), letters of credit ($43,345 and $45,490 in 2007 and 2006, respectively) or liquidity facilities ($161,800 and $165,900 in 2007 and 2006, respectively). The letter of credit agreements and liquidity facilities provide loans to UPMC in the amount necessary to purchase a portion of the variable rate demand revenue bonds if not remarketed. The agreements have expiration and repayment dates beyond June 30, 2008.

6. Long-Term Obligations and Interest Rate Swaps (continued)

During 2007, UPMC issued $388,600 of revenue bonds to refinance outstanding indebtedness of $164,145 and to finance $224,455 of capital expenditures. A loss of $6,708 was recorded related to extinguishment of debt.

In July 2007, UPMC refinanced $163,600 of existing fixed rate revenue bonds with $165,000 of fixed rate revenue bonds and converted the new fixed rate revenue bonds to a variable rate through the use of derivative contracts.

Technology licenses and computer equipment totaling $9,431 and $11,891 were recorded in 2007 and 2006, respectively, under a capital lease that was originally executed in April 2005.

Notes to secure obligations with respect to revenue bond repayments in the aggregate amount of debt outstanding of $2,083,145 as of June 30, 2007, are issued under the 1995 UPMC MTI. The Series 2007A bonds of $225,000 are additionally secured under the 2007 UPMC Master Trust Indenture. The notes are secured by a pledge of and security interest in gross revenues of each of the respective MTI's obligated groups. Certain amounts borrowed under the 1995 UPMC MTI are loaned to certain subsidiary corporations pursuant to loan and contribution agreements and require the transfer of subsidiary funds to the parent corporation in the event of failure to satisfy the UPMC parent corporation liquidity covenant.

The various indebtedness agreements contain restrictive covenants, the most significant of which are the maintenance of minimum debt service coverage, debt to capitalization and liquidity ratios, and restrictions as to the incurrence of additional indebtedness and transfers of assets.

Aggregate maturities of long-term obligations for the next five years are: $84,534 in 2008, $84,711 in 2009, $82,308 in 2010, $85,680 in 2011, and $88,709 in 2012.

Interest paid on all obligations was $99,265 and $90,231 in 2007 and 2006, respectively. Capitalized interest of $9,963 and $5,078 was recorded in 2007 and 2006, respectively.

(In Thousands)

6. Long-Term Obligations and Interest Rate Swaps (continued)

UPMC has entered into various interest rate swap agreements with total notional amounts of $661,291 and $445,935 at June 30, 2007 and 2006, respectively. During the term of these transactions, the fixed to floating rate swaps convert fixed rate debt to a variable rate; the total return swaps lower the fixed coupon on the underlying debt in exchange for the movement of value on the underlying debt; the floating to fixed rate swaps convert variable rate debt to a fixed rate and the basis swaps convert the underlying LIBOR based bonds to the Bond Market Association Municipal Swap Index. Under the floating rate and basis swaps, UPMC pays a rate equal to the Bond Market Association Municipal Swap Index ("BMA Index"), an index of seven-day, high-grade, tax-exempt variable rate demand obligations. The BMA Index rates ranged from 3.35% to 3.97% (average rate of 3.63%) in 2007 and from 1.97% to 3.97% (average rate of 2.97%) in 2006.

The following table summarizes UPMC's interest rate swap agreements:

Swap Type	Expiration Date	UPMC Receives	UPMC Pays	Notional Amount at June 30 2007	2006
Fixed to floating*	2008	5.65%	BMA Index	**$ 75,526**	$ 78,285
Fixed to floating*	2008	5.025%	BMA Index	**5,105**	5,105
Fixed to floating*	2008	5.275%	BMA Index	**24,455**	24,455
Floating to fixed	2025	68% one-month LIBOR	3.6%	**163,205**	168,090
Fixed to floating	2036	4.16%	BMA Index	**84,000**	85,000
Total return	2011	1.12%	0.0%	**84,000**	85,000
Equity index	2011	S&P 500 Total return	Three-month LIBOR plus six basis points	**50,000**	–
Basis	2021	67% three-month LIBOR plus .2077%	BMA Index	**53,905**	–
Basis	2037	67% three-month LIBOR plus .3217%	BMA Index	**46,095**	–
Total return	2011	4.85%	BMA Index	**75,000**	–
				$ 661,291	$ 445,935

*Meets Statement No. 133 hedge criteria

6. Long-Term Obligations and Interest Rate Swaps (continued)

After giving effect to the above derivative transactions, UPMC's variable rate debt was approximately 47% and 41% of the total debt outstanding as of June 30, 2007 and 2006, respectively.

7. Pension Plans

UPMC and its subsidiaries maintain defined benefit pension plans, defined contribution plans, and nonqualified pension plans that cover substantially all of UPMC's employees. Under the defined contribution plans, employees may elect to contribute a percentage of their salary, which is matched in accordance with the provisions of the plans. Contributions to the nonqualified pension plans are based on a percentage of salary or contractual arrangements. Total expense relating to the defined contribution and nonqualified plans was approximately $34,040 and $34,304 for the years ended June 30, 2007 and 2006, respectively.

Benefits under the defined benefit plans vary and are generally based upon the employee's earnings and years of participation. It is UPMC's policy to meet the requirements of the Employee Retirement Income Security Act of 1974 ("ERISA") and the Pension Protection Act of 2006. UPMC's policy is to contribute amounts sufficient to, among other things, avoid Pension Benefit Guaranty Corporation variable premiums. Contributions made to the defined benefit plans were $13,475 and $72,674 for the years ended June 30, 2007 and 2006, respectively. Management anticipates making contributions to the defined benefit plans of $42,151 during the year ended June 30, 2008.

On June 30, 2007, UPMC adopted the recognition and disclosure provisions of Statement 158. Statement 158 requires UPMC to recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligation) of its pension plan in the June 30, 2007 consolidated balance sheet, with a corresponding adjustment to unrestricted net assets. The adjustment to unrestricted net assets at adoption represents the net unrecognized actuarial losses, unrecognized prior service credits and unrecognized transition assets remaining from the initial adoption of Statement 87, all of which were previously netted against the plan's funded status in UPMC's consolidated balance sheet pursuant to the provisions of Statement 87. These amounts will be subsequently recognized as net periodic pension cost pursuant to UPMC's historical accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic pension cost in the same periods will be recognized as other changes in unrestricted net assets. Those amounts will be subsequently recognized as a component of net periodic pension cost on the same basis as the amounts recognized in unrestricted net assets at adoption of Statement 158.

(In Thousands)

7. Pension Plans (continued)

The incremental effects of adopting the provisions of Statement 158 on UPMC's balance sheet at June 30, 2007, are presented in the following table. The adoption of Statement 158 had no effect on UPMC's consolidated excess of revenues over expenses for the year ended June 30, 2007, or for any prior period presented, and it will not affect UPMC's operating results in future periods. The effect of the decrease in the additional minimum pension liability is included in the table below in the column labeled "Prior to Adopting Statement 158."

	Prior to Adopting Statement 158	**Effect of Adopting Statement 158**	**As Reported at June 30, 2007**
Accrued pension liability	$ (14,870)	$ (7,861)	$ (22,731)
Prepaid pension asset	7,551	(1,076)	6,475
Unrestricted net assets	46,688	8,937	55,625

Included in unrestricted net assets at June 30, 2007, are the following amounts that have not yet been recognized in net periodic pension cost: unrecognized transition asset of $96, unrecognized prior service credit of $29,779, and unrecognized actuarial losses of $85,500. The transition asset, prior service credit, and actuarial loss, included in unrestricted net assets and expected to be recognized in net periodic pension cost during the fiscal year ending June 30, 2008, are $33, $5,564 and $1,572, respectively.

The table below sets forth the accumulated benefit obligation, the change in the plan assets, and projected benefit obligation of the defined benefit pension plans. The table also reflects the funded status of the plans as well as recognized and unrecognized amounts in the consolidated balance sheets.

(In Thousands)

7. Pension Plans (continued)

	June 30 2007	June 30 2006
Accumulated benefit obligation	**$ 737,123**	$ 675,714
Change in projected benefit obligation		
Projected benefit obligation at beginning of year	**$ 681,566**	$ 744,582
Projected benefit obligation assumed in connection with consolidation of certain business units	**–**	6,929
Service cost	**40,360**	30,907
Interest cost	**41,276**	37,482
Plan amendments	**–**	(2,588)
Actuarial loss (gain)	**24,863**	(76,851)
Curtailment gain	**–**	(1,299)
Benefits paid	**(43,080)**	(57,596)
Projected benefit obligation at end of year	**744,985**	681,566
Change in plan assets		
Fair value of plan assets at beginning of year	**628,913**	551,838
Fair value of plan assets assumed in connection with consolidation of certain business units	**–**	1,782
Effect of plan mergers	**–**	284
Actual return on plan assets	**129,421**	59,931
Employer contributions	**13,475**	72,674
Benefits paid	**(43,080)**	(57,596)
Fair value of plan assets at end of year	**728,729**	628,913
Funded status	**(16,256)**	(52,653)
Unrecognized transition asset	**–**	(129)
Unrecognized prior service credit	**–**	(35,309)
Unrecognized actuarial loss	**–**	148,745
Recognition of additional minimum pension liability	**–**	(110,706)
Accrued pension costs	**$ (16,256)**	$ (50,052)

(In Thousands)

7. Pension Plans (continued)

The underfunded status of the defined benefit plans of $16,256 at June 30, 2007, is recognized in the accompanying consolidated balance sheets as other long-term liabilities. No plan assets are expected to be returned to UPMC during the year ending June 30, 2008.

Additional information related to the funded status of the defined benefit plans is as follows:

	Plan in Overfunded Position	Plans in Underfunded Position	Total
Projected benefit obligation	$ 47,911	$ 697,074	$ 744,985
Fair value of plan assets	54,387	674,342	728,729

Amounts recognized in the consolidated balance sheet at June 30, 2006, consist of:

Prepaid benefit cost	$ 60,654
Recognition of additional minimum pension liability	(110,706)
Accrued pension costs	$ (50,052)

The components of net periodic benefit cost for defined benefit pension plans were as follows:

	Year Ended June 30	
	2007	**2006**
Service cost	**$ 40,360**	$ 30,907
Interest cost	**41,276**	37,482
Expected return on plan assets	**(48,236)**	(43,550)
Recognized net actuarial loss	**7,465**	14,896
Amortization of prior service credit	**(5,529)**	(5,556)
Amortization of transition asset	**(33)**	(33)
Curtailment gain	–	(1,192)
Settlement gain	–	(716)
Net periodic benefit cost	**$ 35,303**	$ 32,238

(In Thousands)

7. Pension Plans (continued)

The actuarial assumptions used to determine the benefit obligations and net periodic pension cost for the defined benefit pension plans are as follows:

	June 30	
	2007	**2006**
Discount rates:		
Used for benefit obligations	**6.25%**	6.40%
Used for net periodic pension cost	**6.40%**	5.25%
Expected rate of compensation increase:		
Used for benefit obligations	**3.75%**	3.75%
Used for net periodic pension cost	**3.75%**	3.75%
Expected long-term rate of return on plan assets	**8.00%**	8.00%

The change in discount rate from 6.40% to 6.25% increased the projected benefit obligation by $8,600.

UPMC employs a risk premium approach in determining the expected long-term rate of return on plan assets. Historical markets are studied and long-term historical relationships between equities and fixed income are consistent with the widely accepted capital market principle that assets with higher volatility should generate a greater return over the long run. Current market factors such as inflation and interest rates are evaluated before long-term capital market assumptions are determined. Peer data, historical returns, and correlations are reviewed to check for reasonability and appropriateness.

The following is a summary of the pension plan asset allocations at June 30, 2007 and 2006:

	2007	**2006**
Cash and cash equivalents	**1%**	6%
Corporate debt obligations	**1**	1
United States government obligations	**4**	1
Marketable equity securities	**51**	57
Mortgage and asset-backed securities and miscellaneous	**9**	8
Hedge fund limited partnerships	**15**	15
Private equity and REIT limited partnerships	**19**	12
Total	**100%**	100%

(In Thousands)

7. Pension Plans (continued)

UPMC employs a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of plan assets for a prudent level of risk. Risk tolerance is established through careful consideration of plan liabilities, plan funded status, and corporate financial condition. The investment portfolio contains a diversified blend of equity, fixed-income, and alternative investments. Equity investments are diversified across United States and non-United States corporate stocks, as well as growth, value, and small and large capitalizations. Other assets such as real estate, private equity, and hedge funds are used to enhance long-term returns while improving portfolio diversification. UPMC's external investment managers may use derivatives to gain market exposure in an efficient and timely manner. Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews, annual liability measurements, and periodic asset/liability studies.

The following is a summary of the target pension plan asset allocations:

Cash and cash equivalents	3%
Global fixed income	10
Marketable equity securities	48
Hedge fund limited partnerships	15
Private equity and REIT limited partnerships	24
Total	100%

As of June 30, 2007, UPMC employed 72 external investment managers to handle the investment of the assets in the pension portfolio. Of these, 16 managers manage equity investments, 3 manage fixed income investments, and 53 managers oversee alternative investment strategies. The largest allocation to any alternative investment manager is $16,000.

The following pension benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the years ended June 30:

2008	$ 71,101
2009	67,819
2010	71,694
2011	73,831
2012	76,458
2013–2017	415,597

8. Professional and General Liability Insurance

UPMC is insured for professional and general liability losses through wholly owned, multiprovider insurance companies (“Captives”). The Captives provide primary and excess coverage on an occurrence basis to UPMC subsidiaries and excess coverage on a claims-made basis to employed physicians of UPMC subsidiaries and other entities not included in the consolidated financial statements.

Certain insurance agreements have retrospective clauses that permit additional premiums or refunds to be made based on actual experience. Reserves for professional and general liability losses and loss adjustment expenses are determined using individual case-based evaluations and statistical analyses and represent an estimate of reported claims and claims incurred but not reported. Those estimates are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management believes that the reserves for professional and general liability losses and loss adjustment expenses are reasonable. The estimates are reviewed and adjusted as necessary as experience develops or new information becomes known. Such adjustments are included in current operations. Reserves for professional and general liability losses and loss adjustment expenses of approximately $141,300 and $136,400 discounted at 4.75% and 4.25%, respectively, were recorded as of June 30, 2007 and 2006, respectively. Approximately $40,000 and $37,300 of the loss reserves are included in current accrued insurance reserves and approximately $101,300 and $99,100 are reported as accrued long-term insurance reserves at June 30, 2007 and 2006, respectively.

The Medical Care Availability and Reduction of Error (“MCARE”) Act was enacted by the legislature of the Commonwealth of Pennsylvania (“Commonwealth”) in 2002. This Act created the MCARE Fund, which replaced The Pennsylvania Medical Professional Liability Catastrophe Loss Fund (the “Medical CAT Fund”), as the agency for the Commonwealth to facilitate the payment of medical malpractice claims exceeding the primary layer of professional liability insurance carried by UPMC and other health care providers practicing in the Commonwealth.

The MCARE Fund is funded on a “pay as you go basis” and assesses health care providers, based on a percentage of the rates established by the Joint Underwriting Association (also a Commonwealth agency) for basic coverage. The MCARE Act provides for the gradual phase-out of the MCARE Fund coverage. The phase-out of the MCARE Fund will occur subsequent to 2009 because of recent actions by the PA Insurance Commissioner to defer the interim phase-out in MCARE limits from $500,000 to $250,000 that was scheduled to take effect January 1, 2006.

9. Workers' Compensation Self-Insurance

UPMC is self-insured for workers' compensation losses up to a maximum limit of $1,000 per occurrence. Losses incurred over this limit are covered by a supplemental catastrophic policy up to specified limits with a commercial insurer. Estimated accruals for workers' compensation were $21,900 and $22,400 discounted at 4.50% as of June 30, 2007 and 2006, respectively.

10. Related-Party Transactions

UPMC purchases and sells certain services from and to the University. The most significant payment to the University is for physician services whereby the University, acting as a common paymaster, invoices UPMC for the clinical services rendered by certain faculty and medical residents. Payments to the University related to physician services amounted to $147,000 and $169,000 for the years ended June 30, 2007 and 2006, respectively.

UPMC provides financial support to the University to sustain the research and academic medical enterprise of the University. Payments to the University related to research and academic support amounted to $84,000 and $68,000 for the years ended June 30, 2007 and 2006, respectively.

UPMC has various facility rental agreements with the University. UPMC received rent income of approximately $15,000 and $13,000 and incurred rent expense of approximately $11,000 and $9,000 related to rental arrangements with the University for the years ended June 30, 2007 and 2006, respectively, which are also included in Note 11.

The University subcontracts with UPMC to perform research activity. Payments from the University related to research activity approximated $44,000 and $45,000 for the years ended June 30, 2007 and 2006, respectively.

UPMC has equity investments in entities that sell and purchase various patient care related services to and from UPMC. Payments to equity investment entities approximated $61,000 and $62,000 for the years ended June 30, 2007 and 2006, respectively. Revenues from equity investment entities approximated $59,000 and $54,000 for the years ended June 30, 2007 and 2006, respectively.

Receivables and payables are settled with affiliated entities in the normal course of business. Other receivables include approximately $23,000 and $21,000 as of June 30, 2007 and 2006, respectively, relating to amounts due from affiliates in connection with these transactions.

(In Thousands)

11. Operating Leases and Other Long-Term Agreements

UPMC has entered into certain long-term agreements with respect to facilities, equipment, and services with affiliated and other entities. The terms of the agreements generally range from 1 to 25 years with renewal options up to 15 years. Total expense under these agreements was approximately $98,900 and $83,800 for the years ended June 30, 2007 and 2006, respectively, for all long-term agreements.

Future payments under noncancelable long-term agreements for the next five years approximate $67,400 in 2008, $58,900 in 2009, $52,900 in 2010, $47,700 in 2011, $31,600 in 2012, and $76,451 thereafter. Approximately 26% of total future payments are subject to adjustment based upon inflation or mutual negotiations. Approximately 25% of these payments are due to the University.

12. Income Taxes

As of June 30, 2007, the for-profit entities of UPMC had federal net operating loss ("NOL") carryforwards of approximately $264,900 (expiring in years 2011 through 2028) and state NOL carryforwards of approximately $98,400 (expiring in years 2008 through 2028) that are available to offset future taxable income. Utilization of the state NOL carryforwards in any one year is limited to $2,000 per year per company. During the year ended June 30, 2007, UPMC realized tax benefits of $14,600 from the use of NOL carryforwards. Net deferred tax assets, primarily relating to remaining NOL carryforwards of $105,200, are fully reserved because of the uncertainty of realizing these benefits in the future.

The following table presents deferred tax assets and liabilities as of June 30:

	2007	2006
Federal NOL	**$ 90,000**	$ 107,000
Accrued benefits	**6,000**	6,000
AMT credit carryover and other	**14,000**	4,000
Deferred liabilities	**(5,000)**	(7,000)
Net deferred tax assets	**105,000**	110,000
Less valuation allowance	**(105,000)**	(110,000)
	$ –	$ –

(In Thousands)

13. Functional Expenses

	Year Ended June 30	
	2007	**2006**
Hospital health care services, including health insurance costs	**$ 4,327,745**	$ 3,829,784
Other health care services	**882,291**	799,454
Academic and research activities	**264,295**	244,506
Administrative support	**683,424**	603,770
	$ 6,157,755	$ 5,477,514

14. Commitments

In December 2000, UPMC entered into a long-term agreement with a software vendor in connection with a systemwide technology initiative to improve the quality of patient care through the development of a real-time patient electronic health record providing for clinical documentation and order entry. Under the terms of the agreement, UPMC will receive the right to the license, installation, upgrade, and maintenance related to all current fixed fee software over a period of 12 years. As of June 30, 2007, there were future purchase commitments of approximately $1,000 related to the software license and installation rights contingent upon the achievement of contractual performance objectives and $19,000 related to software upgrades and maintenance payable in equal annual installments through fiscal year 2014.

In April 2005, UPMC entered into an eight-year, joint development agreement with IBM to transform UPMC's information technology infrastructure and to create new technology solutions. UPMC's technology infrastructure will be reengineered to an on-demand computing model that is geared toward innovation, yet adaptable and flexible to meet ongoing business needs and growth. In return of these products and services, UPMC contractually committed $317,000 over seven years, payable roughly in equal monthly installments. As of June 30, 2007, $225,000 of this commitment remained.

During 2007 and 2006, UPMC entered into various co-development agreements with various software and technology vendors and a local university to invest in the development of medical technologies and information systems to enhance health care delivery. The total amount committed is $95,000. As of June 30, 2007, $92,200 of this commitment remained unfulfilled.

14. Commitments (continued)

A Transfer Agreement was executed on May 25, 2007, that provides for the transfer of control of Mercy Hospital of Pittsburgh and its associated physician practice organizations (MHP) to UPMC. Upon the transaction's closing, the change in control will be accomplished by amending the Articles of Incorporation, Bylaws, and other governing documents of MHP as may be necessary to designate UPMC as the sole corporate member of MHP. Prior to closing the transaction, MHP will transfer $70,000 to Pittsburgh Mercy Health System. As a result of the change of control, UPMC will assume sole responsibility for substantially all liabilities and assets of MHP and will donate approximately $30,000 to the Pittsburgh Mercy Health System in equal amounts over a six-year period to support its ongoing mission.

The proposed transaction has received clearance by the Pennsylvania Attorney General and the Court of Common Pleas of Allegheny County, Orphans Court Division, and it remains subject to further regulatory clearances and approvals. Management believes that the necessary clearances and approvals will be obtained and anticipates closing this transaction by the end of December 2007.

15. Discontinued Operations

During 2005, UPMC completed the sale of substantially all of the business and assets of UPMC Lee Regional. UPMC Lee Regional is classified as a discontinued operation in the accompanying consolidated statements of operations and changes in net assets. Certain contingencies related to the sale were resolved during fiscal years 2007 and 2006. UPMC realized a gain of $3,832 and a loss of $2,197 from discontinued UPMC Lee Regional operations in 2007 and 2006, respectively.

16. Contingencies

UPMC is involved in litigation and responding to requests for information from governmental agencies occurring in the normal course of business. Certain of these matters are in the preliminary stages and legal counsel is unable to estimate the potential effect, if any, upon operations or financial condition of UPMC. Management believes that these matters will be resolved without material adverse effect on UPMC's financial position or results of operations. However, the ultimate outcome and effect on UPMC's financial statements is unknown.

16. Contingencies (continued)

During August 2007, UPMC received a request for information from the Civil Division of the Department of Justice relating to an investigation into the health insurance and hospital services market in and around Pittsburgh including any potentially anticompetitive agreements. This request covers several prior years. At this time, no specific violations, claims, or assessments have been made. Management is cooperating with the information requests and believes that the matter will be resolved without any material adverse effect on UPMC's financial position or results of operations. However, the ultimate outcome of this investigation, including the impact on UPMC, cannot be determined at this time.

17. Subsequent Event (Unaudited)

UPMC has approximately $470,600 of auction rate bonds outstanding as of June 30, 2007 which are included in long-term debt in the accompanying consolidated balance sheets. The interest rates determined through the auction process changed materially beginning in early February 2008, ranging from a low of 3.4% to a high of 17.23% and including one failed auction. UPMC expects to experience approximately $1,500 in increased interest costs related to this category of debt for all reset periods beginning after February 13, 2008 through end of March 2008. UPMC has used various methods to refinance or retire these auction rate bonds, including temporarily increasing its $300,000 line of credit to $650,000 to fund these efforts. UPMC expects that all of the auction rate bonds will be retired as of April 1, 2008.

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APPENDIX C

DEFINITIONS OF TERMS AND SUMMARIES OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS

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DEFINITIONS OF TERMS AND SUMMARIES OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS

THE FOLLOWING SUMMARIES ARE OF CERTAIN PROVISIONS OF THE 2007 MASTER INDENTURE, THE BOND INDENTURE AND THE AGREEMENT. THEY ARE NOT FULL STATEMENTS OF ANY OF THE DOCUMENTS AND REFERENCE SHOULD BE MADE TO THE DOCUMENTS THEMSELVES FOR ALL OF THEIR TERMS AND PROVISIONS. **THE PROVISIONS OF THE 1995 MASTER INDENTURE ARE NOT DESCRIBED HEREIN. BY PURCHASING THE 2008A BONDS, OWNERS OF THE 2008A BONDS CONSENT TO THE RELEASE AND DISCHARGE OF THE 1995 MTI NOTE AND THE 1995 MASTER INDENTURE. THE 1995 MASTER INDENTURE AND THE 1995 MTI NOTE MAY BE RELEASED WITHOUT NOTICE TO THE 2008A BONDHOLDERS, WHO SHOULD NOT RELY ON THE PROVISIONS OF THE 1995 MASTER INDENTURE AND THE 1995 MTI NOTE WHEN PURCHASING THE 2008A BONDS**.

DEFINITIONS OF CERTAIN TERMS

The following are certain terms used in the 2007 Master Indenture, the Indenture, the Agreement and/or the Official Statement.

"1995 Master Indenture" means the Master Trust Indenture dated as of December 1, 1995, as amended, between the Corporation and The Bank of New York Trust Company, N.A., as Master Trustee.

"**2007 Master Indenture**" means the Master Trust Indenture dated as of May 1, 2007 among UPMC, UPS, Magee, Passavant, USM and the 2007 Master Trustee, as it may from time to time be further amended or supplemented in accordance with the terms hereof.

"**2008A Notes**" means (a) the Series 2008A Notes issued by the Corporation under the 2007 Master Indenture, and (b) the 2008A Notes issued by the Corporation under the 1995 Master Indenture, each delivered to the Issuer and assigned to the Trustee to evidence its payment obligation under the Agreement with respect to the Bonds in an aggregate principal amount equal to the aggregate principal amount of the Bonds.

"**Administrative Fee**" means the annual fee for the general administrative services of the Issuer.

"**Affiliate**" for purposes of the 2007 Master Indenture, means a Person which is controlled directly or indirectly by a Member. For the purposes of this definition, control means with respect to: (a) a corporation having stock, the ownership of more than 50% of the securities the holders of which are entitled to elect a majority of the members of the Governing Body of such corporation; (b) a not for profit corporation not having stock, having the power to elect or appoint a majority of the members of the Governing Body of such corporation; or (c) any other entity, the power to direct the management of such entity through the ownership of at least a majority of its voting securities or the right to designate or elect at least a majority of the members of its Governing Body, by contract or otherwise.

"**Affiliated Group**" means the combined group of all Members and all Affiliates.

"**Agreement**" means the Loan Agreement dated as of March 1, 2008 between the Issuer and the Corporation entered into in connection with the Bonds.

"**Audited Financial Statements**" means the consolidated audited financial statements of UPMC, prepared in accordance with generally accepted accounting principles, which have been examined by an independent firm of certified public accountants appointed by UPMC. Upon written notice from the Obligated Group Agent to the 2007 Master Trustee, "Audited Financial Statements" shall include the separate audited financial statements of a Member whose financial statements are not included within the consolidated audited financial statements of UPMC.

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

"**Balloon Debt**" means Long Term Debt twenty-five percent (25%) or more of the original principal amount of which matures within a period of twelve (12) consecutive months, as designated by the Obligated Group Agent.

"**Board**" when used in connection with any Member, means its board of directors, board of trustees, board of governors or other board or group of individuals in which all of the powers of the Corporation or such other Member for the management of corporate assets are vested, including for such purposes any committee empowered under the governing instruments of the applicable entity to act in between meetings of the board thereof.

"**Bond**" or "**Bonds**" or "**2008A Bonds**" means one or more of the Allegheny County Hospital Development Authority, University of Pittsburgh Medical Center Revenue Bonds, Series 2008A.

"**Bond Counsel**" shall mean any attorney or firm of attorneys nationally recognized in rendering opinions for the benefit of bondholders on matters pertaining to the tax exempt nature of interest on obligations issued by states or their political subdivisions.

"**Bond Financing Documents**" means the Agreement, the Indenture, the Bonds, the 2008A Notes, the 1995 Master Indenture and the 2007 Master Indenture.

"**Bond Fund**" means the fund of that name created pursuant to the Indenture.

"**Bond Register**" means the registration books of the Issuer kept by the Trustee to evidence the registration and transfer of Bonds.

"**Bond Registrar**" means the Trustee, as keeper of the Bond Register.

"**Bond Year**" means that period commencing on the Closing Date of the Bonds through March 1, 2009 and, thereafter, the consecutive period of twelve months commencing on March 2, 2009 through the following March 1 or as otherwise selected by the Corporation.

"**Business Day**" means a day which is not a Saturday or Sunday or other day on which commercial banks in (1) Pittsburgh, Pennsylvania, (2) New York, New York, or (3) the city or cities in which the corporate trust office of the Trustee responsible for the administration of the Indenture are authorized or required by law or executive order to be closed.

"**Capitalized Interest**" means amounts irrevocably deposited in escrow to pay interest on Long Term Debt.

"**Closing Date**" means March 27, 2008, the date of delivery of the Bonds.

"**Code**" means the Internal Revenue Code of 1986, as amended from time to time. Each reference to a section of the Code shall be deemed to include the United States Treasury Regulations, including temporary regulations, relating to such section which are applicable to the Bonds or the use of the proceeds thereof.

"**Commonwealth**" means the Commonwealth of Pennsylvania.

"**Consultant**" means a consulting, financial advisory, accounting, insurance, investment banking or commercial banking firm selected by the Obligated Group Agent and not unacceptable to the 2007 Master Trustee, having the skill and experience necessary to render the particular report required and having a favorable reputation for such skill and experience, which firm does not control any Member or Affiliate and is not controlled by or under common control with any Member or an Affiliate.

"**Corporation**" means UPMC, a Pennsylvania nonprofit corporation, its successors or assigns.

"**Counsel**" means an attorney duly admitted to practice law before the highest court of any state and, without limitation, may include in-house legal counsel for any Member or the 2007 Master Trustee.

"**Days' Cash on Hand**" means the number determined as of any date by dividing (a) Unrestricted Cash by (B) the quotient of (i) operating expenses less bad debts, depreciation and amortization, divided by (ii) the number of days in the period under consideration.

"**Debt Service Coverage Ratio**" means, for each Fiscal Year, the ratio of Income Available for Debt Service to the Debt Service Requirements on Long Term Debt for such Fiscal Year.

"**Debt Service Requirements**" means, with respect to the period of time for which calculated, the aggregate of the payments required to be made during such period in respect of principal (whether at maturity or as a result of mandatory sinking fund redemption) and interest on Long Term Debt; less (a) any Capitalized Interest and (b) any payments to be made from an escrow account established for the purpose of paying such Long Term Debt.

"**Defaulted Interest**" means interest on any Bond which is payable but not duly paid on the date due.

"**Defeasance Obligations**" means the securities used to defease any MTI Debt under the Related Documents.

"**Derivative Contract**" means an interest rate swap, exchange, cap or other agreement between a Member and any other party for the purpose of managing interest rate, spread or similar exposure on Long Term Debt.

"**Electronic Means**" means telegram, telex, telecopier, electronic mail or other telecommunications or electronic telecommunications device capable of creating a written notice that is operative as between the parties and acceptable for use by them.

"**Event of Default**" means any event of default under the 2007 Master Indenture, as defined in the 2007 Master Indenture, and any event of default under the Indenture, as applicable.

“**Fiscal Year**” means any twelve-month period beginning on July 1 of any calendar year and ending on June 30 of the next calendar year or such other consecutive twelve month period designated from time to time in writing by the Obligated Group Agent to the 2007 Master Trustee.

“**Government Obligations**” shall mean the following:

A. direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America (“United State Treasury Obligations”),

B. obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America,

C. obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America, or

D. evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated.

“**Gross Revenues**” means “all revenues of the Obligated Group whether in the form of accounts receivables, contract rights or general intangibles, including income therefrom and all proceeds thereof, but excluding specifically restricted gifts, grants, pledges, bequests, donations, legacies and contributions (including income therefrom or proceeds from the sale thereof) made to a Member, to the extent that such property may not be pledged or applied to the payment of any Debt Service Requirements as a result of restrictions or designation imposed by the donor or maker of the gift, grant, pledge, bequest, donation, contribution or other sums in question.

“**Guaranty**” means any Obligation guaranteeing any debt of any other Person in any manner, whether directly or indirectly, including but not limited to obligations incurred through an agreement (i) to purchase such debt; (ii) to advance funds for the purchase or payment of such debt; or (iii) otherwise to assure the owner of such debt against loss in respect thereof.

“**Immediate Notice**” means notice by Electronic Means or telephone, to such address as the addressee shall have directed in writing, promptly followed (only in case of notice by telephone) by written notice by first class mail, postage prepaid.

“**Income Available for Debt Service**” means the excess of revenues over expenses as shown on the Audited Financial Statements, adjusted by the Obligated Group Agent in its reasonable judgment to exclude the effect of (i) depreciation and amortization, (ii) interest expense on Long Term Debt, (iii) any gain or loss resulting from either the extinguishment of indebtedness or the sale, exchange or other disposition of capital assets not in the ordinary course of business, (iv) the net proceeds of insurance (other than business interruption insurance) and condemnation awards; (v) any gains or losses resulting from changes in the fair value of Derivative Contracts; (vi) non-cash investment gains and losses, including any other than temporary impairment of or changes in fair value of investments; and (vii) non-cash items other than in the ordinary course of business. To the extent not included in the excess of revenues over expenses, Income Available for Debt Service shall include any realized investment gains and losses, including any adjustments required to reduce realized gains on previously impaired investments.

“**Indenture**” means the Trust Indenture dated as of March 1, 2008 between the Issuer and the Trustee pursuant to which the Bonds are being issued, as it may be supplemented or amended from time to time.

“**Independent Public Accountant**” means, for purposes of the 2007 Master Indenture, an Independent accounting firm which is appointed by the Corporation for the purpose of examining and reporting on or passing on questions relating to the financial statements of the Corporation, has all certifications necessary for the performance of such services and has a favorable reputation for skill and experience in performing similar services in respect of entities of a comparable size and nature.

“**Investment Securities**” means those investments selected by UPMC, including but not limited to Government Obligations, Federal Housing Administration debentures, certificates of deposits and other deposits, commercial paper, money market funds, State Obligations, repurchase agreements, investment contracts and such other investments as are determined by UPMC in accordance with its investment policy.

“**Lien**” means any mortgage, pledge of, security interest in or lien, charge, restriction or encumbrance on any Property to secure MTI Debt or Non-MTI Debt (other than from one Member or Affiliate to another Member or Affiliate).

"**Liquidity Ratio**" means, as of any date, the ratio of Unrestricted Cash to the Principal Balance of all Long Term Debt on such date.

"**Long Term Debt**" means all MTI Debt which is not Short Term Debt. Long Term Debt may be incurred in the form of Derivative Contracts, Balloon Debt, Put Debt, Subordinated Debt or Variable Rate Debt.

"**Loan**" means the loan to the Corporation by the Issuer, concurrently with the issuance of the Bonds, of the gross proceeds from the sale of the Bonds for the purpose of financing the Project.

"**Maturity**" when used with respect to any Bond means the date on which the principal of such Bond becomes due and payable, whether at Stated Maturity or by acceleration or redemption or otherwise.

"**Member**" or "**Member of the Obligated Group**" means, individually, UPMC, UPS, Magee, Passavant, USM and any Person who is hereafter designated in writing by the Obligated Group Agent to the 2007 Master Trustee as a Member of the Obligated Group and which has not terminated such status.

"**Moodys**" means Moodys Investors' Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns.

"**MTI Debt**" means all indebtedness for the repayment of borrowed money incurred or assumed pursuant to the provisions of the 2007 Master Indenture that is evidenced by an Obligation. MTI Debt may be issued in the form of Long Term Debt or Short Term Debt. MTI Debt shall not include indebtedness of one Member or Affiliate to another Member or Affiliate.

"**Net Proceeds**" means proceeds from insurance or condemnation awards received with respect to damage to or a taking by eminent domain of the Property of a Member, net of payment of all reasonable expenses (including attorney's fees, adjuster's fees and expenses of the Trustee).

"**Non-MTI Debt**" means all indebtedness for the repayment of borrowed money other than MTI Debt as shown on the Audited Financial Statements.

"**Note**" means any Note issued under the 2007 Master Indenture by a Member to evidence Indebtedness incurred pursuant to the terms of the 2007 Master Indenture.

"**Obligated Group**" means, collectively, UPMC, UPS, Magee, Passavant, USM and any other Person which has fulfilled the requirements for entry into the Obligated Group and which has not terminated such status.

"**Obligated Group Agent**" means UPMC or such other Member as may be designated from time to time pursuant to an Officer's Certificate of the then current Obligated Group Agent filed with the 2007 Master Trustee.

"**Obligation**" means any evidence of MTI Debt authorized to be issued by the Obligated Group Agent pursuant to the 2007 Master Indenture which has been authenticated by the 2007 Master Trustee.

"**Obligation holder**," "**holder**" or "**owner of the Obligation**" means the registered owner of any Obligation, as shown on the Obligation Register.

"**Obligation Register**" means the registry that sets forth, among other things, the ownership of each Obligation issued under the 2007 Master Indenture and the Principal Balance of each such Obligation, maintained by the 2007 Master Trustee.

"**Outstanding**" means **"Outstanding Obligations"** or **"Obligations Outstanding"** means all Obligations which have been duly authenticated and delivered by the 2007 Master Trustee under the 2007 Master Indenture, except:

(a) Obligations canceled because of payment at or prepayment or redemption prior to maturity;

(b) Obligations securing Related Bonds for the payment or redemption of which cash or Defeasance Obligations shall have been theretofore deposited with the Related Bond Trustee; provided that if such Related Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given or arrangements satisfactory to the Related Bond Trustee shall have been made therefor, or waiver of notice satisfactory in form to the Related Bond Trustee shall have been filed with the Related Bond Trustee;

(c) Obligations in lieu of which others have been authenticated; and

(d) For the purpose of all consents, approvals, waivers and notices required to be obtained or given under the 2007 Master Indenture, Obligations held or owned by a Member or by an Affiliate.

The Principal Balance of Obligations outstanding at any time shall be determined by reference to the Obligation Register, which, absent manifest error, shall be conclusive.

"Outstanding Related Bonds" means all Related Bonds which are deemed outstanding under the terms of the Related Bond Indenture.

"**Paying Agent**" means the commercial bank, national banking association or trust company, if any, designated pursuant to the Indenture to receive and disburse the principal of and interest on the Bonds.

"Permitted Encumbrances" means, as of any particular time, the Lien on Gross Revenues granted pursuant to the 2007 Master Indenture to secure Obligations; and:

(a) any Lien on Property acquired subject to an existing Lien, if at the time of such acquisition, the aggregate amount remaining unpaid on the debt secured thereby does not exceed the lesser of the acquisition price or the fair market value of the Property subject to such Lien, as determined by the Obligated Group Agent;

(b) any Lien on any Property of any Member or any Affiliate granted in favor of or securing debt to any other Member or any Affiliate;

(c) Liens on Property given, granted or bequeathed by the owner thereof existing at the time of such gift, grant or bequest, provided that such Liens attach solely to the Property (including the income therefrom) which is the subject of such gift, grant or bequest;

(d) Liens on proceeds of MTI Debt (or on income from the investment of such proceeds) that secure payment of such MTI Debt and any security interest in any rebate fund established pursuant to the Code, any depreciation reserve, debt service or interest reserve, debt service fund or any similar fund established pursuant to the terms of any Supplemental Master Indenture, Related Bond Indenture or Related Document in favor of the 2007 Master Trustee, a Related Bond Trustee, a Related Issuer, or the holder of the Obligation issued pursuant to such Supplemental Master Indenture, Related Bond Indenture or Related Document or the provider of any liquidity or credit support for such Related Bond or MTI Debt;

(e) Liens on Defeasance Obligations;

(f) Liens on accounts receivable arising as a result of the sale of such accounts receivable with or without recourse, provided that the principal amount of debt secured by such Lien does not exceed twenty percent (20%) of total accounts receivable as shown on the Audited Financial Statements;

(g) Liens on any Property of a Member in effect on the effective date of the 2007 Master Indenture, or existing at the time any Person becomes a Member;

(h) any Lien if, after giving effect to such Lien and all other Liens classified as Permitted Encumbrances pursuant to this paragraph (h), the total aggregate value of the Property secured by such Liens does not exceed ten percent (10%) of Total Assets; and

(i) any Lien on Property if such Lien equally and ratably secures all of the Obligations.

"Person" means any natural person, firm, joint venture, joint operating agreement, association, partnership, limited liability company, business trust, corporation, public body, agency or political subdivision thereof or any other similar entity.

"Principal Balance" means, as of any particular date, the principal amount of the MTI Debt or Non-MTI Debt under consideration that would be due and payable if such debt were accelerated or matured on such date.

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

"Property, Plant and Equipment" means all assets of the Obligated Group that are classified as property, plant and equipment on the Audited Financial Statements.

"Put Debt" means Long Term Debt which is payable or required to be purchased or redeemed from the owner by or on behalf of the underlying obligor (other than at the option of the owner) prior to its stated maturity date, other than pursuant to any mandatory sinking fund or other similar fund or other than by reason of acceleration upon the occurrence of an Event of Default.

"Quarterly Disclosure Report" means the report required to be delivered by the Obligated Group Agent to the 2007 Master Trustee.

"**Rating Agency**" means each nationally recognized securities rating agency, which at the time of issue of the Bonds includes Fitch Ratings, Moody's and S&P, and each such entities successors and assigns.

"Ratings Event" means the release by each Rating Agency of a long term credit rating with respect to UPMC that is lower than "A-" or "A3."

"**Record Date**" means any Regular Record Date or any Special Record Date.

“**Registered Owner**” with respect to any Bond shall mean the person in whose name any Bond is registered on the Bond Register.

“**Regular Record Date**” means the fifteenth calendar day of the month (whether or not a Business Day) preceding each Interest Payment Date with respect thereto.

“**Regulatory Body**” means any federal, state or local government, department, agency, authority or instrumentality and any other public or private organization, including accrediting bodies, having regulatory jurisdiction and authority over the Corporation or the facilities or operations of the Corporation.

“Related Bonds” means (i) any revenue bonds or similar obligations issued by any state, commonwealth or territory of the United States or any agency or instrumentality of any of the foregoing, the proceeds of which are loaned or otherwise made available to any Member or Affiliate in consideration of the delivery of an Obligation to or upon the order of such governmental issuer, and (ii) any bonds or other debt instruments issued by a Member, an Affiliate or any other Person in consideration of the delivery of an Obligation to the holder of such bonds.

“Related Bond Indenture” means any indenture or similar instrument pursuant to which any Related Bonds are issued.

“Related Bond Trustee” means any trustee under any Related Bond Indenture and any successor trustee under the 2007 Master Indenture.

“Related Document” means any agreement pursuant to which any proceeds of any Related Bonds are made available to or for the benefit of any Member or Affiliate or any other loan agreement or Derivative Contract entered into by a Member with respect to MTI Debt.

“Related Issuer” means any issuer of a series of Related Bonds.

“Short Term Debt” means MTI Debt having an original maturity that is less than or equal to one year.

“**Special Record Date**” means the date fixed by the Trustee pursuant to the Indenture for the payment of Defaulted Interest.

“Standard & Poors” means Standard & Poors Ratings Services, a division of McGraw-Hill Companies, Inc., its successors and assigns.

“**State Obligations**” which means:

(i) Direct general obligations of any state of the United States of America or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated “A3” by Moody’s and “A” by S&P, or better, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated.

(ii) Direct general short-term obligations of any state agency or subdivision or agency thereof described in (i) above and rated “A-1” by S&P and “MIG-1” by Moody’s.

(iii) Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state, state agency or subdivision described in (i) above and rated “AA” or better by S&P and “Aa” or better by Moody’s.

(i) Pre-refunded municipal obligations rated “AAA” by S&P and “Aaa” by Moody’s meeting the following requirements:

(ii) the municipal obligations are (A) not subject to redemption prior to maturity or (B) the trustee for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions;

(iii) the municipal obligations are secured by cash or United States Treasury Obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations;

(iv) the principal of and interest on the United States Treasury Obligations (plus any cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on the municipal obligations (“**Verification**”);

(v) the cash or United States Treasury Obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for owners of the municipal obligations;

(vi) no substitution of a United States Treasury Obligation shall be permitted except with another United States Treasury Obligation and upon delivery of a new Verification; and

(vii) the cash or United States Treasury Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent.

"**Stated Maturity Date**" means when used with respect to any Bond means the date specified in such Bond as the fixed date on which the principal of such Bonds is due and payable (unless pursuant to redemption or declaration of acceleration).

"Subordinated Debt" means any Long Term Debt incurred or assumed pursuant to the 2007 Master Indenture, the payment of which is by its terms specifically subordinated to payments on or with respect to other Long Term Debt.

"**Supplemental Indenture**" means an indenture supplemental to, and authorized and executed pursuant to terms of, the 2007 Master Indenture for the purpose of creating one or more series of Notes or a particular Guaranty issued under the 2007 Master Indenture.

"Supplemental Master Indenture" means an indenture amending or supplementing the 2007 Master Indenture entered into after the date hereof.

"Tax-Exempt Organization" means a Person organized under the laws of the United States of America or any state thereof which is an organization described in Section 501(c)(3) of the Code, which is exempt from federal income taxation under Section 501(a) of the Code, and which is not a "private foundation" within the meaning of Section 509(a) of the Code, or corresponding provisions of federal income tax laws from time to time in effect.

"**Tax Regulatory Certificate**" shall mean the certificate of such designation dated as of the Closing Date executed by the Issuer and the Corporation.

"Total Assets" shall mean Total Assets as shown on the Audited Financial Statements for the period in question.

"Transaction Test" means a determination that, after giving effect to the particular action or transaction in question, (i) the Affiliated Group will be able to satisfy the test for incurrence of one dollar of additional Long Term Debt, and (ii) the Debt Service Coverage Ratio for the most recently ended Fiscal Year, recalculated as if the action or transaction had occurred at the beginning of such Fiscal Year, either (A) was at least 2.5 to 1.0, or (B) is not reduced by more than twenty percent (20%).

"**Trust Estate**" means (i) the Agreement and all payments received or receivable, with respect to the Bonds, by the Issuer from the Corporation pursuant thereto (excluding Unassigned Rights); (ii) the 2008A Notes; (iii) all funds and accounts established and maintained under the Indenture other than the Rebate Fund, and all income and receipts received or receivable by the Trustee with respect to such funds and accounts (except with respect to the Rebate Fund); (iv) any and all other property of every kind and nature from time to time hereafter, by delivery or by writing of any kind, conveyed, pledged, assigned or transferred as and for additional security under the Indenture by the Issuer, the Corporation, or by anyone on their behalf to the Trustee, including without limitation moneys of the Corporation held by the Trustee in any of the funds and accounts established under the Indenture as security for the Bonds; provided, however, that there is expressly excepted and excluded from the lien and operation of the Indenture amounts held by the Trustee in the Rebate Fund.

"**Unassigned Rights**" means the fees and expenses payable to the Issuer under the Agreement, the Issuer's right to indemnification under the Agreement, and the Issuer's right to receive notices under the Indenture and the Agreement and the Issuer's right to execute and deliver supplements and amendments to the Agreement.

"Unrestricted Cash" means the sum of cash, securities and investments, including, without limitation, investments in mutual funds and limited partnerships as shown on the Audited Financial Statements, minus (i) trustee-held funds derived from or for the payment of indebtedness, including, without limitation, debt service, reserve and construction funds, and (ii) amounts required to be set aside by donor restriction, contractual agreement or by law or regulation to meet a specific obligation or potential obligation of any Member or Affiliate, including malpractice exposure, self-insurance or "captive" insurer commitments, and pension or retirement fund payments.

"UPMC" means UPMC, a Pennsylvania nonprofit corporation, and its successors and assigns and any surviving, resulting or transferee corporation.

"Variable Rate Debt" means any Long Term Debt, the rate of interest on which is subject to change prior to maturity.

"**Written Request**" with reference to the Issuer means a request in writing signed by an Authorized Officer of the Issuer and with reference to the Corporation means a request in writing signed by an Authorized Officer of the Corporation.

Any calculations required to be made pursuant to the 2007 Master Indenture, shall be made on the basis of the Audited Financial Statements, together with any notes thereto. All accounting terms not specifically defined herein shall be construed in accordance with generally accepted accounting principles consistently applied, except as otherwise stated herein.

If any change in accounting principles from those used in the preparation of the Audited Financial Statements for the Fiscal Year ended June 30, 2007 results from the promulgation of rules, regulations, pronouncements and opinions by or required by the Financial Accounting Standards Board, American Institute of Certified Public Accountants or other authoritative bodies that determine generally accepted accounting principles (or successors thereto or agencies with similar functions) and such change results in a change in the accounting terms used in the 2007 Master Indenture, the accounting terms used herein shall be modified to reflect such change in accounting principles so that the criteria for evaluating financial condition shall be the same after such change as if such change had not been made. Any such modification shall be described in an Officer's Certificate of the Obligated Group Agent filed with the 2007 Master Trustee, which shall contain a certification to the effect that (i) such modifications are occasioned by such a change in accounting principles and (ii) such modifications will not have a materially adverse effect on the Obligation holders.

2007 MASTER INDENTURE

The following summarizes certain provisions of the 2007 Master Indenture but is not to be regarded as a full statement thereof, and reference should be made to the 2007 Master Indenture itself for all of the terms and provisions thereof.

Issuance of Obligations; Terms Thereof

Subject to the further conditions specified in the 2007 Master Indenture, the Corporation and each additional Member, if any, shall be permitted to issue one or more series of Obligations under the 2007 Master Indenture on which all Members of the Obligated Group will be jointly and severally liable. The number and aggregate principal amount of Obligations shall not be limited, except as provided in any Supplemental Indenture. Subject to the applicable provisions of the 2007 Master Indenture, all Obligations shall be issued upon and contain such maturities, payment terms, interest rate provisions, redemption or prepayment features and other provisions as shall be set forth in the 2007 Master Indenture or the Supplemental Indenture providing for the issuance of such Obligations.

Obligations may be issued under the 2007 Master Indenture to evidence any type of MTI Debt, including without limitation any MTI Debt in a form other than a promissory note. Any Derivative Contract may also be authenticated as an Obligation under the 2007 Master Indenture. Any Derivative Contract which is authenticated as an Obligation under the 2007 Master Indenture shall be equally and ratably secured under the 2007 Master Indenture with all other Obligations issued under the 2007 Master Indenture provided, however, that any Obligation issued in connection with a Derivative Contract shall be deemed to be an Outstanding Obligation under the 2007 Master Indenture solely for the purpose of being secured on a pro rata basis with other Obligations and receiving payment under the 2007 Master Indenture and shall not be entitled to exercise any rights under the 2007 Master Indenture.

Cross Guaranties; Security Therefor

Each Member, jointly and severally, unconditionally and irrevocably guarantees and promises to pay, any and all payments on any Obligations, according to the terms thereof, when due. If for any reason any payment required pursuant to the terms of any Obligation issued under the 2007 Master Indenture has not been timely paid by the Member which incurred such Obligation, all other Members shall be obligated to make such payment.

The 2008A Notes and all other Obligations issued under the 2007 Master Indenture are secured by a grant of a security interest in (i) the Gross Revenues of the Members and (ii) the Revenue Fund and all moneys and investments therein and all income derived from the investment thereof.

Upon the occurrence and continuance of an Event of Default under the 2007 Master Indenture, each Member covenants and agrees that it shall cause all of its Gross Revenues to be deposited into a special revenue account held by the 2007 Master Trustee separate and apart from all other funds. Gross Revenues so collected, to the extent not needed to pay the Obligations of the Obligated Group then due, shall be released to the Members for any purpose. Such Gross Revenues shall be collected only until such time as the 2007 Master Trustee shall have received an Officer's Certificate from the Obligated Group Agent that no Event of Default exists and that all arrearages on Obligations issued under the 2007 Master Indenture, if any, have been paid.

If no Event of Default shall have occurred and then be continuing, and so long as the Gross Revenues are not required to be deposited into a special revenue account pursuant to the provisions of this Section, each Member shall be permitted to commingle, transfer or make expenditures from or deposits of its Gross Revenues and the proceeds thereof.

Establishment of Revenue Fund

At the written direction of the Obligated Group Agent, the 2007 Master Trustee shall establish and maintain a Revenue Fund under the 2007 Master Indenture for the purpose of accumulating and paying amounts due on Outstanding Obligations; provided, however, that such deposit requirements shall be subject to credit as provided in the 2007 Master Indenture or the Supplemental Indenture under which the Obligations are issued (e.g., for payments made under Related

Financing Documents), and, if appropriate, with respect to any Note or any Guaranty for interest funded from the proceeds of such Note or the Indebtedness guaranteed pursuant to such Guaranty.

Supplemental Indenture Creating an Obligation

In addition to the 2008A Notes being issued by the Corporation under the terms of the 2007 Master Indenture, any Member and the 2007 Master Trustee may from time to time enter into a Supplemental Indenture in order to issue an Obligation under the 2007 Master Indenture. Such Supplemental Indenture shall, (i) with respect to Obligations created thereby, set forth the date thereof, and the date or dates on which principal of and premium, if any, and interest on such obligations shall be payable, and (ii) provide for the form of such Obligations and shall contain such other terms and provisions as shall not be inconsistent with the provisions of the 2007 Master Indenture.

Membership In and Withdrawal from the Obligated Group

Any Person may become a Member of the Obligated Group if:

(a) Such Person shall execute and deliver to the 2007 Master Trustee a Supplemental Master Indenture acceptable to the 2007 Master Trustee which shall also be executed by the 2007 Master Trustee and the Obligated Group Agent and contain the agreement of such Person (i) to become a Member of the Obligated Group and thereby to become subject to compliance with all provisions of the 2007 Master Indenture and (ii) unconditionally and irrevocably to jointly and severally make payments upon each Obligation at the times and in the amounts provided in each such Obligation; and

(b) The 2007 Master Trustee shall have received (i) an Officer's Certificate of the Obligated Group Agent which (A) confirms that no Event of Default has occurred and will be continuing after the addition of the new Member to the Obligated Group, (B) demonstrates that, immediately upon such Person becoming a Member of the Obligated Group, the Members would not, as a result of such transaction, be in default in the performance or observance of any covenant or condition to be performed or observed by them under the 2007 Master Indenture, and (C) demonstrates satisfaction of the Transaction Test; (ii) an opinion of Counsel to the effect that the instrument described in paragraph (a) above has been duly authorized, executed and delivered and constitutes a legal, valid and binding agreement of such Person, enforceable in accordance with its terms, subject to customary exceptions for bankruptcy, insolvency and other laws generally affecting enforcement of creditors rights and application of general principles of equity, and (iii) an opinion of Bond Counsel to the effect that, under then existing law, the consummation of such transaction will not adversely affect the validity of any Related Bond or any exemption from federal or state income taxation of interest payable on such Related Bond to which such Bond would otherwise be entitled.

Each successor, assignee, surviving, resulting or transferee of a Member must agree to become, and satisfy the above described conditions to becoming, a Member of the Obligated Group prior to any such succession, assignment or other change in such Member's status.

Each Member covenants that it will not take any action, corporate or otherwise, which would cause it or any successor thereto to cease to be a Member of the Obligated Group unless the Obligated Group Agent delivers an Officer's Certificate to the 2007 Master Trustee certifying that immediately after such cessation, (i) no Event of Default exists under the 2007 Master Indenture and (ii) the Transaction Test will be satisfied. Notwithstanding the foregoing, the Obligated Group covenants and agrees that neither UPMC or UPS shall be permitted to withdraw from, or cease to be a Member of, the Obligated Group while any Obligations are Outstanding.

Financial Covenants

(a) Each Member covenants and agrees to conduct its business, and to cause each Affiliate to conduct business, on a revenue producing basis and to charge fees and rates for its services that will provide funds sufficient to pay (i) all payments on MTI Debt, (ii) all payments on Non-MTI Debt, (iii) all expenses of operation, maintenance and repair of its Property, and (iv) all other payments required to be made by it under the 2007 Master Indenture. Each Member further covenants and agrees that it will, from time to time as often as necessary and to the extent permitted by law, revise its rates, fees and charges in such manner as may be necessary or proper to comply with the provisions of this Section.

(b) The Obligated Group covenants and agrees to maintain a Debt Service Coverage Ratio for each Fiscal Year equal to at least 1.1 to 1.0.

(c) The Obligated Group covenants and agrees to maintain a Liquidity Ratio as of the last day of each Fiscal Year equal to at least 0.5 to 1.0.

(d) The Obligated Group Agent shall calculate the Debt Service Coverage Ratio for each Fiscal Year and the Liquidity Ratio as of the last day of each Fiscal Year. Within 90 days of the end of each Fiscal Year, the Obligated Group Agent shall deliver to the 2007 Master Trustee an Officer's Certificate that demonstrates the calculation of the Debt Service Coverage Ratio and the Liquidity Ratio.

(e) (i) If the Debt Service Coverage Ratio is less than 1.10 to 1 for any Fiscal Year, and/or the Liquidity Ratio is less than 0.5 to 1.0 as of the last day of such Fiscal Year, the Obligated Group Agent shall, within 120 days of the end of such Fiscal Year, retain a Consultant to make recommendations with respect to the rates, fees, charges and operations of the Affiliated Group and the other factors affecting its financial condition in order to cause the Debt Service Coverage Ratio to be at least 1.10 to 1 and the Liquidity Ratio to be at least 0.5 to 1.0.

(ii) A copy of the Consultant's report and recommendations, if any, shall be filed with the Obligated Group Agent and the 2007 Master Trustee within 60 days of the date such Consultant is retained. The Obligated Group shall, as soon as possible, cause the Affiliated Group to revise such rates, fees, charges and operations in conformity with the recommendations of the Consultant and otherwise follow the recommendations of the Consultant to the extent permitted by law. If the Affiliated Group complies with the recommendations of the Consultant, the financial covenants in paragraphs (b) and (c) above shall be deemed to have been complied with, even if the Debt Service Coverage Ratio remains below 1.10 to 1.0 and the Liquidity Ratio remains below 0.5 to 1.0; provided, however, that failure to maintain a Debt Service Coverage Ratio for any Fiscal Year of at least 1.0 to 1.0 combined with a failure to maintain a Liquidity Ratio for any Fiscal Year of at least 0.5 to 1.0 shall constitute an Event of Default.

(f) Upon the occurrence of a Ratings Event, the Obligated Group shall be required to cause the Affiliated Group to maintain at least sixty (60) Days' Cash on Hand. Upon the occurrence of a Ratings Event, the Obligated Group Agent shall deliver to the 2007 Master Trustee a report certifying the number of Days' Cash on Hand as of the last day of the most recently ended Fiscal Year. If the number of Days' Cash on Hand so certified is less than sixty (60), the Obligated Group Agent shall retain a Consultant to make recommendations with respect to the operations of the Obligated Group in order to increase the number of Days' Cash on Hand to sixty (60) or more. If the Obligated Group follows the Consultant's recommendations, failure to maintain sixty (60) Days' Cash on Hand shall not be an Event of Default under the 2007 Master Indenture.

Merger, Consolidation, Sale or Conveyance

Each Member agrees that it will not merge into, or consolidate with, one or more Persons which are not Members, or allow one or more of such Persons to merge into it, or sell or convey all or substantially all of its Property to any Person who is not a Member, unless:

(i) Any successor to such Member (including without limitation any purchaser of all or substantially all the Property of such Member) shall execute and deliver to the 2007 Master Trustee an appropriate instrument, satisfactory to the 2007 Master Trustee, containing the agreement of such successor to assume, jointly and severally, the due and punctual payment of all Obligations according to their tenor and the due and punctual performance and observance of all the covenants and conditions of the 2007 Master Indenture to be kept and performed by such Member;

(ii) Immediately after such merger or consolidation, or such sale or conveyance, (A) no Member would be in default in the performance or observance of any covenant or condition of any Related Document or the 2007 Master Indenture as a result of such merger, and (B) the Affiliated Group would satisfy the Transaction Test; and

(iii) There shall be delivered to the 2007 Master Trustee an opinion of Bond Counsel to the effect that under then existing law the consummation of such merger, consolidation, sale or conveyance would not adversely affect the validity of any Related Bonds or the exemption otherwise available from federal or state income taxation of interest payable on any Related Bonds.

Financial Statements, Quarterly Disclosure

The Obligated Group Agent covenants to keep or cause to be kept proper books of records and accounts in which full, true and correct entries will be made of all dealings or transactions of or in relation to the business and affairs of the Affiliated Group in accordance with generally accepted accounting principles consistently applied except as may be disclosed in the notes to the Audited Financial Statements. The Obligated Group Agent will furnish to the 2007 Master Trustee:

(a) As soon as practicable after they are available, but in no event more than 150 days after the last day of each Fiscal Year, Audited Financial Statements for such Fiscal Year; and

(b) At the time of delivery of the Audited Financial Statements referred to in subsection (a) above, an Officers Certificate of the Obligated Group Agent, stating that the Obligated Group Agent has made a review of the activities of the Affiliated Group during the preceding Fiscal Year for the purpose of determining whether or not the Members have complied with all of the terms, provisions and conditions of the 2007 Master Indenture and that the Obligated Group has kept, observed, performed and fulfilled each and every covenant, provision and condition of the 2007 Master Indenture on its part to be performed and is not in default in the performance or observance of any of the terms, covenants, provisions or conditions hereof, or if any such Person shall be in default such certificate shall specify all such defaults and the nature thereof; and

(c) Within sixty (60) days of the end of each fiscal quarter within each Fiscal Year, a Quarterly Disclosure Report which shall include unaudited consolidated internal financial statements of UPMC for such quarter. The Obligated Group Agent shall calculate the Debt Service Coverage Ratio and the Liquidity Ratio for each fiscal quarter within each Fiscal Year and include such calculations as part of the Quarterly Disclosure Report, together with an Officer's Certificate certifying accuracy and compliance with the covenants contained in the 2007 Master Indenture.

Additional MTI Debt

No Member will incur, or permit an Affiliate to incur, any MTI Debt other than MTI Debt consisting of one or more of the following, which the Obligated Group Agent may, from time to time, designate or redesignate to any applicable classification permitted hereby:

(a) Long Term Debt if, prior to incurrence of the Long Term Debt, there is delivered to the 2007 Master Trustee an Officer's Certificate certifying that:

(i) the principal amount of Long Term Debt to be incurred at such time, when added to the aggregate Principal Balance of all other Long Term Debt theretofore issued pursuant to this clause (i), will not exceed five percent (5%) of Total Operating Revenues as shown on the Audited Financial Statements, and the Debt Service Coverage Ratio is at least 1.1 to 1.0; or

(ii) based on the most recently ended Fiscal Year for which Audited Financial Statements are available, the Debt Service Coverage Ratio, taking into account the aggregate Principal Balance of all Long Term Debt, and the proposed additional Long Term Debt as if it had been incurred at the beginning of such Fiscal Year, is not less than 1.0 to 1.0; or

(iii) an Officer's Certificate of the Obligated Group Agent certifying that (A) based on the Audited Financial Statements for the most recently ended Fiscal Year, the Debt Service Coverage Ratio is not less than 1.10 to 1.0, and (B) that the projected Debt Service Coverage Ratio for each of the next two full Fiscal Years following the incurrence of such Long Term Debt or, in the case of the incurrence of Long Term Debt for capital improvements, following the completion of the facilities being financed, taking the proposed additional Long Term Debt into account, is not less than 1.25 to 1.0; or

(iv) in the case of Long Term Debt incurred for the purpose of refunding any Long Term Debt, the Obligated Group Agent shall deliver to the 2007 Master Trustee an opinion of Counsel stating that (A) the incurrence of the Long Term Debt has been duly authorized, (B) the applicable requirements for its issuance have been satisfied, and (C) upon the incurrence of such proposed Long Term Debt and application of the proceeds thereof, the Outstanding Long Term Debt to be refunded thereby will no longer be Outstanding.

(b) Short Term Debt, provided that immediately after the incurrence of such MTI Debt the aggregate Principal Balance of all such Short Term Debt does not exceed twenty percent (20%) of Total Operating Revenues as shown on the Audited Financial Statements, and provided further that for a period of at least seven (7) consecutive days in each Fiscal Year, the Principal Balance of all Short Term Debt shall not exceed five percent (5%) of such Total Operating Revenues.

Notwithstanding the foregoing, if an Event of Default has occurred and is continuing, the Obligated Group shall not incur any MTI Debt other than for refunding purposes.

Subordinated Debt and Non-MTI

(a) Subordinated Debt may be incurred by Members and Affiliates without limitation.

(b) Non-MTI Debt may be incurred by Members and Affiliates without limitation, provided however, that the aggregate Principal Balance of Non-MTI Debt at any one time may not exceed the greater of (i) twenty five percent (25%) of the aggregate Principal Balance of all then Outstanding Obligations, or (ii) two hundred fifty million dollars ($250,000,000).

Computation of Debt Service on Certain Instruments:

(a) Debt Service on Balloon Debt and Put Debt. For purposes of the computation of Debt Service Requirements, whether historic or projected, the following provisions shall apply to Balloon Debt and Put Debt:

(i) the debt service on such Balloon Debt or Put Debt shall be assumed to be substantially level over a term of twenty (20) years from the date of incurrence, at an assumed interest rate based on the last-published "30-year Revenue Bond Index" published by The Bond Buyer immediately preceding the date of calculation; or

(ii) the principal of such Balloon Debt or Put Debt is amortized during the term to the stated maturity thereof by deposits made to a sinking fund with a sinking fund schedule established by resolution of the Board of the Obligated Group Agent adopted at or subsequent to the time of incurrence of such Long Term Debt, as certified in an Officer's Certificate of the Obligated Group Agent, provided, that at the time of such calculation, all deposits required to have been made prior to such date shall have been made; or

(iii) with respect to Balloon or Put Debt for which there exists a credit facility, the principal of such Balloon or Put Debt is due and payable in the amounts and at the times specified in such credit facility.

(b) Debt Service on Guaranties. Debt Service Requirements on Long Term Debt in the form of a Guaranty shall be determined to be an amount equal to 20% of the debt service on the indebtedness being guaranteed; provided, however, that if a Member makes any payment under a Guaranty, the Debt Service Requirements thereon for the Fiscal Year in which the payment is made and each of the next two succeeding Fiscal Years shall be deemed equal to 100% of the Debt Service Requirements on the indebtedness or portion thereof guaranteed.

(c) Debt Service on Variable Rate Debt. Projected (but not historic) Debt Service Requirements on Variable Rate Debt shall be deemed to bear interest at a rate equal to the greater of (i) the average interest rate on such debt for the most recent 24 month period, provided, however, that if the debt has not been outstanding for 24 months, then the interest rate shall be the average rate for the most recent 12 months, or (ii) the average interest rate for the two month period prior to the date of calculation, as determined by an Officer's Certificate of the Obligated Group Agent. Historic Debt Service Requirements on Variable Rate Debt shall be calculated at the actual interest rates for the period under consideration.

(d) Effect of Derivative Contract. For purposes of the computation of Debt Service Requirements, Long Term Debt with respect to which the Obligated Group has entered into a Derivative Contract shall include only the net amount payable by or to the Obligated Group under the 2007 Master Indenture.

Sale or Other Disposition of Property

Members may sell or otherwise dispose of their Property (herein referred to as a "**transfer**") as follows:

(a) Members may transfer Property at any time without limitation if the aggregate value of the Property being transferred in any Fiscal Year does not exceed ten percent (10%) of Total Assets in such Fiscal Year.

(b) Members may transfer Property that is valued in excess of ten percent (10%) of Total Assets in any Fiscal Year if the transfer:

(i) is to another Member or to an Affiliate; or

(ii) is in the ordinary course of business and made in an arms length transaction for fair market value as certified in an Officer's Certificate of the Obligated Group Agent, provided however, that if the aggregate value of all Property being transferred in any Fiscal Year exceeds thirty percent (30%) of Total Assets, then the Obligated Group Agent shall also be required to deliver a fairness opinion to the 2007 Master Trustee from an independent Consultant that confirms that the transfers are being made for fair market value; or

(iii) is in return for other Property of equal or greater value; or

(iv) is of Property, Plant or Equipment that is obsolete and no longer of use to the Member; or

(v) is to a third party as part of a permitted merger, consolidation, sale or conveyance; or

(vi) is of Property received by a Member or Affiliate as a restricted gift or grant, if the donor's restrictions on the use of such Property prevent the application thereof to payment of Debt Service Requirements or costs of operation; or

(vii) satisfies the Transaction Test.

(c) Notwithstanding the foregoing, no transfers or sales shall be permitted in any period during which an Event of Default has occurred and is continuing without the prior written consent of the holders of at least twenty-five percent (25%) of the aggregate principal amount of the Outstanding Obligations.

Liens on Property

No Member may create, incur, or permit to be created, incurred or to exist, any Lien on any Property except for Permitted Encumbrances.

Events of Default

Each of the following events is an "Event of Default" under the 2007 Master Indenture:

(a) failure of the Obligated Group to pay any installment of interest, principal, or any premium, on any Obligation when the same shall become due and payable, whether at maturity, upon any date fixed for prepayment or by acceleration or otherwise; or

(b) failure of any Member to comply with, observe or perform any other covenants, conditions, agreements or provisions hereof and to remedy such default within 90 days after written notice thereof to such Member and the Obligated Group Agent from the 2007 Master Trustee or the holders of at least 25% in aggregate principal amount of the Outstanding Obligations; provided, that if such default cannot with due diligence be wholly cured within 90 days but can be wholly cured, the failure of the Member to remedy such default within such 90-day period shall not constitute a default under the 2007 Master Indenture if the Member shall immediately upon receipt of such notice commence with due diligence and dispatch the curing of such default and shall thereafter prosecute and complete the same within 180 days; or

(c) any representation or warranty made by any Member in the 2007 Master Indenture or in any Supplemental Master Indenture or in any statement or certificate furnished to the 2007 Master Trustee or the Holder of any Obligation in connection with the delivery of any Obligation or furnished by any Member proves untrue in any material respect as of the date of the issuance or making thereof and shall not be corrected or brought into compliance within 90 days after written notice thereof to the Obligated Group Agent by the 2007 Master Trustee or the holders of at least 25% in aggregate principal amount of the Outstanding Obligations; or

(d) any judgment, writ or warrant of attachment or of any similar process shall be entered or filed against any Member or against any Property of any Member and remains unvacated, unpaid, unbonded, unstayed or uncontested in good faith for a period of 90 days; provided, however, that none of the foregoing shall constitute an Event of Default unless the amount of such judgment, writ, warrant of attachment or similar process, together with the amount of all other such judgments, writs, warrants or similar processes so unvacated, unpaid, unbonded, unstayed or uncontested, exceeds 10% of Total Assets; or

(e) any Member shall default in the payment of any Non-MTI Debt in excess of $50,000,000, and any grace period with respect to such Non-MTI Debt shall have expired, or an event of default under the agreements under which such Non-MTI Debt in excess of $50,000,000 was incurred has occurred which results in such Non-MTI Debt becoming or being declared due and payable prior to the date on which it would otherwise become due and payable; provided, however, that such default shall not constitute an Event of Default if within the time allowed for service of a responsive pleading in any proceeding to enforce payment of the indebtedness under the laws governing such proceeding (i) such Member in good faith commences proceedings to contest the existence or payment of such Non-MTI Debt, or (ii) sufficient funds are escrowed with an escrow agent for payment of such Non- MTI Debt; or

(f) any Member admits insolvency or bankruptcy or its inability to pay its debts as they mature, or makes an assignment for the benefit of creditors or applies for or consents to the appointment of a trustee, custodian or receiver for such Member, or for the major part of its Property; or

(g) a trustee, custodian or receiver is appointed for any Member or for the major part of its Property and is not discharged within 90 days after such appointment; or

(h) bankruptcy, dissolution, reorganization, arrangement, insolvency or liquidation proceedings, proceedings under Title 11 of the United States Code, as amended, or other proceedings for relief under any bankruptcy law or similar law for the relief of debtors are instituted by or against any Member, and if instituted against any Member, are allowed against such Member or are consented to or are not dismissed, stayed or otherwise nullified within 90 days after such institution.

Acceleration

If an Event of Default has occurred and is continuing, the 2007 Master Trustee may, and if requested by the holders of not less than 25% in aggregate principal amount of Outstanding Obligations, shall, by notice in writing delivered to the Obligated Group Agent, declare the entire Principal Balance of all Obligations then outstanding under the 2007 Master Indenture and the interest accrued thereon immediately due and payable, and the entire principal and such interest shall thereupon become immediately due and payable. The foregoing notwithstanding, if the Supplemental Master Indenture creating an Obligation includes a requirement that the consent of any credit enhancer, liquidity provider or any other Person be obtained prior to the acceleration of such Obligation, the 2007 Master Trustee may not accelerate such Obligation without the consent of such Person.

Remedies; Rights of Obligation Holders

Upon the occurrence of any Event of Default under the 2007 Master Indenture, the 2007 Master Trustee may pursue any available remedy including a suit, action or proceeding at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Obligations Outstanding under the 2007 Master Indenture and any other sums due under the 2007 Master Indenture and may collect such sums in the manner provided by law out of the Property of any Member wherever situated.

If an Event of Default shall have occurred, and if the holders of 25% or more in aggregate principal amount of Obligations Outstanding shall have requested (and upon the provision of indemnity satisfactory to the 2007 Master Trustee in its sole discretion), the 2007 Master Trustee shall be obligated to exercise such one or more of the rights and powers conferred by this Section 503 as the 2007 Master Trustee shall deem most expedient in the interests of the holders of Obligations; provided, however, that the 2007 Master Trustee shall have the right to decline to comply with any such request if the 2007 Master Trustee shall be advised by Counsel that the action requested may not lawfully be taken or the 2007 Master Trustee shall determine that such action would be unjustly prejudicial to the holders of Obligations not parties to such request.

No remedy conferred upon or reserved to the 2007 Master Trustee (or to the holders of Obligations) by the terms of the 2007 Master Indenture is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the 2007 Master Trustee or to the holders of Obligations now or hereafter existing at law or in equity.

No delay or omission to exercise any right or power accruing upon any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default, or acquiescence therein; and every such right and power may be exercised from time to time and as often as may be deemed expedient.

No waiver of any default or Event of Default under the 2007 Master Indenture, whether by the 2007 Master Trustee or by the holders of Obligations, shall extend to or shall affect any subsequent default or Event of Default or shall impair any rights or remedies consequent thereon.

Direction of Proceedings by Holders

The holders of a majority in aggregate principal amount of the Outstanding Obligations which have become due and payable in accordance with their terms, shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the 2007 Master Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the 2007 Master Indenture or for the appointment of a receiver or any other proceedings under the 2007 Master Indenture.

Appointment of Receivers

Upon the occurrence of an Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the 2007 Master Trustee and the holders of Obligations, the 2007 Master Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the rights and properties pledged under the 2007 Master Indenture and of the revenues, payments and profits thereof, pending such proceedings, with such powers as the court making such appointment shall confer.

Application of Moneys

All moneys received by the 2007 Master Trustee pursuant to any right given or action taken under the 2007 Master Indenture (except moneys held for the payment of Obligations called for prepayment or redemption which have become due and payable) shall, after payment of the related cost and expenses incurred or made by the 2007 Master Trustee, be applied as follows:

(a) Unless the principal of all the Obligations shall have become or shall have been declared due and payable, all such moneys shall be applied:

First: To pay the persons entitled thereto all installments of interest then due on the Obligations, in the order of the maturity of the installments of such interest, and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, to the persons entitled thereto, without any discrimination or privilege; and

Second: To pay the persons entitled thereto the unpaid principal and premium, if any, on the Obligations which shall have become due (other than Obligations called for redemption or payment for the payment of which moneys are held pursuant to the provisions of the 2007 Master Indenture), in the order of the scheduled dates of their payment, and, if the amount available shall not be sufficient to pay in full Obligations due on any particular date, then to the payment ratably, according to the amount of principal and premium due on such date, to the persons entitled thereto, without any discrimination or privilege.

(b) If the principal of all the Obligations shall have become due or shall have been declared due and payable, all such moneys shall be applied to the payment of the principal, premium, if any, and interest then due and unpaid upon the Obligations without preference or priority of principal, premium or interest over the others, or of any installment of interest over any other installment of interest, or of any Obligation over any other Obligation, ratably, according to the amounts due respectively for principal, premium and interest to the persons entitled thereto without any discrimination or privilege.

Rights and Remedies of Obligation Holders

No holder of any Obligation shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the 2007 Master Indenture or for the execution of any trust hereof or for the appointment of a receiver or any other remedy under the 2007 Master Indenture, unless an Event of Default has occurred and the holders of 25% or more in aggregate principal amount of the Obligations which have become due and payable in accordance with their terms or have been declared due and payable and have not been paid in full shall have made written request to the 2007 Master Trustee and shall have offered it reasonable opportunity either to proceed to exercise the powers granted or to institute such action, suit or proceeding in its own name, and shall have offered indemnity to the 2007 Master Trustee satisfactory to the 2007 Master Trustee in its sole discretion, and unless the 2007 Master Trustee shall thereafter fail or refuse to exercise the powers, or to institute such action, suit or proceeding in its own name; and such notification, request and offer of indemnity are hereby declared in every case at the option of the 2007 Master Trustee to be conditions precedent to the execution of the powers and trusts of the 2007 Master Indenture and to any action or cause of action for the enforcement of the 2007 Master Indenture, or for the appointment of a receiver or for any other remedy under the 2007 Master Indenture; it being understood and intended that no one or more holders of the Obligations shall have any right in any manner whatsoever to affect, disturb or prejudice the lien of the 2007 Master Indenture by its, his or their action or to enforce any right under the 2007 Master Indenture except in the manner herein provided, and that all proceedings at law or in equity shall be instituted, had and maintained for the equal benefit of the holders of all Obligations Outstanding. Nothing contained in the 2007 Master Indenture shall, however, affect or impair the right of any holder to enforce the payment of the principal of, premium, if any, and interest on any Obligation at and after the maturity thereof, or the obligation of the Members to pay the principal, premium, if any, and interest on each of the Obligations issued under the 2007 Master Indenture to the respective holders thereof at the time and place, from the source and in the manner in said Obligations expressed.

Termination of Proceedings

In case the 2007 Master Trustee shall have proceeded to enforce any right under the 2007 Master Indenture by the appointment of a receiver, or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the 2007 Master Trustee, then and in every case the Members and the 2007 Master Trustee shall, subject to any determination in such proceeding, be restored to their former positions and rights under the 2007 Master Indenture with respect to the Property pledged and assigned under the 2007 Master Indenture, and all rights, remedies and powers of the 2007 Master Trustee shall continue as if no such proceedings had been taken.

Waiver of Events of Default

If, at any time after the principal of all Obligations shall have been declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, any Member shall pay or shall deposit with the 2007 Master Trustee a sum sufficient to pay all matured installments of interest upon all such Obligations and the principal and premium, if any, of all such Obligations that shall have become due otherwise than by acceleration (with interest on overdue installments of interest and on such principal and premium, if any, at the rate borne by such Obligations to the date of such payment or deposit, to the extent permitted by law) and the expenses of the 2007 Master Trustee, and any and all Events of Default under the 2007 Master Indenture, other than the nonpayment of principal of and accrued interest on such Obligations that shall have become due by acceleration, shall have been remedied, then and in every such case the holders of a majority in aggregate principal amount of all then Outstanding Obligations, by written notice to the Obligated Group Agent and to the 2007 Master Trustee, may waive all Events of Default and rescind and annul such declaration and its consequences; but no such waiver or rescission and annulment shall extend to or affect any subsequent Event of Default, or shall impair any right consequent thereon.

Supplemental Master Indentures without Consent of Noteholders

The Obligated Group Agent and the Master Trustee may, without the consent of or notice to, any of the Obligation holders, amend or supplement the 2007 Master Indenture, for any one or more of the following purposes:

(a) To cure any ambiguity or defective provision in or omission from the 2007 Master Indenture in such manner as is not inconsistent with and does not impair the security of the 2007 Master Indenture or adversely affect the holder of any Obligation;

(b) To grant to or confer upon the Master Trustee for the benefit of the Obligation holders any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Obligation holders and the Master

Trustee, or either of them, to add to the covenants of the Members for the benefit of the Obligation holders or to surrender any right or power conferred hereunder upon any Member;

(c) To assign and pledge under the 2007 Master Indenture any additional revenues, properties or collateral;

(d) To evidence the succession of another entity to the agreements of a Member or the Master Trustee, or the successor of any thereof hereunder;

(e) To permit the qualification of the 2007 Master Indenture under the Trust Indenture Act of 1939, as then amended, or under any similar federal statute hereafter in effect or to permit the qualification of any Obligation for sale under the securities laws of any state of the United States;

(f) To provide for the issuance of Obligations;

(g) To reflect the addition to or withdrawal of a Member from the Obligated Group;

(h) To modify, eliminate or add to the provisions of the 2007 Master Indenture if the Master Trustee shall have received written confirmation from each Rating Agency that such change will not result in a withdrawal or reduction of its credit rating assigned to the Obligated Group Agent, or a report, opinion or certification of a Consultant to the effect that such change is consistent with then current industry standards; and

(i) To make any other change which does not materially adversely affect the holders of any of the Obligations and does not materially adversely affect the holders of any Related Bonds, including without limitation any modification, amendment or supplement to the 2007 Master Indenture or any indenture supplemental thereto in such a manner as to establish or maintain exemption of interest on any Related Bonds from federal income taxation under applicable provisions of the Code.

Modification of Master Indenture with Consent of Holders

The holders of not less than 51% in aggregate principal amount of the Obligations Outstanding at the time of the execution of such Supplemental Master Indenture or, if less than all of the Obligations are affected thereby, the holders of not less than 51% in aggregate principal amount of the Outstanding Obligations affected thereby, shall have the right to consent to and approve the execution by the Obligated Group Agent and the Master Trustee of such Supplemental Master Indentures as shall be deemed necessary and desirable by the Obligated Group Agent for the purpose of amending, adding to or rescinding any of the terms or provisions contained in the 2007 Master Indenture or in any Supplemental Master Indenture; provided, however, that nothing shall permit (a) an extension of the stated maturity or reduction in the principal amount of or reduction in the rate or extension of the time of paying of interest on or reduction of any premium payable on the redemption of, any Obligation, without the consent of the holder of such Obligation, (b) a reduction in the aggregate principal amount of Obligations the holders of which are required to consent to any such Supplemental Master Indenture, without the consent of the holders of all the Outstanding Obligations which would be affected by the action to be taken, or (c) modification of the rights, duties or immunities of the Master Trustee, without the written consent of the Master Trustee.

Satisfaction and Discharge of the 2007 Master Indenture

If the Members shall pay or provide for the payment of all Outstanding Obligations in any one or more of the following ways:

(a) by paying or causing to be paid the Principal Balance of, redemption premium, if any, and interest on all Outstanding Obligations, as and when the same become due and payable;

(b) by depositing with the Master Trustee, in trust, at or before maturity, moneys in an amount sufficient to pay or redeem (when redeemable) all Outstanding Obligations (including the payment of premium, if any, and interest payable on such Obligations to the maturity or redemption date thereof), provided that such moneys, if invested, shall be invested in such amount as will, together with the income or increment to accrue thereon, without consideration of any reinvestment thereof, be fully sufficient to pay or redeem (when redeemable) and discharge the indebtedness on all Obligations Outstanding at or before their respective maturity dates; or

(c) by delivering to the Master Trustee all Outstanding Obligations for cancellation;

and if the Obligated Group shall also pay or cause to be paid all other sums payable hereunder by the Obligated Group and, if any such Obligations are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given in accordance with the requirements of the 2007 Master Indenture or provisions satisfactory to the Master Trustee shall have been made for the giving of such notice, then and in that case, the 2007 Master Indenture and the estate and rights granted hereunder shall cease, determine, and become null and void. The satisfaction and discharge of the 2007 Master Indenture shall be without prejudice to the rights of the Master Trustee to charge and be reimbursed by the Obligated Group for any expenditures which it may thereafter incur in connection herewith. The foregoing notwithstanding, the liability of the Obligated Group in respect of the Obligations shall continue, but the holders thereof shall thereafter be entitled to payment only out of the moneys or Defeasance Obligations deposited with the Master Trustee.

THE BOND INDENTURE

The Bonds will be issued under the Indenture by and between the Issuer and the Trustee. The following summarizes certain provisions of the Indenture but is not to be regarded as a full statement thereof, and reference should be made to the Indenture itself for all of the terms and provisions thereof.

Pledge and Assignment

Under the Indenture the Issuer grants a security interest in the Trust Estate to the Trustee for the equal and pro rata benefit and security of each and every owner of the Bonds.

Disposition of Proceeds

The proceeds derived from the sale of the Bonds shall, at closing, be deposited into the Clearing Fund. Proceeds to be used to pay costs of issuance shall be paid directly from the Clearing Fund. Proceeds to be used to be used to retire outstanding indebtedness shall be transferred to the appropriate trustee or lender. Proceeds used to pay costs of the capital component of the Project shall be transferred to the Project Fund pending application and/or paid to the Corporation at closing to reimburse the Corporation for prior capital expenditures.

Bond Fund; Application Thereof

The Trustee shall deposit to the credit of the Bond Fund all installment payments payable pursuant to the Agreement, Net Proceeds received by the Trustee for the purpose of redeeming Bonds and any other amounts required or permitted to be deposited therein pursuant to the provisions of the Indenture. Moneys so deposited to the Bond Fund shall be applied as follows:

(a) to the payment of interest, when due, on all Outstanding Bonds, including any accrued interest due in connection with the issuance of, purchases of, or the redemption of Bonds;

(b) to the payment, when due, of the principal of Bonds then payable at Stated Maturity (but only upon surrender of such Bonds) or earlier redemption date, subject to reduction by the principal amount of Bonds of the same series and maturity purchased by the Corporation and surrendered to the Trustee for cancellation or purchased for cancellation by the Trustee pursuant to the provisions of the Indenture;

(c) during the 12 month period preceding each Stated Maturity or mandatory redemption date, the Trustee shall, at the Written Request of the Corporation and upon deposit of moneys by the Corporation for such purposes, purchase Bonds of the maturity becoming due on such Stated Maturity or mandatory redemption date from funds deposited to the Bond Fund for such purpose; provided, however, that such purchase shall not be made unless the purchase price does not exceed 100% of the principal amount of the Bonds to be purchased, plus accrued interest; and provided that upon the making of any transfer of moneys from the Bond Fund in connection with a proposed purchase or redemption of Bonds after such transfer, there shall be no deficiency in amounts required to be in the Bond Fund, taking into account the amounts then required to be paid or transferred therefrom for other purposes or reserve therein against such payments and transfers; and

(d) to the extent that the same has not otherwise been paid or provided for, the Administrative Fee shall be payable from the Bond Fund at the Written Request of the Corporation.

Project Fund; Application Thereof

The Trustee shall deposit to the credit of the Project Fund the amount of proceeds of the Bonds designated to pay the costs of the capital components of the Project ("Project Costs"). The Trustee shall pay Project Costs (or reimburse the Corporation for Project Costs previously paid by the Corporation) upon receipt of a properly completed requisition signed by the Corporation. Upon completion of the payment of all Project Costs, any amounts remaining in the Project Fund will be transferred to the Bond Fund.

Rebate Fund

An additional trust fund is to be created under the Indenture to be designated as the "Rebate Fund." The Trustee will make deposits to and withdrawals from the Rebate Fund in accordance with the Indenture and the Tax Regulatory Certificate so as to facilitate compliance with the rebate provisions of the Code. In the event that any rebatable excess investment earnings are generated, shortly after the end of the fifth Bond Year, every fifth year thereafter, and after the final retirement of the 2008A Bonds, the Trustee shall, upon the Written Request of the Corporation, pay to the United States the amount required to be rebated to the United States pursuant to the Code.

Investment or Deposit of Funds

All investments in the funds established under the Indenture shall constitute Investment Securities 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 invested are reasonably expected to be needed for the purposes of the Indenture. All investments shall be made at the Written Request of the Corporation or by a verbal request promptly confirmed by a Written Request. No investments shall be made which would cause the 2008A Bonds to become "arbitrage bonds" within the meaning of Section 148 of the Code and the applicable regulations promulgated thereunder. Interest, income and gains received in respect of the principal of the Investment Securities shall, with respect to all funds and amounts, be deposited to the credit of the Fund in which such Investment Securities are held.

Application of Property Insurance Proceeds and Condemnation Awards

The Corporation shall notify the Trustee and the Issuer of any damage to or any destruction or condemnation (or other similar taking or conveyance in lieu thereof) of any of the Corporation's Property valued in excess of 10% of Property, Plant and Equipment. Any insurance proceeds, condemnation awards (or other similar amounts) received in respect of such occurrence shall be applied at the option of the Corporation as follows:

(i) to the reconstruction, replacement or repair of the affected Property; provided that if such proceeds exceed the amount necessary for such reconstruction, replacement or repair, the excess shall be applied to the Extraordinary Redemption of the Bonds, and if such proceeds are insufficient to reconstruct, replace or repair the affected Property to its revenue-producing capability prior to such event, then the Corporation shall provide the balance necessary to reconstruct, replace or repair the Property; or

(ii) to the extent permitted under the redemption provisions of the Indenture, to the Extraordinary Redemption of the Bonds, in whole or in part.

Events of Default

Each of the following shall be an Event of Default under the Indenture:

(i) if payment of any installment of interest on any Bond is not made when it becomes due and payable; or

(ii) if payment of the principal or premium, if any, of any Bond is not made when it becomes due and payable at Maturity; or

(iii) if there is a default under the Agreement or any amendment or supplement thereto, and such default gives the Issuer the right to accelerate payments under the Agreement; or

(iv) if there is an event of default under the provisions of the 2007 Master Indenture.

Remedies, Acceleration and Annulment Thereof

Upon the occurrence of any Event of Default, the Trustee may pursue any available remedy including a suit at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Bonds Outstanding under the Indenture.

If any Event of Default has occurred and is continuing, the Trustee may, and at written request of the holders of 25% in principal amount of the Bonds then Outstanding, shall, by notice in writing to the Issuer, declare the principal of all Bonds then Outstanding to be immediately due and payable, and upon such declaration the said principal, together with interest accrued thereon, shall become due and payable immediately at the place of payment provided therein.

If after the principal of the Bonds has been so declared to be due and payable, all arrears of interest upon the Bonds (and interest on overdue installments of interest at the maximum rate permitted by law or 1% over the interest rate on the respective Bonds, whichever is lesser) are paid by the Issuer, and the Issuer also performs all other things in respect to which it may have been in default under the Indenture and pays the reasonable charges of the Trustee and the Bondholders, including reasonable attorney's fees, then, and in every such case, the Trustee may annul such declaration and its consequences and such annulment shall be binding upon the Trustee and upon all holders of Bonds issued under the Indenture; but no such annulment shall extend to or affect any subsequent default or impair any right or remedy consequent thereon.

Legal Proceedings by Trustee

If any Event of Default has occurred and is continuing, the Trustee in its discretion may, and upon the written request of the holders of 25% in principal amount of the Bonds then Outstanding and receipt of indemnity to its satisfaction shall in its own name:

(a) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Bondholders, including the right to require the Corporation to charge and collect rates, rentals and other charges adequate to carry out the terms of the Indenture and to require the Issuer to carry out any other agreements with, or for the benefit of, the Bondholders and to perform its duties under the Act;

(b) bring suit upon the Bonds;

(c) by action or suit in equity require the Issuer to account as if it were the trustee of an express trust for the Bondholders; and

(d) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Bondholders.

Bondholders May Direct Proceedings

The holders of a majority in principal amount of the Bonds then Outstanding under the Indenture shall have the right to direct the method and place of conducting all remedial proceedings by the Trustee under the Indenture, provided such written request shall not be otherwise than in accordance with law or the provisions of the Indenture, the Trustee shall have received indemnity to its satisfaction, and that the Trustee shall have the right to decline to follow any such written request which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not a party to such written request.

Limitations on Actions by Bondholders

No Bondholder shall have any right to pursue any remedy under the Indenture unless (a) the Trustee shall have been given written notice of an Event of Default, (b) the holders of at least 25% in principal amount of the Bonds then Outstanding shall have requested the Trustee, in writing, to exercise the powers hereinabove granted or to pursue such remedy in its or their name or names, (c) the Trustee shall have been offered indemnity satisfactory to it against costs, expenses and liabilities, and (d) the Trustee shall have failed to comply with such request within a reasonable time.

Application of Moneys in Event of Default

(a) All moneys received by the Trustee pursuant to any right given or action taken under the Indenture shall, after payment of the cost and expenses of the proceedings resulting in the collection of such moneys and of the expenses, liabilities and advances incurred or made by the Trustee, be deposited in the Bond Fund, and together with all moneys in the funds maintained by the Trustee under the Indenture shall be applied as follows:

(i) Unless the principal of all the Bonds shall have become or shall have been declared due and payable, all such moneys shall be applied:

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

Second: To the payment to the Persons entitled thereto of the unpaid principal of any of the Bonds which shall have become due (other than the Bonds called for redemption for the payment of which moneys are held pursuant to the other provisions of the Indenture), in the order of their due dates, and, if the amount available shall not be sufficient to pay in full the Bonds due on any particular date, then to the payment ratably, according to the amount of principal due on such date, to the Persons entitled thereto without any discrimination or privilege;

(ii) If the principal of all the Bonds shall have become due or shall have been declared due and payable, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon the Bonds, and then to eliminate any deficiency in the Rebate Fund, without preference or priority of principal over interest or of interest over principal or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or privilege; and

(iii) If the principal of all the Bonds 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) below in the event that the principal of all the Bonds shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions of this paragraph (a).

(b) Whenever moneys are to be applied by the Trustee pursuant to these provisions, such moneys shall be applied by it at such times, and from time to time, as the 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 Trustee shall apply such moneys, it shall fix the date (which shall be an Interest Payment Date unless it shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall give notice of the deposit with it of any such moneys and of the fixing of any such date and of the Special Record Date in accordance with the Indenture ten (10) days prior to the Special Record Date. The Trustee shall not be required to make payment to the holder of any unpaid Bond until such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

(c) Whenever all Bonds and interest thereon have been paid, all fees, expenses and charges of the Trustee have been paid and all other obligations of the Issuer and the Corporation hereunder have been satisfied, any balance remaining shall be paid to the Corporation.

Removal of Trustee

Any Trustee under the Indenture may be removed at any time by an instrument appointing a successor to the Trustee so removed, executed by the holders of a majority in principal amount of the Bonds then Outstanding and filed with the Trustee, the Corporation and the Issuer. If no Event of Default under the Agreement has occurred and is continuing, the Corporation may remove the Trustee and appoint a successor by an instrument filed with the Trustee and the Issuer.

Amendments and Supplements Without Bondholders' Consent

The Indenture may be amended or supplemented from time to time, without the written consent of the Bondholders, but with the prior written consent of the Corporation, by a supplemental indenture authorized by a Certified Resolution of the Issuer filed with the Trustee, for one or more of the following purposes:

(a) to add additional covenants of the Issuer or to surrender any right or power conferred upon the Issuer;

(b) to cure any ambiguity, to cure, correct or supplement any defective (whether because of any inconsistency with any other provision of the Indenture or otherwise) provision of the Indenture (which actions shall supersede any actions taken by the Trustee under the Indenture), or to make any other revision which shall not impair the security of the Indenture or materially adversely affect the Bondholders;

(c) to obtain, maintain or upgrade a rating on the Bonds; and

(d) to modify or supplement the Indenture in such manner as may be necessary or appropriate to qualify the Indenture under the Trust Indenture Act of 1939 as then amended, or under any similar federal statute hereafter enacted;

(e) to provide for the establishment of additional funds and accounts under the Indenture and for the proper administration of and transfers of moneys between any such funds and accounts; and

(f) To modify any of the provisions of the Indenture relating to the mechanics of keeping the Bonds immobilized in book-entry form.

Amendments With Bondholders' Consent

The Indenture may be amended from time to time by a supplemental indenture, with the prior written consent of the Issuer and the Owners of at least 51% in aggregate principal amount of the Bonds then Outstanding; provided, that (a) no amendment shall be made which affects the rights of some but less than all the Outstanding Bonds of any one series without the consent of the Owners of 51% of the Bonds so affected, and (b) no amendment which alters the interest rates on any Bonds, the maturities, interest payment dates (except as summarized in the immediately preceding paragraph) or redemption provisions of any Bonds, the provisions of the Indenture governing amendments to the Indenture or the security provisions may be made without the consent of the Owners of all Outstanding Bonds adversely affected thereby.

Amendments of the Agreement Not Requiring Consent of Bondholders

The Issuer and the Trustee shall, without the consent or notice to the Bondholders, consent to any amendment, change or modification of the Agreement as may be required or otherwise permitted (i) by the provisions of the Agreement or the Indenture, (ii) for the purpose of curing any ambiguity, defect, inconsistent provision or omission in the Agreement, or

(iii) in connection with any other change therein which, in the judgment of the Trustee and the Issuer, is not to the prejudice of the Trustee or the Owners of the Bonds.

Amendments of the Agreement Requiring Consent of Bondholders

Except for the amendments, changes or modifications detailed immediately above, neither the Issuer nor the Trustee shall consent to any other amendment, change or modification of the Agreement without the written approval or consent of the holders of not less than 51% in aggregate principal amount of the Bonds then Outstanding.

Amendments of the 1995 Master Indenture or the 2007 Master Indenture

In the event that the Trustee as the holder of the 2008A Notes is requested by the 1995 Master Trustee or the 2007 Master Trustee to consent to any amendment to the 1995 Master Indenture or the 2007 Master Indenture requiring the consent of the holders of Obligations under the 1995 Master Indenture or the 2007 Master Indenture, as applicable, the Trustee shall obtain the consent of the holders of not less than 51% in aggregate principal amount of the Bonds then Outstanding.

Defeasance

(a) When interest on, and principal or redemption price (as the case may be) of, all Bonds issued under the Indenture have been paid or there shall have been deposited with the Trustee an amount, evidenced by cash, non callable Government Obligations, or certain other investments permitted by the Indenture, the principal of and interest on which, when due, will provide sufficient moneys to fully pay the Bonds at the maturity date or date fixed for redemption thereof, as well as all other sums payable under the Indenture by the Issuer and by the Corporation, the right, title and interest of the Trustee shall thereupon cease and the Trustee, on demand of the Issuer, shall release the Indenture and shall execute such documents to evidence such release as may be reasonably required by the Issuer and shall turn over to the Issuer or to such Person as may be entitled to receive the same all balances remaining in any funds under the Indenture.

(b) Notwithstanding the foregoing provisions of paragraph (a) above, the lien of the Indenture shall not be released and discharged until the Trustee has received an Opinion of Counsel to the effect that all conditions precedent to such discharge have been satisfied and, in the event that provision has been made to pay all Bonds rather than having paid all Bonds, the Trustee receives a verification of the sufficiency of funds held to discharge Bonds from an Independent Public Accountant.

Deposit of Funds for Payment of Bonds

If the Issuer deposits with the Trustee moneys or Government Obligations sufficient to pay the principal or redemption price of any particular Bond or 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 Bond or Bonds shall cease to accrue on the due date and all liability of the Issuer with respect to such Bond or Bonds shall likewise cease. Thereafter such Bond or Bonds shall be deemed not to be Outstanding under the Indenture and the holder or holders of such Bond or Bonds shall be restricted exclusively to the funds so deposited for any claim of whatsoever nature with respect to such Bond or Bonds, and the Trustee shall hold such funds in trust for such holder or holders.

THE LOAN AGREEMENT

Under the Agreement, the Issuer will lend to the Corporation the gross proceeds from the sale of the Bonds to finance the Project and the Corporation will agree to make installment payments to the Issuer, which shall be assigned to the Trustee, at such times and in such amounts as are necessary to meet the payment obligations under the Bonds when the same become due. The following summarizes certain provisions of the Agreement, but is not to be regarded as a full statement of its terms, and reference should be made to the Agreement itself for all of the provisions thereof.

The Agreement will remain in effect until such time as all Outstanding Bonds and all other expenses payable by the Corporation under the Agreement have been paid or provision for such payment has been made as described under the heading “THE INDENTURE - Defeasance” in this Appendix C.

Time and Manner of Repayment

Under the Agreement, the Corporation agrees to make the following payments in the manner specified hereinafter:

Payments Equal to Interest. On or before each Interest Payment Date, an amount equal to the interest due on the Bonds on such Interest Payment Date.

Payments Equal to Principal. On or before each date on which payment of principal on the Bonds is required pursuant to the Indenture, an amount equal to the principal amount of the Bonds maturing by their terms on such date.

Payments Required to Effect Extraordinary Redemption. On or before the Business Day next preceding the date of redemption of any Bonds to be extraordinarily redeemed pursuant to the Indenture, an amount not less than the full amount required to pay the principal of and premium, if any, on such Bonds to be redeemed.

Rebate to the United States. If there is any amount required to be paid to the United States pursuant to Section 148(f) of the Code, the Indenture and the Agreement, the Corporation shall pay such amount to the Trustee for deposit to the Rebate Fund, which payment will be submitted to the United States.

Trustee's Fee. While the Bonds remain Outstanding, the reasonable compensation and expenses of the Trustee under the Indenture shall be paid directly to such Trustee by the Corporation upon the receipt by the Corporation of a bill for such services from the Trustee.

Issuer's Administrative Fee. While the Bonds remain Outstanding, an annual amount equal to the Administrative Fee of the Issuer in connection with the issuance of the Bonds shall be payable by the Corporation.

Payment Credits. To the extent that any payment required to be made pursuant to the provisions outlined above would cause the amount in the Bond Fund in the Indenture to exceed the amount required to be transferred by the Trustee from said Bond Fund pursuant to the provisions of the Indenture on or before the next succeeding payment date, the payment required by such provisions shall be reduced so that such excess will not occur. Payments received under the 2008A Notes shall be credited against payments required above.

The Corporation may make all or any part of any payment required with respect to the redemption of Bonds by delivering to the Trustee any Bond maturing, or subject to redemption (assuming notice in accordance with the Indenture has been timely delivered) on the maturity or redemption date immediately following the date of such delivery and having it credited at the face amount to the payment and canceled by the Trustee. In addition, the Corporation shall be entitled to a credit during the last year of maturity to the extent that any payment required to be made pursuant to the Agreement would, together with the amount held by the Trustee in all funds (other than the Rebate Fund) under the Indenture, exceed the principal amount of the Bonds Outstanding and the amount of the interest due both at the final maturity date and the interest payment date immediately preceding the final maturity date.

Prepayment. The Corporation may prepay all or a portion of the Loan to the same extent and upon the same conditions that the Issuer has the right to prepay or defease all or any portion of the Bonds in accordance with the Indenture. In addition, the Corporation shall notify the Issuer and the Trustee promptly of its receipt of any Net Proceeds which are to be applied to the redemption or prepayment of the Bonds pursuant to the Indenture. Any amount so applied shall in turn be deposited to the Bond Fund established under the Indenture and be used to make corresponding payments to effect the extraordinary redemption of the Bonds pursuant to the Indenture.

Insurance

The Corporation will maintain, or cause to be maintained, insurance covering such risks and in such amounts as is required by the 2007 Master Indenture.

Indemnification of Issuer and Trustee

The Corporation agrees that the Issuer and the members, officers and employees thereof shall not be liable for and the Corporation covenants and agrees to protect, exonerate, defend, indemnify and save the Issuer and the members, officers and employees thereof and the Trustee harmless from and against any and all costs, damages or liabilities which may arise out of the issuance of the Bonds, as set forth in the Agreement

Events of Default

The occurrence of any of the following shall constitute an Event of Default under the Agreement:

(a) Failure by the Corporation to make any payments described above under the caption "Time and Manner of Repayment" when due; or

(b) Failure by the Corporation to make any payment under the Agreement or in the performance of or compliance with any of the material provisions, warranties, covenants, agreements, terms or conditions contained in the Agreement, other than those specified in clause (a) above, which continues for thirty (30) days following written notice thereof to the Corporation from the Issuer or the Trustee except in the case of a default which cannot be cured within such thirty (30) days, in which case the period shall be extended for such period as is reasonable to cure the same with due diligence, provided the Corporation commences such performance or compliance within thirty (30) days and proceeds diligently to cure the same; or

(c) The occurrence of an Event of Default under the Indenture, the Bonds, the 1995 Master Indenture, the 2007 Master Indenture, or the 2008A Notes; or

(d) An order or decree shall be entered appointing a receiver, receivers, custodian or custodians for any of the revenues of the Corporation, or approving a petition filed against the Corporation seeking reorganization of the Corporation under the federal bankruptcy laws or any other similar law or statute of the United States of America or any state thereof, or if any such order or decree, having been entered without the consent or acquiescence of the Corporation, shall not be vacated or discharged or stayed on appeal within 120 days after the entry thereof; or

(e) Any proceeding shall be instituted, with the consent or acquiescence of the Corporation, or any plan shall be entered into by the Corporation, for the purpose of effecting a composition between the Corporation and its creditors or for the purpose of adjusting the claims of such creditors pursuant to any federal or Commonwealth statute now or hereafter enacted, if the claims of such creditors are under any circumstances payable from any part or all of the amounts payable by the Corporation under the Agreement; or

(f) The Corporation (i) files a petition in bankruptcy or under Title 11 of the United States Code, as amended, (ii) makes an assignment for the benefit of its creditors or (iii) consents to the appointment of a receiver, custodian or trustee for itself or for the whole or any part of the revenues of the Corporation from which the payments by the Corporation under the Agreement may be made; or

(g) If (i) the Corporation is adjudged insolvent by a court of competent jurisdiction, (ii) on a petition in bankruptcy filed against the Corporation, the Corporation is adjudged as bankrupt or (iii) an order, judgment or decree is entered by any court of competent jurisdiction appointing, without the consent of the Corporation, a receiver, custodian or trustee of the Corporation or of the whole or any part of its property and any of the aforesaid adjudications, orders, judgments or decrees shall not be vacated or set aside or stayed within 120 days from the date of entry thereof; or

(h) The Corporation shall file a petition or answer seeking reorganization or any arrangement under the federal bankruptcy laws or any other applicable law or statute of the United States of America or any state thereof; or

(i) Under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Corporation or of the whole or any substantial part of its property, and such custody or control shall not be terminated within 30 days from the date of assumption of such custody or control.

Unless and until the Issuer or the Trustee shall have exercised any remedies upon an Event of Default, the Corporation (or any other Person on behalf of the Corporation) may at any time (a) pay all accrued unpaid payments then due and owing on the outstanding balance of the Loan and all other sums which the Corporation is obligated to pay under the Agreement; and (b) cure all other existing Events of Default under the Agreement, and in every such case, such payment and cure shall be deemed to constitute a waiver of the Event of Default and its consequences as though the Event of Default had not occurred.

Remedies Upon Event of Default

Upon the occurrence of an Event of Default under the Agreement:

(a) The entire outstanding balance of the Loan and any other sums which the Corporation is obligated to pay to the Issuer under the Agreement shall immediately be due and payable; provided, however, that the Trustee shall have declared the acceleration of the Bonds in accordance with the Indenture.

(b) The Trustee, after ten (10) days notice to the Corporation, may, but shall not be required to, perform for the account of the Corporation any covenant of the Corporation under the Agreement in the performance of which the Corporation is in default or make any payment for which the Corporation is in default. The Corporation shall pay to the Trustee upon demand any amount paid by it in the performance of such covenant and any amounts which the Trustee shall have paid by reason of failure of the Corporation to comply with any covenant or provision of the Agreement, including reasonable counsel fees and expenses incurred in connection with prosecution or defense of any proceedings instituted by reason of default of the Corporation, together with interest at a rate equal to the lesser of the highest rate permitted by applicable law and the cost of the money to the Trustee, from the date of payment until repayment by the Corporation.

(c) The Issuer or Trustee may pursue any other right/remedy available at law or in equity.

Remedies of Issuer

In addition to the rights of the Trustee following an Event of Default, the Issuer shall have the right to proceed against the Corporation for payment of Administrative Fees and for indemnification under the Agreement.

Term of Agreement

The Agreement shall remain in full force and effect for a term commencing on the date of the issuance of the Bonds and terminating at such time as there are no Bonds Outstanding under the provisions of the Indenture; provided, however, that the Agreement and the obligation of the Corporation to make payments under the Agreement shall continue following the discharge of the Bonds until such time as any amounts due to the Internal Revenue Service for rebate required by the Indenture and the Tax Regulatory Certificate and any other amounts due under the Agreement have been satisfied.

Amendment of the Agreement

The Agreement may be amended from time to time in accordance with the provisions of the Indenture described above under the heading "THE INDENTURE" in this Appendix C. The provisions of the Agreement concerning the Corporation's obligation to comply with the rebate requirements of Section 148(f) of the Code, may be amended by an instrument in writing signed by the parties thereto in the event that the Corporation delivers to the Trustee an Officer's Certificate accompanied by a Favorable Opinion addressed to the Trustee to the effect that amendments to the Agreement are necessary or desirable to comply with the provisions of Section 148(f) of the Code.

APPENDIX D

FORM OF APPROVING OPINION OF CO-BOND COUNSEL

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Form of Co-Bond Counsel Opinion to be Delivered at Closing

March 27, 2008

$490,825,000
Allegheny County Hospital Development Authority
University of Pittsburgh Medical Center Revenue Bonds, Series 2008A

To the Purchasers of the
Above-Described Bonds:

We have acted as Co-Bond Counsel in connection with the issuance and sale by the Allegheny County Hospital Development Authority (the "Authority") of its $490,825,000, aggregate principal amount, University of Pittsburgh Medical Center Revenue Bonds, Series 2008A (the "Bonds") under a Trust Indenture dated as of March 1, 2008 (the "Indenture") between the Authority and The Bank of New York Trust Company, N.A., as trustee (the "Trustee"). The proceeds of the Bonds will be loaned to UPMC, a Pennsylvania nonprofit corporation (the "Corporation"), pursuant to a Loan Agreement between the Authority and the Corporation dated as of March 1, 2008 (the "Loan Agreement").

The Bonds are limited obligations of the Authority payable solely from the Trust Estate (as defined in the Indenture). Neither the general credit nor the taxing power of the Commonwealth of Pennsylvania (the "Commonwealth"), the County of Allegheny (the “County”) or of any political subdivision or instrumentality thereof, is pledged for the payment of the principal of or interest on the Bonds; nor shall the Bonds be deemed to be an obligation of the Commonwealth, the County or any political subdivision thereof, nor shall the Commonwealth, the County or any political subdivision thereof, be liable for the payment of principal of or interest on the Bonds. The Authority has no taxing power.

As Co-Bond Counsel, we have examined the Indenture, the Loan Agreement, certified copies of all of the proceedings relating to the issuance of the Bonds, including the certifications of the Authority and the Corporation that neither the Authority nor the Corporation expects that the proceeds of the Bonds will be used in a manner which would cause the Bonds to be arbitrage bonds within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended (the "Code"), the Municipality Authorities Act, as amended (the "Act"), the constitution of the Commonwealth and such other public records and documents and matters of law, and made such other investigations as we deemed appropriate for the purpose of this opinion.

As to questions of fact material to our opinion, we have relied upon the representations of the Authority and the Corporation contained in the proceedings relating to the issuance of the Bonds and other certifications furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion, as of the date hereof and under existing law, that:

1. The Authority is a public instrumentality and body corporate and politic duly organized pursuant to the Act and is validly existing under the Act.

2. The Authority has full legal right, power and authority to enter into the Indenture and the Loan Agreement, to issue, sell and deliver the Bonds and to carry out and consummate all other transactions to be carried out and consummated by it as contemplated by the Indenture and the Loan Agreement.

3. The Indenture and the Loan Agreement have been duly authorized, executed and delivered by the Authority and constitute legal, valid and binding obligations of the Authority.

4. The Bonds have been duly authorized, executed, authenticated, issued and delivered, and constitute legal, valid and binding limited obligations of the Authority in accordance with their terms, and are entitled to the benefit and security of the Indenture.

5. Under existing laws, regulations and decisions, interest on the Bonds (a) is excluded from gross income for federal income tax purposes and (b) is not an item of tax preference within the meaning of Section 57 of the Code, for purposes of the federal alternative minimum tax imposed by Section 55 of the Code on individuals and corporations; however, it should be noted that, with respect to corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings for the purposes of computing the alternative minimum tax imposed by Section 55 of the Code on such corporations. The opinions set forth in this paragraph are subject to the condition that the Authority and the Corporation comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that such interest be (or continue to be) excluded from gross income for federal income tax purposes. Failure to comply with such requirements could cause the interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The Authority and the Corporation have covenanted to comply with all such requirements. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

6. Under the laws of the Commonwealth as presently enacted and constructed, the Bonds are exempt from personal property taxes in Pennsylvania and the interest on the Bonds is exempt from Pennsylvania corporate net income tax and from Pennsylvania personal income tax.

It is to be understood that the rights of the owners of the Bonds and the enforceability of the Bonds, the Indenture and the Loan Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

We have relied upon the opinion dated this date of William Shaffner, Esquire, the Corporation’s Counsel, with respect to the organization and standing of the Corporation as a not-for-profit corporation duly organized and existing under the laws of the Commonwealth of Pennsylvania, the status of the Corporation as an organization described in Section 501(c)(3) of the Code, the corporate power of the Corporation to enter into and the due authorization, execution and delivery of the documents described above to which it is a party and that the same constitute legal, valid and binding obligations of the Corporation, enforceable in accordance with their terms.

This opinion is given as of the date hereof and we assume no obligation to update or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

ECKERT SEAMANS CHERIN & MELLOTT, LLC

HOUSTON HARBAUGH, P.C.

APPENDIX E

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF UPMC FOR THE PERIODS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006

UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE PERIODS ENDED
DECEMBER 31, 2007 and 2006

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Consolidated Balance Sheets (Unaudited) (In Thousands)		
	As of December 31, 2007	**As of June 30, 2007**
Current Assets		
Cash and cash equivalents	$65,521	$154,620
Patient accounts receivable, net of allowance for uncollectible accounts of $69,358 at December 31, 2007 and $65,100 at June 30, 2007	387,906	378,239
Other receivables	230,475	202,699
Securities lending receivable	322,474	373,522
Other current assets	91,796	83,437
Total current assets	1,098,172	1,192,517
Board-designated, restricted, trusteed and other investments	2,966,883	2,775,045
Investments on loan under securities lending arrangements	314,070	367,283
Beneficial interests in foundations	410,497	410,424
Net property, buildings and equipment	2,541,396	2,389,436
Other assets	256,515	219,190
Total assets	$7,587,533	$7,353,895
Current liabilities		
Accounts payable and accrued expenses	$285,238	$273,050
Accrued salaries and related benefits	211,407	263,837
Current portion of insurance reserves	213,935	212,329
Current portion of long-term obligations	105,081	84,534
Securities lending collateral payable	322,474	373,522
Other current liabilities	175,031	176,401
Total current liabilities	1,313,166	1,383,673
Long-term obligations	2,327,986	2,107,119
Long-term insurance reserves	122,999	117,121
Other long-term liabilities	85,493	122,951
Total liabilities	3,849,644	3,730,864
Unrestricted net assets	3,140,659	3,032,936
Restricted net assets	597,230	590,095
Total net assets	3,737,889	3,623,031
Total liabilities and net assets	$7,587,533	$7,353,895
See accompanying notes.		

Consolidated Statements of Operations and Changes in Net Assets (Unaudited) (In Thousands)				
	Six Months Ended December 31		Three Months Ended December 31	
	2007	2006	2007	2006
Unrestricted net assets				
Revenues:				
Net patient service revenue	$1,909,064	$1,819,847	$952,700	$915,954
Insurance enrollment revenue	1,197,987	954,881	604,711	471,870
Other revenue	267,123	253,560	141,593	141,132
Total operating revenues	3,374,174	3,028,288	1,699,004	1,528,956
Expenses:				
Salaries, professional fees and employee benefits	1,278,727	1,204,256	647,276	609,182
Supplies, purchased services and general	1,735,040	1,462,601	889,942	738,095
Depreciation and amortization	159,552	145,822	81,405	74,252
Provision for bad debts	100,598	92,013	41,776	48,691
Total operating expenses	3,273,917	2,904,692	1,660,399	1,470,220
Operating revenues over operating expenses (excluding interest and income tax expense)	100,257	123,596	38,605	58,736
Investing activity:				
Net investment revenue	49,340	265,495	(5,336)	242,081
Interest expense	(45,890)	(44,948)	(23,707)	(22,591)
Net investing activity	3,450	220,547	(29,043)	219,490
Income tax expense	(1,967)	(1,653)	(935)	(1,225)
Loss on extinguishment of debt	(114)	—	(46)	—
Excess of revenues over expenses (carried forward)	$ 101,626	$342,490	$8,581	$277,001

Consolidated Statements of Operations and Changes in Net Assets (continued) (Unaudited) (In Thousands)				
	Six Months Ended December 31		**Three Months Ended December 31**	
	2007	**2006**	**2007**	**2006**
Excess of revenues over expenses (brought forward)	101,626	342,490	8,581	277,001
Other changes in unrestricted net assets:				
Net change in unrealized investment appreciation	—	(47,621)	—	(81,087)
Assets released from restriction for capital purchases and other	6,097	10,414	5,532	4,154
Increase in unrestricted net assets	107,723	305,283	14,113	200,068
Restricted net assets				
Contributions	11,138	15,481	9,730	15,480
Net realized gains and change in unrealized investment appreciation	4,139	4,650	4,129	2,050
Assets released from restriction for operations and capital purchases	(8,215)	(14,426)	(8,216)	(11,966)
Net increase in beneficial interests in foundations	73	22,397	15,025	16,613
Increase in restricted net assets	7,135	28,102	20,668	22,177
Increase in net assets	114,858	333,385	34,781	222,245
Net assets, beginning of period	3,623,031	2,896,465	3,703,108	3,007,605
Net assets, end of period	$3,737,889	$3,229,850	$3,737,889	$3,229,850

See accompanying notes.

Consolidated Statements of Cash Flows (Unaudited) (In Thousands)		
	Six Months Ended December 31	
	2007	**2006**
Operating activities:		
Increase in net assets	$ 114,858	$333,385
Adjustments to reconcile increase in net assets to net cash (used in)/provided by operating activities	5,549	(19,618)
Changes in operating assets and liabilities	(139,179)	(77,430)
Net cash (used in)/provided by operating activities	(18,772)	236,337
Investing activities:		
Purchase of property and equipment, net of disposals	(242,620)	(230,837)
Net increase in other assets	(37,325)	(44,654)
Net cash used in investing activities	(279,945)	(275,491)
Financing activities:		
Repayments of long-term obligations	(216,523)	(49,576)
Borrowings of long-term obligations	389,366	85,404
Line of credit borrowings	21,500	55,000
Restricted contributions and investment income	15,277	20,131
Net cash provided by financing activities	209,620	110,959
(Decrease)/increase in cash and cash equivalents	(89,097)	71,805
Cash and cash equivalents, beginning of period	154,618	16,507
Cash and cash equivalents, end of period	$ 65,521	$ 88,312
See accompanying notes.		

<u>Notes to Consolidated Financial Statements (Unaudited)</u>

(In Thousands)

1. Basis of Presentation

UPMC, doing business as the University of Pittsburgh Medical Center (UPMC), is a Pennsylvania nonprofit corporation and is exempt from federal income tax pursuant to Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) of the Code. Headquartered in Pittsburgh, PA, UPMC is one of the leading medical centers in the United States. UPMC is an integrated health enterprise that has the medical expertise, geographic reach, and financial stability to develop models of excellence that are transforming health care nationally and internationally.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal and recurring nature. Operating results for the three and six months ended December 31, 2007 are not necessarily indicative of the results to be expected for the year ending June 30, 2008. For further information, refer to the audited consolidated financial statements and notes thereto for the year ended June 30, 2007.

Certain reclassifications were made to the 2006 accompanying financial statements to conform to the 2007 presentation. These reclassifications had no impact on the change in net assets previously reported.

The accompanying consolidated financial statements include the accounts of UPMC and its subsidiaries. Intercompany accounts and transactions are eliminated in consolidation.

2. Significant Transactions

In December 2007, UPMC announced a $100,000 pledge to the Pittsburgh Promise. The Promise will create an endowment fund to help students graduating from Pittsburgh Public Schools to further their education after high school by funding certain tuition costs. UPMC will contribute an initial $10,000 to support 2008 graduates in this program, with the remaining $90,000 designated to match up to $150,000 in grants provided by others in the community. The initial $10,000 expense is recorded in UPMC's consolidated statements of operations for the six-month and three-month periods ended December 31, 2007.

Effective December 1, 2006, UPMC changed the accounting classification of substantially all of its investments in debt and equity securities from non-trading to trading securities. This change in classification requires UPMC to recognize unrealized gains and losses on substantially all of its investment securities as investment revenue in the consolidated statements of operations and changes in net assets. Previously, changes in the fair value of these investment securities were recorded as other changes in net assets.

Net unrealized losses included in investment revenue for the six-month period ended December 31, 2007 were $78,000 compared to net unrealized gains of $183,000 included in the six-month period ended December 31, 2006. Net unrealized losses included in investment revenue for the three-month period ended December 31, 2007 were $66,000 compared to net unrealized gains of $154,000 included in the three-month period ended December 31, 2006.

3. Recent Accounting Pronouncements

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), which clarified the accounting for uncertainty in income tax positions recognized in financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The provisions of FIN 48 are effective for fiscal years beginning after December 31, 2006. UPMC has reviewed and catalogued its tax positions in relation to the requirements of FIN 48, and has determined the impact on its financial position and results of operations is not material.

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements* (Statement 157), which establishes a framework for measuring fair value in accounting principles generally accepted in the United States, and expands disclosures about fair value measurements. Statement 157 applies to other accounting pronouncements that require or permit fair value measurements and, accordingly, Statement 157 does not require any new fair value measurements. Statement 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 for financial assets and liabilities, and interim periods within those fiscal years. UPMC is currently evaluating the potential impact that the adoption of this statement will have on its financial position and results of operation.

In February 2007, the FASB issued FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115* (Statement 159), which, among other things, permits entities to choose to measure many financial instruments and certain other items at fair value. Statement 159 was issued to improve financial reporting by providing entities the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply the complex hedge accounting provisions of FASB Statement No. 133. Statement 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. UPMC is currently evaluating the potential impact that the adoption of this statement will have on its financial position and results of operations.

4. Pension Plans

UPMC and its subsidiaries maintain defined benefit pension plans, defined contribution plans, and nonqualified pension plans that cover substantially all of UPMC's employees. Benefits under the defined benefit plans vary and are generally based upon the employee's earnings and years of participation.

The components of net periodic benefit cost for defined benefit pension plans were as follows:

	Six Months Ended December 31		**Three Months Ended December 31**	
	2007	**2006**	**2007**	**2006**
Service cost	$ 23,047	$ 20,180	$ 11,523	$ 10,090
Interest cost	21,970	20,638	10,985	10,319
Expected return on plan assets	(28,806)	(24,118)	(14,403)	(12,059)
Recognized net actuarial loss	786	3,733	393	1,866
Amortization of prior service credit	(2,782)	(2,765)	(1,391)	(1,382)
Amortization of transition asset	(17)	(17)	(9)	(9)
Net periodic benefit cost	$ 14,198	$ 17,651	$ 7,098	$ 8,825

The actuarial assumptions used to determine net periodic pension cost for the defined benefit pension plans are as follows:

	Six Months Ended December 31		**Three Months Ended December 31**	
	2007	**2006**	**2007**	**2006**
Discount rate	6.25%	6.40%	6.25%	6.40%
Expected rate of compensation increase	3.75%	3.75%	3.75%	3.75%
Expected long-term rate of return on plan assets	8.00%	8.00%	8.00%	8.00%

5. Contingencies

UPMC is involved in litigation and responding to requests for information from governmental agencies occurring in the normal course of business. Certain of these matters are in the preliminary stages and legal counsel is unable to estimate the potential effect, if any, upon operations or financial condition of UPMC. Management believes that these matters will be resolved without material adverse effect on UPMC's financial position or results of operations. However, the ultimate outcome and effect on UPMC's financial statements is unknown.

During August 2007, UPMC received a request for information from the Civil Division of the Department of Justice relating to an investigation into the health insurance and hospital services market in and around Pittsburgh including any potentially anticompetitive agreements. This request covers several prior years. At this time, no specific violations, claims, or assessments have been made. Management is cooperating with the information requests and believes that the matter will be resolved without any material adverse effect on UPMC's financial position or results of operations. However, the ultimate outcome of this investigation, including the impact on UPMC, cannot be determined at this time.

6. Subsequent Events

Effective January 1, 2008, the Pittsburgh Mercy Health System (PMHS) transferred ownership of Mercy Hospital of Pittsburgh (MHP) and its associated physician practices to UPMC in a transaction that designates UPMC as the sole corporate member of MHP (the Transaction). The Transaction is designed to continue the 160-year-old mission of the hospital by operating the renamed UPMC Mercy under the Catholic directives as overseen by the Diocese of Pittsburgh. As of January 1, 2008 total assets acquired in the Transaction were $177,250.

As a result of the aforementioned change in control, UPMC assumed sole responsibility for substantially all liabilities and assets of MHP and will donate $30,000 to PMHS in equal amounts over a six-year period to support its ongoing mission.

The Transaction will be accounted for as a purchase transaction by UPMC, with the assets acquired and assumed liabilities recorded at their fair value as of the effective date of the Transaction.

UPMC had approximately $470,600 and $456,225 of auction rate bonds outstanding as of June 30, 2007 and December 31, 2007, respectively, which are included in long-term debt in the accompanying consolidated balance sheets. The interest rates determined through the auction process changed materially beginning in early February 2008, ranging from a low of 3.47% to a high of 17.23% and including one failed auction. UPMC expects to experience approximately $1,500 in increased interest costs related to this category of debt for all reset periods beginning after February 13, 2008 through end of March. Management has used various methods to refinance or retire these auction rate bonds, including temporarily increasing its $300,000 line of credit to $650,000 to fund these efforts. Management expects that all of the auction rate bonds will be retired as of April 1, 2008.

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