

**CHFFA REVENUE BOND FINANCING PROGRAM
EXECUTIVE SUMMARY**

<p>Applicant: Children’s Hospital of Orange County (“CHOC”) 455 South Main Street Orange, California 92868 Orange County</p>	<p>Amount Requested: \$140,000,000 Requested Loan Term: Up to 40 years Authority Meeting Date: Sept. 29, 2011 Resolution Number: 368</p>														
<p>Project Sites: Please see Exhibit 1</p>															
<p>Facility Types: Acute Care Hospital/ Children’s Hospital</p>															
<p>Prior Borrower: Yes (date of last CHFFA issue, 2009)</p>															
<p>Obligated Group: CHOC and CHOCO Realty Corporation</p>															
<p>Guarantor Member: Children’s HealthCare of California “CHC”</p>															
<p>Background: CHOC was established in 1964 as a California nonprofit benefit corporation. CHOC’s hospital facility is a regional tertiary referral center and is the largest single provider of pediatric hospital services in Orange County. CHOC also provides a wide variety of outpatient services through its ambulatory care centers. Its mission is to “nurture, advance, and protect the health and well-being of children.” In 1986, CHC was incorporated as the "parent" company and sole corporate member of CHOC. In FY 2010, CHOC had 223,301 total outpatient visits.</p>															
<p>Use of Proceeds: Bond proceeds will be used to continue to fund the construction of a new seven-story patient tower on the hospital’s campus that began construction in 2009; funding sources for the project include three CHFFA grants, 2009 bond proceeds as well as operating and fundraising funds. The requested 2011 bond proceeds would be the last borrowed money for this project.</p>															
<p>Type of Issue: Negotiated public offering of fixed rate bonds (Minimum \$5,000 denominations)</p>															
<p>Expected Credit Rating: A/ A; Standard & Poor’s/ Fitch Ratings</p>															
<p>Financing Team: <i>Please see Exhibit 2 to identify possible conflicts of interest</i></p>															
<p>Financial Overview: The Obligated Group’s income statement appears to exhibit positive operating results over the review period with sound operating margins and continued revenue growth. Additionally, the Obligated Group appears to exhibit a solid financial position with an operating proforma debt service coverage ratio of 1.55x.</p>															
<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;"><u>Estimated Sources of Funds:</u></th> <th style="text-align: left;"><u>Estimated Uses of Funds:</u></th> </tr> </thead> <tbody> <tr> <td style="width: 50%;">Par amount of bonds</td> <td style="width: 50%;">Project/ Reimbursement funds*</td> </tr> <tr> <td style="text-align: right;">\$ 140,000,000</td> <td style="text-align: right;">\$ 138,500,000</td> </tr> <tr> <td></td> <td style="text-align: right;">Costs of issuance</td> </tr> <tr> <td></td> <td style="text-align: right;">1,500,000</td> </tr> <tr> <td style="text-align: right;">Total Estimated Sources</td> <td style="text-align: right;">Total Estimated Uses</td> </tr> <tr> <td style="text-align: right;"><u>\$ 140,000,000</u></td> <td style="text-align: right;"><u>\$ 140,000,000</u></td> </tr> </tbody> </table>		<u>Estimated Sources of Funds:</u>	<u>Estimated Uses of Funds:</u>	Par amount of bonds	Project/ Reimbursement funds*	\$ 140,000,000	\$ 138,500,000		Costs of issuance		1,500,000	Total Estimated Sources	Total Estimated Uses	<u>\$ 140,000,000</u>	<u>\$ 140,000,000</u>
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<p>* CHOC may reimburse itself for prior expenditures relating to the project with proceeds, although the amount of such reimbursement (if any) is not known at this time.</p>															
<p>Due Diligence: Staff has received and reviewed the Eligibility, Legal Review, Religious Due Diligence, Savings Pass Through, Seismic, and CEQA documentation. All documentation satisfies the Authority’s requirements.</p>															
<p>Staff Recommendation: Staff recommends the Authority approve Resolution Number 368 in an amount not to exceed \$140,000,000 subject to the conditions in the resolution, including a bond rating of at least investment grade by a nationally recognized rating agency. Macias Gini & O’Connell, LLP, the Authority’s financial analyst, and Public Financial Management, Inc., the Authority’s financial advisor, concur with the Authority’s staff recommendation.</p>															

I. PURPOSE OF FINANCING:

CHOC approved a Campus Master Plan (“Master Plan”) in March 2008, which focused on meeting the needs of the community through 2020. This Master Plan involves certain improvements to existing buildings, as well as the construction of new facilities on the CHOC campus, including the construction of a new seven-story patient tower (the “South Tower”).

In May 2009, the Authority approved a financing of revenue bonds in the amount \$170 million for CHOC. In addition, two grants one from the Children’s Hospital Program (“CHP”) of 2004 (Proposition 61 grant) for \$31,084,873, and the other from the CHP of 2008 (Proposition 3 Grant) for \$98 million were used to construct a new seven-story patient tower called the “CHOC South Tower” project on the hospital’s campus. The total cost of the project was estimated to be approximately \$500 million.

At that time, CHOC anticipated the need for future funds to complete the project, and had a plan to come back to the Authority when funds were needed. In April 2011, CHOC was approved for another Proposition 61 grant in the amount of \$4,605,578. Also, CHOC is requesting the Authority issue fixed rate bonds in the par amount not to exceed \$140 million to complete the South Tower.

Construction/ Reimbursement Funds..... \$138,500,000

The new seven-story CHOC South Tower is a free-standing building encompassing approximately 425,000 square feet and will be located at the existing campus adjacent and south of CHOC’s existing North Tower building. The South Tower will initially increase the bed capacity to 266 and allow for future growth (through the build out of shelled space) to approximately 400 beds by 2020. The South Tower will also allow CHOC to open its own emergency room and offer surgical services, radiological imaging services, and laboratory services which have previously been provided under a service agreement with St. Joseph Hospital of Orange. CHOC began construction in September 2009 and expects to open the new facilities in March of 2013. The funds may also be used to finance a pedestrian bridge connecting the South Tower with a parking garage located on CHOC’s campus. The South Tower project is currently on time and on budget. CHOC may reimburse itself for prior expenditures relating to the South Tower project with proceeds, although the amount of such reimbursement (if any) is not known at this time.

<i>Estimated Financing Costs*</i>	<u>1,500,000</u>
• <i>Underwriter’s discount</i>	<i>\$1,000,000</i>
• <i>Estimated cost of issuance</i>	<u>500,000</u>
Total Estimated Uses of Funds	<u>\$140,000,000</u>

* CHOC may elect to pay for costs of issuance from its internal funds, and plans to make that final decision closer to pricing.

II. PROPOSED COVENANTS, SECURITY PROVISIONS AND DISCLOSURES:

Obligated Group. Children's Hospital of Orange County ("CHOC") and its sister corporation, CHOCO Realty Corporation, are the two Members of an Obligated Group; each is an affiliated California nonprofit public benefit corporation and is jointly and severally obligated under a master trust indenture with respect to payments on CHFFA's bonds and other parity debt (including CHFFA's 2009 Bonds issued for CHOC). CHOC is the borrower under the loan agreement. All covenants below are applicable to each Member of the Obligated Group. There are also protective tests limiting Members from being added to or withdrawing from the Obligated Group if the change would result in a significant reduction of the financial strength of the Obligated Group.

Parent as Guarantor. CHOC's parent entity, Children's Healthcare of California (also a California nonprofit public benefit corporation ("CHC")), is a guarantor of debt under the master trust indenture, including the proposed 2011 Bonds, but only if the Obligated Group has failed to make payments. CHC is not bound by the various operational and financial covenants applicable to the Obligated Group Members.

After reviewing the Obligated Group's credit profile, including its current financial profile, prior bond transactions and considering what the market will support, CHOC, Public Financial Management, Inc., and the underwriters have concluded the covenants listed below align the interests of the Obligated Group, CHFFA, and the investors and therefore are consistent with covenants that have applied to the Obligated Group's prior bond transactions and that the Obligated Group's current financial situation does not suggest additional covenants should be required.

The following covenants are applicable for this transaction:

Unconditional Promise to Pay. *CHOC agrees to pay the Trustee all amounts required for principal, interest or redemption premium, if applicable, and other payments and expenses designated in the Loan Agreement. The Obligated Group guarantees all such payments under a master indenture obligation and CHC further guarantees such payments if the Obligated Group fails to make them. All Revenues (which will include payments by CHOC under the Loan Agreement and payments by the Obligated Group and CHC) and any other amounts held in a designated fund or account under the Bond Indenture are pledged to secure the full payment of the Bonds.*

Pledge of Gross Revenues. *Each Member of the Obligated Group pledges to deposit all revenues, income, receipts and money received into a Gross Revenues Fund over which the Master Trustee has a blocked account agreement for the benefit of each bond trustee and parity lender.*

Negative Pledge Against Prior Liens. *Each Obligated Group Member agrees not to create, assume or permit any Lien upon the Gross Revenues or their respective Property other than Permitted Liens.*

Limited Permitted Liens. *Each Obligated Group Member is subject to a restrictive set of allowable liens or encumbrances it may incur pursuant to the Master Indenture.*

Debt Service Coverage Requirement. *The Master Indenture contains a debt service coverage requirement based on 1.20 times Annual Required Debt Service. A debt service coverage requirement is a ratio measuring ability to make interest and principal payments as they become due by assessing the amount of revenue available to meet debt service payments.*

Additional Debt Limitation. *Each Obligated Group Member agrees not to incur additional Indebtedness unless authorized by various financial performance or projection measures set out in the Master Indenture.*

Limitations on Mergers, Sales or Conveyances. *Each Obligated Group Member agrees not to merge, consolidate with any other entity or sell or convey all or substantially all of its assets to any Person outside of the Obligated Group unless authorized by various limiting measures set out in the Master Indenture.*

Disposition of Cash and Property Limitations. *Each Obligated Group Member agrees not to sell, lease or dispose of any property, plant or equipment or liquid assets unless authorized by various limiting measures set out in the Master Indenture.*

Comply with SEC Rule 15c2-12. *CHOC, on behalf of the Obligated Group, will take such action as is necessary to assist the underwriter in complying with SEC Rule 15c2-12. CHOC will contractually agree to disclose designated financial and operating information to the SEC web site (EMMA) during the life of the 2011 bonds and to report designated “material events” such as missed debt service payments, any change in bond ratings, defeasance, redemptions, etc.*

Staff has reviewed the entirety of this financing package and finds it to be acceptable.

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Children's Hospital of Orange County - Obligated Group
Statement of Activities
(In thousands)

	As of June 30,		
	2010	2009	2008
Operating Revenue:			
Net patient service revenue *	\$ 328,941	\$ 328,353	\$ 310,793
Premium revenue	29,857	23,745	21,704
Other revenue	46,937	46,474	46,057
Net assets released from restriction used for operations	2,808	3,024	2,876
Total operating revenue	408,543	401,596	381,430
Expenses:			
Salaries and benefits	166,178	166,891	164,938
Purchased services	127,561	120,882	108,057
Supplies	48,987	48,109	45,496
Provision for uncollectible accounts	13,351	13,788	15,022
Rent	4,864	4,714	5,528
Depreciation & amortization	18,436	18,297	17,295
Interest expense	5,391	4,362	3,558
Other	11,659	11,563	13,182
Total operating expenses	396,427	388,606	373,076
 Income from operations before other gains (losses)	 12,116	 12,990	 8,354
 Other gains (losses):			
Investment and other income (loss)	(5,302)	(14,815)	3,644
Contributions from CHOC Foundation	3	28	195
Other gains:	(5,299)	(14,787)	3,839
 Revenue and gains in excess of / (less than)			
expenses and losses	6,817	(1,797)	12,193
Unrealized loss on derivative financial instrument	(7,358)	(5,471)	(15,135)
Net assets released from restriction used for capital equipment	52,750	5,563	7,183
Contributions from CHC	-	5,500	-
 Increase unrestricted net assets:	 52,209	 3,795	 4,241
 Unrestricted net assets, beginning of the period	 205,896	 202,101	 197,860
Unrestricted net assets, end of period	\$ 258,105	\$ 205,896	\$ 202,101

* Payor Source	Percent
Managed Care	38.3
Medi-Cal/CalOPTIMA ⁽¹⁾	19.0
California Children's Services	39.9
Other Third Party	1.7
All Other Governmental/Other	1.1
Total	100.0

⁽¹⁾ Capitated revenues exclude outside purchased medical services (these are amounts paid to other providers for care rendered to capitated patients for services provided at their facilities).

Children's Hospital of Orange County - Obligated Group
Statement of Financial Position
(In thousands)

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Assets:			
Current assets:			
Cash and cash equivalents	\$ 59,421	\$ 51,437	\$ 32,600
Short-term investments	27,367	24,070	25,853
Assets whose use is limited	26,645	9,921	1,543
Patient account receivables, net	73,632	75,270	73,689
Inventory	3,050	3,026	2,553
Other receivables	11,104	12,954	9,740
Receivables from related parties	2,306	2,133	2,099
Current portion of beneficial interest	2,037	1,147	2,833
Prepaid expenses and other current assets	6,012	5,412	5,352
Total current assets	<u>211,574</u>	<u>185,370</u>	<u>156,262</u>
Assets whose use is limited			
Designated by board	3,005	2,654	2,390
Funds held by trustee	118,269	141,962	-
Other	17,909	6,372	681
	<u>139,183</u>	<u>150,988</u>	<u>3,071</u>
Property and equipment, net	325,749	252,152	243,753
Beneficial interest in net assets of the Foundation	-	-	5,191
Pledges receivable	6,565	6,300	-
Bond issuance costs, net	2,657	2,820	2,998
Derivative financial instruments	-	-	39
Other assets	1,987	2,787	2,666
Total assets	<u>\$ 687,715</u>	<u>\$ 600,417</u>	<u>\$ 413,980</u>
Liabilities and Net Assets:			
Current liabilities:			
Current portion of long-term debt and capital lease obligation	\$ 2,363	\$ 16	\$ 2,489
Accounts payable accrued liabilities	39,175	26,100	32,777
Accrued compensation and related liabilities	20,450	20,331	21,509
Medical claims payable	1,628	980	1,506
Deferred income	1,170	1,647	1,097
Payable to contracting hospitals	2,655	923	1,102
Payable to related parties	50	157	577
Total current liabilities	<u>67,491</u>	<u>50,154</u>	<u>61,057</u>
Long-term debt and capital lease obligation	263,460	265,486	107,866
Estimated liability for workers comp, net of current portion	7,756	8,427	8,303
Post retirement benefit obligations	3,146	3,331	3,538
Derivative financial instruments	37,427	24,213	7,838
Other liabilities	3,461	3,387	1,542
Total liabilities	<u>382,741</u>	<u>354,998</u>	<u>190,144</u>

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Children's Hospital of Orange County - Obligated Group

Statement of Financial Position

(In thousands)

(Continued)

	As of June 30,		
	2010	2009	2008
Unrestricted net assets			
Undesignated	255,100	203,242	199,711
Board designated	3,005	2,654	2,390
Total unrestricted	<u>258,105</u>	<u>205,896</u>	<u>202,101</u>
Temporarily restricted	46,183	38,837	21,049
Permanently restricted	686	686	686
Total net assets	<u>304,974</u>	<u>245,419</u>	<u>223,836</u>
Total liabilities and assets	<u>\$ 687,715</u>	<u>\$ 600,417</u>	<u>\$ 413,980</u>

Financial Ratios:

	Proforma ^(a)			
	<u>FYE June 30, 2010</u>			
Debt service coverage (x) operating	1.55	2.43	4.14	3.90
Debt service coverage (x) net	1.53	2.35	4.02	4.45
Debt/Unrestricted Net Assets (x)	1.57	1.03	1.29	0.55
Operating Margin (%)		2.97	3.23	2.19
Current Ratio (x)		3.13	3.70	2.56

^(a) Recalculates FY 2010 audited results to include the impact of this proposed financing.

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III. FINANCIAL STATEMENTS AND ANALYSIS:

The Obligated Group's audited financial statements were analyzed in this section and are also disclosed in the Preliminary Official Statement. The Obligated Group includes CHOC and CHOCO Realty's financials, which constitute 71.7% of the total assets of the combined financials of CHC and affiliates.

Financial Discussion – Statement of Activities (Income Statement)

The Obligated Group's income statement appears to exhibit positive operating results over the review period with sound operating margins and continued revenue growth.

The Obligated Group's total operating margins appear to have remained relatively stable over the review period from 2.19%, 3.23%, to 2.97% in FY 2008, FY 2009 FY 2010, respectively. The Obligated Group's total operating revenues appear to have grown approximately 7% over the review period from \$381.4 million in FY 2008 to \$408.5 million in FY 2010. According to CHOC, the increase in revenues can be largely attributed to increases in premium revenue, which occurred due to increased enrollment in the CalOPTIMA program (a county organized health system that administers health insurance programs for low-income families, children, seniors and persons with disabilities in Orange County) and CHOC's health plan as well as increases in government payors.

Particular Facts to Note:

- The operating margin for FY 2010, decreased slightly from FY 2009 primarily due to relatively flat volumes, according to CHOC. Even though patient days have slightly increased from 61,125 in FY 2009 to 61,467 in FY 2010, discharges have increased over the same time period from 11,777 in FY 2009 to 12,479 in FY2010 causing a decline in the average length of stay. CHOC also experienced a shift in payor mix with higher Medi-Cal utilization over the same time period.
- Total operating expenses increased in line with total operating revenues over the review period, from approximately \$373 million in FY 2008 to \$396.4 million in FY 2010, an approximate 6% increase. According to CHOC, the increases were mainly due to increases in purchased services, which consist of medical expenses for specialized services, residents and fellows, and information technology related to electronic medical records and a computerized provider order entry system as well as collection fees and professional fees, which were primarily due to CHOC's health plan in CalOPTIMA and their expansion of services.
- The Obligated Group's investment and other income varied significantly over the review period FY 2008 to FY 2010. According to CHOC, the loss of approximately \$14.8 million in FY 2009 and the loss of approximately \$5.3 million in FY 2010 were primarily due to the overall market environment. CHOC indicated that it has changed its investment strategies slightly to include a lower equities asset allocation target and a higher international equities asset allocation target.

Financial Discussion – Statement of Financial Position (Balance Sheet)

The Obligated Group appears to exhibit a solid financial position with an operating proforma debt service coverage ratio of 1.55x.

The Obligated Group's balance sheet appears to continue to grow over the review period. Total net assets increased from approximately \$223.8 million in FY 2008 to \$305 million in FY 2010, an approximate 36% increase. The operating debt service coverage ratio appears to be a solid 2.43x for FY 2010, and the operating proforma debt service coverage ratio is a solid 1.55x, indicating that the Obligated Group can likely manage the proposed additional debt.

Particular Facts to Note:

- The Obligated Group's cash and cash equivalents increased considerably over the review period by approximately 82% from \$32.6 million in FY 2008 to \$59.4 million in FY 2010. According to CHOC, the increase can mainly be attributed to the 2010 Provider Fee, a large unrestricted estate gift, and cash flow from operations. The Provider Fee Program, enacted in January 2010, allows for supplemental Medi-Cal payments to certain hospitals funded by fees paid by participating hospitals and matching federal funds.
- The large increase in property and equipment, net in FY 2010 to \$325.8 million from \$243.8 million in FY 2008, was mainly due to CHOC's investment in the construction of a new tower for which they are currently seeking additional financing and which had commenced in FY 2009. Simultaneously, long-term debt and capital lease obligations increased significantly in FY 2009 to approximately \$265.5 million from \$107.9 million mainly due to CHOC's 2009 CHFFA Bonds Series A-D.
- CHOC has built a Long Range Financial Plan that incorporates some assumptions related to Health Reform. It concurs with the industry consensus that reimbursement will change, but industry experts remain uncertain to what extent and in what way until the legislation is fully implemented over the coming years.
- The Obligated Group's interim financials for FY 2011 are consistent with staff's analysis and show operating improvements as well as growth.

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IV. DUE DILIGENCE:

Due diligence has been completed with regard to the following items:

- **Section 15438.5(a) of the Act (Savings Pass Through):** CHOC properly completed and submitted the “Pass-Through Savings Certification,” in addition to a narrative explaining how it intends to pass through savings.
- **Section 15491.1 of the Act (Community Service Requirement):** CHOC properly completed and submitted this certification and indicated that Medi-Cal and Medicare patients are accepted.
- **Compliance with Seismic Regulations:** CHOC properly submitted a description of its organization’s progress toward complying with OSHPD seismic evaluation regulations.
- **Compliance with Section 15455(b) of the Act (California Environmental Quality Act):** CHOC properly submitted documentation to the Authority, where applicable, demonstrating that each proposed project has either complied with Division 13 (commencing with Section 21000) of the Public Resources Code, or is otherwise not a “project” under that division.
- **Religious Due Diligence.**
- **Legal Review.**

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EXHIBIT 1
PROJECT SITES

CHOC's Hospital Campus Project

Located generally within the area bounded by Main Street on the West, Freeway 22 on the South, Pepper Street on the East and Providence on the North, including: (i) the following addresses:

- 455 South Main Street
- 1201 West La Veta Avenue
- 1231 West La Veta Avenue
- 525 South Main Street
- 571 South Main Street
- 557 South Main Street
- 541 South Main Street

and (ii) a pedestrian walkway over La Veta Avenue connecting the Main Street parking garage with the Corporation's hospital campus all located in Orange, California.

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EXHIBIT 2

FINANCING TEAM

Trustee: U.S. Bank National Association

Trustee's Counsel: Dorsey & Whitney LLP

Master Trustee: Wells Fargo

Issuer's Counsel: Office of the Attorney General

Borrower's Counsel: Polsinelli Shugart PC

Borrower's Financial Advisor: Kaufman Hall & Associates

Rating Agencies: Standard & Poor's
Fitch Ratings

Issuer's Financial Advisor: Public Financial Management, Inc.

Issuer's Financial Analyst: Macias Gini & O'Connell, LLP

Bond Counsel: Orrick, Herrington & Sutcliffe LLP

Underwriter: Morgan Stanley

Underwriter's Counsel: Sidley Austin LLP

Auditor: KPMG, LLP

EXHIBIT 3

UTILIZATION STATISTICS

The table below provides selected summary utilization statistics for CHOC for the three fiscal years ended June 30, 2008, 2009, and 2010.

	Fiscal Year Ended June 30,		
	2010	2009	2008
Licensed Beds	238	232	232
Discharges	12,479	11,777	10,601
Patient Days	61,467	61,125	60,279
Average Length of Stay	5	5	5.7
Occupancy Based on Licensed Beds	71	72	71.0
Outpatient Visits:			
Emergency Room	56,366	53,862	50,059
Specialty Clinic	63,033	63,851	61,982
Primary Care Outreach Clinic	92,799	92,869	84,545
Outpatient Surgery	4,462	4,484	4,739
Outpatient Infusion Center	5,419	5,814	486
Outpatient Observation	1,222	1,079	1,807
Total Outpatient Visits	<u>223,301</u>	<u>221,959</u>	<u>203,618</u>

Source: Management of CHOC.

EXHIBIT 4
OUTSTANDING DEBT

<u>Date Issued</u>	<u>Original Amount</u>	<u>Amount Outstanding As of June 30, 2010^(a)</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
- EXISTING LONG-TERM DEBT:			
CHFFA, Series 2009 A	\$139,565,000	\$137,792,000	\$137,792,000
CHFFA, Series 2009 B	50,000,000	50,000,000	50,000,000
CHFFA, Series 2009 C	50,000,000	50,000,000	50,000,000
CHFFA, Series 2009 D	27,800,000	27,800,000	27,800,000
- PROPOSED NEW DEBT:			
<i>CHFFA, Series 2011</i>			\$140,000,000
- TOTAL DEBT		<u>\$265,592,000</u>	<u>\$405,592,000</u>

^(a) Includes current portion of long-term debt.

EXHIBIT 5

BACKGROUND, GOVERNANCE AND LICENSURE

Background

CHOC was incorporated and began operating in 1964. CHOC's original 62-bed facility was located in a leased wing of St. Joseph Hospital of Orange, with which CHOC shared hospital services such as surgery, laboratory, radiology, pharmacy and dietary, among others. With a growth in demand, in 1975 CHOC moved to a former skilled nursing facility renovated into an acute care pediatric hospital, including neonatal and pediatric intensive care units and increased its licensed capacity to 190 beds. CHOCO Realty Corporation ("Realty"), which holds title to all of CHOC's land and buildings, purchased a two-story building adjacent to CHOC's acute care pediatric hospital and renovated the building to house ambulatory care services, including an outpatient clinic, outpatient pharmacy, psychology services, medical records, computer services, pediatric subspecialty medical offices and several administrative departments. In 1990, Realty constructed a six-story research building and an expanded clinic facility adjacent to CHOC's acute care pediatric hospital, and, in 1991, Realty constructed a 192 licensed bed replacement facility for all inpatient services ("CHOC North"). During the summer of 2002, because of increased demand, CHOC added 10 new intensive care beds. This brought the current Newborn Intensive Care ("NICU") unit bed complement to 42, and CHOC's total beds to 202.

Due to the continued increase in demand, in the fall of 2007, CHOC built out the sixth floor of CHOC North in previously shelled-in space, adding 18 Pediatric Intensive Care ("PICU") and 12 Cardiovascular Intensive Care ("CVICU") beds. The relocation of the PICU unit to the sixth floor of CHOC North allowed for 12 additional NICU beds to be added in space previously occupied by PICU beds. This expansion brought the NICU to its current bed count of 54 beds, the PICU to its current count of 30 beds, and CHOC's total licensed beds to 232. In August 2009, six adolescent oncology beds were added which increased CHOC's total licensed beds to 238.

Corporate Structure

In 1986, CHC was incorporated as the "parent" company and sole corporate member of CHOC and of Realty, as well as three affiliated California nonprofit public benefit corporations (collectively, the "Affiliates"). CHC has no operations. Its main functions are as the holder of investment securities for itself and its Affiliates and as the director of strategy for the Affiliates. CHOC and Realty are the only "Members" of the Obligated Group. CHC is not a Member of the Obligated Group, but is a "Guarantor Member" under the Master Indenture.

Corporate Governance

CHOC is governed by a 14-member Board of Directors. CHOC's Bylaws provide that the Board of Directors will consist of four representatives of the University of California, Irvine ("University Directors"), the President of CHOC, and nine members who can contribute meaningfully to the governance of CHOC due to their background and experience.

Realty is governed by a five-member Board of Directors, which includes the President of CHOC. Nominations to the Board of Directors are made by the sitting members of the Realty Board of Directors. The number of terms a Director may serve is unlimited.

CHC is governed by a 10-member Board of Directors. The Bylaws of CHC provide that the CHC Board of Directors consists of the President of CHOC, three University Directors and six other persons who are directors of certain affiliates of CHC.

Licensure and Memberships

CHOC is appropriately licensed by the Department of Public Health Services and is certified to participate in the Medicare and Medi-Cal programs.

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