

**Supplement dated March 7, 2013 to**

**Official Statement  
dated February 27, 2013 regarding**

**\$58,530,000**

**CITY OF FLINT HOSPITAL BUILDING AUTHORITY**

**\$21,940,000**

**\$36,590,000**

**Building Authority Revenue Rental Bonds,  
Series 2013A (Hurley Medical Center)**

**Building Authority Revenue Refunding Bonds,  
Series 2013B (Hurley Medical Center)**

Corrections to the CUSIP numbers for the \$2,350,000 and \$3,000,000 Series 2013B Serial Bonds maturing in 2019 are set forth in the table below:

**Series 2013B Bonds**

**\$12,290,000 Serial Bonds**

<u>Maturity (July 1)</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>CUSIP<sup>†</sup></u>
2013	\$555,000	5.000%	100.794%	339511DT1
2015	\$1,235,000	5.000%	105.314%	339511DV6
2018	\$5,150,000	3.750%	101.785%	339511DY0
2019	\$2,350,000	4.000%	101.655%	339511EA1
2019	\$3,000,000	5.000%	107.186%	339511DZ7

<sup>†</sup> CUSIP numbers appearing on the cover of this Official Statement have been provided by the CUSIP Service Bureau, which is managed on behalf of the American Bankers Association by Standard & Poor's, a division of the McGraw-Hill Companies, Inc. The Authority is not responsible for the selection of CUSIP numbers and makes no representation as to their correctness on the Series 2013 Bonds or as set forth on the cover of this Official Statement.

In the opinion of Dickinson Wright PLLC, Bond Counsel, subject to compliance with certain covenants, under existing law, (1) the interest on the Series 2013 Bonds is excluded from gross income for federal income tax purposes except as described under "TAX MATTERS" herein, and (2) the principal and interest on the Series 2013 Bonds are exempt from taxation by the State of Michigan and by any other taxing authority within the State of Michigan, except estate taxes and taxes on gains realized from the sale, payment or other disposition thereof.

**\$58,530,000**

**CITY OF FLINT HOSPITAL BUILDING AUTHORITY**

**\$21,940,000**

**Building Authority Revenue Rental Bonds,  
Series 2013A (Hurley Medical Center)**

**\$36,590,000**

**Building Authority Revenue Refunding Bonds,  
Series 2013B (Hurley Medical Center)**

**Dated:** Date of Delivery

**Due:** July 1, as shown below

The Series 2013A Bonds and the Series 2013B Bonds are collectively referred to in this Official Statement as the Series 2013 Bonds. The Series 2013 Bonds will constitute limited obligations of the City of Flint Hospital Building Authority (the "Authority"), will be issued under the Bond Resolution and Indenture of Trust (the "Indenture"), will be secured by the Indenture and the 2013 Restated Contract of Lease (as defined herein), and will be equally and ratably payable from Cash Rentals (as defined herein) made by the City of Flint, Michigan, acting through its Board of Hospital Managers, on behalf of Hurley Medical Center (the "Medical Center"), and from certain funds held under the Indenture. The Medical Center will use the proceeds of the Series 2013 Bonds to (i) finance the costs of certain capital improvements and costs to acquire and install equipment at the Medical Center's facilities, (ii) refund the Bonds To Be Refunded (as defined herein), (iii) fund a Debt Service Reserve Fund for each series of the Series 2013 Bonds for the benefit of the holders of the related series of Series 2013 Bonds and (iv) pay certain expenses incurred in connection with the issuance of the Series 2013 Bonds. The sources of payment of, and security for, the Series 2013 Bonds are more fully described in this Official Statement.

The Series 2013 Bonds, when issued, will be registered initially only in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Series 2013 Bonds. Purchasers of the Series 2013 Bonds will not receive certificates representing their interests in the Series 2013 Bonds purchased. Ownership by the beneficial owners of the Series 2013 Bonds will be evidenced by book-entry only. Principal of and interest on the Series 2013 Bonds will be paid by U.S. Bank National Association, Detroit, Michigan, as Trustee, to DTC, which in turn will remit such principal and interest payments to its participants for subsequent disbursement to the beneficial owners of Series 2013 Bonds. As long as Cede & Co. is the registered owner as nominee of DTC, payments on the Series 2013 Bonds will be made to such registered owner, and disbursement of such payments will be the responsibility of DTC and its participants. See "BOOK-ENTRY SYSTEM."

An investment in the Series 2013 Bonds involves a certain degree of risk related to the nature of the business of the Medical Center, the regulatory environment, and the provisions of the principal documents. A prospective Series 2013 Bondholder is advised to read "SECURITY FOR THE SERIES 2013 BONDS" and "BONDHOLDERS' RISKS" herein for a description of the security for the Series 2013 Bonds and for a discussion of certain risk factors which should be considered in connection with an investment in the Series 2013 Bonds.

The Series 2013 Bonds will be issued in denominations of \$5,000 or any integral multiple thereof. Interest on the Series 2013 Bonds will be payable on each January 1 and July 1, commencing July 1, 2013. The Series 2013 Bonds are subject to extraordinary, optional and mandatory redemption prior to maturity as described herein.

THE SERIES 2013 BONDS DO NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE STATE OF MICHIGAN AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF MICHIGAN, THE CITY OF FLINT OR ANY AGENCY OR POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2013 BONDS. THE OBLIGATION OF THE CITY OF FLINT TO MAKE PAYMENTS OF CASH RENTALS IS A SPECIAL, LIMITED OBLIGATION OF THE CITY OF FLINT PAYABLE SOLELY FROM THE NET REVENUES OF THE MEDICAL CENTER. THE AUTHORITY HAS NO TAXING POWER.

**AMOUNT, MATURITY, INTEREST RATE, PRICE, YIELD AND CUSIP<sup>†</sup>**

**Series 2013A Bonds**

\$5,580,000	5.000%	Term Bonds due July 1, 2023	Price 104.077% to Yield 4.500%	CUSIP <sup>†</sup> : 339510BQ1
\$8,355,000	5.250%	Term Bonds due July 1, 2028	Price 102.796%* to Yield 4.900%	CUSIP <sup>†</sup> : 339510BR9
\$8,005,000	5.250%	Term Bonds due July 1, 2039	Price 99.286% to Yield 5.300%	CUSIP <sup>†</sup> : 339510BT5

\* Priced to the call date.

**Series 2013B Bonds**

**\$12,290,000 Serial Bonds**

<b>Maturity (July 1)</b>	<b>Amount</b>	<b>Interest Rate</b>	<b>Price</b>	<b>CUSIP<sup>†</sup></b>
2013	\$555,000	5.000%	100.794%	339511DT1
2015	\$1,235,000	5.000%	105.314%	339511DV6
2018	\$5,150,000	3.750%	101.785%	339511DY0
2019	\$2,350,000	4.000%	101.655%	339511DZ7
2019	\$3,000,000	5.000%	107.186%	339511EA1

**\$24,300,000 Term Bonds**

\$9,790,000	3.500%	Term Bonds due July 1, 2017	Price 101.976% to Yield 3.000%	CUSIP <sup>†</sup> : 339511DX2
\$8,560,000	4.750%	Term Bonds due July 1, 2023	Price 102.027% to Yield 4.500%	CUSIP <sup>†</sup> : 339511EC7
\$5,950,000	4.750%	Term Bonds due July 1, 2028	Price 97.347% to Yield 5.000%	CUSIP <sup>†</sup> : 339511ED5

The Series 2013 Bonds are being offered when, as and if issued and received by the Underwriter, subject to prior sale, withdrawal or modification of the offer without any notice, and to the approval of legality of the Series 2013 Bonds by Dickinson Wright PLLC, Troy, Michigan, Bond Counsel. Certain legal matters will be passed upon for the Medical Center by its General Counsel and for the Authority by its disclosure counsel, Miller, Canfield, Paddock and Stone, P.L.C., Ann Arbor, Michigan. It is expected that the Series 2013A Bonds in definitive form will be available for delivery to the Underwriter through the facilities of DTC on or about March 14, 2013 and that the Series 2013B Bonds in definitive form will be available for delivery to the Underwriter through the facilities of DTC on or about April 2, 2013.

This cover page contains certain information for quick reference only. It is not a summary of the Series 2013 Bonds or the security for the Series 2013 Bonds. Potential investors must read the entire Official Statement, including the Appendices, to obtain information essential to the making of an informed investment decision.

**RAYMOND JAMES<sup>®</sup>**

The date of this Official Statement is February 27, 2013.

<sup>†</sup> CUSIP numbers appearing on the cover of this Official Statement have been provided by the CUSIP Service Bureau, which is managed on behalf of the American Bankers Association by Standard & Poor's, a division of the McGraw-Hill Companies, Inc. The Authority is not responsible for the selection of CUSIP numbers and makes no representation as to their correctness on the Series 2013 Bonds or as set forth on the cover of this Official Statement.

## **REGARDING USE OF THIS OFFICIAL STATEMENT**

No dealer, broker, salesperson or other person has been authorized by the Authority, the Medical Center or the Underwriter to give any information or to make any representations, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy, nor shall there be any sale of the Series 2013 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information contained in this Official Statement has been furnished by the Medical Center, the Authority, DTC and other sources which are believed to be reliable. The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. 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 parties referred to above since the date hereof.

CUSIP identifiers are included in this Official Statement for the convenience of the owners and potential owners of the Series 2013 Bonds. CUSIP data is provided by the CUSIP Service Bureau, which is managed on behalf of the American Bankers Association by Standard & Poor's, a division of the McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Global Services. None of the Authority, the Trustee, the Medical Center or the Underwriter assumes any responsibility for the accuracy of such data.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2013 BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2013 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The Series 2013 Bonds and the 2013 Restated Contract of Lease (as hereinafter defined) have not been registered under the Securities Act of 1933, as amended, and the Indenture (as hereinafter defined) has not been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon exemptions contained in such Acts. The registration or qualification of the Series 2013 Bonds in accordance with applicable provisions of securities laws of the states in which the Series 2013 Bonds have been registered or qualified and the exemption from registration or qualification in other states cannot be regarded as a recommendation thereof. Neither these states nor any of their agencies have passed upon the merits of the Series 2013 Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

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

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements.” Such statements generally are identifiable by the terminology used, such as “plan,” “expect,” “estimate,” “budget” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The Medical Center does not plan to issue any updates or revisions to those forward-looking statements if or when changes to its expectations or events, conditions or circumstances in which such statements are based occur.

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## OFFICIAL STATEMENT

Relating to

**\$58,530,000**

**City of Flint Hospital Building Authority**

**\$21,940,000**

**Building Authority Revenue Rental Bonds,  
Series 2013A (Hurley Medical Center)**

**\$36,590,000**

**Building Authority Revenue Refunding Bonds,  
Series 2013B (Hurley Medical Center)**

## INTRODUCTION

*Purpose of this Official Statement.* The purpose of this Official Statement, including the cover page and the Appendices, is to set forth certain information in connection with the offering of \$21,940,000 aggregate principal amount of Building Authority Revenue Rental Bonds, Series 2013A (Hurley Medical Center) (the “Series 2013A Bonds”) and \$36,590,000 aggregate principal amount of Building Authority Revenue Refunding Bonds, Series 2013B (Hurley Medical Center) (the “Series 2013B Bonds”) and together with the Series 2013A Bonds, the “Series 2013 Bonds”) of the City of Flint Hospital Building Authority (the “Authority”). The Series 2013 Bonds are authorized to be issued pursuant to the provisions of (i) Act No. 31, Michigan Public Acts of 1948 (First Extra Session), as amended (the “Act”), and (ii) the Authority’s Bond Resolution and Indenture of Trust, adopted by the Authority on January 7, 2013 (the “Indenture”). Pursuant to the Indenture, the Authority has appointed U.S. Bank National Association, Detroit, Michigan, as trustee thereunder (the “Trustee”).

*The Authority.* The Authority is governed by six commissioners, five of whom are appointed by the City Council of the City of Flint, Michigan (the “City”), to serve six-year terms. The sixth commissioner is the Senior Vice President and Chief Financial Officer of Hurley Medical Center, who serves as Secretary-Treasurer of the Authority in a non-voting capacity.

The Authority is authorized to issue bonds for the purpose of financing or refinancing the acquiring, furnishing, equipping, owning, improving, enlarging, leasing, operating and/or maintaining of a building or buildings, together with automobile parking lots or structures and the necessary site or sites therefor, for use as a hospital or as hospital-related facilities for the benefit of the residents of the City.

The Series 2013 Bonds are limited obligations of the Authority payable solely out of Cash Rentals (which are revenue obligations and not full faith and credit general obligations) received by the Authority pursuant to the hereinafter defined 2013 Restated Contract of Lease.

*The Medical Center.* Hurley Medical Center (the “Medical Center”) is a 443–licensed bed, tertiary care teaching facility. Appendix A contains or incorporates by reference information on the history, organization, ownership, operations and financial performance of the Medical Center.

*Purpose of the Series 2013 Bonds.* The proceeds to be received by the Authority from the sale of the Series 2013A Bonds, together with other available funds, will be used to (i) finance the costs of certain capital improvements and costs to acquire and install equipment at the Medical Center’s facilities (the “Project”), (ii) fund the Debt Service Reserve Fund (Series 2013A) for the benefit of the holders of the Series 2013A Bonds and (iii) pay certain expenses incurred in connection with the issuance of the Series 2013A Bonds. The proceeds to be received by the Authority from the sale of the Series 2013B Bonds, together with other available funds, will be used to (i) refund \$6,955,000 principal amount of the



Authority's outstanding Building Authority Revenue Refunding Bonds, Series 1998A (Hurley Medical Center) (the "Series 1998A Bonds To Be Refunded"), (ii) refund \$12,760,000 principal amount of the Authority's outstanding Building Authority Revenue Rental and Refunding Bonds, Series 1998B (Hurley Medical Center) (the "Series 1998B Bonds To Be Refunded"), (iii) refund \$15,850,000 principal amount of the outstanding Building Authority Revenue and Refunding Bonds, Series 2003 (Hurley Medical Center) (the "Series 2003 Bonds To Be Refunded" and, together with the Series 1998A Bonds To Be Refunded and the Series 1998B Bonds To Be Refunded, the "Bonds To Be Refunded"), (iv) fund the Debt Service Reserve Fund (Series 2013B) for the benefit of the holders of the Series 2013B Bonds and (v) pay certain expenses incurred in connection with the issuance of the Series 2013B Bonds. See "PLAN OF FINANCE" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

*Security for the Series 2013 Bonds.* The Series 2013 Bonds are limited obligations of the Authority and will be payable from payments of Cash Rentals to be made under the Eighth Amended and Restated Contract of Lease (Revenue Rental), dated as of February 1, 2013 (the "2013 Restated Contract of Lease"), between the Authority and the City, acting through its Board of Hospital Managers (the "Lessee"). Under the 2013 Restated Contract of Lease, the Lessee pledges the net revenues of the Medical Center (but not the full faith and credit of the City) for the making of Cash Rentals to the Authority in amounts sufficient to pay the principal of and interest on the Series 2013 Bonds when due. The Indenture provides for the establishment of a debt service reserve fund for the Series 2013A Bonds for the exclusive benefit of the Series 2013A Bonds (the "Debt Service Reserve Fund (Series 2013A)") and a debt service reserve fund for the Series 2013B Bonds for the exclusive benefit of the Series 2013B Bonds (the "Debt Service Reserve Fund (Series 2013B)"). The Debt Service Reserve Fund (Series 2013A) and the Debt Service Reserve Fund (Series 2013B) are individually referred to herein as a Debt Service Reserve Fund and are collectively referred to herein as the Debt Service Reserve Funds. For further information concerning the security for the Series 2013 Bonds, see "SECURITY FOR THE SERIES 2013 BONDS" herein.

*Parity Bonds.* The Authority has heretofore issued several series of bonds which are payable from Cash Rentals on a parity with the Series 2013 Bonds. See "PARITY BONDS" herein.

*Additional Bonds.* The Indenture provides for the issuance of additional series of bonds (the "Additional Bonds") on parity with the Series 2013 Bonds and all other bonds issued under the Indenture, upon compliance with the conditions set forth in the Indenture. See "SUMMARY OF PRINCIPAL DOCUMENTS—Summary of Certain Provisions of the Indenture—Additional Bonds" in Appendix C. The Series 2013 Bonds and any Additional Bonds are herein collectively referred to as the "Bonds." Any such Additional Bonds will rank on a parity with the Series 2013 Bonds, except that (a) Additional Bonds of a particular series will not be entitled to the benefits of the security of the Debt Service Reserve Fund (Series 2013A) held for the Series 2013A Bonds, the Debt Service Reserve Fund (Series 2013B) held for the Series 2013B Bonds or any other reserve fund held for any other series of Additional Bonds or outstanding Parity Bonds and (b) Additional Bonds of a particular series may be entitled to the benefits of other security (such as letters or lines of credit, bond insurance, or other forms of credit or liquidity enhancement), which additional security need not extend to any other series of Bonds (including the Series 2013 Bonds).

*Bondholders' Risks.* There are risks associated with the purchase of the Series 2013 Bonds. See "BONDHOLDERS' RISKS" for a discussion of some of these risks.

*Continuing Disclosure.* The Medical Center will enter into an undertaking for the benefit of the holders of the Series 2013 Bonds to provide certain information quarterly and annually and to provide notice of certain events to certain information repositories. For further information, see "CONTINUING DISCLOSURE" herein.

*Underlying Documents.* The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document for the complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each such document. See Appendix C for definitions of certain words and terms used herein.

## **THE SERIES 2013 BONDS**

### **General**

Beneficial interests in the Series 2013 Bonds will initially be issued pursuant to a Book-Entry-Only System (the “Book-Entry System”) maintained by The Depository Trust Company, New York, New York (“DTC”), as described below under “BOOK-ENTRY SYSTEM.” Under the Indenture, the Authority may appoint a successor securities depository to DTC. (DTC, together with any such successor securities depository, is hereinafter referred to as the “Securities Depository.”) The holders of the Series 2013 Bonds have no right to a Book-Entry System for the Series 2013 Bonds.

So long as Cede & Co. is the registered owner of the Series 2013 Bonds, as nominee of DTC, references herein to the holders or registered owners of the Series 2013 Bonds will mean Cede & Co. and will not mean the Beneficial Owners (as hereinafter defined) of the Series 2013 Bonds.

### **Discontinuation of Book-Entry System**

In the event that the Authority determines that the Beneficial Owners should be able to obtain Series 2013 Bond certificates, the Authority may so notify the Securities Depository and the Trustee whereupon the Securities Depository will notify the Participants of the availability through the Securities Depository of Series 2013 Bond certificates. In such event, the Trustee shall issue, transfer and exchange initial Series 2013 Bond certificates as requested by the Securities Depository in appropriate amounts and in Authorized Denominations. Whenever the Securities Depository requests the Authority and the Trustee to do so, the Trustee and the Authority shall cooperate with the Securities Depository in taking appropriate action after reasonable notice to make available initial Series 2013 Bonds registered in whatever name or names the Beneficial Owners transferring or exchanging initial Series 2013 Bonds shall designate.

In the event that the Book-Entry System is discontinued, the provisions described under the next heading would apply.

### **Form and Denomination of and Payments on the Series 2013 Bonds**

The following information is subject in its entirety to the provisions described below under “BOOK-ENTRY SYSTEM” while the Series 2013 Bonds are in the Book-Entry System, which describes, among other things, the method of payment of principal of, premium, if any, and interest on the Series 2013 Bonds and matters pertaining to transfers and exchanges while the Book-Entry System is in place. The Series 2013 Bonds, which will bear interest at the rates per annum and mature in the years and in the principal amounts as shown on the cover page hereof, will be issued as fully registered bonds in the denomination of \$5,000 or any integral multiple of \$5,000. Each Series 2013 Bond will be dated the date of delivery and will bear interest from the date thereof or such later date to which interest has been paid. Interest on the Series 2013 Bonds will be payable semiannually on January 1 and July 1 of each year, commencing July 1, 2013. Principal of the Series 2013 Bonds will be paid to the registered owners at maturity or upon earlier redemption upon presentation and surrender of the Series 2013 Bonds at the principal corporate trust office of the Trustee. Such payment will be made by the Trustee by check or by wire transfer to any registered owner of not less than \$1,000,000 in aggregate principal amount of the

Series 2013 Bonds for which wire transfer payment has been requested in writing to the Trustee at least 60 days prior to the maturity or redemption date with complete wire transfer instructions. Interest on the Series 2013 Bonds will be paid on each Interest Payment Date to the registered owners as they appear at the close of business on the Record Date (December 15 and June 15) next preceding the Interest Payment Date on the Series 2013 Bonds register kept by the Trustee, notwithstanding the exchange or transfer thereof subsequent to the Record Date and prior to such Interest Payment Date. Payment of interest on the Series 2013 Bonds will be made by the Trustee by check or by wire transfer to any registered owner of not less than \$1,000,000 in aggregate principal amount of the Series 2013 Bonds for which wire transfer payment has been requested in writing to the Trustee as of the Record Date next preceding such Interest Payment Date with complete wire transfer instructions.

Any Series 2013 Bonds, upon surrender thereof to the Trustee with a written instrument of transfer satisfactory to the Trustee, duly executed by the registered owner or his or her duly authorized attorney, may, at the option of the registered owner thereof, be exchanged for Series 2013 Bonds of any other authorized denominations of the same aggregate principal amount and of the same series, maturity and interest rate.

Each Series 2013 Bond will be transferable only upon the books of the Authority, copies of which will be kept for that purpose by the Trustee, upon surrender of such Series 2013 Bonds together with a written instrument of transfer satisfactory to the Trustee duly executed by the registered owner or his or her duly authorized attorney.

The Authority and the Trustee may deem and treat the person in whose name any Series 2013 Bonds is registered upon the books of the Authority as the absolute owner of such Series 2013 Bonds, whether such Series 2013 Bond shall be overdue or not, for the purpose of receiving payment of the principal of and interest on such Series 2013 Bond and for all other purposes, and all payments made to any such registered owner, or upon his or her order, in accordance with the provisions of the Indenture will be valid and effectual to satisfy and discharge the liability upon such Series 2013 Bond to the extent of the sum or sums so paid, and neither the Authority nor the Trustee will be affected by any notice to the contrary.

For every exchange or transfer of Series 2013 Bonds, the Authority or the Trustee may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer, which sum or sums will be paid by the person requesting such exchange or transfer as a condition precedent to the exercise of the privilege of making such exchange or transfer.

The Trustee will not be required to transfer or exchange (a) any Series 2013 Bond or portion thereof within ten days prior to selection of Series 2013 Bonds of the same series and maturity for redemption or (b) any Series 2013 Bond or portion thereof selected for redemption.

## **Redemption**

*Optional Redemption.* The Series 2013 Bonds are subject to optional redemption prior to maturity at the option of the Authority, at the direction of the Medical Center, in whole or in part at any time on and after July 1, 2023, and, if in part, by lot in authorized denominations in such manner as determined by the Trustee, at the redemption price of 100% of the principal amount thereof, plus accrued interest to the redemption date.

*Mandatory Redemption.* The Series 2013A Bonds maturing July 1, 2023, July 1, 2028 and July 1, 2039 and the Series 2013B Bonds maturing July 1, 2017, July 1, 2023 and July 1 2028 (the “Term

Bonds”) will be subject to mandatory redemption (the “Redemption Requirements”) in accordance with the procedures set forth in the Indenture, certain of which are summarized below, at a redemption price equal to 100% of the principal amount thereof being redeemed plus accrued interest to the redemption date, without premium, on each July 1, in the following years and in the following principal amounts:

**Series 2013A Term Bond Maturing July 1, 2023**

<u>Date (July 1)</u>	<u>Principal Amount</u>	<u>Date (July 1)</u>	<u>Principal Amount</u>
2018	\$15,000	2021	\$1,300,000
2019	530,000	2022	1,365,000
2020	935,000	2023	1,435,000*

\* Maturity

**Series 2013A Term Bond Maturing July 1, 2028**

<u>Date (July 1)</u>	<u>Principal Amount</u>	<u>Date (July 1)</u>	<u>Principal Amount</u>
2024	\$1,505,000	2027	\$1,755,000
2025	1,580,000	2028	1,850,000*
2026	1,665,000		

\* Maturity

**Series 2013A Term Bond Maturing July 1, 2039**

<u>Date (July 1)</u>	<u>Principal Amount</u>	<u>Date (July 1)</u>	<u>Principal Amount</u>
2029	\$560,000	2035	\$755,000
2030	585,000	2036	795,000
2031	615,000	2037	840,000
2032	645,000	2038	880,000
2033	685,000	2039	930,000*
2034	715,000		

\* Maturity

**Series 2013B Term Bond Maturing July 1, 2017**

<u>Date (July 1)</u>	<u>Principal Amount</u>
2016	\$4,810,000
2017	4,980,000*

\* Maturity

**Series 2013B Term Bond Maturing July 1, 2023**

<u>Date</u> <u>(July 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Date</u> <u>(July 1)</u>	<u>Principal</u> <u>Amount</u>
2020	\$5,590,000	2022	\$990,000
2021	945,000	2023	1,035,000*

\* Maturity

**Series 2013B Term Bond Maturing July 1, 2028**

<u>Date</u> <u>(July 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Date</u> <u>(July 1)</u>	<u>Principal</u> <u>Amount</u>
2024	\$1,085,000	2027	\$1,245,000
2025	1,130,000	2028	1,305,000*
2026	1,185,000		

\* Maturity

The principal amount of Series 2013 Term Bonds required to be redeemed on each mandatory redemption date shall be reduced by the principal amount of any maturity of Series 2013 Term Bonds that have been purchased by the Trustee from moneys available therefor or delivered to the Trustee for cancellation at least 45 days prior to said mandatory redemption date.

*Extraordinary Redemption.* The Series 2013 Bonds are subject to redemption in the event of damage to or destruction or condemnation of the Medical Center, if the net proceeds received in connection therewith exceed the greater of (a) \$5,000,000 or (b) five percent of Revenues (as defined in the 2013 Restated Contract of Lease but excluding revenues of any Designated Affiliate) of the Medical Center for its last fiscal year. In such event, the Series 2013 Bonds may, pursuant to the provisions of the Indenture, be redeemed prior to their respective maturities in whole or in part on any date, at the principal amount of the Series 2013 Bonds to be redeemed plus accrued interest thereon to the redemption date, but without premium, but only in a principal amount not exceeding the amount of net proceeds so received.

The Series 2013 Bonds may be redeemed from such serial maturities or portions thereof as are selected by the Medical Center and by lot within a maturity as determined by the Trustee. In the case of any extraordinary redemption or any purchase and cancellation of the Series 2013 Bonds, the Medical Center shall receive credit against its required deposits into the Redemption Fund with respect to the Series 2013 Bonds of the related serial maturity or maturities.

*Notice of Redemption; Effect.* Notice of redemption of the Series 2013 Bonds will be given by first class mail not less than 30 days or more than 60 days prior to the redemption date to each holder of the Series 2013 Bonds or portions thereof to be redeemed as of the Record Date at the last address shown on the registration books kept by the Trustee. Failure to mail any such notice to the registered owner of any Series 2013 Bonds or any defect therein will not affect the validity of the proceedings for such redemption as to the registered owners of any Series 2013 Bonds to whom notice has been mailed. See "BOOK-ENTRY SYSTEM."

All Series 2013 Bonds so called for redemption will cease to bear interest on the specified date set for the redemption, provided funds or sufficient Governmental Securities for their redemption have been duly deposited with the Trustee pursuant to the Indenture and, thereafter, the holders thereof will have no rights in respect thereof except the right to receive payment of the redemption price from the Trustee and the right to receive a new Series 2013 Bond for any portion not redeemed.

## BOOK-ENTRY SYSTEM

The Depository Trust Company, New York, New York (“DTC”) will act as securities depository for the Series 2013 Bonds. The ownership of one fully registered Series 2013 Bond for each maturity as set forth on the cover page hereof, each in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., as nominee for DTC. SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE SERIES 2013 BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE BONDHOLDERS, HOLDERS OR REGISTERED OWNERS OF THE SERIES 2013 BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES 2013 BONDS.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of the Series 2013 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2013 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2013 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 Series 2013 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 Series 2013 Bonds, except in the event that use of the book-entry-only system for the Series 2013 Bonds is discontinued.**

To facilitate subsequent transfers, all Series 2013 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 Series 2013 Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2013 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Series 2013 Bonds are credited, which may or

may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2013 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2013 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2013 Bond documents. For example, Beneficial Owners of the Series 2013 Bonds may wish to ascertain that the nominee holding the Series 2013 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

While the Series 2013 Bonds are in the book-entry-only system, redemption notices shall be sent to DTC. If less than all of the Series 2013 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2013 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2013 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Series 2013 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

Principal and interest payments on the Series 2013 Bonds will be made to DTC. DTC's practice is to credit Direct Participant's accounts on a payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on such payment date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Bond Trustee, the Authority, or the Medical Center, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services with respect to the Series 2013 Bonds at any time by giving notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, 2013 Bond certificates are required to be printed and delivered.

In addition, the Authority may discontinue the book-entry-only system for the Series 2013 Bonds at any time by giving reasonable notice to DTC. In that event, Series 2013 Bond certificates will be printed and delivered to DTC.

**THE INFORMATION PROVIDED IMMEDIATELY ABOVE UNDER THIS CAPTION HAS BEEN PROVIDED BY DTC. NO REPRESENTATION IS MADE BY THE AUTHORITY, THE MEDICAL CENTER OR THE UNDERWRITER AS TO THE ACCURACY OR ADEQUACY OF SUCH INFORMATION PROVIDED BY DTC OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF.**

## **SECURITY FOR THE SERIES 2013 BONDS**

### **General**

The principal of and interest on the Series 2013 Bonds will be limited obligations of the Authority and will be payable from payments to be made under the 2013 Restated Contract of Lease. Under the 2013 Restated Contract of Lease, the Lessee will pledge the net revenues of the Medical Center (but not the full faith and credit of the City) as security for its obligation to make Cash Rentals to the Authority in amounts sufficient to pay the principal of and interest on the Series 2013 Bonds and Parity Bonds, when due. See “PARITY BONDS” herein for a description of currently outstanding Parity Bonds.

The rights of the Authority in and to the 2013 Restated Contract of Lease and the amounts payable to the Authority under the 2013 Restated Contract of Lease will be assigned to the Trustee to provide for and to secure the payment of principal of and interest on the Series 2013 Bonds and Parity Bonds. The Lessee will agree under the 2013 Restated Contract of Lease to make its payments thereunder directly to the Trustee.

The Indenture provides for the establishment and funding of (i) the Debt Service Reserve Fund (Series 2013A) for the exclusive benefit of the registered owners of the Series 2013A Bonds in an amount equal to the Reserve Amount (Series 2013A), which is initially \$1,873,159.30 (the “Reserve Amount (Series 2013A)”) and (ii) the Debt Service Reserve Fund (Series 2013B) for the exclusive benefit of the registered owners of the Series 2013B Bonds in an amount equal to the Reserve Amount (Series 2013B), which is initially \$3,659,000.00 (the “Reserve Amount (Series 2013B)”). The Reserve Amount (Series 2013A) and the Reserve Amount (Series 2013B) are each referred to herein as a Reserve Amount. See “SUMMARY OF PRINCIPAL DOCUMENTS–Definitions” in Appendix C. Amounts in each Debt Service Reserve Fund will be applied to payment of principal of and interest on the related series of Series 2013 Bonds in the event and to the extent that amounts on deposit in the Redemption Fund and, as applicable, the Series 2013A Special Fund or Series 2013B Special Fund established under the Indenture are insufficient for such payment. If at any time the fair market value of the securities on deposit in a Debt Service Reserve Fund is less than the related Reserve Amount because of a transfer from such Debt Service Reserve Fund, there will be paid by the Authority out of Cash Rentals, in four substantially equal quarterly installments (commencing with the last day of the calendar quarter in which such transfer occurred), an amount sufficient to restore such Debt Service Reserve Fund to the related Reserve Amount. On the first Business Day after January 1 of each year, the Trustee will determine the amount on deposit in each Debt Service Reserve Fund by valuing investments therein at fair market value and if the amount then on deposit in a Debt Service Reserve Fund is determined to be less than 90% of the



related Reserve Amount because of a change in the value of such investments, then there will be paid by the Authority out of Cash Rentals, in eight substantially equal installments (commencing with the last Business Day of the calendar quarter in which such deficiency is determined), an amount sufficient to restore such Debt Service Reserve Fund to 100% of the related Reserve Amount. Amounts on deposit in each Debt Service Reserve Fund will be available to pay debt service on the related series of Series 2013 Bonds as described above, but will not be available to pay debt service on any other Bonds or Parity Bonds. Additional Bonds may be issued without the benefits and security of a debt service reserve fund or any other reserve comparable to a debt service reserve fund. See “SUMMARY OF PRINCIPAL DOCUMENTS–Summary of Certain Provisions of the Indenture–Indenture Funds–Debt Service Reserve Fund (Series 2013A),” and “–Debt Service Reserve Fund (Series 2013B)” in Appendix C.

### **Designated Affiliates**

Under the 2013 Restated Contract of Lease, the Medical Center is permitted to designate certain affiliates as “Designated Affiliates.” Subject to the 2013 Restated Contract of Lease, the Medical Center may transfer property, including cash, to a Designated Affiliate. See “SUMMARY OF PRINCIPAL DOCUMENTS – Summary of Certain Provisions of the 2013 Restated Contract of Lease – Sale, Lease or Other Disposition of Property,” “–Affiliate Guaranties” and “–Affiliate Leases.” The Medical Center is required to control such Designated Affiliate such that the Medical Center could cause such Designated Affiliate to make payments to the Medical Center in amounts necessary to assist the Medical Center in making Cash Rentals under the 2013 Restated Contract of Lease. **However, no Designated Affiliate will directly guaranty or otherwise be responsible for payment on the Series 2013 Bonds and the Medical Center may at any time provide that any Designated Affiliate no longer be so designated, so long as it will not result in a default under the Indenture.**

There is no restriction in the 2013 Restated Contract of Lease or the Indenture on the ability of Designated Affiliates to dispose of property, to incur liens, to engage in mergers or other similar transactions. Property of Designated Affiliates could become subject to liens which, upon default by the Designated Affiliate, could result in such property being foreclosed upon by a lender. Further, such Property could be transferred by the Designated Affiliate without restriction. The amount of Property disposed of by the Designated Affiliate would count, however, in the calculation of the amount of Property the Medical Center could dispose of pursuant to its ability to freely dispose of up to 10% of the value of its Property in a twelve-month period. Designated Affiliates would be limited as to the incurrence of Indebtedness.

Upon the issuance of the Series 2013 Bonds, no affiliates of the Medical Center will be “Designated Affiliates” under the 2013 Restated Contract of Lease.

### **RATE AND LIQUIDITY COVENANTS**

Pursuant to the 2013 Restated Contract of Lease, the Medical Center has agreed to set its rates in a manner to assure that Net Income Available for Debt Service will at all times be no less than 110% of the Maximum Annual Debt Service Requirement so as to provide for the Cash Rentals and all other amounts to be paid pursuant to the 2013 Restated Contract of Lease. Rates are to be fixed and revised from time to time by the Medical Center, so as to produce the foregoing amounts, and the Medical Center has covenanted and agreed that it will collect the established rates for services of the Medical Center for as long as any of the Bonds or any Parity Bonds payable out of the Cash Rentals are outstanding. The obligation of the Medical Center to make the Cash Rentals is not subject to any setoff by the Medical Center nor is it subject to abatement of the Cash Rentals for any cause including, but not limited to, casualty that results in the Medical Center becoming untenable, except in the event that the Medical Center elects to prepay any portion of the cash rentals and such prepayment is applied to the payment or

redemption of the Bonds or Parity Bonds. See “SUMMARY OF PRINCIPAL DOCUMENTS–Summary of Certain Provisions of the 2013 Restated Contract of Lease–Hurley Medical Center Rates” in Appendix C. The financial results and debt service requirements of any Designated Affiliates would be included to determine compliance with the rate covenant. See “SECURITY FOR THE SERIES 2013 BONDS.”

Pursuant to the 2013 Restated Contract of Lease, the Medical Center has agreed that, if in any fiscal year while any of the Series 2013 Bonds remains Outstanding, Net Income Available for Debt Service is less than 130% of the Maximum Annual Debt Service Requirement, then the Medical Center shall promptly retain a Hospital Consultant to examine the rates, fees and charges of the Medical Center and the methods of operation of the Medical Center and to make such recommendations as to rates, fees and charges as the Hospital Consultant believes are appropriate to enable the Medical Center and Designated Affiliates to produce Net Income Available for Debt Service as required by the 2013 Restated Contract of Lease. See “SUMMARY OF PRINCIPAL DOCUMENTS–Summary of Certain Provisions of the 2013 Restated Contract of Lease–Hurley Medical Center Rates” in Appendix C.

While the Series 2013 Bonds remain outstanding, the Medical Center has agreed to comply with a 50 days cash on hand requirement as of June 30, 2013 and as of the end of each fiscal year thereafter and to retain a Hospital Consultant upon a failure to maintain 50 days cash on hand; provided, however, that the Medical Center shall not be in default of such days cash on hand requirement unless (i) the Medical Center fails to engage a Hospital Consultant within 90 days after the end of such fiscal year or (ii) the Medical Center’s Days Cash on Hand falls below 35 as of the end of such fiscal year. See “SUMMARY OF PRINCIPAL DOCUMENTS–Summary of Certain Provisions of the 2013 Restated Contract of Lease–Liquidity Covenant” in Appendix C.

### **PARITY BONDS**

Upon the issuance of the Series 2013 Bonds and after giving effect to the plan of finance described under “PLAN OF FINANCE,” the Authority will have outstanding the following Parity Bonds, payable on an equal and ratable basis with the Series 2013 Bonds:

- \$18,560,000 Building Authority Revenue Refunding Bonds, Series 1998A (Hurley Medical Center), issued pursuant to a Bond Resolution and Indenture of Trust adopted on April 1, 1998 (the “1998 Indenture”), outstanding in the principal amount of \$1,880,000;
- \$20,570,000 Building Authority Revenue Rental Bonds, Series 1998B (Hurley Medical Center), issued pursuant to the 1998 Indenture, outstanding in the principal amount of \$1,905,000;
- \$35,000,000 Building Authority Revenue and Revenue Refunding Bonds, Series 2003 (Hurley Medical Center), issued pursuant to a Bond Resolution and Indenture of Trust dated May 12, 2003, outstanding in the principal amount of \$7,510,000;
- \$35,215,000 Building Authority Revenue Rental Bonds, Series 2010 (Hurley Medical Center), issued pursuant to a Bond Resolution and Indenture of Trust adopted on February 18, 2010, outstanding in the principal amount of \$34,215,000; and
- \$5,074,383 Building Authority Revenue Rental Bond, Series 2011 (Hurley Medical Center), issued pursuant to a Bond Resolution and Indenture of Trust adopted on September 30, 2011, outstanding in the principal amount of \$4,272,997.

The Indenture permits the issuance of Parity Bonds, as Additional Bonds issued under the Indenture or bonds issued under a separate indenture or resolution and designated as Parity Bonds,

payable out of Cash Rentals on an equal and ratable basis with the Series 2013 Bonds. See “SUMMARY OF PRINCIPAL DOCUMENTS–Summary of Certain Provisions of the Indenture–Additional Bonds” and “–Lien of Indenture” in Appendix C.

## **PLAN OF FINANCE**

The proceeds of the Series 2013 Bonds, together with other available funds, will be used to (i) finance the costs of the Project (as defined below), (ii) refund the Bonds To Be Refunded, (iii) fund the Debt Service Reserve Funds and (iii) pay certain expenses incurred in connection with the issuance of the Series 2013 Bonds.

The Medical Center will use a portion of the proceeds of the Series 2013A Bonds to renovate and upgrade its health care facilities and to purchase and install equipment, including medical and electrical equipment and clinical information technology and software (the “Project”). At closing, the Medical Center anticipates reimbursing itself for approximately \$7,500,000 of prior Project expenditures.

A portion of the proceeds of the Series 2013B Bonds will be deposited with U.S. Bank National Association, as escrow trustee (the “Escrow Trustee”), pursuant to an Escrow Deposit Agreement, dated as of February 1, 2013, between the Escrow Trustee and the Authority. The funds deposited will be held as cash or invested in permitted investments (the “Investment Securities”) the principal of and interest on which will be sufficient to redeem the Bonds To Be Refunded on or about their respective expected redemption dates. The Investment Securities and moneys deposited with the Escrow Trustee will be deposited in irrevocable escrow accounts established pursuant the Escrow Deposit Agreement and pledged to secure the payment of the principal of and interest on the applicable Bonds To Be Refunded on the applicable redemption dates.

## **THE AUTHORITY**

### **Powers**

The Authority is a hospital building authority organized and existing under and pursuant to the provisions of Act No. 31, Public Acts of the State of Michigan, 1948 (First Extra Session), as amended (the “Act”). The Authority has, among other powers, the statutory power to issue bonds for the purpose of financing or refinancing the acquiring, furnishing, equipping, owning, improving, enlarging, leasing, operating and/or maintaining of a building or buildings, together with automobile parking lots or structures and the necessary site or sites therefor, for use as a hospital or as hospital-related facilities for the benefit of the residents of the City of Flint.

### **Members of the Authority**

Pursuant to the Act, the Authority is governed by six commissioners, five of whom are appointed by the City Council of the City of Flint, Michigan to serve six-year terms. The sixth commissioner is the Senior Vice President and Chief Financial Officer of the Medical Center, who serves as Secretary-Treasurer of the Authority in a non-voting capacity.

The present members of the Commission of the Authority are as follows:

Lewis Driskell, Chairperson  
 Charlotte Edwards  
 Williamson George  
 Thomas James  
 Ira Rutherford  
 Cass Wisniewski, Secretary-Treasurer (non-voting member)

**ESTIMATED SOURCES AND USES OF FUNDS**

The estimated sources and uses of funds are as follows:

**Sources of Funds:**

	Series 2013A <u>Bonds</u>	Series 2013B <u>Bonds</u>	Total Series 2013 <u>Bonds</u>
Series 2013 Bond Proceeds	\$21,940,000	\$36,590,000	\$58,530,000
Net Original Issue Premium	<u>403,947</u>	625,543	1,029,489
Trustee Held Funds		<u>3,481,901</u>	<u>3,481,902</u>
<b>TOTAL SOURCES OF FUNDS</b>	<b><u>\$22,343,947</u></b>	<b><u>\$40,697,444</u></b>	<b><u>\$63,041,391</u></b>

**Uses of Funds:**

	Series 2013A <u>Bonds</u>	Series 2013B <u>Bonds</u>	Total Series 2013 <u>Bonds</u>
Bonds To Be Refunded		\$36,303,682	\$36,303,682
Project Fund	\$19,986,337		19,986,337
Debt Service Reserve Fund	1,873,159	3,659,000	5,532,159
Costs of Issuance <sup>(1)</sup>	<u>484,451</u>	<u>734,762</u>	<u>1,219,213</u>
<b>TOTAL USES OF FUNDS</b>	<b><u>\$22,343,947</u></b>	<b><u>\$40,697,444</u></b>	<b><u>\$63,041,391</u></b>

<sup>(1)</sup> Includes Underwriter's discount.

## ESTIMATED ANNUAL DEBT SERVICE REQUIREMENTS

The following table sets forth, for each bond year ending July 1, the amounts required for the payment of principal of and interest on the Series 2013 Bonds and other Parity Bonds.

Bond Year Ending July 1,	Series 2013A Bonds		Series 2013B Bonds		Parity Bonds <sup>(1)</sup>		Total
	Principal <sup>(2)</sup>	Interest	Principal <sup>(2)</sup>	Interest	Principal <sup>(2)</sup>	Interest	
2013		\$338,209	\$555,000	\$385,296	\$5,028,007	\$2,966,827	\$9,273,339
2014		1,137,900		1,530,750	5,280,899	3,013,694	10,963,244
2015		1,137,900	1,235,000	1,530,750	4,529,983	2,720,616	11,154,250
2016		1,137,900	4,810,000	1,469,000	1,240,310	2,466,078	11,123,287
2017		1,137,900	4,980,000	1,300,650	1,271,931	2,405,256	11,095,737
2018	\$15,000	1,137,900	5,150,000	1,126,350	1,304,904	2,343,084	11,077,237
2019	530,000	1,137,150	5,350,000	933,225	845,441	2,284,652	11,080,468
2020	935,000	1,110,650	5,590,000	689,225	500,000	2,251,825	11,076,700
2021	1,300,000	1,063,900	945,000	423,700	210,000	2,222,625	6,165,225
2022	1,365,000	998,900	990,000	378,813	225,000	2,207,925	6,165,638
2023	1,435,000	930,650	1,035,000	331,788	240,000	2,192,175	6,164,613
2024	1,505,000	858,900	1,085,000	282,625	260,000	2,175,375	6,166,900
2025	1,580,000	779,888	1,130,000	231,088	280,000	2,157,175	6,158,150
2026	1,665,000	696,938	1,185,000	177,413	300,000	2,137,575	6,161,925
2027	1,755,000	609,525	1,245,000	121,125	320,000	2,116,575	6,167,225
2028	1,850,000	517,388	1,305,000	61,988	335,000	2,094,175	6,163,550
2029	560,000	420,263			1,750,000	2,070,725	4,800,988
2030	585,000	390,863			1,875,000	1,948,225	4,799,088
2031	615,000	360,150			2,005,000	1,816,975	4,797,125
2032	645,000	327,863			2,155,000	1,669,106	4,796,969
2033	685,000	294,000			2,310,000	1,510,175	4,799,175
2034	715,000	258,038			2,485,000	1,339,813	4,797,850
2035	755,000	220,500			2,665,000	1,156,544	4,797,044
2036	795,000	180,863			2,860,000	960,000	4,795,863
2037	840,000	139,125			3,075,000	745,500	4,799,625
2038	880,000	95,025			3,310,000	514,875	4,799,900
2039	930,000	48,825			3,555,000	266,625	4,800,450
<b>TOTAL</b>	<b>\$21,940,000</b>	<b>\$17,467,109</b>	<b>\$36,590,000</b>	<b>\$10,973,783</b>	<b>\$50,216,476</b>	<b>\$51,754,195</b>	<b>\$188,941,563</b>

(1) Assumes the refunding of the Bonds To Be Refunded. See "PARITY BONDS" and "PLAN OF FINANCE" herein.

(2) Includes payment at maturity and mandatory sinking fund redemptions.

## HISTORICAL AND HISTORICAL PRO-FORMA DEBT SERVICE REQUIREMENTS

The table below sets forth historical and historical pro-forma debt service coverage ratios based upon the Medical Center's consolidated results of operations for the six months ended December 31, 2012, and the fiscal year ended June 30, 2012, 2011 and 2010.

	<b>Fiscal Year Ended June 30,</b>			<b>Six Months Ended December 31, <sup>(1)</sup></b>
<i>(Dollars in Thousands)</i>	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2012</u></b>	<b><u>2012</u> <u>(Annualized)</u></b>
Revenues, Gains and Other Support in Excess of Expenses	\$5,150	\$4,607	\$4,230	\$774
Add:				
Depreciation and Amortization	11,115	10,813	13,425	16,600
Interest Expense	3,713	3,840	4,441	5,682
Income Available for Debt Service	\$19,978	\$19,260	\$22,096	\$23,056
Historical Maximum Annual Debt Service Requirement	\$9,548	\$9,548	\$10,329	\$10,329
Maximum Annual Debt Service Coverage Ratio (x)	2.09	2.02	2.14	2.23
Pro-Forma Maximum Annual Debt Service Requirement <sup>(2)</sup>	\$11,154	\$11,154	\$11,154	\$11,154
Pro-Forma Maximum Annual Debt Service Coverage Ratio (x)	1.79	1.73	1.98	2.07

<sup>(1)</sup> Results for the six months ended December 31, 2012, are not necessarily indicative of the results for the fiscal year ending June 30, 2013.

<sup>(2)</sup> Pro-Forma Maximum Annual Debt Service Requirement gives effect to the issuance of the Series 2013 Bonds and the redemption of the Bonds To Be Refunded.

## **BONDHOLDERS' RISKS**

The purchase of the Series 2013 Bonds involves certain investment risks that are discussed throughout this Official Statement. Accordingly, each prospective purchaser of the Series 2013 Bonds should make an independent evaluation of all of the information presented in this Official Statement in order to make an informed investment decision. Certain of these risks are described below. The discussion of risk factors is not meant to be exhaustive.

### **Introduction**

The payment of the Series 2013 Bonds depends directly on the ability of the Medical Center to collectively generate revenues sufficient to cover the debt service on the Series 2013 Bonds and all other indebtedness of the Medical Center. In the last decade, health care providers, especially hospitals, have faced increasing economic pressures from both governmental health care programs and private purchasers of health care such as insurance companies and health maintenance organizations (collectively “third party payers”). The dependence of hospitals on governmental programs requires them to accept limitations on payments and comply with regulations and other restrictions and requirements triggered by participation in such programs. Some governmental and private third party payers have entered into contracts with health care providers that require “capitated” or other fixed payments, which have the effect of shifting significant economic risks to health care providers (see discussion of capitation payment methods under “BONDHOLDERS’ RISKS – Private Health Plans and Insurers” below).

Health care, especially at the hospital level, is a highly regulated industry with complicated and frequently changing regulations arising both from federal and state payment programs and extensive governmental oversight. Health care providers are increasingly subject to audits, investigations, and litigation that may threaten access to governmental reimbursement programs, require substantial fines and payments, generate adverse publicity and create significant legal and other transaction costs.

Set forth below is a limited discussion of certain of the risks affecting the Medical Center and its ability to provide for payment of the Series 2013 Bonds. Investors should recognize that the discussion below does not cover all such risks, that payment provisions and regulations and restrictions change frequently, and that additional material payment limitations and regulations and restrictions may be created, implemented or expanded while the Series 2013 Bonds are outstanding. The following discussion is not meant to be an exhaustive list of the risks associated with the purchase of any Bonds and does not necessarily reflect the relative importance of the various risks. Potential investors are advised to consider the following special factors along with all other information described elsewhere or incorporated by reference in this Official Statement, including the Appendices hereto, in evaluating the Series 2013 Bonds.

### **Concerning the Medical Center’s Operations**

The Medical Center’s future revenues and expenses are subject to, among other things, the demand for the services provided, the capabilities and continued support of management, the ability of management to recruit and retain physicians and other clinical and non-clinical personnel, and to maintain the support of the present medical staff and other personnel. Other factors that may impact the Medical Center’s operations include economic developments and population trends in the service area, competition, rates, costs, third-party reimbursement programs, the availability of gifts and contributions from donors, the ability of the Medical Center to secure federal and state loans and grants, the effect of changes in accreditation standards or governmental regulations, the availability of adequate malpractice insurance coverage, and the ability of the Medical Center’s management to control expenses and to increase revenue while maintaining the amount and quality of health care items and services delivered.

The regulatory and market factors discussed below may have an adverse effect on the Medical Center's financial condition or results of operations. In particular, the following factors, among others, may have an adverse effect on the Medical Center's financial condition to an extent that cannot be determined at this time.

### **Impact of Recent Economic Recession and Disruption of Credit Markets**

The disruption of the credit and financial markets in the last several years has led to volatility in the securities markets, significant losses in investment portfolios, increased business failures and consumer and business bankruptcies, and is a major cause of the recent economic recession. As a direct consequence, the financial condition of the Medical Center and its operating results has been materially adversely affected.

In response to that disruption, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Financial Reform Act") was enacted in July 2010. The Financial Reform Act includes broad changes to the existing financial regulatory structure, including the creation of new federal agencies to identify and respond to risks to the financial stability of the United States. Additional legislation is pending or under active consideration by Congress, and regulatory action intended to increase the regulation of domestic and global credit markets is being considered by various federal agencies, the Federal Reserve Board and foreign governments. The effects of such legislative, regulatory and other governmental actions, including the Dodd-Frank Act and the Budget Control Act (defined below), on the Medical Center and, in particular on its access to capital markets and their investment portfolios, cannot be predicted.

The current economic climate has adversely affected the health care sector generally. Patient service revenues and inpatient volumes have not increased as historic trends would otherwise have predicted. Until recently, unemployment rates were increasing nationally, which has resulted in increases in self-pay admissions, increased levels of bad debt and uncompensated care, reduced demand for elective procedures, and reduced availability and affordability of health insurance. The economic climate is also increasing stresses on state budgets. These stresses may potentially result in reductions in Medicaid payment rates or Medicaid eligibility standards, and delays of payment of amounts due under Medicaid and other state or local payment programs.

In February 2009, the American Recovery and Reinvestment Act of 2009 (the "Recovery Act") was enacted and includes several provisions that are intended to provide financial relief to the health care sector by providing approximately \$150 billion in new funds. The new funds have and will be used to, among other things, provide a temporary increase in Federal payments to fund state Medicaid programs and provide subsidies to the recently unemployed for health insurance premium costs. The Recovery Act and resulting regulations established a framework for the implementation of a nationally-based health information technology program, including incentive payments to health care providers to encourage implementation of health information technology and electronic medical records. The Medicare incentive payments will be payable through September 30, 2016 to hospitals and physicians that comply with applicable federal requirements. Medicaid incentives are also available. Management of the Medical Center is committed to complying with the requirements necessary to receive incentive payments but, at this time, is unable to determine the full cost of such compliance. Failure to comply may result in reduced Medicare and Medicaid revenues in future years.

In August 2011, President Obama signed the Budget Control Act of 2011 (the "Budget Control Act"). The Budget Control Act limits the federal government's discretionary spending caps at levels necessary to reduce expenditures by \$917 billion from the current federal budget baseline for federal



fiscal years 2011 and 2012. Medicare, Social Security, Medicaid and other entitlement programs will not be affected by the limit on discretionary spending caps.

The Budget Control Act also created a bipartisan joint congressional committee to identify additional deficit reductions. Because the committee failed to propose a plan to cut the deficit by an additional \$1.2 trillion by the November 23, 2011 deadline, the Budget Control Act requires automatic spending reductions of \$1.2 trillion for fiscal years 2013 through 2021, minus any debt service costs and deficit reductions enacted by Congress. However, the percentage reduction for Medicare may not be more than 2% for a fiscal year, with a uniform percentage reduction across all Medicare programs.

The Budget Control Act also provides for a 27.4% reduction in Medicare's sustainable growth rate (SGR) formula for physician reimbursement, which would become effective in 2013, absent additional congressional action to repeal or modify the SGR formula.

Management of the Medical Center cannot predict how these reductions will be structured, what other deficit reduction initiatives may be proposed by Congress, or whether Congress will attempt to suspend or restructure the automatic budget cuts. However, if effective, these reductions could have a material adverse effect on the financial condition of the Medical Center. Further, with no long-term resolution in place for federal deficit reduction, hospital and physician reimbursement are likely to continue to be targets for reduction with respect to any interim or long-term federal deficit reduction efforts.

## **Health Care Reform**

In March, 2010, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act (the "Health Care Reform Act"), was enacted and approved by the President.

Some of the provisions of the Health Care Reform Act took effect immediately, while others will take effect or will be phased in over a time period of up to ten years. The Health Care Reform Act requires the promulgation of regulations which will significantly affect the health care industry and third-party payors. In response, third-party payors, and suppliers and vendors of goods and services to health care providers, are expected to impose new and additional contractual terms and conditions. Additionally, because of the complexity of the Health Care Reform Act, additional legislation is likely to be considered and enacted over time. Thus, the health care industry will continue to be subjected to significant new statutory and regulatory requirements and contractual terms and conditions and, consequently, subject to structural and operational changes and challenges for an extended period of time.

A significant component of the Health Care Reform Act is reformation of the sources and methods by which consumers will pay for health care for themselves and their families and by which employers will procure health insurance for their employees and employees' dependents. As a consequence, expansion of the base of consumers of health care services is a significant component, as well. One of the primary drivers of the Health Care Reform Act is to provide or make available, or subsidize the premium costs of, health care insurance for some of the millions of currently uninsured (or underinsured) consumers who fall below certain income levels. The Health Care Reform Act proposes to accomplish that objective through various provisions, summarized as follows: (i) the creation of active markets (referred to as exchanges) in which individuals can purchase health care insurance for themselves and their families, and small employers can purchase health care insurance for their employees' families and dependents, (ii) providing subsidies for premium costs to individuals and families based upon their income relative to federal poverty levels, (iii) mandating that individual consumers obtain and certain employers provide a minimum level of health care insurance, and providing for penalties or taxes on

consumers and employers that do not comply with these mandates, (iv) expansion of private commercial insurance coverage through such reforms as prohibitions on denials of coverage for pre-existing conditions and elimination of lifetime or annual cost caps, and (v) expansion of existing public programs, including Medicaid, for individuals and families. To the extent all or any of these provisions produce the expected result, an increase in utilization of health care services by those who are currently avoiding or rationing their health care can be expected and bad debt expenses may be reduced. Associated with increased utilization will be increased variable and fixed costs of providing health care services, which may or may not be offset by increased revenues.

Some of the specific provisions of the Health Care Reform Act that can reasonably be expected to affect hospital operations, financial performance or financial conditions, including those of the Medical Center, are described below. This listing is not intended to be, and should not be considered by the reader as, comprehensive. The Health Care Reform Act is complex and comprehensive, and includes a myriad of new programs and initiatives as well as changes to existing programs, policies, practices and laws.

- Through September 30, 2019, the annual Medicare market basket updates for hospitals will be reduced. As of October 1, 2011, the market basket updates are subject to productivity adjustments. The reductions in market basket updates and the productivity adjustment have had (and will continue to have) a disproportionately negative effect upon those providers that are relatively more dependent upon Medicare than other providers. Additionally, the reductions in market basket updates were effective prior to the periods during which insurance coverage and the insured consumer base will expand, which may have an interim negative effect on revenues. The combination of reductions to the market basket updates and the imposition of productivity adjustments may result in reductions in Medicare payments per discharge on a year-to-year basis.
- From October 1, 2010 through September 30, 2019, payments under the “Medicare Advantage” programs (Medicare managed care) will be reduced, which may result in increased premiums or out-of-pocket costs to Medicare beneficiaries enrolled in Medicare Advantage plans. Those beneficiaries may terminate their participation in those plans and opt for the traditional Medicare fee-for-service program. The reduction in payments to Medicare Advantage programs may also lead to decreased payments to providers by managed care companies operating Medicare Advantage programs. All or any of these outcomes will have a disproportionately negative effect upon those providers with relatively high dependence upon Medicare managed care revenues.
- Commencing on October 1, 2012, a value-based purchasing program designed to provide incentive payments to hospitals based on performance with respect to quality and efficiency measures was established under the Medicare program. These incentive payments are funded through a pool of money collected from all hospital providers.
- Commencing October 1, 2013, Medicare disproportionate share hospital (“DSH”) payments will be reduced initially by 75%. DSH payments will be increased thereafter to account for the national rate of consumers who do not have health insurance and are provided uncompensated care. Commencing October 1, 2013, states’ Medicaid DSH allotment from federal funds will also be reduced.
- Commencing January 1, 2014, Medicaid programs will be expanded to a broader population with incomes up to 133% of federal poverty levels. The Congressional Budget Office (the “CBO”) has estimated that 16 million consumers who are currently uninsured will become newly eligible for Medicaid through 2019 as a result of this expansion. Based on the Supreme Court ruling described below, however, States are not required to expand their Medicaid programs and

consumer benefit estimates have not been updated (the 26 states that challenged the law accounted for approximately 8.5 million of these consumers). Providers operating in markets with large Medicaid and uninsured populations located in States which expand their Medicaid programs are anticipated to benefit from increased revenues resulting from increased utilization and reductions in bad debt or uncompensated care. The increase in utilization can also be expected to increase costs of providing that care, which may or may not be balanced by increased revenues.

- Commencing October 1, 2012, Medicare payments that would have previously been made to hospitals that have a high rate of potentially preventable readmissions for certain clinical conditions will be reduced by specified percentages to account for those excess and “preventable” hospital readmissions.
- Commencing October 1, 2014, Medicare payments to certain hospitals for hospital-acquired conditions will be reduced by 1%. Effective July 1, 2011, federal payments to states for Medicaid services related to preventable health conditions are prohibited.
- Effective October 1, 2011, health care insurers are required to include quality improvement covenants in their contracts with hospital providers, and are required to report their progress on such actions to the Secretary of Health and Human Services (HHS). Commencing January 1, 2015, health care insurers participating in health insurance exchanges will be allowed to contract only with hospitals that have implemented programs designed to ensure patient safety and enhance quality of care. The effect of these provisions upon the process of negotiating contracts with insurers or the costs of implementing such programs cannot be predicted.
- With varying effective dates, the Health Care Reform Act enhances the ability to detect and reduce waste, fraud, and abuse in public programs through provider enrollment screening, enhanced oversight periods for new providers and suppliers, and enrollment moratoria in areas identified as being at elevated risk of fraud in all public programs, and by requiring Medicare and Medicaid program providers and suppliers to establish compliance programs. The Health Care Reform Act requires the development of a database to capture and share health care provider data across federal health care programs, and provides for increased penalties for fraud and abuse violations and increased funding for anti-fraud activities.
- The Health Care Reform Act establishes an Independent Payment Advisory Board (the “Board”) to develop proposals to improve the quality of care and limit cost increases. If the Medicare growth rate exceeds the target (to be set in 2019) the Board is required to develop proposals to reduce the growth rate and require the Secretary of HHS to implement those proposals, unless Congress enacts legislation related to the proposals.

The Health Care Reform Act creates a Center for Medicare and Medicaid Innovation to test innovative payment and service delivery models and to implement various demonstration programs and pilot projects to test, evaluate, encourage and expand new payment structures and methodologies to reduce health care expenditures while maintaining or improving quality of care. Demonstration efforts include bundled payments under Medicare and Medicaid, and comparative effectiveness research programs that compare the clinical effectiveness of medical treatments and develop recommendations concerning practice guidelines and coverage determinations. Other provisions encourage the creation of new health care delivery programs such as accountable care organizations or combinations of provider organizations that voluntarily meet quality thresholds to share in the cost savings they achieve for the

Medicare program. The outcomes of these projects and programs, including their effect on payments to providers and financial performance, cannot be predicted.

The Health Care Reform Act is highly politicized. Initiatives to repeal it in whole or in part, to delay elements of implementation or funding, and to offer amendments or supplements to modify its provisions have been proposed. On June 28, 2012, after several challenges to the Health Care Reform Act's constitutionality, the United States Supreme Court announced its decision to uphold the constitutionality of the individual insurance mandate as well as the federal government's ability to expand Medicaid coverage. The Court ruled, however, that the government could not withdraw existing Medicaid funding from states that declined to comply with the Medicaid expansion.

Management of the Medical Center has analyzed the Health Care Reform Act and will continue to do so in order to assess the effects of the legislation and evolving regulations on current and projected operations, financial performance and financial condition. However, other than those provisions that have already been enacted, management of the Medical Center cannot predict with any reasonable degree of certainty or reliability further interim or ultimate effects of the legislation. Although the Supreme Court's decision and President Obama's re-election in the 2012 presidential election re-affirmed the Health Care Reform Act, it remains unclear what further action Congress or the Presidential administration will take, if any, with respect to the Health Care Reform Act. In this context, management of the Medical Center cannot predict with any reasonable degree of certainty or reliability any interim or ultimate effects of future implementation of the Health Care Reform Act.

#### **Other Federal and State Regulations**

The Medical Center is subject to federal and state regulatory actions; legislative and policy changes by those governmental and private agencies that administer Medicare, Medicaid, Blue Cross and Blue Shield of Michigan ("BCBSM"), and other third party payors; and actions by, among others, the National Labor Relations Board and other federal, state and local government agencies.

#### **Medicare**

For the fiscal year ended June 30, 2012, Medicare represented approximately 27.4% of the Medical Center's gross revenues for inpatient and outpatient services. Medicare is a federal governmental health insurance system under which physicians, hospitals and other health care providers are reimbursed or paid directly for services provided to eligible elderly and disabled persons. Medicare provides certain health care benefits to beneficiaries who are 65 years of age or older, blind, disabled or qualify for the End Stage Renal Disease Program. Medicare Part A covers inpatient hospital services, skilled nursing care and some home health care. Medicare Part B covers physician services and some supplies. Medicare is administered by the Centers for Medicare and Medicare Services of the federal Department of Health and Human Services ("CMS"). In order to achieve and maintain Medicare certification, a health care provider must meet CMS' "Conditions of Participation" on an ongoing basis.

The Health Care Reform Act has made several changes to the Medicare program including changing amounts payable to providers through imposition, directly or indirectly, of quality assurance measures. This and other changes are summarized above under the caption "Health Care Reform."

The Health Care Reform Act amended certain provisions of the Federal False Claims Act and added provisions governing the timing of the obligation to reimburse overpayments. The effect of these changes on the Medical Center's existing programs and systems cannot be predicted.

## Medicaid

For the fiscal year ended June 30, 2012, Medicaid represented approximately 39.4% of the Medical Center's gross revenues for inpatient and outpatient services. Medicaid is a health insurance program for certain low-income individuals. Medicaid is jointly funded by the federal and state governments. 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 administered by the various states. Pursuant to broad federal guidelines, each state establishes its own eligibility standards; determines the type, amount, duration, and scope of services; sets the payment rates for services; and administers its own programs.

Under the Medicaid program, the federal government supplements funds provided by the various states for medical assistance to the medically indigent. Payment for medical and health services is made to providers in amounts determined in accordance with procedures and standards established by state law under federal guidelines. Fiscal considerations of both federal and state governments in establishing their budgets directly affect the funds available to the providers for payment of services rendered to Medicaid beneficiaries.

Payment for Medicaid patients is subject to appropriation of sufficient funds by the respective state legislatures. Delays in appropriations and state budget deficits which may occur from time to time create a risk that payment for services to Medicaid patients will be withheld or delayed.

The federal government and the governments of many states have considered, and are continuing to consider, changes to Medicaid funding, particularly in light of the budget crises facing many states. The United States Congress recently approved an increase in Medicaid funding to states, but the federal government continues to explore long-term solutions to the funding difficulties with Medicaid. Certain additional proposals are being examined which may ultimately result in reduced federal Medicaid funding to the states and could adversely impact the amount of revenue received by the Medical Center.

Certain states have created programs that impose a fee on health care providers, the proceeds of which are intended to qualify for federal matching funds for such state's Medicaid program and are to be used to provide additional reimbursement from the federal government for Medicaid inpatient and outpatient services. The Medical Center believes that the existing programs and proposed implementation of additional similar programs, if approved, will not materially affect the Medical Center's business, financial condition or results of operations.

The Health Care Reform Act makes changes to Medicaid funding and substantially increases the potential number of Medicaid beneficiaries and federal financial support for the increased enrollment, and expands the Medicare Recovery Audit Contractor ("RAC") program to include Medicaid, using state-based RAC contracts. The Medical Center cannot predict the effect these changes will have on the Medical Center's operations, results from operations or financial condition.

*Michigan Medicaid Funding.* Since a portion of Michigan's Medicaid program costs are paid by the State of Michigan (the "State"), the amount of Medicaid revenues paid to the Medical Center, as well as the timeliness of their receipt, may be affected by the financial condition of and budgetary factors facing the State. Potential actions the State could take to reduce Medicaid expenditures and accommodate budgetary shortfalls include changing hospital payment methodology, changing eligibility requirements for Medicaid recipients, or delaying actual payments due to hospitals. In recent years, the Michigan's Governor has issued Executive Orders that reduced payments to hospitals, other providers, and health maintenance organizations ("HMOs") participating in the Medicaid program. Future actions by the State to reduce Medicaid funding could adversely affect the Medical Center.

At the federal level, plans to reduce federal funding of Medicaid and to replace the current federal Medicaid matching program with a “block grant” to the States have been considered. Such legislation could limit the means by which States may raise the revenue needed to qualify for federal Medicaid matching funds. Adoption of these or similar reform measures would reduce Medicaid funds and could, correspondingly, reduce the Medical Center’s revenues.

*Michigan Medicaid Reimbursement.* The State of Michigan has embarked on a plan to enroll the entire Medicaid eligible population into managed care programs. The plan calls for a competitive bidding process with HMOs. HMOs are paid capitation rates (see discussion of capitation payment methods under “BONDHOLDERS’ RISKS – Private Health Plans and Insurers” below) and, in turn, contract individually with hospitals. Some of the HMOs through which Medicaid patients are covered are significantly delinquent in their payments to providers and are not financially stable. The Medical Center is not presently experiencing any difficulty in payments from Medicaid HMOs. The Michigan Medicaid program has proposed that hospitals enrolled in Medicaid be required to treat all Medicaid patients, including those enrolled in an HMO; however no such requirement has yet been adopted.

In a Final Rule published in the Federal Register on September 16, 2011, CMS finalized the framework for the Medicaid RAC program. This Final Rule added new regulatory provisions at 42 CFR § 455.500 through § 455.518 and implemented Section 6411 of the Patient Protection and Affordable Care Act which directs states to establish programs in which they contract with Medicaid RACs. While CMS would prefer to structure the Medicaid RAC program in the same basic way the Medicare RAC program is organized, a one-size, fits all approach is not practicable given the variance in State Medicaid Plans. States have the authority to develop and administer the Medicaid RAC programs and are required to contract with Medicaid RACs. States have complete flexibility to determine their own policies in many areas, including: (i) whether Medicaid Managed Care Claims will be subject to review by the Medicaid RAC; (ii) whether to design a Medicaid RAC appeals process or use existing Medicaid appeals processes; (iii) the ability to establish their own contingency fee rates for Medicaid RAC contractors and the process of coordinating the recoupment of overpayments with their RACs; and (iv) the methodology of payment to a Medicaid RAC for identifying underpayments. It is unknown what, if any, future impact such policies will have on the revenue of the Medical Center.

### **Private Health Plans and Insurers**

Certain private insurance companies contract with hospitals on an “exclusive” or a “preferred” provider basis, and some insurers have plans known as “preferred provider organizations” (“PPOs”). Under such plans, there may be financial incentives for subscribers to use only those hospitals 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 selected hospitals within the provider plan. With this contracting authority, private payors may direct patients away from nonselected hospitals by denying coverage for services provided by them. In addition, PPOs and HMOs may limit the participation of a provider.

For the fiscal year ended June 30, 2012, managed care plans represented approximately 6.1% of the Medical Center’s gross patient revenues for inpatient and outpatient services. Such programs individually negotiate payment terms with the Medical Center, which terms include discounted fee-for-service payments or discounted fixed rate per day/case of care payments. There also are additional provisions by which the Medical Center shares in the risk associated with the cost of providing health care services. There is no assurance that the Medical Center’s exposure to such contracts or arrangements will not increase in the future. Increased participation may maintain or increase the patient base, but the discounts offered to HMOs and PPOs may result in reduced payments and lower net revenue to the Medical Center.

Some HMOs are now offering or mandating 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 capitated payment system, the health care provider assumes an insurance-type risk for the cost and scope of care given to the HMO’s enrollees. If payment under an HMO or PPO contract is insufficient to meet the provider’s costs of care, the financial condition of the provider may erode rapidly and significantly. Often, HMO or PPO contracts are enforceable for a stated term, regardless of provider losses. Recently, certain HMOs and PPOs have experienced financial difficulties, and some have resorted to bankruptcy proceedings. It is not possible, at this time, to predict the future of the managed care industry in general or in relation to specific HMOs or PPOs with which the Medical Center contracts.

### **Blue Cross and Blue Shield of Michigan**

Blue Cross and Blue Shield of Michigan (“BCBSM”) reimburses hospitals under a Participating Hospital Agreement, pursuant to which hospitals are reimbursed on a diagnosis related group (“DRG”) price reimbursement system. BCBSM’s Participating Hospital Agreement establishes DRGs for all inpatient care other than care provided in a rehabilitation or psychiatric unit (which is reimbursed on a per diem basis). Outpatient laboratory, radiology and surgery procedures are reimbursed on the basis of a fee screen amount plus capital and direct medical education payments. Changes are expected in future years to convert payment for other outpatient services from a reasonable cost basis to the lower of charges or fee for service payments. Hospitals are able to earn incentive payments and avoid disincentives by meeting certain quality, utilization and community health standards. BCBSM in recent years has begun reimbursing hospitals for various outpatient services based on predetermined fee schedules, which may not be adequate to cover the Medical Center’s costs of providing the services in question.

For the fiscal year ended June 30, 2012, BCBSM represented approximately 11.7% of the gross revenue of the Medical Center for outpatient and inpatient services. BCBSM has the right to terminate its Participating Hospital Agreement with the Medical Center with or without cause on 120 days’ advance notice and, therefore, could exercise its right to terminate at any time. Such termination could have an adverse effect on the Medical Center.

### **Factors Concerning Enforceability Generally**

The various legal opinions to be delivered concurrently with the delivery of the Series 2013 Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by bankruptcy, insolvency, fraudulent conveyance, reorganization or other laws affecting the enforceability of creditors’ rights generally and by application of equitable remedies regardless of whether the action is brought in equity or at law. See also “BONDHOLDERS’ RISKS—Emergency Financial Manager; Authorization of City Bankruptcy Filing” below.

### **Changes in Health Care Delivery**

*General.* Efforts by health insurers and governmental agencies to limit the cost of hospital and other health care services and to reduce utilization of hospital facilities may reduce future revenues.

*Technology and Services.* Scientific and technological advances, new procedures, drugs and appliances, preventive medicine, occupational health and safety, and outpatient health care delivery may reduce utilization and revenues of the Medical Center in the future. Technological advances in recent years have accelerated the trend towards hospital use of sophisticated, and costly, equipment and services for diagnosis and treatment. The acquisition and operation of such equipment or services may continue to be a significant factor in hospital utilization, but the ability of the Medical Center to offer such equipment

or services may be subject to the availability of equipment or specialists, governmental approval, or the ability to finance such acquisitions or operations.

*Competition.* Increased competition from a wide variety of potential sources, including, but not limited to, other hospitals, inpatient and outpatient health care facilities, clinics, home health agencies, physicians, ambulatory surgery centers and others could adversely impact the Medical Center, and competition may, in the future, arise from new sources not currently anticipated. Proposals to eliminate the Certificate of Need (“CON”) requirement for licensed hospital facilities in Michigan have been suggested. Elimination of the CON requirement would likely increase competition.

### **Audits, Exclusions, Fines, Enforcement and Other Action**

*Background.* The Medical Center is subject to federal, state and local regulatory requirements; legislative and policy changes by governmental and private agencies that administer Medicare, Medicaid, BCBSM, and other third-party payors; and standards imposed by the Joint Commission and other accreditation agencies. Federal and state health care fraud and abuse laws regulate both the provision of services to government program beneficiaries and the methods and requirements for submitting claims for services rendered to such beneficiaries. Under these laws, individuals and organizations can be penalized for submitting claims for services that are not provided, billed in a manner other than as actually provided, not medically necessary, provided by an improper person, accompanied by an illegal inducement to utilize or refrain from utilizing a service or product, or billed in a manner that does not otherwise comply with applicable government requirements.

Laws governing fraud and abuse apply to arrangements between hospitals and individuals or healthcare enterprises with which hospitals do business, including other hospitals, home health agencies, long term care entities, infusion providers, pharmaceutical manufacturers, insurers, HMOs, PPOs, third party administrators, physicians, physician groups and physician practice management companies. Fraud and abuse prosecutions can have a catastrophic effect on a provider and potentially a material adverse impact on the financial condition of other entities in the healthcare delivery system of which that entity is a part.

Depending on the prohibited activity in which a provider has engaged, governmental agencies and officials may bring actions against the provider under civil or criminal False Claims Acts, statutes prohibiting referrals for compensation or fee-splitting, or the “Stark Law” which prohibits referrals by a physician for the furnishing of “designated health services” (including inpatient and outpatient hospital services) to certain organizations with which the physician has a financial relationship, and also prohibits billing for such services, unless an exception applies. The civil and criminal monetary assessments and penalties for violations of these laws may be substantial. Additionally, the provider may be prohibited from participating in Medicare, Medicaid or other governmental healthcare programs. If and to the extent the Medical Center engaged in a prohibited activity, and judicial or administrative proceedings concluded adversely to the Medical Center, the outcome could materially affect the Medical Center, its financial condition and its operations.

The Medical Center has internal policies and procedures and has developed and implemented a compliance program designed to reduce exposure for violations of these laws. However, because the government’s enforcement efforts are increasingly widespread within the industry, there can be no assurance that the compliance program will significantly reduce or eliminate the Medical Center’s exposure to civil or criminal sanctions or adverse administrative determinations.

*False Claims Act.* The False Claims Act, or FCA, makes it illegal to submit or present a false, fictitious or fraudulent claim to the federal government and may include claims that are simply erroneous.



FCA investigations and cases have become common in the health care industry and may cover a range of activity from intentionally inflated billings, to highly technical billing infractions, to allegations of inadequate care. Violation or alleged violation of the FCA most often results in settlement that sometimes require multi-million dollar payments and compliant with “corporate integrity agreements.” The FCA also permits individuals to initiate civil actions on behalf of the government in lawsuits called “qui tam” actions. Qui tam plaintiffs, or “whistleblowers,” share in the damages recovered by the government or may recover damages independently if the government chooses not to participate in the claim. The FCA has become one of the government’s primary weapons against health care fraud. Federal or state FCA violations or alleged violations could lead to settlements, fines, exclusion or reputational damage that could have a material adverse impact on a hospital.

*Federal Anti-Kickback Statute.* In 1977, Congress adopted the Medicare and Medicaid Anti-Fraud and Abuse Amendments, which have been strengthened by subsequent amendments and revisions including the Medicare Patient and Program Protection Act of 1987 (collectively, the “Anti-Kickback Statute” or the “Statute”). The Anti-Kickback Statute makes it a felony to knowingly and willfully offer, pay, solicit or receive remuneration in order to induce business for which reimbursement is provided under Medicare, Medicaid or other federal healthcare programs. Although the Anti-Kickback Statute is an intent-based law, the Health Care Reform Act amended the judicially recognized specific intent requirement of the Statute to provide that a person need not have actual knowledge of the Anti-Kickback Statute or specific intent to violate it to be found liable. The scope of prohibited activities under the Statute is broad and includes arrangements such as joint ventures, space and equipment rentals, purchases of physician practices, and management and personal services contracts between and among hospitals, physicians and other healthcare providers.

Beginning on July 29, 1991 the Office of Inspector General (“OIG”) issued a series of “safe harbors” which protect certain types of transactions from prosecution under the Statute if such transactions are structured in accordance with the applicable safe harbor. These safe harbors are narrow and do not include a wide range of economic relationships which many healthcare providers consider to be legitimate business arrangements not prohibited by the Statute. Transactions which do not comply with all of the strict requirements of the safe harbors, while not necessarily illegal, face an ongoing risk of prosecution due to the broad language within the Statute itself.

The Anti-Kickback Statute provides for civil monetary penalties, criminal penalties, and expulsion from the Medicare/Medicaid programs for violations. The management of the Medical Center believes that the Medical Center’s current business arrangements are in material compliance with the Anti-Kickback Statute. However, because of the narrowness of the safe harbors, the relaxation of the “intent” requirement, and the paucity of caselaw interpreting the Statute, there can be no assurance that the Medical Center will not incur any liability or sanction under the Anti-Kickback Statute having a material adverse impact on the Medical Center’s operations and financial condition.

*Federal Self-Referral Prohibitions.* The Ethics in Patient Referral Act or “Stark Law” generally prohibits a physician from making referrals to an entity for the furnishing of certain “designated health services” (or “DHS”) for which payment may be made by the Medicare program to any entity with which the physician, or an immediate family member of the physician, has a financial relationship (the “Entity”), unless an exception applies. Further, the Entity to which a prohibited referral is made may not bill Medicare for the DHS furnished pursuant to the referral. The term “financial relationship” includes any direct or indirect compensation arrangement with an Entity, or any direct or indirect ownership or investment interest in the Entity whether by debt, equity or otherwise. The term “designated health services” or “DHS” includes clinical laboratory services; physical therapy services; occupational therapy services; radiology and other diagnostic imaging services; radiation therapy services; durable medical equipment; parenteral and enteral nutrients, equipment and supplies; prosthetics, orthotics and prosthetic

devices; home health services; outpatient prescription drugs; and inpatient and outpatient hospital services.

If a financial relationship exists, regardless of intent, the physician is precluded from referring patients to the Entity for DHS, and the entity is precluded from billing Medicare for any such referred services, unless the arrangement meets a statutory exception. An Entity that bills for items or services in violation of the Stark Law is subject to civil monetary penalties and exclusion from federal health care programs, including Medicare and Medicaid.

The management of the Medical Center is aware of a limited number of loans by the Medical Center to physicians where physicians are delinquent in payment. Management is currently reviewing the loan terms and determining the actions necessary to achieve compliance with respect to the loans. Apart from these loan arrangements, management of the Medical Center believes that its business arrangements are in material compliance with the Stark Law and intends to comply fully with the requirements of the Stark Law.

*State Anti-Fraud Laws.* Similar to federal self-referral and anti-fraud statutes, Michigan has statutes which contain similar prohibitions with respect to patients, goods, services and items for which payment is or may be made in whole or in part by the Medicaid program, health care corporations or other health care insurers. To the extent the Medical Center faces regulatory risk under federal fraud and abuse laws, similar risk may be present under applicable state laws. For example, the Michigan Medicaid False Claims Act contains qui tam provisions similar to those in the federal False Claims Act.

*Penalties.* Federal and state governments have a range of criminal, civil and administrative sanctions available to penalize and remediate healthcare fraud and abuse. Criminal violations of certain federal and state health care statutes (including the Anti-Kickback Statute) are felonies, punishable by imprisonment and/or significant fines for each violation. Civil penalties include not only fines, but temporary or permanent exclusion from the Medicare and Medicaid programs. Conduct which violates certain of these statutes also has the potential for providing the basis for civil suits by competitors and others who may have been harmed by improper conduct. Fraud and abuse may be prosecuted by one or more government entities and/or private individuals, and more than one of the available penalties may be imposed for each violation.

Because the language of many of these statutes is very broad, the statutes are potentially applicable to many ordinary business arrangements pursuant to which remuneration passes between health care providers and suppliers that are in a position to make referrals to each other. While the Medical Center currently has arrangements that are governed by these laws, the management of the Medical Center believes that such arrangements are being conducted consistent with applicable law, and is not aware of any pending or contemplated challenge or investigation with respect to any such arrangements. However, there can be no assurance that the Medical Center's existing arrangements will not require restructuring or termination in order to comply with applicable laws of this nature; particularly if the trend toward greater regulation of relationships between health care providers continues.

*Health Insurance Portability and Accountability Act.* The Health Insurance Portability and Accountability Act of 1996, or HIPAA, imposes certain privacy and security restrictions and standards for electronic transmissions of patient information on health care providers and certain other so-called "covered entities." The use and disclosure of certain broadly defined "protected health information" is prohibited unless expressly permitted under the provisions of HIPAA or authorized by the patient. HIPAA's privacy and security provisions extend not only to patient medical records, but also to a wide variety of health care clinical and financial data. HIPAA's privacy and security restrictions impose new

communication, documentation, accounting and billing restrictions. These add costs and create potentially unanticipated sources of legal liability.

*The HITECH Act.* Provisions in the 2009 Health Information Technology for Economic and Clinical Health Act (“HITECH” or, the “HITECH Act”), enacted as part of the economic stimulus legislation, amended HIPAA to, among other things, increase the maximum civil monetary penalties for violations of HIPAA and grant enforcement authority of HIPAA to state attorneys general. The HITECH Act also (i) extends the reach of HIPAA beyond “covered entities,” (ii) imposes a breach notification requirement on HIPAA covered entities, (iii) limits certain uses and disclosures of individually identifiable health information, and (iv) restricts covered entities’ marketing communications.

Penalties for noncompliance with HIPAA include substantial civil monetary penalties, imprisonment, and substantial criminal penalties for wrongful disclosure with the intent to sell, transfer, or use individually identifiable health information for commercial advantage, personal gain or malicious harm. Under HIPAA as amended by the HITECH Act, the civil monetary penalties range from \$100 to \$50,000 per violation. Additionally, the HITECH Act created a tiered approach to civil monetary penalties providing for penalties of up to \$1.5 million for all violations of an identical requirement during a calendar year. Criminal penalties under HIPAA range from \$50,000 to \$250,000 in fines and/or imprisonment for up to ten years. The Medical Center has implemented policies and procedures to comply with HIPAA as amended by the HITECH Act. Management does not anticipate that compliance with HIPAA/HITECH will have a material effect on the Medical Center’s operations.

*Security Breaches and Unauthorized Releases of Personal Information.* Federal and state authorities are increasingly focused on the importance of protecting the confidentiality of individuals’ personal information including patient health information. Many states, including Michigan, have enacted laws requiring businesses to notify individuals of security breaches that result in the unauthorized release of personal information. State consumer protection laws may also provide the basis for legal action for privacy and security breaches and frequently, unlike HIPAA, authorize a private right of action. Failure to comply with restrictions on patient privacy or to maintain robust information security safeguards could damage a health care provider’s reputation and materially adversely affect business operations.

*Audits.* Healthcare providers are subject to audits and retroactive audit adjustments with respect to the Medicare program and other programs including BCBSM. Generally, the Medical Center maintains an adequate level of reserves for proposed audit adjustments, which are likely to be contested. Nevertheless, such adjustments may exceed reserves and may be substantial. Additionally, applicable laws, regulations, rules and policies provide for third-party payors to withhold payments in certain circumstances. Such withheld payments could have a substantial adverse effect on the Medical Center’s overall financial condition. The management of the Medical Center is not aware of any situation where a third-party payment is being withheld in an amount material to the Medical Center.

*Enforcement Activity.* Enforcement activity against health care providers appears to be increasing, and enforcement authorities appear to be adopting more aggressive approaches to enforcement. In the current regulatory climate, it is anticipated that many health facilities and practitioners will be subject to an investigation, audit or inquiry regarding billing practices or false claims. The Medical Center is not aware of any pending OIG, U.S. Attorney and/or Justice Department investigations, audits, or inquiries with respect to the Medical Center. However, the Medical Center has been the subject of such investigations, audits or inquiries resulting in adverse action in the past, and may be the subject of such investigations, audits or inquiries in the future. The management of the Medical Center believes that it has properly complied with the laws concerning billing practices and the

submission of false claims. Nevertheless, because of the complexity of these laws, instances in which an alleged violation may arise to trigger such investigations, audits or inquiries are increasing.

### **Malpractice Claims and General Liability Insurance**

Malpractice and general liability suits and other actions alleging wrongful conduct and, in some instances, seeking punitive damages are sometimes filed against the Medical Center. For a discussion of the Medical Center's malpractice and general liability insurance coverage, see "MALPRACTICE AND LIABILITY INSURANCE" in APPENDIX A. While the Medical Center carries malpractice and general liability insurance which the management of the Medical Center considers adequate, the Medical Center is unable to predict the availability or cost of such insurance in the future.

### **Workers' Compensation**

Act No. 457, Public Acts of Michigan, 1998, requires the director of the Bureau of Workers' Disability Compensation ("Bureau") to provide for an advisory committee to aid and assist in establishing, annually, schedules of maximum charges for any treatment or attendance, service, devices, apparatus, or medicine, provided to workers' compensation claimants. Pursuant to those "schedules," a health facility or practitioner will be paid either its usual and customary charge for the treatment or attendance, service, devices, apparatus, or medicine, or the maximum charge established in those schedules, whichever is less. Public Act No. 447 also provides for "utilization review" procedures. Such utilization review shall be accomplished pursuant to a system established by the Bureau that assists in evaluating the level and the quality of health care and services provided to workers' compensation claimants, based on medically accepted standards. Such "utilization review" procedures also set forth procedures for the acquiring of necessary records, bills, or other information concerning the health care or health services. The management of the Medical Center believes that these schedules and procedures, to date, have not had an adverse material effect on the Medical Center.

### **Failure to Obtain Certificates of Need**

The Michigan Certificate of Need statute, as amended, provides, in part, that a person shall not acquire an existing "health facility", begin operation of a new "health facility," make a "change in bed capacity" of a "health facility," initiate, replace or expand a "covered clinical service," or acquire "covered medical equipment," and that a "health facility" shall not make a "covered capital expenditure," with certain exceptions, without first obtaining a Certificate of Need ("CON") from the Michigan Department of Community Health, which documents a demonstrated need and grants permission for the proposed project. The capital expenditure threshold has been substantially increased for certain covered projects, thereby subjecting fewer proposed projects to CON review. As of January 1, 2012, the capital expenditure threshold is \$3,012,500 for covered capital expenditures for health care facilities. This threshold amount is adjusted each year to account for cost of living increases. Projects involving non-clinical service areas do not require a CON. If a provider fails to obtain required approvals, such provider will be subject to penalties which may include civil fines, the obligation to refund amounts paid by patients or third-party payors, injunctions to restrain or prevent violations of the CON law, and a loss of license, among other sanctions. As a result of these sanctions, Medicare and Medicaid certification may also be affected. In addition, a CON may be subject to revocation in the event utilization projections forming the basis for the initial approval are not achieved. The Medical Center is not aware of any proceeding or investigation in which a violation of the CON laws by the Medical Center is alleged by any governmental agency.

## **Licensing, Surveys, Investigations and Audits**

On a regular basis, health facilities, including those of the Medical Center, are subject to numerous legal, regulatory, professional and private licensing, certification and accreditation requirements. These include, but are not limited to, requirements relating to Medicare and Medicaid participation and payment, State licensing agencies, private payors and The Joint Commission. Renewal and continuance of certain of these licenses, certifications and accreditations are based on inspections, surveys, audits, investigations or other reviews, some of which may require or include affirmative action or response by the Medical Center. These activities generally are conducted in the normal course of business of health care facilities. Nevertheless, an adverse determination could result in a loss or reduction in the Medical Center's scope of licensure, certification, or accreditation, or could reduce the payment received or require repayment of amounts previously remitted.

The management of the Medical Center currently anticipates no difficulty renewing or continuing currently held licenses or certifications and no materially adverse change in accreditations; nor does it anticipate a reduction in third-party payments from such events which would materially adversely affect the Medical Center's operations or financial condition. Nevertheless, actions in any of these areas could result in the loss of utilization or revenue or the Medical Center's ability to operate all or a portion of its facilities, and, consequently, could adversely affect the Medical Center's ability to make payments of principal, interest and premium, if any, on the Series 2013 Bonds.

## **Antitrust**

Enforcement of antitrust laws against health care providers is becoming more common, and antitrust liability may arise in a wide variety of circumstances including medical staff privilege disputes, third party contracting, physician relations, employee compensation and joint venture, merger, affiliation and acquisition activities. In some respects, the application of federal and state antitrust laws to health care is still evolving, and enforcement activity by federal and state agencies appears to be increasing. At various times, health care providers may be subject to an investigation by a governmental agency charged with the enforcement of the antitrust laws, or may be subject to administrative or judicial action by a federal or state agency or a private party. Violation of the antitrust laws could be subject to criminal or civil enforcement by federal and state agencies, as well as by private litigants. Among the remedies available against persons found liable of violating antitrust prohibitions are treble damages and payment of plaintiff's attorney fees, both of which may be significant.

From time to time, the Medical Center is or will be involved in a variety of activities which could receive scrutiny under the antitrust laws, and it cannot be predicted when or to what extent liability may arise. With respect to payor contracting, the Medical Center may, from time to time, be involved in joint contracting activity with other hospitals or providers. The precise degree to which this or similar joint contracting activities may expose the participants to antitrust risk from governmental or private sources is dependent on a myriad of factual matters which may change from time to time.

Hospitals, including the Medical Center, regularly have disputes regarding credentialing and peer review, and may be subject to liability in this area. In addition, hospitals occasionally indemnify medical staff members who are involved in such credentialing or peer review activities, and may also be liable with respect to such indemnity. Court decisions have also established private causes of action against hospitals which use their local market power to promote ancillary health care businesses in which they have an interest. Such activities may result in monetary liability for the participating hospitals under certain circumstances where a competitor suffers business damage.

## **Environmental Laws and Regulations**

Hospitals and nursing facilities are subject to a wide variety of federal, state, and local environmental and occupational health and safety laws and regulations which address, among other things, hospital operations or facilities and properties owned or operated by hospitals. Among the types of regulatory requirements faced by hospitals and nursing facilities are: air and water quality control requirements; waste management requirements; specific regulatory requirements applicable to asbestos, polychlorinated biphenyls, and radioactive substances; requirements for providing notice to employees and members of the public about hazardous materials handled by or located at the Medical Center's facilities; requirements for training employees in the proper handling and management of hazardous materials and wastes; and other requirements.

In their role as owners and/or operators of properties or facilities, hospitals and nursing facilities may be subject to liability for investigating and remediating any hazardous substances which have come to be located on the property, including any such substances that may have migrated off of the property. Typical hospital operations include, but are not limited to, in various combinations, the handling, use, storage, transportation, disposal and/or discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants, or contaminants. As such, hospital operations are particularly susceptible to the practical, financial, and legal risks associated with compliance with such laws and regulations. Such risks may 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; and may result in investigations, administrative proceedings, penalties or other governmental agency actions. There can be no assurance that the Medical Center 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 Medical Center.

At the present time, the management of the Medical Center is not aware of any pending or threatened claims, investigation, or enforcement action regarding such environmental issues which, if determined adversely to the Medical Center would have a material impact on the financial position of the Medical Center.

## **Certain Matters Relating to Security for the Series 2013 Bonds**

The facilities of the Medical Center are not pledged as security for the Series 2013 Bonds. Such facilities are not comprised of general purpose buildings and generally would not be suitable for industrial or commercial use. Consequently, it could be difficult to find a buyer or lessee for such facilities and, upon any default which results in the acceleration of the Series 2013 Bonds, the Trustee may not realize an amount sufficient to pay in full the Parity Bonds, including the outstanding Series 2013 Bonds, from the sale or lease of such facilities.

It is not clear whether, under applicable law, a court would grant specific performance of the covenant of the Lessee under the 2013 Restated Contract of Lease to make certain payments of debts of any Affiliate subject to an Affiliate Lease in order to forestall the institution of involuntary bankruptcy proceedings against such Affiliate by creditors of such Affiliate. See "SUMMARY OF PRINCIPAL DOCUMENTS–Summary of Certain Provisions of the 2013 Restated Contract of Lease–Prevention of Affiliate Bankruptcies" in Appendix C. In any event, however, failure of the Lessee to comply with the provisions of such covenant would, after appropriate notice and passage of time as provided in the 2013 Restated Contract of Lease, create an event of default thereunder.

As described under "SUMMARY OF PRINCIPAL DOCUMENTS–Summary of Certain Provisions of the 2013 Restated Contract of Lease–Affiliate Leases" in Appendix C, the Lessee may

under certain conditions lease certain Property to Affiliates. Each Affiliate Lease is required to provide that the Affiliate's rights as lessee will terminate in certain circumstances and that, in the event of termination of the Affiliate's rights, the Affiliate will be required to merge into the Lessee. Such merger obligation may not be enforceable and, as a result, the Lessee may not be able to recover amounts earned by an Affiliate during the term of an Affiliate Lease in excess of the amounts paid by the Affiliate as Basic Rent.

Certain amendments to the Indenture may be made with the consent of the holders of not less than a majority of the aggregate principal amount of the Bonds and Parity Bonds. Such amendments may adversely affect the security of the holders of the Series 2013 Bonds and the holders of the requisite percentage may be composed wholly or partially of the holders of Additional Bonds or Parity Bonds.

### **Emergency Financial Manager; Powers to Transfer Assets; Authorization of City Bankruptcy Filing**

The City is currently operating under a State-appointed Emergency Financial Manager ("EFM"), under the Local Government Fiscal Responsibility Act, Act 72, Public Acts of Michigan, 1990, as amended ("Act 72"), to restructure fiscal matters of the City. On December 27, 2012, Governor Snyder signed into law the Local Financial Stability and Choice Act, Act 436, Public Acts of Michigan, 2012 ("Act 436") which provides for the potential appointment of an Emergency Manager ("EM") for financially distressed local governments. Act 436 becomes effective March 28, 2013, at which time it also repeals Act 72. Act 436 expressly provides that an EFM appointed under Act 72 will remain in place as an EM and succeed to the powers provided by Act 436.

The Medical Center is a component unit of the City and as such, the Medical Center's assets are reflected in the City's financial statements. The assets of the Medical Center are held as an enterprise fund of the City, which is kept separate and apart from the City's general fund. Since the Medical Center's creation in the early 1900's, the City has never directed the Board of Hospital Managers to transfer or sell any of its assets for the benefit of the City. City funds were last transferred to the Medical Center in the early 1970s. The City's Charter provides that the Board of Hospital Managers are appointed by the Mayor of the City and approved by the City Council. Act 436 gives the City's EM the power to appoint members to the Board of Hospital Managers.

*Powers of an Emergency Manager to Transfer Assets.* Under Act 436, the City's EM has broad discretion to take actions to alleviate the City's financial emergency. An EM may, if provided in the City's financial and operating plan, or otherwise with the written approval of the governor or a designee of the governor, sell, lease, assign or otherwise use or transfer assets (which assets may or may not include the Medical Center and/or funds of the Medical Center), provided, however, the use or transfer of assets, can only occur if it does not endanger the health, safety, or welfare of the residents of the City or unconstitutionally impair a bond, note, security or uncontested legal obligation of the City. In addition, Act 436 provides that unless the potential sale and value of an asset (which may or may not include the Medical Center and/or funds of the Medical Center) is included in the EM's financial and operating plan, the EM shall not sell an asset of the City valued at more than \$50,000.00 without the state treasurer's approval. The EFM and the Michigan Department of Treasury have each authorized the issuance of the Series 2013 Bonds by the Authority.

The City's Financial and Operating Plan dated January 15, 2012 (the "January 2012 Plan") submitted by its then current EM did not contemplate the sale or transfer of any assets of the Medical Center. In August of 2012, the Governor of the State of Michigan appointed a new EFM. The City's current EFM has not submitted a new financial and operating plan and continues to operate under the

January 2012 Plan. No assurances can be given that the January 2012 Plan will not be amended or replaced at future date by the EFM or future EM.

*Authorization of City Bankruptcy Filing.* If the City's financial status were to deteriorate further, the City's options to improve its fiscal health may be limited. The United States Bankruptcy Code, 11 U.S.C. § 101, *et seq.* (the "Bankruptcy Code") does not authorize municipalities to be subject to involuntary bankruptcy petitions. The City must be specifically authorized to be a debtor under chapter 9 of the Bankruptcy Code by State law or by a governmental officer or organization empowered by State law to authorize the City to be a debtor under chapter 9 of the Bankruptcy Code. Act 72 currently, and Act 436 once effective, provides such authorization after the City first complies with certain State law requirements under each respective statute. The effect of a City bankruptcy filing on the Medical Center, as a component unit of the City, or the Authority, is unknown at this time.

### **Additional Indebtedness**

The Indenture permits the issuance of Additional Bonds on parity with the Series 2013 Bonds and also permits the issuance or incurrence of bonds or other obligations under separate indentures or instruments to be designated as "Parity Bonds" and payable out of Cash Rentals on an equal basis with the Series 2013 Bonds. See the information in Appendix C under "SUMMARY OF PRINCIPAL DOCUMENTS—Summary of Certain Provisions of the Indenture—Additional Bonds." The issuance of Parity Bonds may increase debt service requirements and may adversely affect debt service coverage on the Series 2013 Bonds.

### **Tax-Exempt Status; Continuing Legal Requirements**

The tax-exempt status of interest on the Series 2013 Bonds depends upon the continued compliance by the Authority and the Medical Center with certain covenants relating generally to restrictions on use of the Medical Center's facilities, arbitrage limitations and rebate of certain excess investment earnings to the federal government. Failure to comply with such covenants could cause interest on the Series 2013 Bonds to become subject to Federal income taxation retroactive to the date of issuance of the Series 2013 Bonds. See "TAX MATTERS" herein. In the event the interest on the Series 2013 Bonds is included in gross income for federal income tax purposes due to an uncured covenant breach, the Series 2013 Bonds may be accelerated, at the discretion of the Trustee or at the written request of the owners of not less than a majority in aggregate principal amount of all Bonds and Parity Bonds then outstanding. The Indenture does not provide for the payment of any additional interest or penalty in the event the interest on the Series 2013 Bonds becomes included in gross income for federal income tax purposes.

Although the IRS has only infrequently taxed the interest received by holders of bonds that were represented to be tax-exempt, the IRS has examined a number of bond issues and concluded that such bond issues did not comply with applicable provisions of the Code and related regulations. No assurance can be given that the IRS will not examine the Series 2013 Bonds. If the Series 2013 Bonds are examined, it may have an adverse impact on their marketability and price.

### **Bond Ratings**

There is no assurance that the ratings assigned to the Series 2013 Bonds at the time of issuance will not be lowered or withdrawn at any time, the effect of which could adversely affect the market price for, and marketability of, the Series 2013 Bonds. See "RATINGS" herein.



## **Lack of Secondary Market for the Series 2013 Bonds**

The market for the Series 2013 Bonds may be restricted or very limited at any given time. The Underwriter plans to engage in secondary market trading of the Series 2013 Bonds (subject to applicable state securities laws). However, the Underwriter is not obligated to engage in secondary market trading of the Series 2013 Bonds, and cannot give assurances that there will be a continuing secondary market in the Series 2013 Bonds. In addition, adverse developments with respect to the Medical Center, its properties or operations may adversely affect bid and asked prices for the Series 2013 Bonds in any secondary market. In some states specific conditions must be met in order to qualify for an exemption from registration for secondary market sales.

The Medical Center has agreed to supply information as described under the heading “CONTINUING DISCLOSURE” as required by Rule 15c2-12. Failure to provide such information, if required, may materially and adversely affect any secondary market trading on the Series 2013 Bonds.

## **Other Risk Factors**

In the future, the following factors, among others, may adversely affect the operations of health care providers, including the Medical Center, or the market value of the Series 2013 Bonds, to an extent that cannot be determined at this time.

- (1) Adoption of additional legislation relating to the Health Care Reform Act.
- (2) Reduced need for hospitalization or other services arising from future medical and scientific advances.
- (3) Reduced demand for the services of the Medical Center that might result from decreases in population.
- (4) Increased unemployment or other economic conditions in the Medical Center’s service area, which could increase the proportion of patients who are unable to pay fully for the cost of their care. In addition, increased unemployment caused by a general downturn in the economy of the Medical Center’s service area or the State by the closing of operation of one or more major employers in the Medical Center’s service area may result in a loss of BCBSM or other health insurance benefits for a portion of the Medical Center’s patients.
- (5) Efforts by insurers and governmental agencies to limit the cost of hospital services, to reduce the number of beds and to reduce the utilization of hospital facilities by such means as preventive medicine, improved occupational health and safety and outpatient care, or comparable regulations or attempts by third-party payors to control or restrict the operations of certain health care facilities.
- (6) Cost and availability of any insurance, such as professional liability, fire, automobile and general comprehensive liability coverages that health care facilities of a similar size and type generally carry.
- (7) The occurrence of natural disasters, which could damage the facilities of the Medical Center, interrupt utility service to the facilities or otherwise impair the operation of the Medical Center and the generation of revenues from the facilities. The Medical Center’s facilities are covered by general property insurance in an amount which management considers generally sufficient to provide for the replacement of such facilities in the event of most natural disasters.

(8) Developments which adversely affect the federal or state tax-exempt status of municipal bonds could make tax-exempt financing unavailable for the Medical Center's future projects.

(11) Adoption of legislation mandating participation in Medicaid or creating a national certificate of need program and/or mandated peer review programs.

(12) Changes in health care delivery as a result of scientific or technological advances and/or increased competition.

(13) Labor shortages (including nurses and other health care professionals), employees' strikes, and other adverse labor actions that could result in a substantial reduction in revenues without corresponding decreases in costs.

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

(15) Increased costs in funding the Medical Center's pension plans or other post-employment benefits.

(16) Increased availability of outpatient care at physicians' offices or physician owned facilities that compete with the Medical Center.

## **LITIGATION**

### **The Authority**

There is not now pending or, to the knowledge of the Authority, threatened any litigation restraining or enjoining the issuance or delivery of the Series 2013 Bonds or questioning or affecting the validity of the Series 2013 Bonds or the proceedings or authority under which they are to be issued. No litigation or proceeding is contesting the creation, organization or existence of the Authority or the title of any of the present members or other officers of the Authority to their respective offices. There is no litigation pending or, to the knowledge of the Authority, threatened that in any manner questions the right of the Authority to enter into the Indenture or the 2013 Restated Contract of Lease or to secure the Series 2013 Bonds in the manner provided in the Indenture and the Act.

### **The Medical Center**

The Medical Center has advised that (i) no litigation, proceedings or investigations are pending or, to its knowledge, threatened against the Medical Center except litigation, proceedings or investigations in which the probable ultimate recoveries and the estimated costs and expenses of defense will be entirely within applicable insurance policy limits (subject to applicable deductibles) or will not be in excess of the total reserves held under applicable self-insurance programs or in which, in the opinion of the management of the Medical Center, an adverse determination would not have a materially adverse effect on the Medical Center's operations or condition, financial or otherwise; and (ii) no litigation, proceedings or investigations are pending or, to its knowledge, threatened which in any manner questions the validity of, or the right of the Medical Center to effect, the financing or use the proceeds of the Series 2013 Bonds for the purposes described herein.

## LEGAL MATTERS

All legal matters incidental to the authorization and issuance of the Series 2013 Bonds by the Authority will be subject to the approving opinion of Dickinson Wright PLLC, Bloomfield Hills, Michigan, Bond Counsel. Certain legal matters will be passed upon for the Medical Center by its General Counsel and for the Authority by its disclosure counsel, Miller, Canfield, Paddock and Stone, P.L.C., Ann Arbor, Michigan.

## TAX MATTERS

### General

In the opinion of Dickinson Wright PLLC, Bond Counsel, based on its examination of the documents described in its opinion, under existing law, the interest on the Series 2013 Bonds (a) is excluded from gross income for federal income tax purposes, and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that certain corporations must take into account interest on the Series 2013 Bonds in determining adjusted current earnings for the purpose of computing such alternative minimum tax. The opinion set forth in clause (a) above is subject to the condition that the Authority comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Series 2013 Bonds in order that interest thereon 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 Series 2013 Bonds to be included in gross income retroactive to the date of issuance of the Series 2013 Bonds. The Authority has covenanted to comply with all such requirements. Bond Counsel will express no opinion regarding other federal tax consequences arising with respect to the Series 2013 Bonds and the interest thereon.

Prospective purchasers of the Series 2013 Bonds should be aware that (i) interest on the Series 2013 Bonds is included in the effectively connected earnings and profits of certain foreign corporations for purposes of calculating the branch profits tax imposed by Section 884 of the Code, (ii) interest on the Series 2013 Bonds may be subject to a tax on excess net passive income of certain S corporations imposed by Section 1375 of the Code, (iii) interest on the Series 2013 Bonds is included in the calculation of modified adjusted gross income for purposes of determining taxability of social security or railroad retirement benefits, (iv) the receipt of interest on the Series 2013 Bonds by life insurance companies may affect the federal tax liability of such companies, (v) in the case of property and casualty insurance companies, the amount of certain loss deductions otherwise allowed is reduced by a specific percentage of, among other things, interest on the Series 2013 Bonds, (vi) registered owners acquiring the Series 2013 Bonds subsequent to initial issuance will generally be required to treat market discount recognized under Section 1276 of the Code as ordinary taxable income, (vii) the receipt or accrual of interest on the Series 2013 Bonds may cause disallowance of the earned income credit under Section 32 of the Code, (viii) interest on the Series 2013 Bonds is subject to backup withholding under Section 3406 of the Code in the case of registered owners that have not reported a taxpayer identification number and are not otherwise exempt from backup withholding, and (ix) registered owners of the Series 2013 Bonds may not deduct interest on indebtedness incurred or continued to purchase or carry the Series 2013 Bonds, and financial institutions may not deduct that portion of their interest expense allocated to interest on the Series 2013 Bonds.

In the opinion of Dickinson Wright PLLC, Bond Counsel, based on its examination of the documents described in its opinion, under existing law, the principal and interest on the Series 2013 Bonds are exempt from taxation by the State of Michigan and by any other taxing authority within the

State of Michigan, except estate taxes and taxes on gains realized from the sale, payment or other disposition thereof.

### **Tax Treatment of Accruals on Original Issue Discount Bonds**

For federal income tax purposes, the difference between the initial offering prices to the public (excluding bond houses and brokers) at which a substantial amount of the Series 2013 Bonds initially sold at a discount as shown on the cover page hereof (the “OID Bonds”) is sold and the amount payable at the stated redemption price at maturity thereof constitutes “original issue discount.” Such discount is treated as interest excluded from federal gross income to the extent properly allocable to each registered owner thereof. The original issue discount accrues over the term to maturity of each such OID Bond on the basis of a constant interest rate compounded at the end of each six-month period (or shorter period from the date of original issue) with straight line interpolations between compounding dates. The amount of original issue discount accruing during each period is added to the adjusted basis of such OID Bonds to determine taxable gain upon disposition (including sale, redemption or payment on maturity) of such OID Bonds.

The Code contains certain provisions relating to the accrual of original issue discount in the case of registered owners of the OID Bonds who purchase such Series 2013 Bonds after the initial offering of a substantial amount thereof. Registered owners who do not purchase such OID Bonds in the initial offering at the initial offering and purchase prices should consult their own tax advisors with respect to the tax consequences of ownership of such OID Bonds.

### **Amortizable Bond Premium**

For federal income tax purposes, the difference between an original registered owner’s cost basis of the Series 2013 Bonds initially sold at a premium as shown on the cover page hereof (the “Original Premium Bonds”) and the amounts payable on the Original Premium Bonds other than stated interest constitutes an amortizable bond premium. The same applies with respect to any Series 2013 Bond, if a registered owner’s cost basis exceeds the amounts payable thereon other than stated interest (collectively with the Original Premium Bonds held by the original registered owners, “Premium Bonds”). Such amortizable bond premium is not deductible from gross income, but is taken into account by certain corporations in determining adjusted current earnings for the purpose of computing the alternative minimum tax, which may also affect liability for the branch profits tax imposed by Section 884 of the Code. The amount of amortizable bond premium allocable to each taxable year is generally determined on the basis of the registered owner’s yield to maturity determined by using the registered owner’s basis (for purposes of determining loss on sale or exchange) of such Premium Bonds and compounding at the close of each six-month accrual period. The amount of amortizable bond premium allocable to each taxable year is deducted from the registered owner’s adjusted basis of such Premium Bonds to determine taxable gain upon disposition (including sale, redemption or payment at maturity) of such Premium Bonds.

### **Future Developments**

NO ASSURANCE CAN BE GIVEN THAT ANY FUTURE LEGISLATION OR CLARIFICATIONS OR AMENDMENTS TO THE CODE, IF ENACTED INTO LAW, WILL NOT CONTAIN PROPOSALS THAT COULD CAUSE THE INTEREST ON THE SERIES 2013 BONDS TO BE SUBJECT DIRECTLY OR INDIRECTLY TO FEDERAL OR STATE OF MICHIGAN INCOME TAXATION, ADVERSELY AFFECT THE MARKET PRICE OR MARKETABILITY OF THE SERIES 2013 BONDS, OR OTHERWISE PREVENT THE REGISTERED OWNERS FROM REALIZING THE FULL CURRENT BENEFIT OF THE STATUS OF THE INTEREST THEREON.

FURTHER, NO ASSURANCE CAN BE GIVEN THAT ANY SUCH FUTURE LEGISLATION, OR ANY ACTIONS OF THE INTERNAL REVENUE SERVICE, INCLUDING, BUT NOT LIMITED TO, SELECTION OF THE SERIES 2013 BONDS FOR AUDIT EXAMINATION, OR THE AUDIT PROCESS OR RESULT OF ANY EXAMINATION OF THE SERIES 2013 BONDS OR OTHER SERIES 2013 BONDS THAT PRESENT SIMILAR TAX ISSUES, WILL NOT ADVERSELY AFFECT THE MARKET PRICE OF THE SERIES 2013 BONDS.

INVESTORS SHOULD CONSULT WITH THEIR TAX ADVISORS AS TO THE TAX CONSEQUENCES OF THEIR ACQUISITION, HOLDING OR DISPOSITION OF THE SERIES 2013 BONDS AND THE TAX CONSEQUENCES OF THE ORIGINAL ISSUE DISCOUNT OR PREMIUM THEREON, IF ANY.

### **RATINGS**

Moody's Investors Service has assigned a rating of "Ba1" on the Series 2013 Bonds and Fitch Inc. has assigned a rating of "BB+" on the Series 2013 Bonds. 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 rating agencies. The ratings are not recommendations to buy, sell or hold the Series 2013 Bonds. The ratings are subject to revision or withdrawal at any time, and any such revision or withdrawal may affect the market price or marketability of the Series 2013 Bonds.

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 rating agency originally establishing the rating, circumstances so warrant. The Authority, the Underwriter and the Medical Center have undertaken no responsibility to bring to the attention of the holders of the Series 2013 Bonds any proposed revision or withdrawal of any rating of the Series 2013 Bonds or to oppose any such proposed revision or withdrawal. Any such change in or withdrawal of such rating could have an adverse effect on the market price of the Series 2013 Bonds.

### **VERIFICATION OF MATHEMATICAL ACCURACY**

Causey Demgen & Moore, Inc., Denver, Colorado, a firm of independent certified public accountants (the "Verification Agent"), will deliver to the Authority on or before the date of issuance of the Series 2013 Bonds, its attestation report indicating that it has examined, in accordance with standards established by the American Institute of Certified Public Accountants, the information and assertions provided by the Medical Center and its representatives. Included in the scope of its examination will be a verification of mathematical accuracy of the mathematical computations of the adequacy of the cash and the maturing principal of, and interest on, the United States Government securities on deposit with the trustee for the Bonds To Be Refunded to pay, when due, the maturing principal of, redemption premium, if any, and interest on the Bonds To Be Refunded.

The examination performed by the Verification Agent will be solely based upon data, information and documents provided to the Verification Agent by the Medical Center and its representatives. The Verification Agent's report of its examination will state that Verification Agent has no obligation to update the report because of events occurring, or data or information coming to their attention, subsequent to the date of the report.

## **FINANCIAL ADVISOR**

The Medical Center has retained Kaufman, Hall & Associates, Inc., Skokie, Illinois, as financial advisor in connection with the issuance of the Series 2013 Bonds. Although Kaufman, Hall & Associates, Inc. has assisted in the preparation of this Official Statement, Kaufman, Hall & Associates, Inc. was not and is not obligated to undertake, and has not undertaken to make, an independent verification and assumes no responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

## **FINANCIAL STATEMENTS**

The financial statements of the business-type activities, fiduciary fund, and the discreetly presented component unit of Hurley Medical Center as of June 30, 2012 and 2011 and for the years then ended, included in Appendix B to this Official Statement have been audited by Plante and Moran, PLLC, independent public accountants, as indicated in their reports appearing therein. Also included in Appendix B are unaudited financial statements of the Medical Center for the six months ended December 31, 2012, which have not been audited by independent auditors, but which reflect all significant adjustments, consisting of normal recurring accruals which the Medical Center considers necessary for a fair presentation of the results of operations for such period, except that such unaudited financial statements are incomplete in that they omit statements of changes in net assets, cash flows and notes to the financial statements which would contain other disclosures required by generally accepted accounting principles. Certain financial information of the Medical Center included in Appendix A to this Official Statement has been derived from the audited financial statements; however, comparative financial information of the Medical Center for the six months ended December 31, 2012 included in Appendix A has not been audited and was obtained from the unaudited financial statements of the Medical Center.

## **UNDERWRITING**

Raymond James & Associates, Inc. (the “Underwriter” or “Raymond James”) has agreed, subject to certain customary conditions precedent to closing, to purchase the Series 2013A Bonds from the Authority at a purchase price of \$22,043,439.30, the par amount of the Series 2013A Bonds, plus a net original issue premium of \$403,946.70 and less an underwriting discount of \$300,507.40 and to purchase the Series 2013B Bonds from the Authority at a purchase price of \$36,784,425.10, the par amount of the Series 2013B Bonds, plus a net original issue premium of \$625,542.70 and less an underwriting discount of \$431,117.60. The purchase contract between the Authority and the Underwriter provides that the Underwriter will purchase all the Series 2013 Bonds if any are purchased. The Underwriter reserves the right to join with dealers and other underwriters in offering the Series 2013 Bonds to the public. The obligation of the Underwriter to accept delivery of the Series 2013 Bonds will be subject to various conditions of the purchase contract.

## **CONTINUING DISCLOSURE**

### **The Medical Center**

Under a Disclosure Dissemination Agent Agreement (the “Continuing Disclosure Agreement”) to be entered into concurrently with the issuance of the Series 2013 Bonds, the Medical Center will agree that it will provide certain financial information and operating data in accordance with the requirements of Rule 15c2-12 (the “Rule”) of the Securities and Exchange Commission (the “SEC”) under the

Securities Exchange Act of 1934, as amended. Such financial information and operating data will consist generally of updates to the information under the following headings in Appendix A hereto: (1) Governance and Management; (2) Competition (information under chart outlining market share); (3) Medical Staff; (4) Historical Operations; (5) Summary Financial Information; and (6) Management's Discussion of Financial Performance.

To the extent required by the Rule, the Medical Center has agreed to provide to a Disclosure Dissemination Agent, initially Digital Assurance Certification, L.L.C., or any successor Disclosure Dissemination Agent appointed by the Medical Center (the "Dissemination Agent") and the Dissemination Agent will deliver to the Electronic Municipal Market Access system ("EMMA") of the Municipal Securities Rulemaking Board (the "MSRB") certain annual financial statements ("Annual Report"), generally consistent with the information contained under the heading "FINANCIAL STATEMENTS" herein, and including certain annual financial statements of Hurley Health Services, an affiliate of the Medical Center, no later than five months after the last day of each fiscal year of the Medical Center.

Although not required by the Rule, the Medical Center has also agreed to provide to the Dissemination Agent, and the Dissemination Agent will deliver to EMMA, certain quarterly financial information ("Quarterly Report") not later than 45 days after the end of the first three fiscal quarters, and 60 days after the end of the fourth quarter, of each fiscal year. In addition, the Medical Center has agreed that as long as the Series 2013 Bonds are rated at or below "Ba1/BB+" or their equivalent, by any two or more Rating Agencies then rating the Series 2013 Bonds, the Medical Center will hold a telephonic conference call after the filing of each Quarterly Report to discuss the information provided in such Quarterly Report. In the event that any two Rating Agencies then rating the Series 2013 Bonds, upgrade their respective ratings on the Series 2013 Bonds to "Baa3/BBB-" or their equivalent, then the Medical Center has agreed to hold such telephonic conference calls semi-annually after the filing of the Quarterly Reports for each of the Medical Center's second and fourth fiscal quarters. In the event that any two Rating Agencies then rating the Series 2013 Bonds upgrade their respective ratings of the Series 2013 Bonds to "Baa1/BBB+" or higher, or their equivalent, then the Medical Center has agreed to hold such telephonic conference calls annually after the filing of the Annual Report. The Medical Center has agreed that at least ten (10) days prior to a telephonic conference call, it shall file or cause the Dissemination Agent to file with the MSRB, notice of the telephonic call, including a dial-in telephone number. If a difference exists in the ratings of the Rating Agencies and the difference is only one level, the lower of such ratings will determine the frequency of the telephonic conference calls. If a difference exists in the ratings of the Rating Agencies and the difference is two or more levels, the frequency of the telephonic conference calls will be based upon the rating immediately above the lower of the two credit ratings. If there shall be only one Rating Agency, then such credit rating shall determine the frequency of the telephonic conference calls.

The Medical Center has further agreed to provide, in a timely manner, to the Dissemination Agent, and the Dissemination Agent will deliver to the MSRB through EMMA, in an electronic format prescribed by the MSRB, notice of the occurrence of any of the following events with respect to the Series 2013 Bonds, if, in the judgment of the Medical Center, such event is material: (i) principal and interest payment delinquencies; (ii) non-payment related defaults; (iii) unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancements relating to the Series 2013 Bonds reflecting financial difficulties; (v) substitution of credit or liquidity providers, or their failure to perform; (vi) adverse tax opinions or events affecting the tax-exempt status of the Series 2013 Bonds; (vii) modifications to rights of Bondholders; (viii) bond calls; (ix) defeasances; (x) release, substitution, or sale of property securing repayment of the Series 2013 Bonds; (xi) rating changes on the Series 2013 Bonds; (xii) bankruptcy, insolvency, receivership or similar event of the Medical Center, Hurley Health Services, or the City; (xiii) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person,

other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

This list of events is required by the SEC to be included in the Continuing Disclosure Agreement regardless of whether the events are applicable to the Series 2013 Bonds. The Medical Center may from time to time choose to provide notice of the occurrence of certain other events, in addition to those listed above, if, in the judgment of the Medical Center, such other event is material with respect to the Series 2013 Bonds, but the Medical Center does not undertake to commit to provide any such notice of the occurrence of any material event except those events listed.

Notwithstanding any other provision of the Continuing Disclosure Agreement, the Medical Center and the Dissemination Agent may amend the Continuing Disclosure Agreement and any provision of the Continuing Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to both the Medical Center and the Dissemination Agent to the effect that such amendment or waiver does not materially impair the interests of Holders of the Bonds and would not, in and of itself, cause the undertakings under the Continuing Disclosure Agreement to violate the Rule if such amendment or waiver had been effective on the date of the Continuing Disclosure Agreement but taking into account any subsequent change in or official interpretation of the Rule; provided neither the Medical Center nor the Dissemination Agent shall be obligated to agree to any amendment modifying their respective duties or obligations without their consent thereto.

The obligations of the Medical Center and the Dissemination Agent under the Continuing Disclosure Agreement shall terminate with respect to the Series 2013 Bonds upon the legal defeasance, prior redemption or payment in full of all of the Series 2013 Bonds, when the Medical Center is no longer an obligated person with respect to the Series 2013 Bonds, or upon delivery by the Medical Center to the Dissemination Agent of an opinion of nationally recognized bond counsel to the effect that continuing disclosure is no longer required.

In the event of a failure of the Medical Center or the Dissemination Agent to comply with any provision of the Continuing Disclosure Agreement, the Holders' rights to enforce the provisions of the Continuing Disclosure Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the parties' obligation under the Continuing Disclosure Agreement. Any failure by a party to perform in accordance with the Continuing Disclosure Agreement shall not constitute a default on the Series 2013 Bonds or under any other document relating to the Series 2013 Bonds, and all rights and remedies shall be limited to those expressly stated in the Continuing Disclosure Agreement.

### **The Authority**

Because the Series 2013 Bonds are limited obligations of the Authority, the Authority does not intend to provide the Trustee with any additional information regarding itself or the Series 2013 Bonds after the date of issuance of the Series 2013 Bonds.

### **MISCELLANEOUS**

The summaries or descriptions of provisions of the Act, the Series 2013 Bonds, the Indenture and the 2013 Restated Contract of Lease, and all references to other materials not purporting to be quoted in full, are only brief outlines of some of the provisions thereof and do not purport to summarize or describe



all of the provisions thereof. Reference is made to the Act, the Series 2013 Bonds, the Indenture, the 2013 Restated Contract of Lease and such other materials for a full and complete statement of the provisions thereof. Such documents are on file at the offices of the Underwriter and following delivery of the Series 2013 Bonds will be on file at the principal corporate trust office of the Trustee.

So far as any statements made in this Official Statement involve matters of opinion or estimates, whether or not expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any of such statements will be realized. Neither this Official Statement nor any statement which may have been made orally or in writing is to be construed as a contract with the owners of the Series 2013 Bonds.

It is anticipated that the CUSIP identification numbers will be printed on the Series 2013 Bonds, but neither the failure to print such numbers nor any error in the printing of such numbers shall constitute a failure or refusal by any purchaser thereof to accept delivery of and pay for any Series 2013 Bonds.

The attached Appendices are integral parts of this Official Statement and must be read together with all of the foregoing statements.

The Medical Center has reviewed the information contained herein that relates to the Medical Center and its property and operations and has approved all such information for use within this Official Statement.

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This Official Statement has been duly authorized by the Authority and approved by the Medical Center.

CITY OF FLINT HOSPITAL BUILDING  
AUTHORITY

By:     /s/ Lewis Driskell      
Chairperson

This Official Statement is approved:

CITY OF FLINT BOARD OF HOSPITAL  
MANAGERS

By:     /s/ Charlotte P. Edwards      
Chairperson

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**APPENDIX A**

**Hurley Medical Center**

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## **GENERAL BACKGROUND**

### **Introduction**

Hurley Medical Center (the “Medical Center” or “Hurley”) is a 443-licensed bed tertiary care teaching facility, the operations of which are a component unit of the city of Flint, Michigan (the “City”). Pursuant to the City’s charter, management and supervision of the Medical Center are delegated to the Board of Hospital Managers (see “GOVERNANCE AND MANAGEMENT” herein). The Medical Center serves a six-county area including the counties of Genesee, Lapeer, Shiawassee, Oakland, Saginaw and Tuscola and is located in Flint, Genesee County, Michigan. The Medical Center provides clinical training for medical and nursing students and residents (see “EDUCATIONAL PROGRAMS AND ACCREDITATIONS” herein).

### **Historical Background and Facilities**

In the early 1900s, as part of his last will and testament, James J. Hurley provided the land and funds to the City for the construction of a hospital to treat the sick without regard to their ability to pay. This focus on community service is the foundation on which the Medical Center has operated for over 100 years. The original 40-bed hospital opened in 1908 as the first hospital in the Flint community on the site of what is now the main campus of the Medical Center (the “Main Campus”). In 1919, two eleven-story patient care towers, known as the A and B Wings of the West Tower, were constructed, increasing Hurley’s number of beds to 125. A third eleven-story connecting tower, the C Wing, was added during the 1950s. These facilities served the health care needs of the community until the North Building, a five-story patient services tower, was constructed in 1976 to house the Medical Center’s surgical suites, recovery room, obstetrical services, labor and delivery, nursery, emergency room, outpatient clinics, laboratory and library. In 1977, construction of the East Tower and warehouse began. Construction of the nine-story East Tower and warehouse was completed in 1979, at which time some inpatient units were moved from the West Tower to the East Tower. The West Tower currently houses most of the inpatient support services. During the 1990s, the Medical Center improved various service lines by opening several new centers, including the Hurley Health and Fitness Center, the Hurley Children and Family Health Center, Senior Care Centers, Pediatric Emergency Department, Chest Pain Center and the Hurley Center for Comprehensive Weight Loss.

The Medical Center’s growth has continued in the last decade with the additions of the Hurley Diabetes Center, the Genesys Hurley Cancer Institute and the Hurley Orthopedics Center for Joint Replacement and the extensive modernization of Cardiology and Radiology services. Recently, the Medical Center built a new entrance and emergency department. The emergency department was both modernized and relocated to a combination of renovated space in the current East Tower and new space attached to the south of the East Tower. The emergency department project expanded the emergency room space from 52 beds to 72 beds, added a dedicated 12-bed observation unit and increased both the efficiency of operations and the level of service to patients.



The Main Campus sits on the highest geographic point in the center of the City. The University of Michigan – Flint is located less than one mile to the east, and Kettering University is located less than one mile to the west of the Main Campus. The Main Campus houses all inpatient operations, the emergency room, outpatient operations, a medical office building, the school of nursing and a parking structure.

The Medical Center’s east side campus (the “Hurley Eastside Campus”) contains the Hurley Back Care Center, Hurley Diabetic Resource Center, Hurley Center for Comprehensive Weight Loss, Hurley’s Rehabilitation Psychology Program and private physicians’ offices.

The Medical Center’s west side campus (the “Hurley West Flint Campus”) contains the Hurley Sleep Studies Center, Hurley Mental Health Associates, Hurley Women’s Center, Flint Children’s Center, Hurley Health Services offices, Hand Care and Family Rehabilitation and Hurley Pediatric Subspecialties.

The Hurley Health and Fitness Center is located in Great Lakes Technology Center in the southern end of the City.

As a regional provider, the Medical Center is affiliated with physician primary care offices in most suburbs surrounding the City.

See page A-19 for a map of the Medical Center’s facilities.

## **MEDICAL CENTER AFFILIATES**

The Medical Center, in addition to conducting its primary health care operations, is affiliated with other entities, through a common mission, whose operations support the Medical Center. These entities, described below, are component units of the Medical Center or are controlled through membership, board representation or the ability to replace the board of directors of the entity. None of these affiliated entities are consolidated in the Medical Center’s financial statements. **Only the Medical Center is obligated to pay Cash Rentals and the other amounts payable under the Contract of Lease.**

### **Hurley Health Services**

Hurley Health Services (“HHS”), a Michigan non-profit, 501(c)(3) corporation, owns and operates primary care practices. The Board of Hospital Managers of the Medical Center appoints four (4) of the seven (7) Board Members of HHS, with those four (4) appointing the remaining three (3) members. HHS currently operates 4 clinics. The consolidated results of operations of HHS are reported as a component unit in the Medical Center’s financial statements.

### **The Hurley Clinics**

The Hurley Clinics (“THC”), a wholly owned subsidiary of HHS, employs physicians to work in the HHS clinics as well as provides physicians through contracts with the Medical Center to staff teaching programs. The results of operations of THC are consolidated into the HHS consolidated financial statements.

### **Hurley Practice Management Services**

Hurley Practice Management Services (“HPMS”), a for-profit corporation, formally known as H-Corp of Mid-Michigan, provides practice management services to the HHS clinics, some Medical Center clinics, and some private physician offices. HPMS also provides support services to the Medical Center’s outreach reference lab. HPMS is a 50 percent owner of H-Care, a joint venture that provides durable medical equipment (DME) services in the Genesee County region. Binson’s Home Medical, a regional provider of DME services in Michigan, Ohio, Indiana and Florida is the managing partner in the joint venture and owns the remaining 50 percent. The results of operations of H-Care are included in the HPMS financial statements under the equity method of accounting. The results of operations of HPMS are consolidated into the HHS consolidated financial statements.

### **The Hurley Foundation**

The Medical Center is affiliated with The Hurley Foundation (“THF”), which does the majority of fund raising for the Medical Center. THF’s sole purpose is to support the Medical Center. The results of operations of THF are not included in the Medical Center’s financial statements.

### **Genesys Hurley Cancer Institute**

In 2002, the Medical Center joined with Genesys Regional Medical Center to form the Genesys Hurley Cancer Institute (“GHCI”). GHCI is 50% owned by the Medical Center and 50% owned by Genesys Regional Medical Center. GHCI operates a free standing ambulatory cancer center providing radiation, oncology and chemotherapy infusion services and houses several private oncologist offices. The results of operation of the GHCI are included in the Medical Center’s financial statements based on the equity method of accounting.

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## SERVICES AND PROGRAMS

<b>General Acute Care</b>	<b>Specialized Diagnostic Treatment/Support</b>	<b>Outpatient</b>
Intensive Care	Anesthesiology	Asthma Clinic
Pediatric Care	Bariatric Surgery (Comprehensive Weight Loss)**	Back Care
Medicine	Breast Cancer Program **	Blood Bank
Nursery	Burn Treatment **	Cardiac Rehabilitation
Rehabilitation	Cardiac Catheterization	Cardiovascular Testing
Obstetrics	Case Management	CT / Ultrasound
Oncology	Chaplaincy	Diabetes Resource Center **
Orthopedics	Child Life	Diagnostic Radiology Services
Psychiatry	Infectious Control	Endoscopy Laboratory
Surgery	Interventional Radiology	Emergency Care
Pediatric Intensive Care **	Involuntary Psychiatry	Fitness Center
	Joint Replacement**	Health Promotion at Center for Health Outcomes
	Stroke Care **	Injury Prevention
	Neonatal Intensive Care (Level III) **	Laboratory Services
	Neuro/Trauma Intensive Care Trauma Center and Emergency Services (Level I)**	Mammography Services
	Nutritional & Dietician Services	Maternal Fetal Medicine **
	Pediatric Trauma (Level II) **	Nuclear Medicine
	Pain Management	Occupational Therapy
	Patient Support Services	Outpatient Behavioral
	Sleep Disorders	Outreach Laboratory Service
	Social Work Services	Pediatric & Adult Specialty Clinics Physical Therapy
	Patient & Parent Education	Primary Care Satellites
	Surgical Hospitalist Program	Rehabilitation Psychology
	Tumor Registry	Speech Therapy
	Volunteer Services	Sports Care
	Wound Care	Surgery
	Magnetic Resonance Imaging	Women's Services
		Vascular Clinic
		Breastfeeding Clinic

\*\* Denotes those programs that the Medical Center considers its centers of excellence.

One of the Medical Center's core strengths has been the quality and type of healthcare services provided. The Medical Center has won numerous awards and other achievements noting the high quality of its medical care (see "HONORS AND AWARDS" below). Additionally, the Medical Center also provides several healthcare services that are not generally provided elsewhere in the area. These include services such as trauma, neonatal, burn, diabetes clinic and behavioral health. The Medical Center is the only hospital to provide these types of services within the immediate six county region. The high acuity of these services is reflected in Hurley's Medicare Case Mix Index, which has averaged approximately 1.59 for the last three years. Both the quality and type of services provided by Hurley helps with the recruiting of new physicians and makes the Medical Center a key provider for managed care plans.

### **Commitment to Community and Community Involvement**

In addition to its core services, Hurley Medical Center is committed to providing outstanding patient and family centered care for residents in the Genesee County and surrounding communities. Hurley's doctors and nurses routinely participate in health fairs and expos and visit schools, places of worship, community groups, libraries, professional organizations, and assisted-living facilities to educate residents about potential medical conditions.

*Hurley's genuine commitment to a healthy community is how Hurley lives out its mission of "Clinical Excellence. Service to People." and its community branding of "Think Healthy, Think Hurley."*

Below are a few of the community service programs provided by Hurley Medical Center.

***Asthma Disease Management Program.*** Hurley Medical Center is a leader in the state of Michigan for pediatric asthma care, with the only home-based Asthma Disease Management Program in the region. The program teaches children and adults how to control asthma and provides valuable asthma screenings through in-home visits and various community settings. The program served approximately 3,250 people in fiscal year ended June 30, 2012 at over 50 different events.

***Teen Heart Screening.*** Hurley's Children's Hospital is the only medical facility in the region offering free teen heart screening. This program screens young adults for signs of hypertrophic cardiomyopathy, the leading cause of death in young athletes. During the past year, three screenings have been offered, which have served over 1,000 young adults. This special, one of a kind program offers an in-depth heart screening that includes a medical history, blood pressure check and an ECG. The Children's Hospital also provides Echocardiograms, if needed.

***Injury Prevention and Safe Kids of Greater Flint Program.*** The goal of the Injury Prevention and Safe Kids of Greater Flint Program offered by Hurley is to reduce traumatic injuries in Genesee County and the surrounding area through education by raising the awareness of safe habits and routines. Hurley partners with schools, police and fire departments, community groups, and countless local businesses, to promote safe

habits and to keep the community healthy. The Injury Prevention and Safe Kids of Greater Flint Program offers regular car seat inspections, programs and information sessions on bullying, fire and burn safety, first aid for kids, gun safety, KISS (keeping infants safe and secure), sports related injuries/concussion, water safety, distracted driving, drinking and driving, prescription pill abuse, Straight Talk (Juvenile Arson Prevention Program) and Making Good Choices. There are approximately 3,100 children served at over 100 events annually through this program.

***Diabetes Education Programs.*** Hurley's diabetes education programs help individuals self manage diabetes. Hurley's program is the largest in Genesee County and its classes are recognized by the American Diabetes Association and certified by the Michigan Department of Community Health as quality self-management diabetes education programs. Hurley offers three different Diabetes Education Programs: Adult Diabetes Education Program, Diabetes During Pregnancy Education Program and Pediatric Diabetes Education Program. These programs serve over 600 individuals annually.

***Exercise and Family Weight Loss Management Programs.*** Hurley's goal is for individuals to be healthy, which includes being in good physical shape and maintaining a healthy weight. Experienced staff at the Medical Center and all of Hurley's clinics are specially trained to help individuals get fit and lose weight through education and exercise programs offered at the Hurley Health and Fitness Center. Hurley's Exercise and Family Weight Loss Management Program for 9-18 year olds focuses on moving more and eating less. Children and parents/guardians attend classes with a pediatric psychologist or dietitian and participate in physical activity sessions.

***Breast Cancer Program.*** As the region's leader in breast health and breast cancer treatment, the Breast Cancer Program is making that belief a reality by consistently providing the highest level of clinical breast cancer care along with compassion for patients and their families. The Breast Health Nurse Navigator Program is the first program of its kind in Genesee County. An extremely caring, highly-trained registered nurse provides breast cancer patients with the latest medical information and resources for nutrition, lifestyle, emotional, and spiritual support. The program demonstrates Hurley's commitment to providing patient and family-centered care. There are approximately 15 events, which serve over 700 individuals annually.

***Men's Health Initiative.*** Launched in January 2012, Hurley Medical Center's Men's Health Initiative has been created to educate men and their families on the importance of men taking charge of their own health. Convincing men to seek medical attention as part of wellness, not sickness, is a main focus of the Initiative. Kicking off the yearlong effort was the African American Men's Health Summit on February 25, 2012 which attracted approximately 100 men and provided health screenings for cholesterol, body mass index (BMI), blood pressure, blood sugar, vision and dental. In June 2012, the first annual Men's Health Fest was held. The event served over 1,000 men from all over Mid-Michigan who were offered free screenings including cholesterol, blood sugar, blood pressure and BMI, along with health, wellness and outreach information.

***Senior Services.*** The Medical Center’s goal is to keep older adults healthy, active and independent for as long as possible. Hurley’s staff and services are uniquely sensitive to the special needs and health concerns of seniors. Hurley’s geriatricians provide thorough medical evaluations and offer recommendations on how lifestyle and medications may affect an individual’s health. Medical screenings for cancer and other health conditions also are available. Approximately 20 events are held annually which serve over 600 community members.

***Center for Health Outcomes.*** By partnering with local groups, foundations, schools, and organizations, the Hurley Center for Health Outcomes (CHO) is making great strides in helping people control diabetes, lose weight, eat healthier, exercise, and live healthier lifestyles. Programs include the Blue Cross Blue Shield Community Advisory Council, Clio Community Healthy Community Initiative, Diabetes Partners In Action Coalition, the Adult Diabetes Support Group, Edible Flint program, the Employee Wellness Program, the Hurley Community Garden, Kohl’s Cares for Healthy Kids, National Kidney Foundation of Michigan, and PATH (Personal Action Toward Health). Continuing with the community branding, “*Think Healthy, Think Hurley,*” Hurley has named CHO “*The Wellness Connection,*” which reflects CHO’s goals of patient centered care for at risk-populations through disease management and employee, corporate and community wellness, all measured by various health outcomes.

## **HONORS AND AWARDS**

### **Diabetes Certificates of Commendation**

Michigan Coordinating Body of the American Association of Diabetes Educators Outstanding Achievement Award, 2012;

Michigan Department of Community Health Center for Diabetes Self-Management Certification; and

American Diabetes Association National Standards for Diabetes Self-Management Education Certification.

### **Hurley Center for Health Outcomes**

Michigan Hospital Association Certificate of Commendation, 2012;

State of Michigan Special Tribute for Chronic Disease Management and Prevention, 2012;

Michigan Department of Community Health recognition for helping Genesee County achieve the lowest infant mortality rate in 25 years, 2012;

Edible Flint Garden Tour Award, 2010, 2011, 2012;

Keep Genesee County Beautiful Urban Garden Award, 2011; and

Keep Genesee County Beautiful Honorable Mention Beautification Award, 2010.

**Trauma Services, Stroke Services, Organ Donation**

The Hartford Institute for Geriatric Nursing and NICHE (Nurses Improving Care for Healthsystem Elders) program as “senior friendly,” 2012;

American Association of Cardiovascular and Pulmonary Rehabilitation awarded its pulmonary rehabilitation verification, 2012;

Department of Health and Human Services awarded the Silver Organ Donation Medal of Honor, 2012; and

Michigan Department of Community Health awarded the Certificate of Appreciation for Participation in the Paul Coverdell National Acute Stroke Registry Centers for Disease Control and Prevention, 2010 and 2011.

**EDUCATIONAL PROGRAMS AND ACCREDITATIONS**

Educational programs continue to be a significant focus of the Medical Center. Details of such programs are described under the heading “STRATEGIC INITIATIVES – Academic Excellence” on page A-10 below.

**STRATEGIC INITIATIVES**

Within its ongoing strategic planning process, the Medical Center has identified various strategic priorities and initiatives on which it is currently focusing to further its role as the dominant provider of specialized health care services in its market. Overall, the strategic focus of the organization underscores its commitment to serving the health care needs of the citizens of Flint and the surrounding areas with the highest quality of care at the lowest achievable cost. These initiatives encompass all aspects of health care delivery, including the Medical Center’s relationships with its patients, physicians, employees, outside contractors and managed care providers.

The strategic plan is centered on five priorities: 1) providing innovative access to health care; 2) transforming the health of the communities the Medical Center serves; 3) providing clinical excellence; 4) creating academic excellence; and 5) creating physician alignment in all that the Medical Center does.

**Innovative Access to Health Care**

One of the major tactics regarding innovative access has been the full implementation of the new emergency department, which opened on-time and on-budget in March 2012. Not only does the geographical layout offer greater access to specialized patient populations, e.g.

a separate pediatric emergency department and dedicated psychiatric rooms, but there has also been specialized training of the emergency department staff in handling the specialized needs of the geriatric population. In addition to the dedicated psychiatric rooms utilized for medically unstable psychiatric patients, a transitional unit for the medically stable psychiatric patients has been created so that the appropriate milieu and staff can surround this population for appropriate disposition. The county psychiatric agency (Genesee County Community Mental Health) assisted in creating this transitional area because it presents an opportunity to keep costs low and outcomes high through specialized access to the appropriate care team and surroundings. The incorporation of geographic specific care allows the setting to be appropriate for the care of the psychiatric patient, but also provides a quieter environment for the patients in the emergency department seeking non psychiatric care. Blending these two patient populations in the past led to dissatisfaction for both sets of patients. In addition, having concentrated staff focused on the care of the psychiatric patients allows for quicker disposition into the right care setting for the patients, thereby reducing the cost of care for this population by getting them to the next level of appropriate treatment in a timely manner.

Hurley is one of the first hospitals in Michigan to receive certification as a Video Remote Interpreting (VRI) site. VRI uses devices such as web cameras or videophones to provide sign language or spoken language interpreting services. This is done through a remote or offsite interpreter. Hurley utilizes VRI to provide interpreting assistance for non-English speaking patients and deaf and hard of hearing patients, including students from the Michigan School for the Deaf, a residential school of approximately 130 students located in the City. Hurley continues to test VRI for further uses in telemedicine.

### **Community Health**

In addition to the aforementioned community involvement, a tactic demonstrating Hurley's commitment to transforming health is the partnership CHO created with many of the local churches. Based on the results of a health risk assessment conducted in Genesee County by the National Kidney Foundation, hypertension was identified as a leading problem for a majority of individuals. The faith based community organized and approached Hurley about developing a program to train the health ministry teams in the churches on how to take blood pressures and where to direct individuals with uncontrolled hypertension to the appropriate follow-up resources. This has resulted in approximately one dozen churches and hundreds of parishioners actively monitoring and improving their blood pressure. An important element of this partnership is to have groups come to Hurley seeking the health transformation, rather than Hurley, as a hospital, insisting that it knows the community's priorities regarding community health.

Transitions of care are essential to Hurley's goal of reducing readmissions. Hurley has implemented a program entitled, Better Outcomes for Older Adults through Safe Transitions (BOOST) or a BOOST-like program on three separate inpatient units during the most recent fiscal year. The results of this program will provide Hurley with guidance on additional initiatives to reduce readmissions.



## **Clinical Excellence**

In providing clinical excellence, Hurley is repeatedly seeking outside resources to validate its clinical programs. For example, the American College of Surgeons re-verified Hurley as a Level I adult trauma center and verified Hurley as a level II pediatric trauma center in 2012. Further, the Joint Commission awarded Hurley designation as an advanced primary stroke care center in August 2012. Additionally, Hurley participates in a number of voluntary national clinical quality initiatives such as the Institute for Healthcare Improvement's Joint Replacement Surgical Site Infection Reduction Initiative in which Hurley was the first hospital in the state to achieve exemplar status. The overall goals associated with this priority area are to utilize as many outside surveys, registries, or other benchmarking opportunities to validate the clinical excellence provided at Hurley.

## **Academic Excellence**

Academic excellence has been a very long standing goal of Hurley's strategic plan. The Medical Center participates in numerous graduate medical education training programs and is approved by the Accreditation Council for Graduate Medical Education (ACGME) for training resident physicians in the following residency training programs: internal medicine, pediatrics, obstetrics/gynecology, and combined internal medicine/pediatrics. Hurley's internal medicine residency program has received accreditation from the ACGME for the maximum accreditation period of 10 years, and Hurley's obstetrics/gynecology residence program has received accreditation from ACGME for the maximum accreditation period of 5 years. The Medical Center's residency training programs are affiliated with the Michigan State University College of Human Medicine. Its emergency medicine and pediatric dentistry residency programs are affiliated with the University of Michigan. Additionally, the Medical Center has a formal undergraduate affiliation with the Michigan State University College of Human Medicine to train medical students. Approximately 50 medical students and 85 resident physicians complete their medical training on an annual basis at the Medical Center's facilities. In addition, Hurley has partnerships with the University of Michigan - Flint for their Certified Registered Nurse Anesthetist Program, and is a primary clinical site for their Bachelor of Science in Nursing program. Hurley has nursing students from three other local colleges on its campus as well. Hurley also operates a Radiology Technologist program and a Medical Technologist program.

In addition to these training programs, the Medical Center was recently selected to be one of three hospitals nationwide to participate in the Special Operations Combat Medic training program. Starting in July 2013, advanced medics within the United States Armed Forces will train at Hurley with physicians in the trauma, surgery and emergency departments. A research component between Hurley and the United States Armed Forces will also exist.

Hurley sees great value in these academic programs. The presence of students on its campus pushes the Medical Center to continuously raise the quality bar. In addition, these academic programs provide the Medical Center with an opportunity for recruitment, as these students get to know Hurley's patient population and see value in being a part of Hurley's mission. Further, being so broadly associated with academics also works as a retention tool

for many of Hurley's physicians, as they appreciate being associated with graduate medical education training as part of their professional satisfaction.

Hurley is also committed to research and has historically received numerous National Institute of Health (NIH) grants and other grants to continue clinical and community health education and to assess the best ways to foster community health. These grants range in nature from clinical research in the emergency department to violence prevention to substance abuse issues.

### **Physician Alignment**

Physician Alignment is the final, and by all accounts most important priority area of Hurley's strategic plan. It is part of the Medical Center's philosophy that there must be a physician partnering on any existing or new endeavor, if not, the endeavor should not proceed. Hurley's physicians are an extension to the community that Hurley serves. The physicians' acknowledgement of programs, system improvements and day-to-day operations is very important to Hurley's progress as a hospital. There has been a restructuring of Hurley's organizational chart in the past year that reflects not only a streamlined leadership team, but also one that has an arm solely devoted to service line development. Each of the service line administrators must have a physician champion for their assigned services in order to conduct proper planning and execution of service line goals. Additionally, Hurley has three physicians that hold positions on the leadership team, those being, the Chief Medical Officer, the Chief Medical Information Officer and the Chief Quality Officer. These three roles represent a significant part of Hurley's planning process and of Hurley's day-to-day operational functioning.

On March 4, 2012, the Medical Center went live with a new electronic medical record system called EPIC. The Medical Center is live on the patient care modules currently with plans to go live on the revenue cycle modules (registration, billing, coding) during the summer of 2013. Hurley's focus during the implementation of EPIC is on improving the quality, safety, and efficiency of care. Hurley has implemented products such as bar coded medication administration which verifies the drug, dose, patient, and time of every medication dose. Hurley has implemented clinical decision support tools such as best practice advisories (BPAs). These BPAs notify staff when certain care measures are not being met to remind providers of best practice. The Medical Center has validated order sets representing the standard of care which providers can use when caring for the complex patients Hurley serves. Hurley is developing interface technology that will allow Hurley to connect electronic data to community physicians' offices, further enhancing the quality and continuity of care in the community. Also leveraging this interface technology, Hurley will connect to the Regional Health Information Exchange (RHIE) to allow Hurley's data to be shared with other hospital systems. By July 2013, Hurley expects to be live on its data warehouse, which will give Hurley advanced reporting capabilities. Hurley is actively involved in the Michigan EPIC User group which is looking for ways to create efficiencies at the EPIC sites in Michigan. These efficiencies may include sharing hardware, sharing staff, sharing implementation teams, and sharing other resources. Hurley is also evaluating ways to make care consistent between hospitals by sharing order sets, notes, and other EPIC tools. In addition to

quality and patient safety, EPIC has increased the efficiency of care provided at Hurley. For example, Hurley now has real-time measurements and is able to identify and track patients immediately, which enables providers to provide better and quicker care. With the implementation of EPIC, Hurley has achieved stage one of meaningful use for purposes of receiving payments from the federal government under the Medicare Electronic Health Records Program.

## **GOVERNANCE AND MANAGEMENT**

### **Corporate Governance**

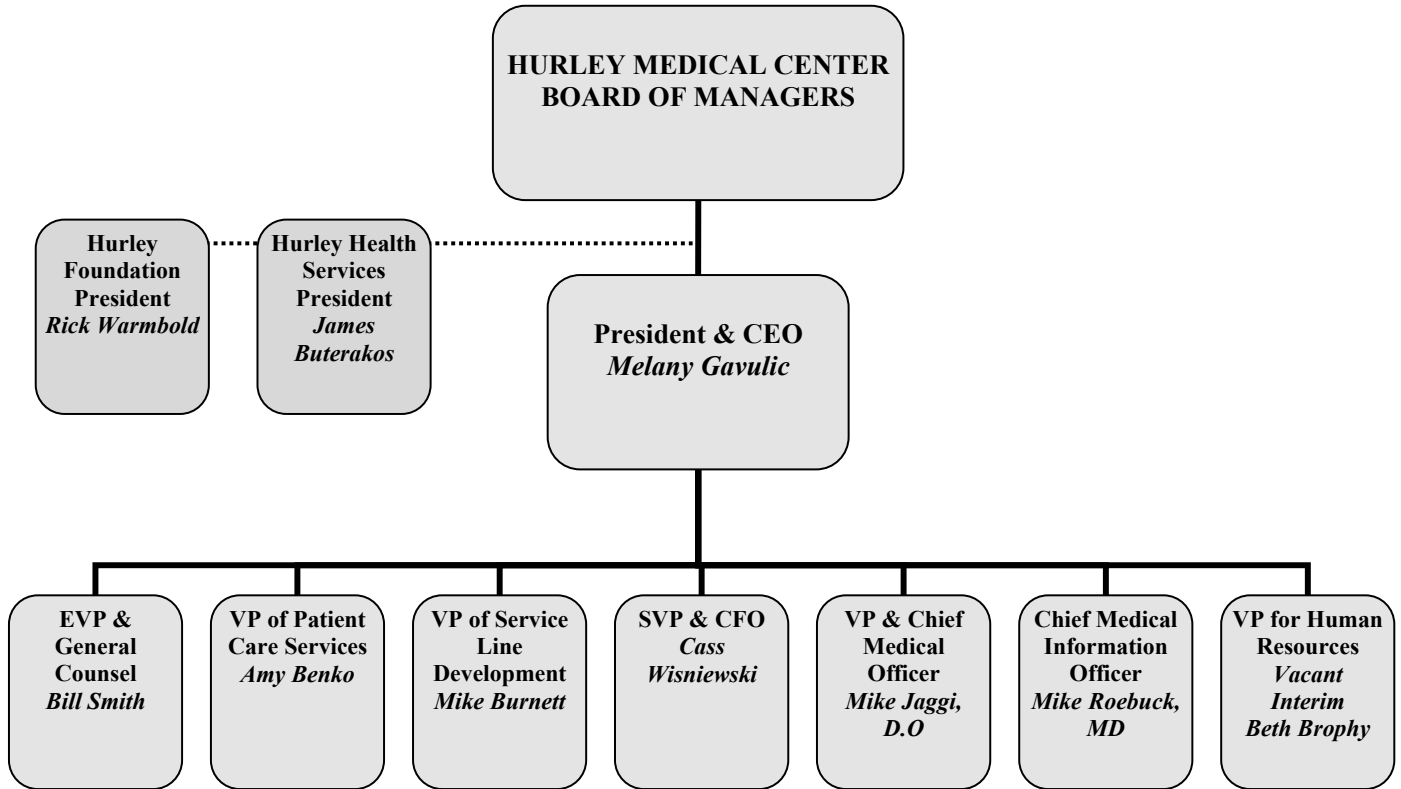
The Board of Hospital Managers (the “Board”) has exclusive authority to manage and supervise the Medical Center pursuant to the City’s Charter. The members of the Board are appointed by the Mayor of the City and approved by the City Council for staggered, five-year terms. There are no term limits for Board members. Officers are elected by the Board and serve one-year terms. Up to three Board members may reside outside of the City of Flint. In addition, up to three members may be health care professionals. The current membership of the Board is as follows:

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<u>Member</u>	<u>Principal Business Affiliation</u>	<u>Term Expires</u>	<u>Tenure</u>
Charlotte P. Edwards <i>(Chair)</i>	Assistant Vice President & Community Affairs Officer for Citizens Bank in Flint, Michigan	April 2017	10 years
Phillip Shaltz <i>(Vice Chair)</i>	Shaltz Automation	April 2013	12 years
Frances Gilcreast <i>(Secretary)</i>	NAACP- Flint Branch, President	April 2013	12 years
Carl Bekofske <i>(Treasurer)</i>	Attorney at Law in Flint, Michigan	April 2017	4 years
Jessie L. Collins	Retired from General Motors Powertrain	April 2015	11 years
Samuel R. Dismond, Jr., M.D.	Family Practice Physician in Flint, Michigan	April 2014	12 years
Christopher J. Flores	Executive Director of Community Recovery Services and Vice President at Insight, Inc.	April 2016	22 years
Marilyn Fuller	Retired Industrial R.N. for General Motors	April 2017	4 years
Thomas James	Michigan Health Specialists	April 2014	17 years
Carl Mason	Vice President, Fidelity Metropolitan Title Company	April 2013	8 years
Brian Nolan, M.D.	Hurley Medical Center	April 2012	1 year
Isaiah Oliver	Mott Community College, Job Development Specialist	April 2017	1 year
Ruth Person, Ph.D.	Chancellor, University of Michigan – Flint	April 2014	4 years
M. Richard Shaink, Ph.D.	President, Mott Community College	April 2015	12 years
Karen Williams Weaver, Ph.D.	COO, Ennis Center for Children	April 2017	1 year

## Executive Management

The organization and the profiles of the principal members of the executive management team responsible for the daily operations of the Medical Center are set forth below.



### Melany Gavulic, RN, MBA, President and Chief Executive Officer

Melany Gavulic, RN, MBA, age 44, serves as President and Chief Executive Officer at Hurley Medical Center. Before this appointment, Ms. Gavulic served as Interim President and Chief Executive Officer at Hurley as well as the Senior Vice President and Chief Operating Officer at Hurley, where she was responsible for operations, nursing and all patient care services. Ms. Gavulic has taken steps to strengthen Hurley's clinical service lines and to increase physician satisfaction.

Ms. Gavulic has also served as Vice President of Procedural and Ambulatory Services at Hurley, with executive level responsibility for Surgical Services, Pediatric, Obstetric and Adult Ambulatory Clinics, along with Trauma Services, Radiology, Bariatric, and Orthopedic service lines, among others. Ms. Gavulic has a wealth of health care experience within the Medical Center over the last 14 years. As a results-oriented professional with a proven track record of collaborative working relationships with

physicians, staff, colleagues, and external customers, she has been successful in developing and facilitating teams that have positively impacted quality outcomes, demonstrated performance improvement, enhanced delivery of services and accomplished various departmental goals, day-in and day-out.

Ms. Gavulic received her BS Degree in Management Systems in 1991 from Kettering University (formerly GMI Engineering & Management Institute), an Associate Degree in Nursing from Mott Community College in 1997 and an MBA from Baker College in 2005. She received her Registered Nursing License in 1997. She serves on the following Boards: Greater Flint Health Coalition (GFHC), GFHC Health Improvement Steering Committee, MSU-Flint Area Medical Education Board, Genesee Early College Advisory Board, U of M-Flint/Hurley CRNA Advisory Council and the U of M-Flint Citizens Advisory Committee.

### **William D. Smith, Executive Vice President and General Counsel**

William D. Smith, Executive Vice President and General Counsel, age 62, began his career at Hurley Medical Center as a Nursing Assistant in 1971. During his early years at Hurley, Mr. Smith continued his education, earning a BA in History from the University of Michigan-Flint in 1980 and his JD, with distinction, from the Thomas M. Cooley Law School, Lansing, Michigan, in 1984. He was admitted to the State Bar of Michigan in 1985. In September 1986, Mr. Smith was promoted to the position of Risk Manager, Safety Officer and In-House Counsel. In February 1988, he was promoted to the position of Vice President for Legal Affairs/General Counsel/Risk Manager/Safety Officer. Then, in December 2001, he was promoted to his present position. In addition to being a member of the State Bar of Michigan, Mr. Smith has current membership in the American Bar Association, the American Society of Hospital Attorneys, the American Society of Healthcare Risk Management, the Michigan Society of Hospital Attorneys, the Michigan Society of Healthcare Risk Management and the National Health Lawyers Association.

### **Cass Wisniewski, CPA, MBA, Senior Vice President and Chief Financial Officer**

Cass Wisniewski, CPA, MBA, age 60, serves as Senior Vice President and Chief Financial Officer at Hurley Medical Center. Mr. Wisniewski has been a Hurley employee for over eleven years, serving as Vice President and Corporate Controller prior to assuming the position of SVP & CFO earlier this year. Mr. Wisniewski brings a wealth of financial experience to this role with over 30 years of financial healthcare experience and is committed to leading Hurley to success during these challenging times for health care organizations.

Mr. Wisniewski began his career with Coopers and Lybrand in Detroit, MI and then spent over 22 years with the Henry Ford Health System in reimbursement and finance as Associate Controller. He spent the last nine years within the Henry Ford Health System as the CFO at Cottage Hospital. Mr. Wisniewski also served as Vice President/Treasurer at Bay Health in Bay City, Michigan prior to coming to Hurley Medical Center.

Mr. Wisniewski is a member of American Institute of Public Accountants, Michigan Association of Certified Public Accountants, and Healthcare Financial Management Association. He is a lecturer at the University of Michigan-Flint and Michigan State University, teaching Public Healthcare Finance to both undergraduate and graduate students enrolled in the Public Health Administration Program. Mr. Wisniewski has served as a trustee to the Flint Employee Retirement System and as a member of the Michigan Health Insurance Exchange Planning Committee.

Mr. Wisniewski graduated from Michigan State University with a BA degree in Accounting and received his MBA in Finance from University of Detroit.

**Franz Michael Jaggi, D.O., Vice President and Chief Medical Officer**

Franz Michael Jaggi, D.O., Vice President and Chief Medical Officer, age 48. Dr. Jaggi was appointed to the position of Vice President and Chief Medical Officer in October 2006. He is, in addition, the Chairman of the Department of Emergency Medicine, Clinical Assistant Professor in the Department of Emergency Medicine for the University of Michigan, and Clinical Assistant Professor in the Department of Internal Medicine for Michigan State University College of Human Medicine. Dr. Jaggi received his medical degree from the Chicago College of Osteopathic Medicine, completed an internship at Metropolitan Hospital in Grand Rapids, Michigan, and did his residency at Henry Ford Health System in Detroit, Michigan, serving as Chief Resident from 1995-1996. Dr. Jaggi is active in a number of professional societies and community groups, including volunteering with the Genesee County Free Medical Clinic, serving on the Medical Directors Committees of HealthPlus of Michigan, Blue Care Network of Michigan, and M-Care, as well as Medical Director of the Genesee County Medical Control Authority and serving on the Board of Directors of the Genesee Health Plan. He also serves on various internal Hurley Medical Center committees. Dr. Jaggi has been the recipient of many awards and honors and is the author of a number of publications in scientific journals, abstracts, and presentations/exhibits.

**Michael D. Roebuck, MD, Chief Medical Information Officer**

Michael D. Roebuck, MD, Chief Medical Information Officer, age 45. Dr. Roebuck was appointed to the position of CMIO on August 1, 2012. From 2010 to 2012 Dr. Roebuck was the Physician Champion of the EPIC implementation. Dr. Roebuck is a Clinical Assistant Professor of Emergency Medicine in both the University of Michigan Medical School and the Michigan State University College of Human Medicine. Dr. Roebuck graduated from the Ohio State University College of Medicine. He completed his residency in Emergency Medicine at the University of Michigan. He was Chief Resident of this program. He received his undergraduate degree from the University of Michigan. Dr. Roebuck is also the Vice Chairman of the Emergency Department. Dr. Roebuck is a member of the Association of Medical Directors of Information Systems. Dr. Roebuck has won teaching awards during his time working in the Emergency Department. He is a Six Sigma Black Belt. Dr. Roebuck participates in a national Emergency Department Overcrowding Committee through the American College of Emergency Physicians. Dr. Roebuck sits on the Greater Flint Health

Care Coalition which oversees technology development in the healthcare arena for the City of Flint.

**Amy Benko, PharmD, Vice President for Patient Care Services**

Amy Benko, PharmD, age 42, serves as Vice President for Patient Care Services. Dr. Benko began her career at Hurley Medical Center in 1999 as the Pharmacy Clinical Coordinator. In 2007, Dr. Benko was promoted to the position of Administrative Director of the Department of Pharmacy serving in that role until her promotion to her present position. Dr. Benko received her BS in Pharmacy in 1993 and Doctor of Pharmacy degree in 1994. Post-doctorate education includes a Pharmacy Practice Residency at Detroit Receiving Hospital completed in 1995. Prior to joining Hurley, Dr. Benko was a Clinical Pharmacy Specialist at Detroit Medical Center – Grace Hospital from 1994 to 1999. Dr. Benko has been an Adjunct Assistant Professor of Clinical Pharmacy for Ferris State University since 1999. She is Chair of the Institutional Review Board at Hurley Medical Center and serves on numerous other internal committees. Dr. Benko is a member of professional societies, including American Society of Health-System Pharmacists, Society of Critical Care Medicine, and the Children’s Oncology Group.

**Mike Burnett, MSW, MBA, Vice President of Service Line Development**

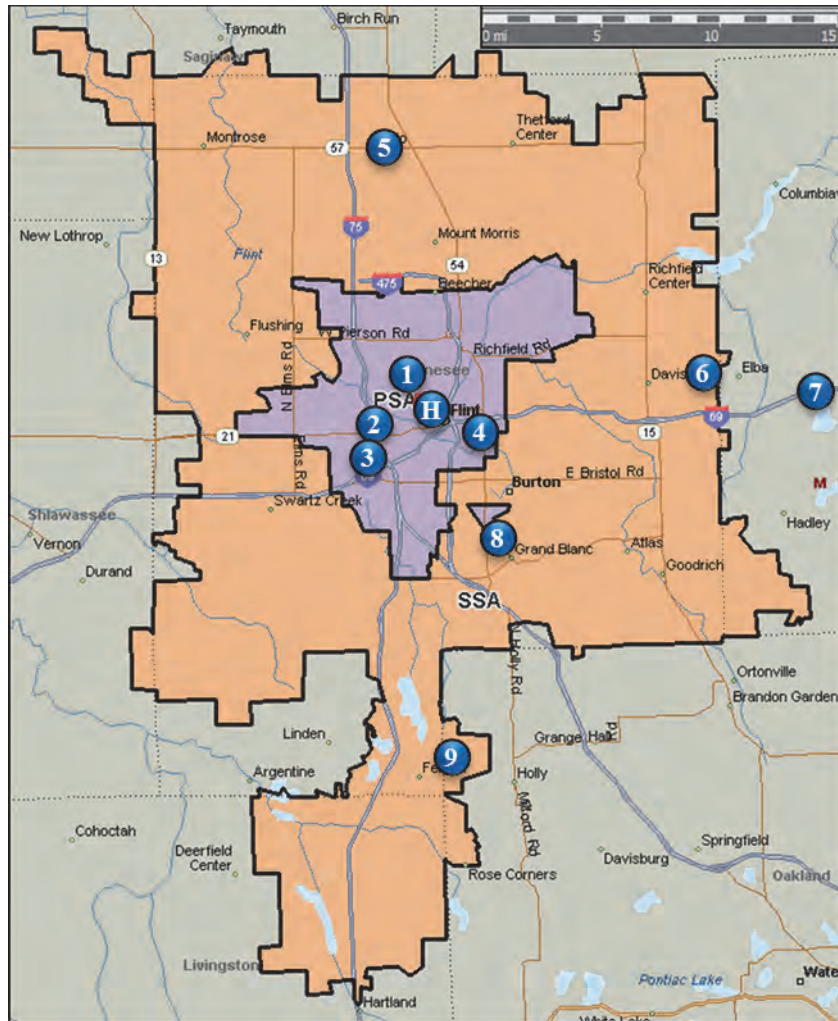
Mike Burnett, MSW, MBA, age 50, serves as Vice President of Service Line Development at Hurley Medical Center. Mr. Burnett has been with Hurley Medical Center since 2003, beginning as Director of Behavioral Medicine before assuming the role of Administrator for Clinical Programs and Support Services. Prior to joining the Medical Center, Mr. Burnett served as Director of Operations for Insight, Inc. in Flint from 1998 – 2002, Director of Residential Services, 1996 – 1998, Program Director, 1993 – 1996 and Program Manager, 1990 – 1993. Mr. Burnett received a Bachelor of Science degree in Psychology in 1984 from Wayne State University, a Masters in Clinical Social Work in 1986 from Wayne State University, and a Masters in Business Administration from Baker College in 2011. He is involved in numerous community activities and is a member of various organizations, including The American College of Healthcare Executives, Genesee County Community Mental Health, Greater Flint Health Coalition, Michigan Health and Hospital Association and the Shelter of Flint.



## **SERVICE AREA**

The Medical Center is located in Genesee County, Michigan, which is the fifth most populated county in Michigan. The primary service area (PSA) consists of the zip codes in the City of Flint, which accounted for approximately 59.8% percent of the discharges for the calendar year ended December 31, 2011. The secondary service area (SSA) consists of the remainder of the zip code areas in Genesee County, Lapeer and Shiawassee Counties, as well as selected zip codes in the counties of Oakland, Tuscola and Saginaw. The SSA accounted for approximately 34.9% percent of discharges in calendar year ended December 31, 2011. Collectively, the PSA and SSA accounted for 94.6% percent of the Medical Center's patient population for the calendar year ending December 31, 2011. The data indicates that the Medical Center's PSA and SSA extend to a radius of approximately 35 miles from the Main Campus.

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**1. Flint “Medical Office Building”**

**2. Flint Township “Hurley West Flint Campus”**

- Pediatric Sub-Specialty Clinics
- Mental Health
- Sleep Clinic
- Asthma and Pulmonary Clinic
- Physical Rehab
- HMC Lab Services
- HHS Medical Practices

**3. Flint “Hurley Health and Fitness”**

- Cardiac Rehab
- Pulmonary Rehab
- Diabetes Education
- Corporate Wellness Services

**4. Flint “Hurley Eastside Campus”**

- Physical Therapy
- Diabetes Center
- Bariatric Center
- Neuro Psych
- PT-Scan/Radiology

**5. Clio**

- HHS Medical Practice

**6. Davison**

- HMC Lab Services

**7. Lapeer**

- HMC Vascular Clinic

**8. Grand Blanc**

- HMC Pediatric Sub-Specialty Clinic
- HMC Lab Services

**9. Fenton**

- HMC Lab Services
- HMC Vascular Clinic
- HHS Medical Practice

The following table provides patient origin data for calendar year 2011:

<b>County</b>	<b>Percentage of Total Patients Calendar Year 2011</b>
Genesee County	88.9%
Lapeer County	2.8%
Shiawassee County	1.6%
Oakland County	1.2%
Saginaw County	1.1%
Tuscola County	1.0%
Other Counties	3.4%
<b>Total</b>	<b>100.0%</b>

*Source: The Medical Center*

### **Population**

The population of Genesee County decreased slightly from 2000 to 2011, falling from 436,141 in 2000 to 422,080 in 2011. The population of the PSA declined 9.6%, from 124,943 in 2000 to 112,900 in 2011. Over 60% of the Medical Center’s inpatient activity originates from the PSA, while the Emergency Department’s outpatient patient origin is concentrated in the PSA. The population in the SSA grew 1.5%, rising from 311,198 to 315,890 over the same time period. A higher portion of the Medical Center’s ambulatory, cardiac catheterization and endoscopy laboratory patients originate from the SSA, compared to the Emergency Department and general inpatient population.

### **POPULATION CHANGES**

	<b>Population</b>		
	<b>2000</b>	<b>2011 Estimate</b>	<b>Percent Change 2000-2011</b>
Primary Service Area	124,943	112,900	-9.6%
Secondary Service Area	311,198	315,890	1.5%
Genesee County	436,141	422,080	-3.2%

*Source: State of Michigan*

### **Economic Activity**

Genesee County has been working to improve its economic development in light of the economic downturn that occurred in 2008-2009. In 2011, the Genesee County Regional Chamber of Commerce directly supported projects that created and retained 2,312 jobs

and resulted in \$205M total investment and contract value in Genesee County. In addition, several vacated assets within the community have been repurposed in the past several years by companies that have moved into the area or expanded their existing businesses. Some of those companies include Repocast, CFI Medical and Diplomat Specialty Pharmacy. As a result of these efforts, unemployment has declined in the City of Flint over the past 3 years to 7.8% as of November 2012 from 14.5% in 2009. As shown below, the November 2012 unemployment rate is in line with the national average and below the average in the state of Michigan.

<b>Hospital</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>November 2012</b>
City of Flint*	14.5%	13.8%	10.9%	7.8%
Michigan	13.4%	12.6%	10.3%	8.9%
National	9.3%	9.6%	8.9%	7.8%

*Source: U.S. Census Bureau*

*\* not seasonally adjusted*

The following data portrays certain population and income trends for Genesee County.

	<b>2000</b>	<b>2011 Estimate</b>	<b>% Change</b>
Population	436,141	422,080	-3.22%
Households	170,030	164,683	-3.14%
Average Household Income	\$41,951	\$43,307	3.23%

*Source: U.S. Census Bureau*

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Genesee County offers a wide range of employment opportunities in diverse industries. According to the U.S. Bureau of Labor Statistics, employment by industry in Genesee County is as follows:

<b>Industry Sector</b>	<b>Number of Employees</b>	<b>%</b>
Health Care & Social Assistance	22,132	19.89
Retail Trade	19,348	17.39
Accommodation & Food Services	11,895	10.69
Manufacturing	10,413	9.36
Administration & Support	8,895	8.00
Professional, Scientific & Technical	4,978	4.47
Wholesale Trade	4,765	4.28
Finance & Insurance	4,590	4.13
Public Administration	4,188	3.76
Other	3,975	3.57
Construction	3,385	3.04
Transportation & Warehousing	3,263	2.93
Information	3,263	2.93
Educational Services	2,700	2.43
Arts, Entertainment & Recreation	1,688	1.52
Real Estate, Rental & Leasing	1,335	1.20
Natural Resources & Mining	238	0.21
Management	222	0.20
<b>TOTAL</b>	<b>111,273</b>	<b>100.00</b>

*Source: U.S. Bureau of Labor Statistics*

Significant employers within Genesee County include the following:

<b>Employer</b>	<b>Number of Employees</b>	<b>Type of Business</b>
General Motors	7,000	Automotive
Genesys Health System	3,000	Healthcare
Hurley Medical Center	2,500	Healthcare
McLaren Medical Center	1,500	Healthcare
US Post Office	800	Government
Charles Stewart Mott College	750	Colleges & Universities
University of Michigan - Flint	750	Colleges & Universities
Meijer	700	Retail
Citizens Banking Corporation	600	Banking

*Source: Genesee County Chamber of Commerce, as of 2011*

## COMPETITION

The following chart indicates the percent of patients from the Medical Center's service areas that were admitted to hospitals in the PSA or to hospitals in the SSA in 2011:

Hospital	Primary Service Area (Flint)	Secondary Service Area (all others)
Hurley Medical Center	11,521 (40.5%)	6,727 (11.1%)
McLaren Regional Medical Center	9,408 (33.1%)	11,321 (18.7%)
Genesys Regional Medical Center	5,392 (19.0%)	16,893 (27.9%)
University of Michigan Health Services	528 (1.9%)	2,257 (3.7%)
Other	<u>1,575</u> (5.5%)	<u>23,427</u> (38.6%)
<b>TOTAL</b>	<b>28,424</b>	<b>60,625</b>

*Source: The Medical Center*

The following chart outlines the market share, based on discharges, for Genesee County over the three years ending December 31, 2009, 2010 and 2011:

	2009	2010	2011
Genesys Health System	31.5%	30.4%	30.2%
Hurley Medical Center	28.5%	28.0%	27.4%
McLaren Regional Medical Center	29.0%	29.9%	30.0%
All Others	<u>11.0%</u>	<u>11.7%</u>	<u>12.4%</u>
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

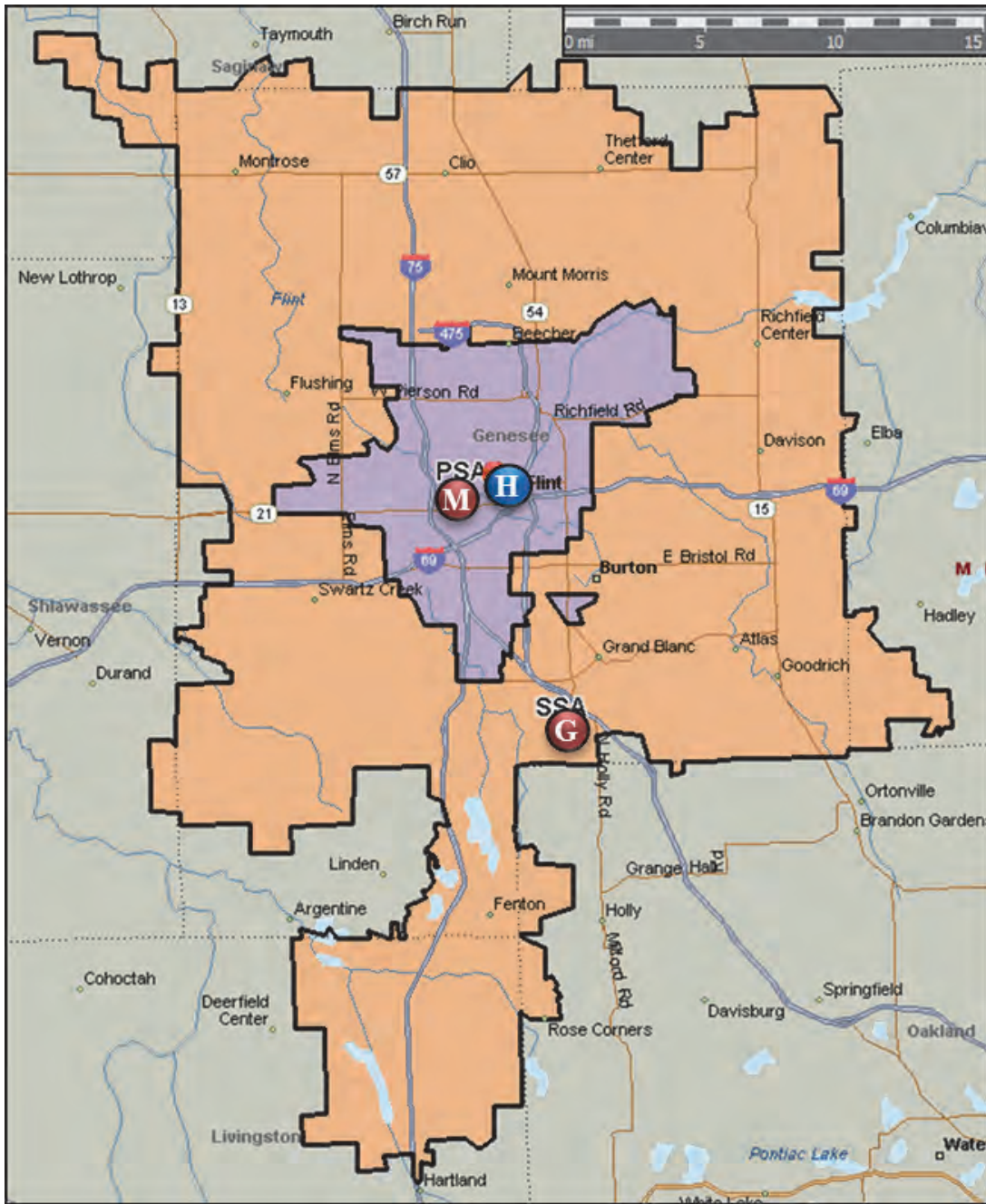
*Source: The Medical Center*




The following chart outlines the other hospitals in the Medical Center's PSA and SSA:

Hospital	Location	Staffed Beds	Distance from Hurley
Hurley Medical Center	Flint	414	-
McLaren Regional Medical Center	Flint	335	2 miles (8 min)
Genesys Regional Medical Center	Grand Blanc	410	13 miles (18 min)
University of Michigan Health System	Ann Arbor	880	56 miles (1 hr)

*Source: American Hospital Association Guide, 2012 Edition*

The following map shows the location of other hospitals in the Medical Center's service areas:



-  Hurley Medical Center
-  Genesys Regional Medical Center
-  McLaren Regional Medical Center

The following table shows the Medical Center's market share in the PSA for those service lines the Medical Center considers its centers of excellence:

<b>Service Line</b>	<b>Hurley Medical Center</b>	<b>McLaren – Flint</b>	<b>Genesys Health System</b>	<b>All Others</b>	<b>2011 Total Volume</b>
General Medicine	<b>40%</b>	36%	17%	5%	6,627
Cardiac Services	31%	47%	17%	5%	2,973
OB/GYN	<b>64%</b>	12%	22%	1%	2,406
Psychiatry	<b>52%</b>	41%	0%	6%	1,368
General Surgery	<b>46%</b>	29%	16%	9%	1,241
Neurosciences	<b>41%</b>	36%	15%	10%	1,236
Orthopedics	<b>40%</b>	28%	20%	11%	902
Neonatology - NICU	<b>72%</b>	5%	20%	4%	572
Oncology/Hematology	<b>49%</b>	24%	16%	11%	547
Vascular Services	29%	37%	22%	11%	476
Spine	28%	33%	26%	14%	316
Rehabilitation	<b>47%</b>	28%	20%	6%	305
ENT	<b>57%</b>	26%	10%	6%	259
Urology	23%	47%	12%	20%	230
Other Trauma	<b>70%</b>	19%	8%	4%	197
Other	27%	38%	16%	21%	139
<b>Grand Total</b>					<b>19,794</b>

Sources: HANYS 2011 Market Data (excludes normal newborns for market share and insurance coverage charts), 2011 Claritas

## MEDICAL STAFF

The medical staff of the Medical Center is composed of 515 physicians, dentists, psychologists, and podiatrists, of which 380 are members of the Active and Courtesy staffs. Approximately 82% of the total staff is board certified. Medical staff membership has been stable over the last five years. It should also be noted that the Medical Center has recently recruited the following specialists: two maternal fetal specialists, two vascular surgeons, pediatric surgeons, a pediatric gastroenterologist, a pediatric hematologist-oncologist, an adolescent specialist, pediatric emergency physicians, an electrophysiology cardiologist and a trauma surgeon. The Medical Center only employs 50 physicians, all of whom are specialists.



The following tables give certain information about the Medical Center's medical staff:

**PHYSICIANS BY STAFF CATEGORY**  
**Fiscal Year Ended June 30, 2012**

<b>Staff Category</b>	<b>Number of Physicians</b>
Active	284
Courtesy	96
Consulting	38
Emeritus	2
Provisional	92
Leave of Absence	3
<b>TOTAL</b>	<b>515</b>

*Source: The Medical Center*

**PHYSICIANS BY MEDICAL DEPARTMENT**  
**Fiscal Year Ended June 30, 2012**

<b>Medical Department</b>	<b>Number</b>	<b>Percent</b>
Medicine	138	26.8
Surgery	134	26.0
Pediatrics	87	16.9
Family Practice	43	8.4
Obstetrics/Gynecology	29	5.6
Emergency Medicine	28	5.4
Radiology	22	4.3
Psychiatry	9	1.7
Psychology	9	1.7
Anesthesiology	6	1.2
Pathology	5	1.0
Radiation Oncology	4	0.8
Pediatric Emergency Medicine	1	0.2
<b>Total</b>	<b>515</b>	<b>100%</b>

*Source: The Medical Center*

**TOP TWENTY ADMITTING PHYSICIANS**  
**Fiscal Year Ended June 30, 2012**

Specialty	Age*	Inpatient Admissions	Percent of Total Admissions
1. Internal Medicine	54	614	3.2 <sup>(1)</sup>
2. Internal Medicine	61	598	3.1
3. OB/Gyn	55	405	2.1 <sup>(2)</sup>
4. Internal Medicine/Peds	57	404	2.1
5. OB/Gyn	41	394	2.1 <sup>(2)</sup>
6. Internal Medicine/Peds	54	385	2.0 <sup>(1)</sup>
7. Psychiatry	70	361	1.9 <sup>(3)</sup>
8. Pediatric Critical Care Medicine	53	358	1.9 <sup>(4)</sup>
9. Pediatric Critical Care Medicine	61	348	1.8 <sup>(4)</sup>
10. Neonatology	67	336	1.8
11. Geriatric Medicine	54	312	1.6
12. Pediatric Medicine	44	294	1.5
13. Surgical Critical Care	45	292	1.5
14. Internal Medicine Hospitalist	30	280	1.5
15. Obstetrics	39	276	1.5
16. Pediatric Medicine	71	273	1.4
17. Internal Medicine/Peds	39	268	1.4
18. Internal Medicine Hospitalist	35	266	1.4
19. Psychiatry	38	240	1.3 <sup>(3)</sup>
20. Surgery, General	51	236	1.2
<b>Total</b>			36.3
<i>*Average Physician Age: 51</i>			

*Source: The Medical Center*

- <sup>(1)</sup> These physicians are members of the same physician group.
- <sup>(2)</sup> These physicians are members of the same physician group.
- <sup>(3)</sup> These physicians are members of the same physician group.
- <sup>(4)</sup> These physicians are members of the same physician group.

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The following table sets forth a profile of the Medical Center's admitting staff members by specialty for the fiscal year ending June 30, 2012.

**DISCHARGES BY SPECIALTY**

<i>Specialty</i>	<i>Number of Physicians</i>	<i>Average Age</i>	<i>% of Discharges</i>	<i>Additions Last 3 Fiscal Years</i>	<i>Departures Last 3 Fiscal Years</i>
Allergy / Immunology	6	68	0.0	-	1
Anesthesiology	6	54	0.0	-	-
Cardiology	22	52	0.4	5	4
Cardiothoracic Surgery	2	58	0.0	1	-
Clinical Psychology	1	60	0.0	-	-
Critical Care Medicine	1	35	0.0	1	-
Dentistry	1	32	0.0	-	-
Dermatology	3	55	0.0	-	1
Diagnostic Radiology	16	53	0.0	4	6
Emergency Medicine	29	43	0.4	5	11
Endocrinology	3	55	0.4	-	1
Family Practice	26	56	1.6	4	8
Gastroenterology	8	58	0.0	1	-
General Surgery	11	59	5.1	3	6
Geriatric Medicine	3	53	2.6	-	-
Hematology/Oncology	7	57	0.2	-	5
Infectious Disease	3	59	0.1	1	1
Internal Medicine	44	52	23.0	8	26
Internal Medicine / Pediatrics	16	51	9.7	-	1
Interventional Radiology	3	59	0.0	-	3
Maternal / Fetal Medicine	3	56	0.2	2	1
Neonatology	6	59	5.3	1	-
Nephrology	16	49	0.6	5	2
Neurological Surgery	3	55	0.4	-	1
Neurology	8	51	0.0	-	3
Neuropsychology	1	45	0.0	-	-
Neuroradiology	1	45	0.0	-	1
Obstetrics / Gynecology	25	54	16.2	2	5
Ophthalmic Plastic/Reconstructive Surgery	2	41	0.0	1	-
Ophthalmology	16	49	0.0	2	1
Oral & Maxillofacial Surgery	4	56	0.0	-	1
Orthopedic Surgery	14	50	2.9	5	1
Otolaryngology	9	60	0.3	-	-
Pathology	5	54	0.0	-	-
Pediatric Cardiology	3	52	0.0	-	3
Pediatric Critical Care Medicine	4	56	4.7	1	4
Pediatric Dentistry	11	49	0.0	2	-
Pediatric Endocrinology	4	63	0.1	-	-
Pediatric Gastroenterology	1	48	0.1	-	3
Pediatric Hematology / Oncology	4	59	1.5	-	-
Pediatric Infectious Disease	-	-	0.2	-	1
Pediatric Nephrology	5	47	0.0	2	1

Pediatric Neurology	5	56	0.0	-	-
Pediatric Neuropsychology/Rehabilitation Psych	1	40	0.0	-	-
Pediatric Ophthalmology	4	52	0.0	4	-
Pediatric Psychology	-	-	0.0	-	1
Pediatric Pulmonology	5	49	0.0	2	1
Pediatric Surgery	9	50	0.0	8	6
Pediatrics	45	53	11.1	7	5
Physical Medicine & Rehabilitation	8	53	0.0	-	2
Plastic Surgery	5	58	0.4	2	-
Podiatry	14	48	0.0	1	1
Psychiatry	9	62	6.3	-	5
Psychology	6	47	0.0	3	5
Pulmonary Medicine	9	54	0.8	-	-
Pulmonary/Critical Care Medicine	1	41	0.0	1	2
Radiation Oncology	4	61	0.0	1	1
Reproductive Endocrinology	1	61	0.0	-	-
Rheumatology	3	62	0.3	-	1
Surgical Critical Care	4	47	3.7	1	1
Surgical Oncology	1	59	0.0	1	-
Telemedicine	-	-	0.0	-	3
Teleradiology	2	43	0.0	2	1
Thoracic Surgery	1	63	0.0	-	-
Trauma	2	49	0.7	3	1
Urology	9	57	0.1	-	-
Vascular Surgery	11	51	0.3	3	1
<b>TOTAL</b>	<b>515</b>	<b>53</b>	<b>100%</b>	<b>95</b>	<b>139</b>

Totals may not add due to rounding.

Source: The Medical Center

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Additionally, the Medical Center has also been able to recruit additional key staff over the same three-year time period, as shown below:

<b>Other Key Position Additions and Departures</b>	<b>Additions Last 3 Fiscal Years</b>	<b>Departures Last 3 Fiscal Years</b>
CRNA	9	10
Nurse Practitioners	14	16
Physician Assistants	14	14
Prosthesis	6	3

*Source: The Medical Center*

## **EMPLOYEES**

For the fiscal year ended June 30, 2012, the Medical Center employed approximately 2,486 full-time equivalents. Employment benefits offered by the Medical Center include life insurance, health insurance, dental insurance, a pension plan, life and accidental death insurance, and tax-sheltered annuities.

Unions represent a significant number of the Medical Center's employees. Nine bargaining units represent 1,704 full-time and 398 part-time employees equating to 1,932 full-time employees. There have been no work stoppages since 1986, and management characterizes its relationships with its employees as excellent. Two bargaining agreements expired on June 30, 2012 and were successfully renegotiated. The remaining bargaining agreements expire on June 30, 2013.

### **Nursing Staff**

The Medical Center has 855 nurses and 78 nursing assistants on staff. The breakdown, as of fiscal year end 2012, is as follows: 90.6% Registered Nurses (RNs), 1.0% Licensed Practical Nurses (LPNs) and 8.4% Certified Nursing Assistants (CNAs).

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## HISTORICAL OPERATIONS

### Licensed and Staffed Beds

The following table sets forth the number of licensed beds, by category, at the Medical Center:

<u>Type of Beds</u>	<u>Fiscal Year Ended June 30,</u>		
	<u>2010</u>	<u>2011</u>	<u>2012</u>
Behavioral Health	60	60	60
Burn Care	13	13	13
Coronary Care	13	13	13
General Medical/Surgical	171	171	171
Intensive Care	15	15	15
Neonatal Intensive Care	44	44	44
Neurotrama	18	18	18
Obstetrics	46	46	46
Pediatric	28	28	28
Pediatric Intensive Care	13	13	13
Physical Rehabilitation	<u>22</u>	<u>22</u>	<u>22</u>
Total Licensed Beds	<u>443</u>	<u>443</u>	<u>443</u>
Total Staffed Beds	414	414	414

*Source: The Medical Center*

### Utilization

The following table presents selected utilization statistics of inpatient and outpatient activity for the Medical Center for the prior three fiscal years and the six-month periods ended December 31, 2011 and 2012.

	<u>Fiscal Year Ended June 30,</u>			<u>Six-Months Ended</u>	
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>December 31,</u>	<u>2012</u>
Licensed Beds	443	443	443	443	443
Discharges	21,438	19,956	19,083	9,428	9,281
Patient Days	107,366	106,863	99,822	49,346	49,010
Average Length of Stay (days)	5.01	5.35	5.23	5.23	5.28
Inpatient Surgeries	4,050	4,214	3,742	1,943	1,953
Observations	2,345	2,805	2,971	1,539	1,555
Emergency Room Visits	82,631	88,584	94,244	45,543	49,330
Other Outpatient Visits	296,735	300,993	310,539	148,677	156,525
Ambulatory Surgery Cases	6,735	6,553	6,557	3,216	2,930
Medicare Case Mix Index	1.61	1.61	1.56	1.60	1.61

*Source: The Medical Center*

## Sources of Patient Service Revenue

The Medical Center derives its patient service revenue from the federal government under the Medicare program, the State of Michigan under the Medicaid program, managed care entities, other contracted rate payors, commercial insurance carriers, self-paying patients and other sources. See “BONDHOLDERS’ RISKS” in the forepart of this Official Statement for a discussion of factors that may affect patient service revenue. The following summarizes the percentage of historical patient services revenue of the Medical Center for each of the last three fiscal years and the six-month periods ended December 31, 2011 and 2012.

	Fiscal Years Ended			Six-Months Ended	
		June 30,		December 31,	
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>
Medicare	24.2%	23.2%	22.4%	22.3%	22.3%
Medicare HMO	4.0%	3.8%	5.0%	5.1%	4.7%
Medicaid	9.8%	10.2%	9.9%	10.2%	10.1%
Medicaid HMO	27.4%	29.1%	29.5%	29.7%	29.6%
Blue Cross	12.2%	12.4%	11.7%	11.7%	11.5%
Commercial HMOs	6.7%	6.4%	6.1%	5.9%	5.5%
All Others	<u>15.7%</u>	<u>14.9%</u>	<u>15.4%</u>	<u>15.1%</u>	<u>16.3%</u>
Total Gross Revenue	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

*Source: The Medical Center*

The Medical Center has entered into contracts with preferred provider organizations and health maintenance organizations. Most negotiated contracts are on predetermined rates or at a percentage of hospital charges. Blue Cross/Build Shield of Michigan reimburses at rates per discharge for inpatients and fee for service for outpatients.

## SUMMARY FINANCIAL INFORMATION

The following is a summary of revenue and expenses of the Medical Center for the three fiscal years ended June 30, 2010, 2011 and 2012, and the unaudited six-month periods ended December 31, 2011 and 2012. The summary for the three fiscal years has been derived from the financial statements of Hurley Medical Center, which have been audited by Plante and Moran, PLLC. This summary should be read in conjunction with the audited financial statements and related notes incorporated by reference herein. The audited financial statements for the fiscal years ended June 30, 2011 and 2012 are presented in Appendix B. The unaudited statements of revenue and expenses for the six-month periods ended December 31, 2011 and 2012 were prepared from the internal records of the Medical Center and include all adjustments necessary, in the opinion of management, to constitute a fair presentation.

(in thousands)

	Fiscal Year Ended June 30,			Unaudited Six-Months Ended	
	2010	2011	2012	December 31, 2011	December 31, 2012
Net Patient Service Revenue	\$330,600	\$319,875	\$326,353	\$160,854	\$165,729
Other Operating Revenue	<u>28,332</u>	<u>31,331</u>	<u>33,152</u>	<u>18,483</u>	<u>17,745</u>
Total Operating Revenue	<u>358,932</u>	<u>351,206</u>	<u>359,505</u>	<u>179,337</u>	<u>183,474</u>
Operating Expenses:					
Depreciation and Amortization	11,115	10,813	13,425	6,765	8,300
Interest	3,713	3,840	4,441	1,819	2,841
All Other	<u>340,480</u>	<u>335,573</u>	<u>345,074</u>	<u>172,716</u>	<u>172,636</u>
Total Operating Expenses	<u>355,308</u>	<u>350,226</u>	<u>362,940</u>	<u>181,300</u>	<u>183,777</u>
Income (Loss) from Operations	3,624	980	(3,435)	(1,963)	(303)
Non-Operating Revenues	<u>1,526</u>	<u>3,627</u>	<u>7,665</u>	<u>4,134</u>	<u>690</u>
Excess of Revenue over Expenses	<u>\$ 5,150</u>	<u>\$ 4,607</u>	<u>\$4,230</u>	<u>\$2,171</u>	<u>\$387</u>

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<i>(in thousands)</i>	June 30,			Unaudited December 31,	
	2010	2011	2012	2011	2012
<b>Assets</b>					
Current Assets:					
Cash	\$25,373	\$ 7,129	\$2,601	\$14,486	\$6,384
Patient Accounts Receivables, Net	29,963	32,846	44,776	34,506	56,481
Other Receivables	12,983	11,975	13,394	14,476	9,687
Other Assets	<u>9,601</u>	<u>11,899</u>	<u>12,172</u>	<u>11,931</u>	<u>11,901</u>
Total Current Assets	77,920	63,849	72,943	75,399	84,453
Non-current Assets Limited as to Use					
Investments	67,689	77,561	67,381	75,350	57,883
Restricted	59,405	44,327	33,577	37,262	26,405
Total Other Assets	9,000	6,319	7,857	7,137	8,413
Property, Plant and Equipment, Net	73,245	95,341	114,337	100,331	113,940
<b>Total Assets</b>	<b>\$287,259</b>	<b>\$287,397</b>	<b>\$296,095</b>	<b>\$295,479</b>	<b>\$291,094</b>

<i>(in thousands)</i>	June 30,			Unaudited December 31,	
	2010	2011	2012	2011	2012
<b>Liabilities and Fund Net Assets</b>					
Current Liabilities:					
Current Portion of Long-term Debt	\$3,285	\$3,965	\$4,823	\$4,170	\$4,649
Accounts Payable and Other	18,356	18,889	21,412	15,332	15,139
Accrued Expenses	<u>54,255</u>	<u>53,065</u>	<u>50,605</u>	<u>62,168</u>	<u>57,605</u>
Total Current Liabilities	75,896	75,919	76,840	81,670	77,393
Other Liabilities	32,421	31,085	35,245	29,457	32,368
Long-term Debt, Less Current Portion	<u>86,918</u>	<u>83,179</u>	<u>83,276</u>	<u>84,137</u>	<u>79,000</u>
Total Liabilities	195,235	190,183	195,361	195,264	188,761
Fund Net Assets	92,024	97,214	100,734	100,215	102,333
<b>Total Liabilities and Fund Net Assets</b>	<b>\$287,259</b>	<b>\$287,397</b>	<b>\$296,095</b>	<b>\$295,479</b>	<b>\$291,094</b>

## **MANAGEMENT'S DISCUSSION OF FINANCIAL PERFORMANCE**

### **Statement of Net Assets**

The Medical Center's net assets increased for the fiscal year ended June 30, 2012 by \$3.5 million and increased by \$5.2 million for the fiscal year ended June 30, 2011.

The Medical Center's combined cash position decreased in fiscal years ended June 30, 2011 and 2012 from fiscal year ended June 30, 2010 by \$8.4 million in fiscal year ended June 30, 2011 and \$14.7 million in fiscal year ended June 30, 2012. Respectively, the day's cash on hand decreased from 89.4 days in fiscal year ended June 30, 2010 to 80.8 days in fiscal year ended June 30, 2011 and then to 64.4 days in fiscal year ended June 30, 2012. Pursuant to a revised investment program implemented during the fiscal year ended June 30, 2010, the Medical Center transferred \$30 million from its operating cash into investment accounts. The Medical Center's investment policy is restricted to securities permitted under Michigan Public Law 20. This statute generally restricts the Medical Center's investments to relatively short term, highly liquid government securities.

During fiscal years ended June 30, 2011 and 2012, the Medical Center expended \$26 million toward its Emergency Room modernization project which was completed and opened on schedule in March 2012. This resulted in cash held by trustee to decrease by \$11.5 million in fiscal year ended June 30, 2012. The lobby portion of this project was opened in June 2011. Another \$26.5 million was spent on Phase I of a clinical information system from operating cash over a three year period that went live successfully in March 2012. The Medical Center deliberately expended operating reserves to implement the clinical information system (EPIC) to take advantage of offered federal incentive plans and to improve quality, safety and efficiency of patient care. EPIC will provide the Medical Center with the tools to meet future known patient data requirements for value based purchasing.

### **Operating Income**

For the twelve months ending June 30, 2012, the Medical Center sustained a net loss from operations of \$3.4 million. These results are a decline over the comparable prior period where income from operations was \$1.0 million. This trend has begun to reverse as Hurley has experienced a \$0.3 million net loss as of December 31, 2012.

Inpatient activity was slightly down in fiscal year ended June 30, 2012 when discharges decreased by 4.4% to 19,083 and inpatient days declined by 6.6% to 99,822. The decline in discharges is attributed to a general reduction in inpatient activity in Genesee County experienced by all hospitals and an increase in the number of patients classified as observation status. During fiscal year ended June 30, 2012, there was a significant increase in observation status patients over the fiscal year ended June 30, 2011, contributing to the decline in discharges while patient days of care remained relatively constant. Outpatient cardiology, reference lab, and emergency room visits each contributed to the increase in outpatient revenues. Gross patient revenues increased

slightly over the prior year. Total Operating Revenue increased by 2.4% from the prior year. This increase is a result of receiving the first installment of the Medicaid IT “meaningful use” payment and increase in physician income.

Operating expenses increased 3.6% in the period over the comparable prior year. The majority of the increase was a result of outside payroll agency and benefits. An additional \$2.1 million of manpower was incurred due to the training costs for the implementation of EPIC. Another significant labor cost related to one-time severance costs due to management changes during fiscal year ended June 30, 2012. There was also approximately \$170,000 of one-time supply costs and wages associated with the opening of the new Emergency Room. As the result of the operational changes from the Emergency Room modernization project and EPIC implementation, labor productivity declined from 4.8 FTE’s per adjusted occupied bed to 5.0 in fiscal year ended June 30, 2012. There has been improvement in the operating income since June 30, 2012 as the result of efficiencies of the new clinical information system and the fact that significant one-time expenses have not repeated.

### **Non-operating Revenues and Expenses**

Non-operating revenues consist primarily of investment earnings on cash balances and joint venture income. Non-operating revenue increased by \$4.0 million from the prior year. This increase is a result of improved earnings on the Medical Center’s investment portfolio and joint venture earnings. Revenue from the Medical Center’s participation in the Genesys Hurley Cancer Center increased from the prior year. Patient care operations at the Cancer Center yielded income that exceeded expectations.

### **Capital Asset and Debt Administration**

At the end of the fiscal year ended June 30, 2012, the Medical Center had \$114.3 million invested in capital assets, net of accumulated depreciation. The Medical Center purchased new equipment of \$32.9 million in fiscal year ended June 30, 2012 and \$33.2 million in fiscal year ended June 30, 2011. Major purchases included the emergency department modernization project, clinical Epic EMR project, telephone system upgrades and various other clinical equipment items. In November 2011, the Medical Center recorded long-term liability of approximately \$5.1 million in connection with the MRI acquisition. At June 30, 2012, the Medical Center had \$83.3 million in long-term revenue bonds outstanding.

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## Historical and Pro-Forma Maximum Annual Debt Service Coverage

The following table sets forth the maximum annual debt service coverage for the Medical Center for the fiscal years ended June 30, 2010, 2011, 2012, and for the annualized six-month period ended December 31, 2012.

<i>(Dollars in Thousands)</i>	Fiscal Year Ended			Annualized
	June 30,			December 31,
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2012</u>
Revenues, Gains and Other Support in Excess of Expenses	\$5,150	\$4,607	\$4,230	\$774
Add:				
Depreciation and Amortization	11,115	10,813	13,425	16,600
Interest Expense	3,713	3,840	4,441	5,682
Income Available for Debt Service	<u>\$19,978</u>	<u>\$19,260</u>	<u>\$22,096</u>	<u>\$23,056</u>
Historical Maximum Annual Debt Service Requirement	\$9,548	\$9,548	\$10,329	\$10,329
Maximum Annual Debt Service Coverage Ratio (x)	2.09	2.02	2.14	2.23
Pro-Forma Maximum Annual Debt Service Requirement	\$11,154	\$11,154	\$11,154	\$11,154
Pro-Forma Maximum Annual Debt Service Coverage Ratio (x)	1.79	1.73	1.98	2.07

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## Historical and Pro-Forma Capitalization

The following table sets forth the capitalization position of the Medical Center for the fiscal years ended June 30, 2010, 2011 and 2012, as well as the pro-forma 2012 capitalization position as adjusted to reflect the issuance of the Series 2013 Bonds.

<i>(Dollars in Thousands)</i>	<b>Fiscal Year Ended June 30,</b>			<b>Pro-Forma</b>
	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2012</u></b>	<b><u>2012</u></b>
Outstanding Long-Term Debt	\$86,918	\$83,179	\$83,276	\$106,241
Unrestricted Net Assets	\$87,022	\$91,629	\$95,859	\$95,859
Total Capitalization	<u>\$173,940</u>	<u>\$174,808</u>	<u>\$179,135</u>	<u>\$202,100</u>
Long-Term Debt to Capitalization	50.0%	47.6%	46.5%	52.6%

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## Historical and Pro-Forma Liquidity

The following table shows the Medical Center's unrestricted cash and investments as of June 30, 2012 and the pro-forma unrestricted cash and investments:

### Market Value

(Dollars in Thousands)

	Fiscal Year Ended		Pro-Forma	
	June 30, <u>2012</u>	Annualized December 31, <u>2012</u>	June 30, <u>2012</u>	Annualized December 31, <u>2012</u>
Cash and Cash Equivalents	\$2,601	\$6,384	\$10,101	\$13,884
Investments	<u>67,381</u>	<u>57,883</u>	<u>67,381</u>	<u>57,883</u>
Total	<u>\$69,982</u>	<u>\$64,267</u>	<u>\$77,482</u>	<u>\$71,767</u>
Total Operating Expenses	\$362,940	\$367,554	\$362,940	\$367,554
<i>plus Bad Debt Expense</i>	48,168	46,154	48,168	46,154
<i>less Depreciation &amp; Amortization</i>	<u>13,425</u>	<u>16,600</u>	<u>13,425</u>	<u>16,600</u>
Total	<u>\$397,683</u>	<u>\$397,108</u>	<u>\$397,683</u>	<u>\$397,108</u>
Days Cash on Hand	64	59	71	66
Total Long Term Debt	\$83,276	\$79,000	\$106,241	\$ 101,965
Cash and Investments to Long Term Debt	84.04%	81.35%	72.9 %	70.4 %

Upon issuance of the Series 2013A Bonds, the Medical Center anticipates reimbursing itself for approximately \$7.5 million of prior Project expenditures, which is reflected in the pro-forma figures above.

## LICENSES, ACCREDITATIONS AND MEMBERSHIPS

The Medical Center is licensed by the Michigan Department of Community Health and is accredited by The Joint Commission (TJC) and the Accreditation Council for Graduate Medical Education (ACGME). The Medical Center's Laboratory is also accredited by The Joint Commission. In addition, the Medical Center is a member of, or participant in, the American Hospital Association, the Michigan Hospital Association, the Council of

Teaching Hospitals and the National Association of Public Hospitals. The Medical Center also has the following accreditations and certifications:

- American College of Surgeons Commission Cancer Accreditation for Community Hospital Comprehensive Cancer Program
- American College of Surgeons Level I Trauma Center
- American Academy of Pediatric & American College of OB/GYN Level III Neonatal Intensive Care Unit
- American College of Surgeons Bariatric Center
- Continuing Medical Education Department – Certification of Accreditation as a sponsor of continuing medical education for physicians Michigan State Medical Society (MSMS) Committee on CME
- Joint Review Committee on Education in Radiologic Technology
- National Accreditation Program for Breast Centers
- Joint Commission Primary Stroke Center Advanced Certification

#### **MALPRACTICE AND LIABILITY INSURANCE**

The Medical Center is self-insured for medical malpractice and has established a trust with the Citizens Bank, Flint, Michigan. At June 30, 2012, the balance in the reserve account was approximately \$19 million. The amount necessary to be on deposit in the self-insurance trust is determined annually using actuarial studies performed by Towers Perrin, Southfield, Michigan. The Medical Center anticipates making such additional deposits to the self-insurance trust as are necessary, as determined by the annual actuarial review. Coverage provided through the self-insurance program is \$6 million per occurrence with \$6 million in the aggregate. The Medical Center also carries excess commercial malpractice coverage to increase those levels to \$15 million/\$15 million.

# **Hurley Medical Center**

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**Financial Report  
with Additional Information  
June 30, 2012**



# Hurley Medical Center

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**Plante & Moran, PLLC**  
27400 Northwestern Highway  
P.O. Box 307  
Southfield, MI 48037-0307  
Tel: 248.352.2500  
Fax: 248.352.0018  
plantemoran.com

## Independent Auditor's Report

To the Board of Hospital Managers  
Hurley Medical Center

We have audited the accompanying financial statements of the business-type activities, fiduciary fund, and discretely presented component unit of Hurley Medical Center (an enterprise fund of the City of Flint, Michigan) (the "Medical Center") as of June 30, 2012 and 2011, which collectively comprise the Medical Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities, fiduciary fund, and the discretely presented component unit of Hurley Medical Center at June 30, 2012 and 2011 and the respective changes in financial position and cash flows, where applicable, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, which is presented on pages 2 through 5, and the analysis of funding progress, which is presented on page 43, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Plante & Moran, PLLC*

October 18, 2012

# Hurley Medical Center

## Management's Discussion and Analysis

Our discussion and analysis of Hurley Medical Center's (the "Medical Center") financial performance provides an overview of the Medical Center's financial activities for the fiscal years ended June 30, 2012 and 2011. Please read it in conjunction with the Medical Center's financial statements, which begin on page 6. Unless otherwise indicated, amounts are in thousands.

### Financial Highlights

The Medical Center reported operating income of \$1 million for the fiscal year ended June 30, 2012. This represents a decrease of \$3.8 million. Excess of revenue over expenses for the fiscal year is \$4.2 million reflecting a decrease from the prior year which was reported as \$4.6 million.

### Using this Annual Report

The Medical Center's financial statements consist of three statements: (a) a statement of net assets, (b) a statement of revenues, expenses, and changes in fund net assets, and (c) a statement of cash flows. These financial statements and related notes provide information about the activities of the Medical Center, including resources held by the Medical Center but restricted for specific purposes by contributors, grantors, or enabling legislation.

### The Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Fund Net Assets

The Medical Center's financial statements begin with the statement of net assets on page 6. Generally, the financial position of the Medical Center has improved over the past three years. The statement of net assets and the statement of revenues, expenses, and changes in fund net assets report information about the Medical Center's resources and its activities that reflect this improvement. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Medical Center's net assets and changes in therein. For both fiscal years ended June 30, 2012 and 2011, net assets increased over the prior year as a result of positive net income. Over time, increases in the Medical Center's net assets are an indicator that the Medical Center's financial health is improving. Considering the difficult economic environment the Medical Center operates in, these improvements are noteworthy.

### The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. During 2012, the operating cash position of the Medical Center decreased by approximately \$4.5 million to \$2.6 million. This represents a decrease of 64 percent from the 2011 ending balance of \$7.1 million. Six weeks' delay in billings as a result of implementation of a new clinical information system resulted in cash balances going down. In subsequent months, as billings were submitted, cash balances increased.

# Hurley Medical Center

## Management's Discussion and Analysis (Continued)

### The Statement of Net Assets

	2012	2011	2010
<b>Assets</b>			
Current assets	\$ 72,943	\$ 63,848	\$ 77,919
Assets limited as to use	100,958	121,889	127,094
Capital assets	114,337	95,341	73,245
Other assets	7,857	6,319	9,001
Total assets	296,095	287,397	287,259
<b>Liabilities</b>			
Current liabilities	76,840	75,919	75,896
Long-term debt	83,276	83,179	86,918
Accrued expenses	35,245	31,085	32,421
Total liabilities	195,361	190,183	195,235
<b>Net Assets</b>			
Invested in capital assets - Net of related debt	44,058	36,750	27,185
Donor restricted for specific operating activities	4,875	5,585	5,002
Unrestricted	51,801	54,879	59,837
Total net assets	<u>\$ 100,734</u>	<u>\$ 97,214</u>	<u>\$ 92,024</u>

The Medical Center's net assets are the difference between its assets and liabilities reported in the statement of net assets on pages 6 and 7. The Medical Center's net assets increased for the fiscal year ended June 30, 2012 by \$3.5 million (3.6 percent) and increased by \$5.2 million (5.6 percent) for the fiscal year ended June 30, 2011, as presented on the statement of net assets on pages 6 and 7.

The Medical Center's combined cash position decreased in 2012 from 2011 by \$14.7 million to \$70 million at June 30, 2012. Respectively, the day's cash on hand decreased from 81.0 days in 2011 to 64.4 days in 2012. The Medical Center's investment policy is restricted to securities permitted under Michigan Public Law 20. This statute generally restricts the Medical Centers investments to relatively short-term, highly liquid government securities.

During 2011 and 2012, the Medical Center expended \$26 million toward its emergency department modernization project which was completed in 2012. This resulted in a decrease to cash held by trustee of \$11.5 million in 2012. Another \$12.4 million was spent on Phase I of a clinical information system that went live successfully in March 2012.

Other balance sheet accounts remained stable and are within expected ranges for the reporting periods of 2012 and 2011.

# Hurley Medical Center

## Management's Discussion and Analysis (Continued)

### Operating Results and Changes in the Medical Center's Net Assets

In 2012, the Medical Center's net assets increased by \$3.5 million (3.6 percent) over 2011. The primary cause of the increase in net assets is the positive financial results for the year ended June 30, 2012.

	2012	2011	2010
<b>Operating Revenues</b>			
Net patient service revenue	\$ 326,353	\$ 319,875	\$ 330,600
Other operating revenue	33,152	31,331	28,332
Total operating revenues	359,505	351,206	358,932
<b>Operating Expenses</b>			
Salaries and wages	155,886	150,174	147,091
Employee benefits and payroll taxes	59,117	55,342	60,670
Operating supplies and expenses	42,256	42,703	44,073
Professional services	40,535	38,869	38,769
Purchased services and other	47,281	48,485	49,877
Depreciation and amortization	13,425	10,813	11,115
Total operating expenses	358,500	346,386	351,595
<b>Nonoperating Revenues (Expenses)</b>	2,094	(351)	(2,190)
<b>Excess of Revenues Over Expenses Before Other Activity</b>	3,099	4,469	5,147
<b>Grants, Contributions, and Endowments</b>			
Restricted gifts, income, and transfer to unrestricted	421	721	(25)
<b>Increase in Net Assets</b>	3,520	5,190	5,122
<b>Net Assets - End of year</b>	<b>\$ 100,734</b>	<b>\$ 97,214</b>	<b>\$ 92,024</b>

### Operating Income

The first component of the overall change in the Medical Center's net assets is its operating income, which generally is the difference between net patient service revenues and the expenses incurred to perform those services. In each of the past six years, the Medical Center has reported a positive operating income.

For the 12 months ended June 30, 2012, the Medical Center earned a net income from operations of \$1 million. These results are a decline over the comparable prior period where income from operations was \$4.8 million.

# Hurley Medical Center

## Management's Discussion and Analysis (Continued)

Inpatient activity was slightly down in the period over the prior year. Discharges decreased by 4.4 percent to 19,083 and inpatient days declined by 6.5 percent to 99,822 days. The decline in discharges is attributed to a general reduction in inpatient activity in Genesee County experienced by all hospitals and an increase in the number of patients classified as observation status. During 2012, there was a significant increase in observation status patients over 2011, contributing to the decline in discharges while patient days of care remained relatively constant. Outpatient cardiology, reference lab, and emergency room visits each contributed to the increase in outpatient revenues. Gross patient revenues increased slightly over the prior year. Total operating revenue increased by 2.4 percent from the prior year. This increase is a result of receiving the first installment of the Medicaid electronic medical records "meaningful use" payment and increase in physician income.

Operating expenses increased 3.5 percent in the period over the comparable prior year. The majority of the increase was a result of outside payroll agency and benefits. The use of additional manpower was due to the opening of the new emergency room and the implementation of the new clinical information system that required significant training. As the result of the operational changes, labor productivity has declined from 4.8 FTEs per adjusted occupied bed to 5.0 FTEs in 2012.

### Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of investment earnings on cash balances, joint venture income, and interest expense on outstanding long-term debt. Nonoperating revenue increased by \$2 million over the prior year. This increase is a result of improved earnings on the Medical Center's investment portfolio and joint venture earnings. Revenues from the Medical Center's participation in the Genesys Hurley Cancer Center increased from the prior year. Patient care operations at the Genesys Hurley Cancer Center yielded income that exceeded expectations.

### Capital Asset and Debt Administration

At the end of 2012, the Medical Center had \$114.3 million invested in capital assets, net of accumulated depreciation, as detailed in Note 18 to the financial statements. In 2012, the Medical Center purchased new buildings and equipment of \$32.9 million. Major purchases included the emergency department modernization project, clinical EMR project, and various other clinical equipment items. In the prior year, the Medical Center purchased \$33.1 million of new equipment. During March 2010, the Medical Center recorded the long-term liability of \$35 million in connection with the issuance of debt in support of the emergency department modernization project. At year end, the Medical Center had \$88.1 in revenue bonds outstanding.

### Contacting the Medical Center's Financial Management

This financial report is designed to provide our constituents with a general overview of the Medical Center's finances. If you have questions about this report or need additional financial information, contact the Medical Center at: One Hurley Plaza, Flint, MI 48503.

# Hurley Medical Center

## Statement of Net Assets Proprietary Fund

	June 30, 2012		June 30, 2011	
	Primary Government Hurley Medical Center	Component Unit Hurley Health Services	Primary Government Hurley Medical Center	Component Unit Hurley Health Services
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 2,601,048	\$ 458,913	\$ 7,128,815	\$ 474,720
Patient accounts receivable - Net (Note 4)	44,776,227	203,121	32,845,914	291,519
Other receivables	6,134,811	668,016	5,274,848	396,707
Estimated third-party payor settlements (Note 3)	7,259,116	-	6,700,021	-
Assets limited as to use (Note 5)	5,330,565	154,084	5,232,583	153,303
Prepaid expenses and other	2,336,387	140,495	2,441,796	551,506
Inventory	4,504,727	10,734	4,224,152	20,750
Total current assets	72,942,881	1,635,363	63,848,129	1,888,505
<b>Assets Limited as to Use (Note 5)</b>				
By the board	67,381,409	154,084	77,561,128	153,303
Held by trustee - Bond	18,020,907	-	29,540,804	-
Restricted and held in trust - Other	20,886,656	-	20,019,106	-
Total assets limited as to use	106,288,972	154,084	127,121,038	153,303
Less assets limited as to use that are required for current liabilities	(5,330,565)	(154,084)	(5,232,583)	(153,303)
Total noncurrent assets whose use is limited	100,958,407	-	121,888,455	-
<b>Capital Assets - Net (Note 18)</b>	114,336,841	205,733	95,341,253	257,290
<b>Other Assets</b>				
Investment in joint ventures (Note 15)	6,776,600	6,000	5,175,260	6,000
Deferred defeasance loss - Net	336,567	-	414,052	-
Bond issue costs - Net	744,070	-	729,810	-
Other	-	150,000	-	150,000
Total assets	<u>\$ 296,095,366</u>	<u>\$ 1,997,096</u>	<u>\$ 287,396,959</u>	<u>\$ 2,301,795</u>

# Hurley Medical Center

## Statement of Net Assets Proprietary Fund (Continued)

	June 30, 2012		June 30, 2011	
	Primary Government Hurley Medical Center	Component Unit Hurley Health Services	Primary Government Hurley Medical Center	Component Unit Hurley Health Services
<b>Liabilities and Fund Net Assets</b>				
<b>Current Liabilities</b>				
Current portion of long-term debt (Note 6)	\$ 4,823,007	\$ -	\$ 3,965,000	\$ -
Accounts payable and taxes withheld	21,412,199	1,183,059	18,889,233	289,213
Estimated third-party payor settlements (Note 3)	16,555,939	-	18,994,846	-
Accrued expenses	34,048,769	930,953	34,069,497	745,068
Total current liabilities	76,839,914	2,114,012	75,918,576	1,034,281
<b>Long-term Debt</b> - Net of current portion (Note 6)	83,275,749	-	83,179,382	-
<b>Accrued Expenses</b> (Note 14)	35,245,413	-	31,084,862	-
Total liabilities	195,361,076	2,114,012	190,182,820	1,034,281
<b>Fund Net Assets</b>				
Invested in capital assets - Net of related debt	44,057,866	205,733	36,750,429	257,290
Donor restricted for specific operating activities	4,874,957	-	5,584,506	-
Unrestricted	51,801,467	(322,649)	54,879,204	1,010,224
Total fund net assets	100,734,290	(116,916)	97,214,139	1,267,514
Total liabilities and fund net assets	<b>\$ 296,095,366</b>	<b>\$ 1,997,096</b>	<b>\$ 287,396,959</b>	<b>\$ 2,301,795</b>



# Hurley Medical Center

## Statement of Revenues, Expenses, and Changes in Fund Net Assets (Deficit) Proprietary Fund

	Year Ended			
	June 30, 2012		June 30, 2011	
	Primary Government Hurley Medical Center	Component Unit Hurley Health Services	Primary Government Hurley Medical Center	Component Unit Hurley Health Services
<b>Operating Revenues</b>				
Net patient service revenue	\$ 326,352,745	\$ 2,405,846	\$ 319,874,843	\$ 2,419,985
Other operating revenue	33,151,925	17,830,696	31,331,148	17,910,196
Total operating revenues	359,504,670	20,236,542	351,205,991	20,330,181
<b>Operating Expenses</b>				
Salaries and wages	155,886,264	14,427,961	150,174,351	14,466,600
Employee benefits and payroll taxes	59,116,728	2,813,027	55,342,212	2,693,142
Operating supplies and expenses	42,255,917	-	42,702,389	-
Professional services	40,535,293	817,500	38,868,577	838,711
Purchased services and other	47,280,666	3,520,351	48,484,736	3,295,405
Depreciation and amortization	13,424,621	22,613	10,813,334	25,961
Total operating expenses	358,499,489	21,601,452	346,385,599	21,319,819
<b>Net Operating Income (Loss)</b>	1,005,181	(1,364,910)	4,820,392	(989,638)
<b>Nonoperating Revenues (Expenses)</b>				
Investment income (Note 5)	4,251,069	884	2,010,987	3,912
Joint venture income	2,281,471	-	1,469,880	-
Other income (expense)	2,000	(20,404)	8,302	(9,742)
Interest expense	(4,440,616)	-	(3,840,106)	-
Total nonoperating revenues (expenses)	2,093,924	(19,520)	(350,937)	(5,830)
<b>Excess of Revenue Over (Under) Expenses Before Other Activity and Restricted Fund Activity and Transfer of Funds</b>	3,099,105	(1,384,430)	4,469,455	(995,468)
<b>Other - Assets released from restrictions for the purchase of capital assets</b>	1,130,591	-	137,734	-
<b>Excess of Revenue Over (Under) Expenses Before Restricted Fund Activity and Transfer of Funds</b>	4,229,696	(1,384,430)	4,607,189	(995,468)
<b>Capital Contributed Restricted Fund Activity and Transfer of Funds</b>				
Restricted gifts and bequests	1,163,808	-	1,464,010	-
Income and investments	(7,148)	-	(20,215)	-
Transfer to unrestricted net assets - Capital asset additions	(1,130,591)	-	(137,734)	-
Transfer to unrestricted net assets - Other operating expenses	(735,614)	-	(722,836)	-
<b>Increase (Decrease) in Net Assets</b>	3,520,151	(1,384,430)	5,190,414	(995,468)
<b>Fund Net Assets - Beginning of year</b>	97,214,139	1,267,514	92,023,725	2,262,982
<b>Fund Net Assets (Deficit) - End of year</b>	<b>\$ 100,734,290</b>	<b>\$ (116,916)</b>	<b>\$ 97,214,139</b>	<b>\$ 1,267,514</b>

# Hurley Medical Center

## Statement of Cash Flows Proprietary Fund

	Year Ended			
	June 30, 2012		June 30, 2011	
	Primary Government Hurley Medical Center	Component Unit Hurley Health Services	Primary Government Hurley Medical Center	Component Unit Hurley Health Services
<b>Cash Flows from Operating Activities</b>				
Cash received from patients and third-party payors	\$ 342,980,778	\$ 20,053,631	\$ 350,296,669	\$ 20,668,846
Cash payments to suppliers for services and goods	(181,889,533)	(5,650,119)	(189,305,216)	(6,827,354)
Cash payments to employees for services	(155,886,264)	(14,427,961)	(150,174,351)	(14,466,600)
Net cash provided by (used in) operating activities	5,204,981	(24,449)	10,817,102	(625,108)
<b>Cash Flows from Investing Activities</b>				
Capital contributed to joint ventures	(5,000)	-	(800,000)	-
Distributions from joint ventures	600,000	-	950,000	-
Proceeds on dissolution of joint venture	-	-	3,843,079	-
Sale of assets whose use is limited	43,501,473	-	37,206,086	-
Purchases of assets whose use is limited	(17,625,319)	(781)	(34,248,707)	(1,824)
Investment interest and realized (losses) gains	(718,036)	884	2,299,565	3,912
Net cash provided by investing activities	25,753,118	103	9,250,023	2,088
<b>Cash Flows from Noncapital Financing Activities -</b>				
Net proceeds from contributions restricted for specific purposes	1,163,808	-	1,464,010	-
<b>Cash Flows from Capital and Related Financing Activities</b>				
Proceeds from issuance of long-term debt	5,074,383	-	-	-
Principal payment on long-term debt and capital leases	(4,332,907)	-	(3,285,000)	-
Interest paid on long-term debt	(4,554,386)	-	(3,347,357)	-
Purchase of capital assets	(32,876,010)	(1,461)	(33,208,437)	(2,627)
Proceeds from sale of capital assets	39,246	10,000	65,862	5,600
Net cash (used in) provided by capital and related financing activities	(36,649,674)	8,539	(39,774,932)	2,973
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(4,527,767)</b>	<b>(15,807)</b>	<b>(18,243,797)</b>	<b>(620,047)</b>
<b>Cash and Cash Equivalents - Beginning of year</b>	<b>7,128,815</b>	<b>474,720</b>	<b>25,372,612</b>	<b>1,094,767</b>
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 2,601,048</b>	<b>\$ 458,913</b>	<b>\$ 7,128,815</b>	<b>\$ 474,720</b>

# Hurley Medical Center

## Statement of Cash Flows Proprietary Fund (Continued)

	Year Ended			
	June 30, 2012		June 30, 2011	
	Primary Government Hurley Medical Center	Component Unit Hurley Health Services	Primary Government Hurley Medical Center	Component Unit Hurley Health Services
<b>Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities</b>				
Operating income (loss)	\$ 1,005,181	\$ (1,364,910)	\$ 4,820,392	\$ (989,638)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation	13,424,621	22,613	10,813,334	25,961
Provision for bad debt	49,646,480	101,332	45,363,520	62,686
Amortization of bond discounts, issuance costs, other deferred charges, and deferred defeasance gain	276,123	-	384,144	-
Loss on investment in assets	416,555	-	233,002	-
Contribution released from restrictions	(735,614)	-	(722,836)	-
Changes in operating assets and liabilities:				
Receivables and third-party payor settlements	(65,434,758)	(284,243)	(45,568,269)	275,979
Inventories	(280,575)	10,016	(107,741)	(8,593)
Prepaid expenses and other	110,409	411,011	(242,227)	18,055
Accounts payable and taxes withheld	2,522,966	893,847	533,166	62,320
Accrued expenses	4,253,593	185,885	(4,689,383)	(71,878)
Net cash provided by (used in) operating activities	<u>\$ 5,204,981</u>	<u>\$ (24,449)</u>	<u>\$ 10,817,102</u>	<u>\$ (625,108)</u>
<b>Supplemental Cash Flow Information - Noncash transactions - Increase in investment in joint venture</b>				
	<u>\$ 2,201,340</u>	<u>\$ -</u>	<u>\$ 1,469,880</u>	<u>\$ -</u>

# Hurley Medical Center

## Statement of Net Assets Fiduciary Fund

	June 30	
	2012	2011
	Retiree Health Benefit Trust Fund	Retiree Health Benefit Trust Fund
<b>Assets</b>		
Cash and cash equivalents	\$ 6,560,791	\$ 10,705,507
Investments:		
Investment in common stock	8,759,309	17,481,605
Investment in corporate bonds	11,273,327	-
Investment in U.S. government or agency bonds	5,987,098	-
Investment in U.S. government CMOs	2,009,049	-
Total investments	28,028,783	17,481,605
Interest receivable	132,703	51
Total assets	34,722,277	28,187,163
<b>Liabilities - Accrued expenses</b>	3,286	4,397
<b>Net Assets - Held in trust for retiree health benefits</b>	<b>\$ 34,718,991</b>	<b>\$ 28,182,766</b>

# Hurley Medical Center

## Statement of Changes in Net Assets Fiduciary Fund

	June 30	
	2012	2011
	Retiree Health Benefit Trust Fund	Retiree Health Benefit Trust Fund
<b>Additions</b>		
Investment income:		
Interest	\$ 99	\$ 606
Dividends	657,529	323,648
Realized loss on sale of investment	(820,545)	-
Net increase in fair value of investments	1,167,951	3,839,790
Less investment expense	(114,389)	(52,767)
Net investment income	890,645	4,111,277
Employer contributions	7,071,235	7,426,382
Retiree contributions	2,202,655	2,083,249
Total contributions	9,273,890	9,509,631
Total additions	10,164,535	13,620,908
<b>Deductions - Benefits payments</b>	3,628,310	6,968,249
<b>Net Increase in Net Assets Held in Trust</b>	6,536,225	6,652,659
<b>Net Assets</b>		
Beginning of year	28,182,766	21,530,107
End of year	<u>\$ 34,718,991</u>	<u>\$ 28,182,766</u>

# Hurley Medical Center

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## Notes to Financial Statements June 30, 2012 and 2011

### Note 1 - Nature of Business and Significant Accounting Policies

**Organization and Reporting Entity** - Hurley Medical Center (the "Medical Center") is an enterprise fund of the city of Flint, Michigan. The Medical Center provides inpatient, outpatient, and emergency care services in Genesee and the surrounding counties. As an instrumentality of a political subdivision of the State of Michigan, as described in Section 115 of the Internal Revenue Code, the Medical Center is exempt from federal income taxes.

The City of Flint Hospital Building Authority (the "Authority") is a blended component unit of the Medical Center and the City of Flint. The Authority only serves the Medical Center by facilitating the issuance of debt for certain capital improvements and equipment via a lease contract. In accordance with generally accepted accounting principles, the lease transactions between the Medical Center and the Authority have been eliminated and all debt and related assets have been recorded in the Medical Center's financial statements.

Hurley Health Services (HHS), a municipal support organization, is a wholly owned subsidiary of the Medical Center and is a discretely presented component unit. HHS, on a consolidated basis, is comprised of two nonprofit entities (HHS and The Hurley Clinics (THC)) and one "for profit" corporation (Hurley Practice Management Services (HPMS)). Separate financial statements for HHS may be obtained by contacting HHS.

**Proprietary Fund Accounting** - The Medical Center utilizes the full accrual method of accounting, whereby revenues and expenses are recognized on the accrual basis. The Medical Center applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, as codified, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case GASB prevails. The Medical Center has elected not to follow FASB statements issued subsequent to November 30, 1989.

**Fiduciary Fund Accounting** - The Retiree Health Benefit Trust Fund accounts for the funding and expenditures related to providing benefits to retirees. This fund accumulates resources for healthcare benefits financed by the Medical Center. The fiduciary fund also utilizes the full accrual method of accounting.

**Basis of Presentation** - The Medical Center follows GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, in the presentation of its financial statements. Under GASB No. 34, the Medical Center is classified as a special purpose government and is required to present statements for enterprise funds and fiduciary funds.

### **Note 1 - Nature of Business and Significant Accounting Policies (Continued)**

**Cash and Cash Equivalents** - Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less, excluding amounts whose use is limited by board designation or other arrangements under trust agreements or with third-party payors.

**Assets Limited as to Use** - Assets limited as to use include:

- Assets set aside by the board of managers for identified purposes, over which the board retains control and may, at its discretion, subsequently use for other purposes
- Proceeds of debt issues and funds of the Medical Center deposited with a trustee and limited to use in accordance with the requirements of a bond indenture
- Assets restricted by outside donors

**Investments and Investment Income** - The Medical Center accounts for its investments in accordance with GASB No. 31, *Accounting for Certain Investments and for External Investment Pools*. All investments are valued at their fair values in the balance sheet except money market investments and interest earning investment contracts that have a remaining maturity of less than one year at the time of purchase. These investments are carried at amortized cost. Unrealized gains and losses are included in the statement of revenue, expenses, and changes in fund net assets as nonoperating revenues - investment income.

Investment income on proceeds of borrowings that are held by a trustee, to the extent not capitalized, and investment income on assets deposited in the self-insurance trust are reported as operating revenues - other operating revenue. Investment income from all other investments and investment income of endowment funds are reported as nonoperating revenue.

The investments in joint ventures are recorded on the equity method of accounting.

**Accounts Receivable** - Accounts receivable from patients, insurance companies, and governmental agencies are based on gross charges. An allowance for uncollectible accounts is established on an aggregate basis by using historical loss rate factors applied to unpaid accounts based on aging. Loss rate factors are based on historical loss experience and adjusted for economic conditions and other trends affecting the Medical Center's ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for doubtful accounts in the period they are determined to be uncollectible. The allowance for contractual adjustments and interim payment advances is based on expected payment rates from payors based on current reimbursement methodologies. This amount also includes amounts received as interim payments against unpaid claims by certain payors.

# Hurley Medical Center

## Notes to Financial Statements June 30, 2012 and 2011

### Note 1 - Nature of Business and Significant Accounting Policies (Continued)

**Inventories** - Inventories, which consist of medical and office supplies and pharmaceutical products, are stated at cost, determined on a first-in, first-out basis, or market.

**Bond Issuance Costs** - Costs related to the issuance of bonds are deferred and amortized over the life of the bonds.

**Deferred Defeasance Loss** - The defeasance loss associated with defeased debt is capitalized and amortized over the life of the new debt.

**Capital Assets** - Capital assets are defined by the Medical Center as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at cost. Donated capital assets are recorded at estimated fair market value at the date of donation. Interest incurred during the construction of capital assets is included as part of the capitalized value of the assets constructed.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets are depreciated using the straight line method over the following estimated useful lives. Prior to 1997, the Medical Center utilized an accelerated method of depreciation for substantially all assets.

Land improvements	5 to 25 years
Building	5 to 50 years
Machinery and equipment	2 to 20 years
Automotive equipment	2 to 10 years

**Compensated Absences** - The Medical Center's employees earn vacation days at varying rates depending on years of service and job classification. Employees may accumulate vacation days up to a specified maximum. The Medical Center's policy is to accrue such unpaid vacation days as they are earned. The amount of vacation days payable is reported as a current liability.

Employees of the Medical Center generally are eligible for receiving a portion of unused sick leave benefits only upon retirement, death, or duty-related disability. The Medical Center's policy is to recognize these sick leave benefits at the time an employee becomes vested for retirement, duty-related disability, or in the case of death. The estimated amount of sick leave payable for employees meeting these requirements is reported as a current liability.



### **Note 1 - Nature of Business and Significant Accounting Policies (Continued)**

Certain employee groups, however, are eligible to receive a portion of unused sick leave benefits on an annual basis. The Medical Center's policy is to accrue such unpaid sick leave benefits as they are earned. The estimated amount of sick leave payable for employees eligible to receive a portion of unused sick leave benefits on an annual basis is reported as a current liability.

**Estimated Self-insured Malpractice Costs** - The provision for estimated self-insured medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. The estimate for claims incurred but not reported is based on an actuarial determination.

**Classification of Fund Net Assets** - Fund net assets of the Medical Center are classified in three components. Fund net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted net assets are noncapital net assets that must be used for a particular purpose, as specified by grantors or contributors external to the Medical Center. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

**Unrestricted Net Assets (Deficit)** - As of June 30, 2012, HHS had a deficit in unrestricted net assets of \$116,916.

**Net Patient Service Revenue** - Net patient service revenue is reported at the estimated net realizable amounts from patients and third-party payors for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Approximately 78 percent and 79 percent of the Medical Center's revenues are based on participation in the Blue Cross/Blue Shield, Medicare, and Medicaid programs for the years 2012 and 2011, respectively.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

### **Note 1 - Nature of Business and Significant Accounting Policies (Continued)**

**Electronic Health Records Incentive Payments** - The American Recovery and Reinvestment Act of 2009 (ARRA) established funding in order to provide incentive payments to hospitals and physicians that implement the use of electronic health record (EHR) technology by 2014. The Medical Center may receive an incentive payment for up to four years, provided the Hospital demonstrates meaningful use of certified EHR technology for the EHR reporting period. The revenue from the incentive payments is recognized ratably over the EHR reporting period when there is reasonable assurance that the Medical Center will comply with eligibility requirements during EHR reporting period and an incentive payment will be received. The amounts are recorded within other operating revenue as the incentive payments are related to the Medical Center's ongoing and central activities, yet not critical to the delivery of patient service. During fiscal year 2012, the Medical Center received and recorded \$2,600,000 of incentive payments in other operating revenue.

**Operating Revenues and Expenses** - The Medical Center's statement of revenues, expenses, and changes in fund net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing healthcare services, the Medical Center's principal activity. Nonexchange revenues, including contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

**Restricted Resources** - When the Medical Center has both restricted and unrestricted resources available to finance a particular program, it is the Medical Center's policy to use restricted resources before unrestricted resources.

**Income Taxes** - The Medical Center and HHS are exempt from income taxes except for HHS's subsidiary, Hurley Practice Management Services. A provision for income taxes (at statutory rates) has been provided in the financial statements related to this entity's transactions.

**Nonoperating Revenues and Expenses** - The Medical Center categorizes joint ventures, investment income, interest expense, and operations that the Medical Center does not directly oversee as nonoperating activities. Interest expense is charged to operations as incurred, except that interest on funds borrowed for major construction projects is capitalized as a component of the cost of the related projects during the period that the borrowed funds are owed.

**Charity Care** - The Medical Center provides care without charge to patients who meet certain criteria under its charity care policy. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The eligibility criteria are based on levels of income.

### **Note 1 - Nature of Business and Significant Accounting Policies (Continued)**

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

**Upcoming Accounting Change** - In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity Omnibus*. This pronouncement, which is an amendment to Statement 14 and Statement 34, modifies certain requirements for inclusion of component units in the financial reporting entity. This statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Lastly, the statement also clarifies the reporting of equity interests in legally separate organizations. The Medical Center is currently evaluating the impact this standard will have on the financial statements when adopted during the 2013 fiscal year.

**Upcoming Accounting Change** - In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989 that is included in FASB statements and interpretations, APB opinions, and accounting research bulletins of the AICPA Committee on Accounting Procedure. The Medical Center is currently evaluating the impact this standard will have on the financial statements when adopted during the 2013 fiscal year.

**Upcoming Accounting Change** - In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The statement will be effective for the 2013 fiscal year. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Once implemented, this statement will impact the format and reporting of the balance sheet at the government-wide level and also at the fund level.

# Hurley Medical Center

## Notes to Financial Statements June 30, 2012 and 2011

### Note 1 - Nature of Business and Significant Accounting Policies (Continued)

**Upcoming Accounting Change** - In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented for financial statements for periods beginning after December 15, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. Statement No. 65 will be implemented for the Medical Center as of June 30, 2014.

**Upcoming Accounting Change** - In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The Medical Center is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for financial statements for the year ending June 30, 2015.

### Note 2 - Charity Care

The Medical Center maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies, and equivalent service statistics. The following information measures the level of charity care provided during the years ended June 30:

	<u>2012</u>	<u>2011</u>
Charges foregone, based on established rates	\$ 23,603,003	\$ 22,485,822
Estimated costs and expenses incurred to provide charity care	\$ 7,743,423	\$ 7,441,341
Equivalent percentage of charity care patients to all patients served	<u>2.16%</u>	<u>2.15%</u>

### Note 3 - Net Patient Service Revenue

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

- **Medicare** - Inpatient, acute-care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. Most outpatient services are paid on an ambulatory payment classification system or fee schedule methodology. Inpatient, nonacute services and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology subject to certain limitations.
- **Medicaid** - Inpatient, acute-care services rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge. Outpatient services rendered to Medicaid program beneficiaries are paid on an ambulatory payment classification system or a fee schedule methodology. Capital costs are paid on a cost reimbursement method.
- **Blue Cross/Blue Shield of Michigan** - Inpatient, acute-care services are reimbursed at prospectively determined rates per discharge. These rates are based on the Medicare patient classification system and on hospital-specific costs. Outpatient services are reimbursed on a fee for service basis.
- **HMO/PPO** - Services rendered to HMO and PPO beneficiaries are paid at predetermined rates or at a percentage of hospital charges.

Cost report settlements result from the adjustment of interim payments to final reimbursement under the Medicare, Medicaid, and Blue Cross/Blue Shield of Michigan programs and are subject to audit by fiscal intermediaries. During 2012, the Medical Center recognized an increase in net patient service revenue of approximately \$3,000,000 as a result of changes to prior year settlement activity. In 2011, there was no significant impact to the net patient service revenue due to settlement activity.

The Medicare program has initiated a recovery audit contractor (RAC) initiative, whereby claims subsequent to October 1, 2007 will be reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential significant overpayments. The RAC program began for Michigan in 2009. The Medical Center is unable to determine the extent of liability for overpayments, if any.

# Hurley Medical Center

## Notes to Financial Statements June 30, 2012 and 2011

### Note 4 - Patient Accounts Receivable

Patient accounts receivable at June 30, 2012 and 2011 and revenues for the years then ended include estimated amounts due from various third-party payors which are computed in accordance with their respective reimbursement formulas.

In addition, the Medical Center has established an estimated allowance for uncollectible accounts of approximately \$39,400,000 and \$39,000,000 at June 30, 2012 and 2011, respectively.

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

	Percent	
	2012	2011
Medicare	17	18
Blue Cross/Blue Shield of Michigan	7	6
Medicaid	40	40
Other third-party payors and patients	36	36
Total	100	100

### Note 5 - Assets Limited as to Use

Assets limited as to use that are required for obligations classified as current liabilities are reported in current assets. Assets limited as to use consist of the following at June 30:

	2012	2011
By board for funded depreciation and capital improvements:		
Cash and cash equivalents	\$ 2,010,836	\$ 3,051,354
U.S. government securities (cost was \$37,944,983 and \$35,289,283 for 2012 and 2011, respectively)	38,839,534	35,728,011
Accrued interest receivable	176,849	191,722
By board for operations:		
Cash and cash equivalents	394,833	3,426,385
U.S. government securities (cost was \$25,315,613 and \$34,919,091 for 2012 and 2011, respectively)	25,811,363	34,979,927
Accrued interest receivable	147,994	183,729
Total - Board designated	<u>\$ 67,381,409</u>	<u>\$ 77,561,128</u>

# Hurley Medical Center

## Notes to Financial Statements June 30, 2012 and 2011

### Note 5 - Assets Limited as to Use (Continued)

	<u>2012</u>	<u>2011</u>
Held by trustee - Bond:		
Cash and cash equivalents	\$ 18,020,760	\$ 20,541,254
U.S. government securities (cost was \$0 and \$9,085,000 in 2012 and 2011, respectively)	-	8,934,180
Accrued interest receivable	<u>147</u>	<u>65,370</u>
Total - Held by trustee - Bond	<u>\$ 18,020,907</u>	<u>\$ 29,540,804</u>
Restricted - Cash and cash equivalents	\$ 365,314	\$ 376,694
Held in trust - Self-insurance:		
Cash and cash equivalents	1,486,881	1,678,011
U.S. government securities (cost was \$17,407,955 and \$16,579,230 for 2012 and 2011, respectively)	18,578,932	17,524,653
Accrued interest receivable	<u>142,322</u>	<u>137,707</u>
Total - Held in trust - Self-insurance	<u>20,208,135</u>	<u>19,340,371</u>
Held in trust - Retirement:		
Cash and cash equivalents	74,801	71,207
Mutual funds (cost was \$216,405 for 2012 and 2011)	<u>238,406</u>	<u>230,933</u>
Total - Held in trust - Retirement	<u>313,207</u>	<u>302,140</u>
Grand total - Restricted and held in trust - Other	<u>\$ 20,886,656</u>	<u>\$ 20,019,106</u>

# Hurley Medical Center

## Notes to Financial Statements June 30, 2012 and 2011

### Note 6 - Lease Purchase Commitments and Long-term Debt

A summary of lease purchase commitments and long-term debt at June 30, 2012 and 2011 follows:

	2011	Current Year Additions	Current Year Reductions	2012	Amounts Due Within One Year
Bonds payable:					
Series 1998A	\$ 10,530,000	\$ -	\$ (825,000)	\$ 9,705,000	\$ 870,000
Series 1998B	15,775,000	-	(540,000)	15,235,000	570,000
Series 2003	27,690,000	-	(2,100,000)	25,590,000	2,230,000
Series 2010	35,215,000	-	(500,000)	34,715,000	500,000
Series 2011	-	5,074,383	(367,907)	4,706,476	653,007
Unamortized bond discount	(2,065,618)	212,898	-	(1,852,720)	-
Total long-term debt	<u>\$ 87,144,382</u>	<u>\$ 5,287,281</u>	<u>\$ (4,332,907)</u>	<u>\$ 88,098,756</u>	<u>\$ 4,823,007</u>

	2010	Current Year Additions	Current Year Reductions	2011	Amounts Due Within One Year
Bonds payable:					
Series 1998A	\$ 11,315,000	\$ -	\$ (785,000)	\$ 10,530,000	\$ 825,000
Series 1998B	16,290,000	-	(515,000)	15,775,000	540,000
Series 2003	29,675,000	-	(1,985,000)	27,690,000	2,100,000
Series 2010	35,215,000	-	-	35,215,000	500,000
Unamortized bond discount	(2,291,650)	226,032	-	(2,065,618)	-
Total long-term debt	<u>\$ 90,203,350</u>	<u>\$ 226,032</u>	<u>\$ (3,285,000)</u>	<u>\$ 87,144,382</u>	<u>\$ 3,965,000</u>

The following is a reconciliation of the future principal and interest payment to the recorded liability at June 30, 2012:

Years Ending June 30	Principal	Interest	Total Principal and Interest
2013	\$ 4,823,007	\$ 5,300,755	\$ 10,123,762
2014	5,055,900	5,021,776	10,077,676
2015	5,309,983	4,728,698	10,038,681
2016	5,575,310	4,420,881	9,996,191
2017	5,851,931	4,097,643	9,949,574
2018-2022	25,400,345	15,548,831	40,949,176
2023-2027	6,665,000	12,075,326	18,740,326
2028-2032	8,855,000	9,670,156	18,525,156
2033-2037	12,475,000	5,712,032	18,187,032
2038-2040	9,940,000	781,500	10,721,500
Total	<u>\$ 89,951,476</u>	<u>\$ 67,357,598</u>	<u>\$ 157,309,074</u>



### Note 6 - Lease Purchase Commitments and Long-term Debt (Continued)

The revenue refunding bonds are payable from the revenues of the Medical Center pursuant to lease/purchase agreements between the Medical Center and the City of Flint Hospital Building Authority. Under terms of the lease/purchase agreements, the Medical Center transferred title to substantially all of its facilities to the Authority and leases such facilities from the Authority. Ownership of the facilities reverts to the Medical Center upon payment of the bonds. Rental payments to the Authority are equal to the amounts required to make principal and interest payments on the bonds. Payments on Series 1998A range from \$870,000 in 2013 to \$1,315,000 in 2021, plus interest from 5.25 percent to 5.375 percent through 2021. Payments on Series 1998B range from \$570,000 in 2013 to \$1,320,000 in 2029, plus interest at 5.375 percent. Payments on Series 2003 range from \$2,230,000 in 2013 to \$3,550,000 in 2021, plus interest at 6.0 percent through 2021. Payments on Series 2010 range from \$500,000 in 2013 to \$3,555,000 in 2040, plus interest from 5.84 percent to 7.5 percent through 2040. Payments on Series 2011 range from \$653,007 in 2013 to \$804,904 in 2018, with the remainder due in 2019, plus interest at 4.19 percent through 2019. Approximately half of the proceeds from the 2003 bonds were utilized to refund pre-existing bond debt.

In 2011, the Medical Center issued \$5,074,383 of Series 2011 bonds. The proceeds of this issuance were used to purchase equipment.

In 2010, the Medical Center issued \$35,215,000 of Series 2010 bonds. The proceeds of this issuance will be used to (i) construct and renovate certain buildings and acquire and install equipment for the facilities, (ii) fund the debt reserve fund for the benefit of the holders of the Series 2010 bonds, and (iii) pay certain expenses incurred in connection with the issuance of the Series 2010 bonds.

The bonds include unamortized bond discount of \$1,852,720 and \$2,065,618 as of June 30, 2012 and 2011, respectively.

The net revenues of the Medical Center are pledged for payment of principal and interest on the variable rate demand revenue rental and revenue refunding bonds. Accordingly, the financial statements of the Medical Center include the facilities as if owned by the Medical Center and the bonds as if issued by the Medical Center.

The lease purchase agreements contain certain restrictive covenants, including maintaining a certain minimum debt service ratio and minimum days of cash on hand.

HHS has an unused irrevocable letter of credit of \$150,000 as of June 30, 2012 and 2011 that is collateralized by a certificate of deposit.

### Note 7 - Retirement Plans

Significant details regarding the Medical Center's retirement plans are presented below:

#### Description of Plans

The Medical Center offers a defined benefit plan (the Plan) that was established by City of Flint ordinances, which includes three benefit options. The basic plan option, the Old Contributory Pension Plan (OCP), provides for employer contributions and requires employee contributions. Under OCP, employees may retire with 25 years of credited service or at age 55 with 10 years of credited service. The monthly retirement benefit is 2.2 percent of final average compensation (FAC) for the first 25 years of credited service and 1 percent for every year thereafter.

The second plan option, the Modified Contributory Pension Plan (MCP), provides for employer contributions and requires a higher rate of employee contributions. Benefits fully vest after 15 years of service or at age 55 with 10 years of service. Employees may retire any time after completion of 25 years of credited service or at age 55 with 10 years of credited service. The monthly retirement benefit is 2.2 percent of the FAC for the first 15 years of credited service, plus 2.4 percent of the next 10 years, and 1 percent of every year beyond year 25.

The third plan option, the Hurley Alternative Pension Plan (HAPP), provides for employer contributions. Benefits fully vest after 10 years of credited service and a normal retirement age of 60. There are provisions for early retirement at age 55 with a reduced benefit. The monthly retirement benefit is 1.7 percent of FAC for the first 25 years of credited service and 1.7 percent for every year thereafter.

Nonexempt employees (members of bargaining units) may participate in either the MCP or HAPP option. Exempt employees may participate in any of the three plan options (MCP, HAPP, or OCP).

The Plan has two pension administrators - the City of Flint Employees' Retirement System (FERS) and the Municipal Public Employees Retirement System of Michigan (MERS). Each administrator functions as an investment and administrative agent for the Plan. FERS is a single-employer retirement agent which does not issue a separate stand alone financial statement. MERS is a multiple-employer retirement agent. MERS issues a publicly available financial report that includes financial statements and required supplemental information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Subsequent to June 30, 2012, the FERS board approved that all pension administration functions will be transitioned to MERS.

### Note 7 - Retirement Plans (Continued)

#### Contributions

Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

#### Funding Policy

The Medical Center makes employer contributions in accordance with funding requirements determined by an independent actuary. If a member leaves service, he or she may withdraw his or her employee contributions together with interest.

Employee contributions are as follows:

	First \$4,200 of Wages	Over \$4,200
OCP	3.75%	5.75%
MCP:		
Exempt	4.50%	6.50%
Others	7.00%	7.00%
HAPP	None	None

#### Actuarial Methods and Assumptions

The information presented in the required supplemental schedule was determined as a part of the actuarial valuation of the FERS and MERS administrators.

	FERS	MERS
Valuation date	June 30, 2010	December 31, 2010
Actuarial cost method	Individual entry age	Individual entry age
Amortization method	Level dollar	Level percent of payroll
Remaining amortization period	30 years	23-28 years
Asset valuation method	4-year smoothed market	4-year smoothed market

#### Actuarial assumption:

Investment rate of return	8.00%	8.00%
Projected salary increases	3.95%-7.55%	3.95%-7.55%
Includes wages inflation at	3.75%	4.50%
Cost of living adjustments	None	None

### Note 7 - Retirement Plans (Continued)

#### Annual Pension Cost and Net Pension Obligation

Three-year trend information regarding the annual pension cost (APC), percentage of APC contributed, and net pension obligation (NPO) are summarized as follows for both administrators combined:

Fiscal Year End	Actuarial Valuation Date	Annual Required Contribution *	Percentage Contributed	Net Pension Obligation at June 30	Annual Required Contribution (ARC) Rate as a Percent of Covered Payroll
6/30/10	6/30/08	\$ 13,041,452	90.7	\$ 8,896,382	11.45
6/30/11	6/30/09	9,450,745	100.0	5,505,003	8.41
6/30/12	6/30/10 and 12/31/10	11,734,785	92.1	6,503,942	10.54

\* The required contribution is expressed to the Medical Center as a percentage of payroll.

Annual pension cost and net pension obligation:

Annual required contribution	\$ 11,734,785
Interest on net pension obligation	384,594
Adjustment to annual required contribution	<u>(310,504)</u>
Annual pension cost	11,808,875
Contributions made	<u>10,809,936</u>
Increase in net pension obligation	998,939
Net pension obligation - Beginning of year	<u>5,505,003</u>
Net pension obligation - End of year	<u><u>\$ 6,503,942</u></u>

The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits. The table that follows presents the last three years of trend data of funding progress:

# Hurley Medical Center

## Notes to Financial Statements June 30, 2012 and 2011

### Note 7 - Retirement Plans (Continued)

Actuarial valuation as of:	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Actuarial value of assets	\$ 398,838,347	\$ 400,567,741	\$ 236,200,336
Actuarial accrued liability			
attained age (AAL)	\$ 509,820,701	\$ 505,722,287	\$ 247,918,875
Unfunded AAL	\$ (110,982,354)	\$ (105,154,546)	\$ (11,718,539)
Funded ratio	78.20	79.20	95.30
Covered payroll	\$ 114,100,876	\$ 123,943,771	\$ 41,524,209
UAAL as a percentage of covered payroll	97.30	84.80	28.20

There is no actuarial valuation for the MERS liability for benefits available as of June 30, 2008; therefore, the 2008 information excludes the MERS plan information.

### Note 8 - Defined Contribution Pension Plan

The Medical Center has a defined contribution plan established under City of Flint ordinance for employees who meet certain requirements as to date of hire. Contributions to the plan are 4.5 percent of the employee's annual compensation. Each employee's interest is vested as specified in the plan. Pension expense included in the statement of revenues, expenses, and changes in fund net assets was \$1,561,414 and \$1,105,840 for the years ended June 30, 2012 and 2011, respectively.

### Note 9 - Profit-sharing and 403(b) Retirement Plan

HHS has a qualified 401(k) profit-sharing plan for HPMS employees. Eligible employees, those that have attained the age of 21 and completed 90 days of service, may defer up to the federal pension law limitations. HHS may make a discretionary contribution. HHS's contributions to the 401(k) plan were \$25,164 and \$27,574 for 2012 and 2011, respectively.

HHS also maintains two qualified deferred compensation plans under section 403(b) of the Internal Revenue Code. Under the plans, HHS and THC employees may elect to defer a percentage of their salary, subject to the Internal Revenue Service limits. HHS may make a discretionary contribution. HHS's contributions to the 403(b) plans amounted to \$276,463 and \$269,164 for 2012 and 2011, respectively.

# Hurley Medical Center

## Notes to Financial Statements June 30, 2012 and 2011

### Note 10 - Leases

Hurley Medical Center and Hurley Health Services lease office space under various operating leases. Certain operating leases contain rental escalation clauses that are based on prime rate at a future date and purchase options at fair market value. Total rent expense under these leases for Hurley Medical Center was \$1,687,516 and \$1,559,212 for the years ended June 30, 2012 and 2011, respectively. Total rent expense under these leases for Hurley Health Services was \$650,891 and \$501,749 for the years ended June 30, 2012 and 2011, respectively, including rental payments to Hurley Medical Center of approximately \$267,000 and \$266,000 for the years ended June 30, 2012 and 2011, respectively.

The following is a schedule of future minimum rental payments:

Year Ending June 30	Hurley Medical Center	Hurley Health Services
2013	\$ 1,582,368	\$ 275,300
2014	1,567,395	270,798
2015	1,521,009	246,703
2016	1,521,009	239,265
2017	1,455,821	239,265
Thereafter	2,812,468	618,102
Total minimum payments required	<u>\$ 10,460,070</u>	<u>\$ 1,889,433</u>

### Note 11 - Conditional Asset Retirement Obligations

The Medical Center has an obligation related to the removal of asbestos within various buildings on campus upon reconstruction, demolition, or abandonment of the buildings. The Medical Center has not recorded a liability related to the potential costs associated with the asbestos abatement, as the amount of the liability cannot currently be reasonably estimated. In addition, the range of time over which the Medical Center may settle the obligation is unknown and cannot be estimated. The Medical Center currently has no plans or expectation of plans to undertake a major renovation that would require significant removal of asbestos or demolition of the buildings. The Medical Center will recognize a liability in the period sufficient information is available to reasonably estimate the amount of the liability.

### Note 12 - Other Post Employment Benefits Plan

**Plan Description** - The Medical Center provides retiree health insurance premiums to eligible retirees and their spouses through the Retiree Health Benefit Plan (the "Plan"). Retirees receive full or partial health insurance coverage depending on the employee's date of employment and union affiliation. During 2007, the Plan was frozen to new participants. During the year ended June 30, 2010, the Plan was amended to eliminate the full coverage benefits to those eligible employees. Eligible retirees prior to December 31, 2009 were grandfathered into the Plan with full health insurance benefits. The number of participants was 514 and 541 at June 30, 2012 and 2011, respectively.

The Plan's activity is accounted for in an irrevocable trust and the activity is reported in the fiduciary fund financial statements. The Plan is a single employer defined benefit plan administered by the Medical Center. The Plan does not issue a separate stand-alone financial statement.

**Funding Policy** - The Medical Center expenses the cost of the Plan in its proprietary fund. The cost of providing retiree healthcare benefits is estimated through an actuarial valuation issued on June 20, 2011 based on participant data as of June 30, 2009. This actuary report includes the impact of the plan amendment that occurred in the year ended June 30, 2010. The Medical Center has not received a more recent valuation as of June 30, 2012. The valuation computes the annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The Medical Center has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a pay-as-you go basis.) However, as shown below, the Medical Center has made contributions to advance fund certain of these benefits.

This valuation's computed contribution and actual funding are summarized as follows for the year ended June 30, 2012:

Annual required contribution	\$ 7,071,235
Amount contributed	\$ 7,071,235
Percentage contributed	100%
Net OPEB obligation	\$ -

For the years ended June 30, 2011 and 2010, the annual required contribution and actual amount contributed, as determined by the supplemental actuarial valuation, were \$7,417,585 and \$7,521,118, respectively.

### Note 12 - Other Post Employment Benefits Plan (Continued)

**Actuarial Methods and Assumptions** - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2009 actuarial valuation, the individual entry age actuarial cost method was used. The actuarial assumptions included an 8 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the Medical Center's own investments calculated based on the funded level of the plan at the valuation date and an annual healthcare cost trend rate of 9 percent initially, reduced by decrements to an ultimate rate of 3.75 percent after ten years. Both rates included a 3.75 percent inflation assumption. The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2009 was 26 years.

The funding progress of the plan as of the most recent valuation dates is as follows:

	<u>June 30, 2009</u>	<u>June 30, 2007</u>
Actuarial value of assets	\$ 17,143,602	\$ 10,679,674
Actuarial accrued liability	\$ 88,341,116	\$ 89,126,612
Unfunded AAL	\$ (71,197,514)	\$ (78,446,938)
Funded ratio	19	12
Annual covered payroll	\$ 119,888,970	\$ 122,516,192
Ratio of UAAL to covered payroll	59	64



### Note 13 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. A local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the state of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Retiree Healthcare Fund is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small business, certain state and local government obligations, and certain other specified investment vehicles.

The Medical Center has designated four banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all of the items listed above. The Medical Center's deposits and investment policies are in accordance with statutory authority.

The Medical Center's deposits consist of checking and savings accounts and money market funds. At year end, the carrying amount of the Medical Center's deposits was \$9,150,494 (excluding petty cash of \$11,345). Of the bank balance, \$1,066,493 was covered by federal depository insurance. The rest of the bank balance, or \$6,733,180, was not insured or collateralized.

HHS deposits consist of checking accounts and money market funds. Deposits are recorded on the financial statements as cash and cash equivalents. At year end, the carrying amount of HHS's deposits (excluding petty cash) was \$612,348 and the bank balance was \$1,042,507. The bank balance was higher than the carrying value due to outstanding checks that had not yet cleared the bank at June 30, 2012. Of the bank balance, \$904,084 was covered by federal depository insurance.

### Note 13 - Deposits and Investments (Continued)

The Medical Center's cash and investments are subject to several types of risk, which are examined in more detail below:

#### Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Medical Center's deposits may not be returned to it. At year end, the Medical Center had \$6,733,180 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Medical Center believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Medical Center evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

#### Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Medical Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Medical Center has a deposit policy for custodial credit risk that requires the investments be held by a nationally chartered custodian bank. The chief investment officer shall select the custodian bank based on various factors including bank stability.

At year end, the balance of investment securities that were uninsured and unregistered with securities held by the counterparty or by its trust department or agent but not in the Medical Center's name are as follows:

Investment Type	Fair Value		How Held
	2012	2011	
U.S. government or agency bonds	\$ 73,200,481	\$ 82,118,362	Counterparty trust dept.
Corporate stocks	8,759,309	17,481,605	Counterparty trust dept.
Corporate bonds	12,180,908	1,844,211	Counterparty trust dept.
Repurchase agreement	10,017	1,176,174	Counterparty
Mutual funds	238,406	230,933	Counterparty

#### Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Medical Center's investment policy indicates the duration of each investment account should approximate the duration of its specific benchmark within a range of 80 percent to 120 percent. At year end, the average maturities of investments are as follows:

# Hurley Medical Center

## Notes to Financial Statements June 30, 2012 and 2011

### Note 13 - Deposits and Investments (Continued)

Investment	Fair Value		Weighted Average Maturity
	2012	2011	
U.S. government or agency bonds	\$ 73,200,481	\$ 82,118,362	5.5 years
GNMA pool	39,341	42,903	8.9 years
U.S. government CMOs	17,078,572	13,161,285	19.5 years
Corporate bonds	12,180,908	1,844,211	6.7 years
Money market funds	28,548,893	39,473,726	Less than one year
Repurchase agreement	10,017	1,176,174	Less than one year

#### Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Medical Center has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U. S. government) are as follows:

Investment	Fair Value		Rating	Rating Organization
	2012	2011		
U.S. agency bonds	\$ 18,070,784	\$ 28,001,799	AAA	Fitch
U.S. government CMOs	17,078,572	13,161,285		Not rated
Corporate bonds	1,854,305	1,844,211	AAA	S&P
Corporate bonds	4,552,095	-	AA+ - A-	S&P
Corporate bonds	5,218,339	-	BBB+ - B-	S&P
Corporate bonds	556,169	-		Not rated
Money market funds	28,548,893	39,473,726		Not rated
Repurchase agreement	10,017	1,176,174		Not rated

#### Concentration of Credit Risk

The Medical Center's investment policy limits any single investment to 10 percent of the portfolio, with the exception of cash or U.S. treasuries, and further restricts that combined mortgage-backed securities may not exceed 50 percent of the portfolio. No single investment exceeded 5 percent of the investment portfolio at June 30, 2012 and 2011.

### Note 14 - Risk Management

The Medical Center is exposed to various risks of loss, including hospital professional and patient general liability claims. The Medical Center has established an irrevocable trust to assist in accumulating resources to fund excess insurance premiums and to pay claims.

# Hurley Medical Center

## Notes to Financial Statements June 30, 2012 and 2011

### Note 14 - Risk Management (Continued)

The Medical Center's self-insured retention is \$6 million per occurrence annually with excess claims-made coverage up to \$15 million annually. Claims in excess of \$15 million are to be covered by the Medical Center. The Medical Center employs the use of an actuary to provide an analysis of the existing claims and to estimate the liability for incurred but not reported (IBNR) claims.

Changes in the aggregate liabilities for claims and defense costs payable for the past two years were as follows:

	2012	2011	2010
Estimated liability - Beginning of year	\$ 34,883,169	\$ 33,374,045	\$ 28,840,926
Increase in claims liability	6,949,535	8,018,397	8,367,116
Defense costs and other fund expenses	(1,884,655)	(1,724,613)	(1,909,936)
Excess insurance premium payments	(1,205,667)	(764,660)	(1,298,911)
Claims paid	(2,042,500)	(4,020,000)	(625,150)
Estimated liability - End of year	<u>\$ 36,699,882</u>	<u>\$ 34,883,169</u>	<u>\$ 33,374,045</u>

Professional liability for claims is reported in accrued expenses, both current and long term, on the statement of net assets. The long-term portion of the accrual on June 30, 2012 and 2011 is \$32,299,704 and \$28,616,242, respectively. The carrying amount of the insurance trust assets (at market) amounted to \$20,208,230 and \$19,340,371 at June 30, 2012 and 2011, respectively.

The Medical Center is self-insured for workers' compensation claims. As of June 30, 2012 and 2011, the Medical Center has recorded long-term accrued liabilities for workers' compensation of \$2,945,709 and \$2,468,620, respectively. Total long-term accrued liabilities as of June 30, 2012 and 2011 are \$35,245,413 and \$31,084,862, respectively.

There are various legal actions pending against HHS, its subsidiaries, and certain employees. Due to the inconclusive nature of these actions, it is not possible for legal counsel of HHS to determine in the aggregate either the probable outcome of these actions or a reasonable estimate of HHS's ultimate liability, if any. HHS maintains what it believes to be adequate coverage of malpractice, errors and omissions, and directors and officers insurances to cover any possible claims.

# Hurley Medical Center

## Notes to Financial Statements June 30, 2012 and 2011

### Note 15 - Joint Ventures

Hurley Medical Center participates in several privately held joint ventures. Each corporate joint venture is recorded in the financial statements under the equity method of accounting. Joint venture financial statements can be obtained by contacting the Medical Center. The Medical Center is unaware of any circumstances that would cause an additional financial benefit or burden to the Medical Center in the near future.

Greater Flint Area Hospital Imaging Center, Inc. and Flint Health Systems Imaging Center, Inc. provide magnetic resonance imaging (MRI) services to the greater Flint and Genesee County community. The ownership of both corporations is allocated between Hurley Medical Center, Genesys Regional Medical Center, and McLaren Regional Medical Center. The joint venture provides that each participant shares in the annual earnings or losses of the corporations. During the year ended June 30, 2011, the Medical Center contributed \$800,000 to the joint venture. The joint venture ceased operations during the year ended June 30, 2011 and the Medical Center received approximately \$3,840,000 for settlement of the joint venture. The net investment by the Medical Center at June 30, 2012 and 2011 was \$0.

Genesys Hurley Cancer Institute (GHCI) is a joint venture between Hurley Medical Center and Genesys Regional Medical Center. The venture was established during 2001 to provide outpatient oncology services, including laboratory and radiation oncology. The Medical Center's net investment at June 30, 2012 and 2011 was \$6,776,600 and \$5,175,260, respectively. The arrangement provides that the two entities will share equally in the income or losses of the joint venture. A total of \$600,000 and \$950,000 was distributed to the Medical Center during the years ended June 30, 2012 and 2011, respectively. The Medical Center paid GHCI \$1,079,000 and \$1,033,000 for leased employees for the years ended June 30, 2012 and 2011, respectively. The following is a summary of financial position and results of operations of GHCI as of and for the years ended June 30, 2012 and 2011:

	2012	2012
Total assets	\$ 23,164	\$ 22,279
Total liabilities	9,946	11,404
Net assets	\$ 13,218	\$ 10,875
Operating revenue	\$ 10,429	\$ 10,531
Operating expenses	6,972	6,798
Operating income	3,457	3,733
Nonoperating income	61	96
Excess of revenues over expenses	\$ 3,518	\$ 3,829

# Hurley Medical Center

## Notes to Financial Statements June 30, 2012 and 2011

### Note 16 - Union Contract

Approximately 84 percent of the Medical Center's employees are subject to collective bargaining agreements. Two collective bargaining agreements expired on June 30, 2012 and are in the negotiation process. The remaining collective bargaining agreements expire on July 1, 2013.

### Note 17 - Related Party Transactions

The Medical Center pays subsidies and management fees for services rendered by HHS to the Medical Center. Management fees and contributions from the Medical Center to HHS for the years ended June 30, 2012 and 2011 amounted to \$16,878,541 and \$17,009,991, respectively. Amounts paid by HHS to the Medical Center for rent and other miscellaneous expenses for the years ended June 30, 2012 and 2011 amounted to \$413,100 and \$385,060, respectively. The Medical Center provided an advance to HHS of approximately \$360,000 during the year ended June 30, 2012.

As of June 30, 2012 and 2011, the Medical Center had accounts receivable from HHS of \$1,012,614 and \$196,446, respectively, and accounts payable to HHS of \$452,050 and \$391,085, respectively.

Included in other operating revenues of HHS are management fees and marketing fees for services paid by Hurley/Binson's Medical Equipment, Inc., a related party to HPMS. HPMS and HHS purchase courier services from Hurley/Binson's Medical Equipment, Inc. in the amount of \$300,000 for the years ended June 30, 2012 and 2011.

As of June 30, 2012 and 2011, HPMS is contingently liable as guarantor with respect to 50 percent of \$3,002,648 and 50 percent of \$3,063,764, respectively, of indebtedness of Hurley/Binson's Medical Equipment, Inc. Hurley Practice Management Services owns 50 percent of Hurley/Binson's Medical Equipment, Inc. The book value of the investment is \$0 at June 30, 2012 and 2011 as HPMS has previously written off the investment in Hurley/Binson's Medical Equipment, Inc. due to continuing operating losses. No material loss is anticipated by reason of such guarantee. In the event of performance under this guarantee, HPMS has the right to proceed against others to recover payment. Hurley/Binson's Medical Equipment, Inc. was in compliance with loan covenants related to tangible capital funds and debt service payments as of June 30, 2012.

# Hurley Medical Center

## Notes to Financial Statements June 30, 2012 and 2011

### Note 17 - Related Party Transactions (Continued)

The future minimum payments related to the above debt are as follows:

Year Ending June 30	Amount
2013	\$ 2,655,991
2014	104,640
2015	96,506
2016	87,183
2017	58,328
Total	<u>\$ 3,002,648</u>

### Note 18 - Capital Assets

Cost of capital assets and related accumulated depreciation and depreciable lives for Hurley Medical Center for June 30, 2012 are summarized below:

	2011	Additions	Disposals and Transfers	2012
Land	\$ 4,460,723	\$ 32,219	\$ -	\$ 4,492,942
Land improvements	1,660,968	425,000	(152,917)	1,933,051
Buildings:				
Medical Center building	122,790,462	28,931,234	(1,161,626)	150,560,070
Parking structure	5,336,068	108,597	(424,087)	5,020,578
Nurses' residence	1,828,336	-	-	1,828,336
Interns' apartment	292,494	-	-	292,494
Prospect Street apartments	1,472,538	-	(11,132)	1,461,406
Power plant	3,884,377	-	(28,886)	3,855,491
Rental property	222,047	-	(20,592)	201,455
Health and fitness center	4,624,505	-	(10,556)	4,613,949
Park Plaza	1,254,271	3,771	-	1,258,042
Physicians' office building	340,691	-	-	340,691
Davison Clinic	1,956,771	-	-	1,956,771
Longway Eastside Campus building	3,643,756	-	-	3,643,756
MOB building	167,167	-	(14,365)	152,802
Fenton Medical Center	199,941	-	-	199,941
Machinery and equipment	78,067,161	33,946,932	(8,253,040)	103,761,053
Automotive equipment	374,762	-	(20,407)	354,355
Construction in progress	38,185,748	32,834,770	(63,406,513)	7,614,005
Total	270,762,786	96,282,523	(73,504,121)	293,541,188

# Hurley Medical Center

## Notes to Financial Statements June 30, 2012 and 2011

### Note 18 - Capital Assets (Continued)

	2011	Additions	Disposals and Transfers	2012
Less accumulated depreciation:				
Land improvements	\$ 1,185,706	\$ 75,402	\$ (128,319)	\$ 1,132,789
Buildings:				
Medical Center building	95,310,026	4,034,251	(1,077,584)	98,266,693
Parking structure	4,740,547	93,816	(422,489)	4,411,874
Nurses' residence	1,601,110	55,976	-	1,657,086
Interns' apartment	288,418	2,582	-	291,000
Prospect Street apartments	1,234,282	20,634	(11,132)	1,243,784
Power plant	2,456,670	113,277	(28,886)	2,541,061
Rental property	220,325	689	(20,592)	200,422
Health and fitness center	4,557,266	7,362	(10,556)	4,554,072
Park Plaza	1,146,365	27,352	-	1,173,717
Physicians' office building	309,997	11,223	-	321,220
Davison Clinic	779,508	56,765	-	836,273
Longway Eastside Campus building	1,344,953	135,859	-	1,480,812
MOB building	35,662	19,506	(3,830)	51,338
Fenton Medical Center	56,200	22,121	-	78,321
Machinery and equipment	59,916,986	8,702,639	(7,918,013)	60,701,612
Automotive equipment	237,512	45,167	(20,406)	262,273
<b>Total</b>	<b>175,421,533</b>	<b>13,424,621</b>	<b>(9,641,807)</b>	<b>179,204,347</b>
Net carrying amount	<u>\$ 95,341,253</u>	<u>\$ 82,857,902</u>	<u>\$ (63,862,314)</u>	<u>\$ 114,336,841</u>

The Medical Center is in the process of implementing a new clinical information system. The first stage was placed into service during the year ended June 30, 2012 and the second stage is expected during the year ended June 30, 2013. The estimated cost of the clinical system is \$21,700,000, which includes a contract of \$11,300,000 with a single vendor plus internal costs of labor and equipment. The outstanding commitment to the vendor is approximately \$5,000,000 as of June 30, 2012.



# Hurley Medical Center

## Notes to Financial Statements June 30, 2012 and 2011

### Note 18 - Capital Assets (Continued)

Cost of capital assets and related accumulated depreciation and depreciable lives for Hurley Medical Center for June 30, 2011 are summarized below:

	2010	Additions	Disposals and Transfers	2011
Land	\$ 4,460,723	\$ -	\$ -	\$ 4,460,723
Land improvements	1,648,758	78,480	(66,270)	1,660,968
Buildings:				
Medical Center building	121,550,600	5,767,427	(4,527,565)	122,790,462
Parking structure	5,451,002	-	(114,934)	5,336,068
Nurses' residence	1,766,711	78,171	(16,546)	1,828,336
Interns' apartment	297,961	-	(5,467)	292,494
Prospect Street apartments	1,516,629	-	(44,091)	1,472,538
Power plant	3,902,678	26,710	(45,011)	3,884,377
Rental property	279,550	-	(57,503)	222,047
Health and fitness center	4,657,375	-	(32,870)	4,624,505
Park Plaza	1,272,534	-	(18,263)	1,254,271
Physicians' office building	347,603	-	(6,912)	340,691
Davison Clinic	1,956,771	-	-	1,956,771
Longway Eastside Campus building	3,643,756	-	-	3,643,756
MOB Building	167,167	-	-	167,167
Fenton Medical Center	183,090	16,851	-	199,941
Machinery and equipment	89,301,839	2,608,676	(13,843,354)	78,067,161
Automotive equipment	376,699	12,529	(14,466)	374,762
Construction in progress	13,566,515	33,184,576	(8,565,343)	38,185,748
<b>Total</b>	<b>256,347,961</b>	<b>41,773,420</b>	<b>(27,358,595)</b>	<b>270,762,786</b>
Less accumulated depreciation:				
Land improvements	1,204,068	47,909	(66,271)	1,185,706
Buildings:				
Medical Center building	96,266,464	3,451,134	(4,407,572)	95,310,026
Parking structure	4,755,702	99,780	(114,935)	4,740,547
Nurses' residence	1,566,643	51,014	(16,547)	1,601,110
Interns' apartment	291,303	2,582	(5,467)	288,418
Prospect Street apartments	1,257,739	20,634	(44,091)	1,234,282
Power plant	2,376,079	124,652	(44,061)	2,456,670
Rental property	277,138	689	(57,502)	220,325
Health and fitness center	4,473,859	107,577	(24,170)	4,557,266
Park Plaza	1,119,014	27,351	-	1,146,365
Physicians' office building	304,291	12,618	(6,912)	309,997
Davison Clinic	722,272	57,236	-	779,508
Longway Eastside Campus building	1,208,888	136,065	-	1,344,953
MOB building	15,678	19,984	-	35,662
Fenton Medical Center	34,641	21,559	-	56,200
Machinery and equipment	67,029,051	6,581,641	(13,693,706)	59,916,986
Automotive equipment	200,117	50,909	(13,514)	237,512
<b>Total</b>	<b>183,102,947</b>	<b>10,813,334</b>	<b>(18,494,748)</b>	<b>175,421,533</b>
<b>Net carrying amount</b>	<b>\$ 73,245,014</b>	<b>\$ 30,960,086</b>	<b>\$ (8,863,847)</b>	<b>\$ 95,341,253</b>

# Hurley Medical Center

## Notes to Financial Statements June 30, 2012 and 2011

### Note 18 - Capital Assets (Continued)

Capital asset activity for the Hurley Health Services for June 30, 2012 was as follows:

	2011	Additions	Disposals and Transfers	2012
Leasehold improvements	\$ 321,727	\$ -	\$ (53,391)	\$ 268,336
Equipment and furnishings	790,252	1,461	(68,630)	723,083
Total	1,111,979	1,461	(122,021)	991,419
Less accumulated depreciation:				
Leasehold improvements	159,423	7,980	(23,567)	143,836
Equipment and furnishings	695,266	14,633	(68,049)	641,850
Total	854,689	22,613	(91,616)	785,686
Net carrying amount	<u>\$ 257,290</u>	<u>\$ (21,152)</u>	<u>\$ (30,405)</u>	<u>\$ 205,733</u>

Capital asset activity for Hurley Health Services for June 30, 2011 was as follows:

	2010	Additions	Disposals and Transfers	2011
Leasehold improvements	\$ 324,633	\$ -	\$ (2,906)	\$ 321,727
Equipment and furnishings	955,872	2,627	(168,247)	790,252
Total	1,280,505	2,627	(171,153)	1,111,979
Less accumulated depreciation:				
Leasehold improvements	152,687	8,162	(1,426)	159,423
Equipment and furnishings	831,852	17,799	(154,385)	695,266
Total	984,539	25,961	(155,811)	854,689
Net carrying amount	<u>\$ 295,966</u>	<u>\$ (23,334)</u>	<u>\$ (15,342)</u>	<u>\$ 257,290</u>

## **Required Supplemental Information**

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# Hurley Medical Center

## Hurley Medical Center Division City of Flint Employees Retirement System and Municipal Public Employees Retirement System Required Supplemental Information Analysis of Funding Progress

Plan Year End	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability Attained Age (AAL)(b)	Overfunded (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	(UAAL) as Percent of Payroll (b-a)(c)
6/30/99	12/31/97	\$ 301,060,938	\$ 259,985,429	\$ 41,075,509	115.8	\$ 87,651,874	-
6/30/00	12/31/98	322,497,186	281,563,941	40,933,245	114.5	96,417,303	-
6/30/01	12/31/99	340,608,779	306,134,487	34,474,292	111.3	107,246,608	-
6/30/02	12/31/00	354,306,658	328,489,881	25,816,777	107.9	105,102,019	-
6/30/03	12/31/01	367,058,240	333,802,804	33,255,436	110.0	103,411,340	-
6/30/04	12/31/02	357,836,531	399,476,922	(41,640,391)	89.6	103,802,756	40.1
6/30/05	12/31/03	357,836,531	399,476,922	(41,640,391)	89.6	103,802,756	40.1
6/30/06	6/30/04	338,311,878	430,746,829	(92,434,951)	78.5	110,096,227	84.0
6/30/07	6/30/05	341,965,387	431,927,509	(89,962,122)	79.2	108,969,869	82.6
6/30/08	6/30/06	345,781,209	459,693,895	(113,912,686)	75.2	104,097,308	109.4
6/30/09 and 6/30/10	6/30/07	358,057,840	497,351,883	(139,294,043)	72.0	111,456,399	125.0
6/30/2011	6/30/09	400,567,741	505,722,287	(105,154,546)	79.2	123,943,771	84.8
6/30/2012	6/30/10 and 12/31/10	398,838,347	509,820,701	(110,982,354)	78.2	114,100,876	97.3

## **Additional Information**

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**Plante & Moran, PLLC**  
27400 Northwestern Highway  
P.O. Box 307  
Southfield, MI 48037-0307  
Tel: 248.352.2500  
Fax: 248.352.0018  
plantemoran.com

## Independent Auditor's Report on Additional Information

To the Board of Directors  
Hurley Medical Center

We have audited the basic financial statements of Hurley Medical Center as of and for the years ended June 30, 2012 and 2011. Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The consolidating balance sheet and consolidating statement of operations supplemental information is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*Plante & Moran, PLLC*

October 18, 2012

# Hurley Medical Center

## Consolidating Balance Sheet June 30, 2012

	Hurley Medical Center	Hurley Health Services	Eliminating Entries	2012 Consolidated Total	2011
<b>Assets</b>					
<b>Current Assets</b>					
Cash and cash equivalents	\$ 2,601,048	\$ 458,913	\$ -	\$ 3,059,961	\$ 7,603,535
Patient accounts receivable - Net	44,776,227	203,121	-	44,979,348	33,137,433
Other receivables	6,134,811	668,016	(1,465,122)	5,337,705	5,157,182
Estimated third-party payor settlements	7,259,116	-	-	7,259,116	6,700,021
Assets limited as to use	5,330,565	154,084	-	5,484,649	5,385,886
Prepaid expenses and other	2,336,387	140,495	-	2,476,882	2,993,302
Inventory	4,504,727	10,734	-	4,515,461	4,244,902
Total current assets	72,942,881	1,635,363	(1,465,122)	73,113,122	65,222,261
<b>Assets Limited as to Use</b>					
By the board	67,381,409	154,084	-	67,535,493	77,714,431
Held by trustee - Bond	18,020,907	-	-	18,020,907	29,540,804
Restricted and held in trust - Other	20,886,656	-	-	20,886,656	20,019,106
Total assets limited as to use	106,288,972	154,084	-	106,443,056	127,274,341
Less assets limited as to use that are required for current liabilities	(5,330,565)	(154,084)	-	(5,484,649)	(5,385,886)
Total noncurrent assets whose use is limited	100,958,407	-	-	100,958,407	121,888,455
<b>Capital Assets - Net</b>	114,336,841	205,733	-	114,542,574	95,598,543
<b>Other Assets</b>					
Investment in joint ventures	6,776,600	6,000	-	6,782,600	5,181,260
Investment in Hurley Health Services	(116,916)	-	116,916	-	-
Deferred defeasance loss - Net	336,567	-	-	336,567	414,052
Bond issue costs - Net	744,070	-	-	744,070	729,810
Other	-	150,000	-	150,000	150,000
Total assets	<u>\$ 295,978,450</u>	<u>\$ 1,997,096</u>	<u>\$(1,348,206)</u>	<u>\$ 296,627,340</u>	<u>\$ 289,184,381</u>

Additional schedules are not GAAP basis under GASB, but are for comparative purposes to hospital industry practices for not-for-profit healthcare providers.

# Hurley Medical Center

## Consolidating Balance Sheet (Continued) June 30, 2012

	Hurley Medical Center	Hurley Health Services	Eliminating Entries	2012 Consolidated Total	2011
<b>Liabilities and Fund Net Assets</b>					
<b>Current Liabilities</b>					
Current portion of long-term debt	\$ 4,823,007	\$ -	\$ -	\$ 4,823,007	\$ 3,965,000
Accounts payable and taxes withheld	21,412,199	1,183,059	(1,465,122)	21,130,136	18,664,073
Estimated third-party payor settlements	16,555,939	-	-	16,555,939	18,994,846
Accrued expenses	34,048,769	930,953	-	34,979,722	34,814,565
Total current liabilities	76,839,914	2,114,012	(1,465,122)	77,488,804	76,438,484
<b>Long-term Debt</b> - Net of current portion	83,275,749	-	-	83,275,749	83,179,382
<b>Accrued Expenses</b>	35,245,413	-	-	35,245,413	31,084,862
Total liabilities	195,361,076	2,114,012	(1,465,122)	196,009,966	190,702,728
<b>Fund Net Assets</b>					
Invested in capital assets - Net of related debt	44,057,866	205,733	-	44,263,599	37,007,719
Donor restricted for specific operating activities	4,874,957	-	-	4,874,957	5,584,506
Unrestricted	51,684,551	(322,649)	116,916	51,478,818	55,889,428
Total liabilities and fund net assets	<b>\$ 295,978,450</b>	<b>\$ 1,997,096</b>	<b>\$(1,348,206)</b>	<b>\$ 296,627,340</b>	<b>\$ 289,184,381</b>

Additional schedules are not GAAP basis under GASB, but are for comparative purposes to hospital industry practices for not-for-profit healthcare providers.



# Hurley Medical Center

## Consolidating Statement of Operations Year Ended June 30, 2012

	Hurley Medical Center	Hurley Health Services	Eliminating Entries	2012 Consolidated Totals	2011
<b>Operating Revenues</b>					
Patient service revenue - Net of contractual allowances and discounts	374,520,869	2,405,846	-	376,926,715	367,930,032
Provision for bad debt	(48,168,124)	-	-	(48,168,124)	(43,210,387)
Net patient service revenue less provision for bad debt	326,352,745	2,405,846	-	328,758,591	324,719,645
Other operating revenue	33,151,925	17,830,696	(17,291,641)	33,690,980	29,421,476
Total operating revenues	359,504,670	22,642,388	(17,291,641)	364,855,417	354,141,121
<b>Operating Expenses</b>					
Salaries and wages	155,886,264	14,427,961	-	170,314,225	164,640,951
Employee benefits and payroll taxes	59,116,728	2,813,027	-	61,929,755	58,035,354
Operating supplies and expenses	42,255,917	-	-	42,255,917	42,702,389
Professional services	40,535,293	817,500	(12,274,986)	29,077,807	26,980,493
Purchased services and other	47,280,666	3,520,351	(5,016,655)	45,784,362	47,111,885
Depreciation and amortization	13,424,621	22,613	-	13,447,234	10,839,295
Interest expense	4,440,616	-	-	4,440,616	3,840,106
Total operating expenses	362,940,105	21,601,452	(17,291,641)	367,249,916	354,150,473
<b>Net Operating Loss</b>	(3,435,435)	1,040,936	-	(2,394,499)	(9,352)
<b>Nonoperating Revenues (Expense)</b>					
Investment income	4,251,069	884	-	4,251,953	2,014,899
Management fees to HHS and joint venture income	2,281,471	-	-	2,281,471	1,469,880
Other expense	2,000	(20,404)	-	(18,404)	(1,440)
Total nonoperating revenues (expense)	6,534,540	(19,520)	-	6,515,020	3,483,339
<b>Excess of Revenue Over (Under) Expenses Before Other Activity and Restricted Fund Activity and Transfer of Funds</b>					
	3,099,105	1,021,416	-	4,120,521	3,473,987
<b>Other</b>					
Decrease in investment in Hurley Health Services	(1,384,430)	-	1,384,430	-	-
Assets released from restrictions for the purchase of capital assets	1,130,591	-	-	1,130,591	137,734
<b>Excess of Revenues Over (Under) Expenses Before Restricted Fund Activity and Transfer of Funds</b>					
	2,845,266	(1,384,430)	1,384,430	2,845,266	3,611,721
<b>Capital Contributed Restricted Fund Activity and Transfer of Funds</b>					
Restricted gifts and bequests	1,163,808	-	-	1,163,808	1,464,010
Income and investments	(7,148)	-	-	(7,148)	(20,215)
Transfer of funds to General Fund - Capital asset additions	(1,130,591)	-	-	(1,130,591)	(137,734)
Transfer of funds to General Fund - Other operating expenses	(735,614)	-	-	(735,614)	(722,836)
<b>Increase (Decrease) in Fund Net Assets</b>	2,135,721	(1,384,430)	1,384,430	2,135,721	4,194,946
<b>Fund Net Assets - Beginning of year</b>	98,481,653	1,267,514	(1,267,514)	98,481,653	94,286,707
<b>Fund Net Assets - End of year</b>	<b>\$ 100,617,374</b>	<b>\$ (116,916)</b>	<b>\$ 116,916</b>	<b>\$ 100,617,374</b>	<b>\$ 98,481,653</b>

Additional schedules are not GAAP basis under GASB, but are for comparative purposes to hospital industry practices for not-for-profit healthcare providers.



# Financial Statement

For the Six Months Ended December 2012



**Hurley Medical Center**  
**Balance Sheet**  
**December 31, 2012 and 2011 and June 30, 2012**

Assets	12/31/2012	6/30/2012	Variance	12/31/2011
<b>Current Assets:</b>				
Cash and Cash Equivalents	\$ 6,383,758	\$ 2,601,049	\$ 3,782,709	\$ 14,485,931
Accounts Receivable, net	56,481,149	44,776,227	11,704,922	34,505,934
Third Party Settlements Receivable	3,368,338	7,259,116	(3,890,778)	9,535,248
Accounts Receivable-Other	6,318,584	6,134,810	183,774	4,940,558
Inventory	4,515,677	4,504,728	10,949	4,409,117
Prepaid Expense	2,689,130	2,331,387	357,743	2,383,489
Current Portion of Assets Whose Use is Limited	4,696,107	5,330,565	(634,458)	5,138,892
Total Current Assets	<u>84,452,743</u>	<u>72,937,882</u>	<u>11,514,861</u>	<u>75,399,169</u>
<b>Assets Whose Use is Limited:</b>				
Board Designated Investments	57,883,207	67,381,408	(9,498,201)	75,349,284
Held in Trust - Other	17,260,655	20,886,656	(3,626,001)	19,591,893
Held in Trust - Bond	13,840,779	18,020,907	(4,180,128)	22,809,296
Total Assets Whose Use is Limited	<u>88,984,641</u>	<u>106,288,971</u>	<u>(17,304,330)</u>	<u>117,750,463</u>
Less Current Portion of Assets Whose Use is Limited	<u>(4,696,107)</u>	<u>(5,330,565)</u>	<u>634,458</u>	<u>(5,138,892)</u>
Noncurrent Assets Whose Use is Limited	<u>84,288,534</u>	<u>100,958,406</u>	<u>(16,669,872)</u>	<u>112,611,571</u>
<b>Property, Plant and Equipment</b>				
Property, Plant and Equipment	301,444,755	293,541,191	7,903,564	282,517,907
Less Accumulated Depreciation	<u>(187,504,348)</u>	<u>(179,204,348)</u>	<u>(8,300,000)</u>	<u>(182,186,634)</u>
Net Property, Plant and Equipment	<u>113,940,407</u>	<u>114,336,843</u>	<u>(396,436)</u>	<u>100,331,273</u>
<b>Other Assets:</b>				
Deferred Defeasance, net	301,298	336,567	(35,269)	375,310
Bond Issuance Cost, net	791,525	744,070	47,455	796,721
Investments in Joint Ventures	7,319,819	6,781,600	538,219	5,965,260
Total Other Assets	<u>8,412,642</u>	<u>7,862,237</u>	<u>550,405</u>	<u>7,137,291</u>
<b>Total Assets</b>	<u>\$ 291,094,326</u>	<u>\$ 296,095,368</u>	<u>\$ (5,001,042)</u>	<u>\$ 295,479,304</u>

**Hurley Medical Center**  
**Balance Sheet**  
**December 31, 2012 and 2011 and June 30, 2012**

Liabilities and Net Assets	12/31/2012	6/30/2012	Variance	12/31/2011
<b>Current Liabilities:</b>				
Current Portion of Debt	\$ 4,648,945	\$ 4,823,007	\$ (174,062)	\$ 4,170,000
Accounts Payable	15,139,025	21,412,199	(6,273,174)	15,331,633
Third Party Settlements Payable	16,555,939	16,555,939	0	18,994,846
Accrued Pension	8,370,001	6,821,509	1,548,492	9,152,192
Other Accrued Expenses	32,679,190	27,227,259	5,451,931	34,021,041
Total Current Liabilities	<u>77,393,100</u>	<u>76,839,913</u>	<u>553,187</u>	<u>81,669,712</u>
<b>Long Term Liabilities:</b>				
Accrued Expenses	32,367,913	35,245,413	(2,877,500)	29,456,862
Debt, less Current Portion	79,000,252	83,275,748	(4,275,496)	84,137,655
Total Noncurrent Liabilities	<u>111,368,165</u>	<u>118,521,161</u>	<u>(7,152,996)</u>	<u>113,594,517</u>
<b>Net Assets:</b>				
Unrestricted	96,246,788	95,859,334	387,454	93,800,598
Restricted	6,086,273	4,874,960	1,211,313	6,414,477
Total Net Assets	<u>102,333,061</u>	<u>100,734,294</u>	<u>1,598,767</u>	<u>100,215,075</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 291,094,326</u>	<u>\$ 296,095,368</u>	<u>\$ (5,001,042)</u>	<u>\$ 295,479,304</u>

**Balance Sheet Statistics:**

Days Cash on Hand	59.6	64.4	84.1
Days in A/R	71.3	75.7	66.3
Debt to Capitalization	45.0%	46.8%	47.1%
Average Age of Plant	11.3	13.3	13.5

**Hurley Medical Center**  
**Statement of Revenue and Expense**  
**For the Period Ended December 31, 2012 and 2011**

Current month				Year-to-Date				Year-to-Date
Actual	Budget	Variance	Var %	Actual	Budget	Variance	Var %	2012
				<b>Patient Service Revenue:</b>				
\$ 51,595,492	\$ 52,883,552	\$ (1,288,060)	-2.4%	\$ 319,365,311	\$ 319,296,749	\$ 68,562	0.0%	\$ 295,648,771
49,738,550	41,707,622	(8,030,928)	-19.2%	266,612,679	264,541,078	2,071,601	0.8%	247,317,500
92,334,042	94,591,174	(2,257,132)	-2.4%	585,977,990	583,837,827	2,140,163	0.4%	542,966,271
				<b>Less:</b>				
68,122,558	61,881,879	1,739,111	2.8%	379,996,329	382,546,235	(2,547,906)	-0.7%	345,135,761
2,886,053	2,443,574	(442,479)	-18.1%	17,174,150	15,096,110	(2,078,040)	-13.8%	15,022,240
3,535,845	3,831,692	(295,846)	-7.7%	23,076,621	23,935,251	(858,630)	-3.6%	21,953,899
25,689,575	26,434,229	(744,654)	-2.8%	165,728,890	162,280,231	3,468,659	2.1%	160,854,371
3,025,463	3,145,273	(119,810)	-3.8%	17,745,048	18,845,012	(1,099,964)	-5.8%	18,483,153
28,715,038	29,579,502	(864,464)	-2.9%	183,473,938	181,105,243	2,368,695	1.3%	179,337,524
				<b>Other Operating Revenue</b>				
				17,745,048	18,845,012	(1,099,964)	-5.8%	18,483,153
				<b>Total Operating Revenue</b>				
				183,473,938	181,105,243	2,368,695	1.3%	179,337,524
				<b>Operating Expense:</b>				
13,079,590	13,057,060	(22,530)	-0.2%	77,473,244	75,081,713	(2,391,531)	-3.2%	77,305,729
2,815,324	2,966,652	(151,328)	-5.1%	18,554,806	17,706,066	(848,739)	-4.8%	15,945,257
475,893	385,126	(90,767)	-23.6%	3,003,673	2,283,480	(720,193)	-31.5%	3,632,457
4,335,847	4,927,447	(591,600)	-12.0%	28,859,632	29,239,591	(379,959)	-1.3%	31,132,110
3,386,808	3,214,707	(172,101)	-5.3%	19,831,152	19,587,396	(243,756)	-1.2%	19,580,819
206,910	218,636	(11,726)	-5.4%	1,313,764	1,340,496	(26,732)	-2.0%	1,448,467
229,036	298,496	(69,460)	-23.3%	1,582,927	1,994,745	(411,818)	-20.6%	1,634,771
506,736	579,957	(73,221)	-12.6%	3,222,117	3,688,560	(466,443)	-12.6%	2,999,226
3,148,827	3,174,990	(26,163)	-0.8%	18,794,026	18,904,588	(110,562)	-0.6%	19,037,091
1,383,333	1,383,333	0	0.0%	8,300,000	8,300,000	0	0.0%	6,765,102
29,866,206	30,206,418	(340,212)	-1.1%	180,935,340	178,128,635	(2,806,705)	-1.6%	179,481,039
(851,166)	(626,916)	(224,250)	38.8%	2,538,598	2,976,608	(438,010)	-14.7%	(143,515)
(52,326)	350,827	(403,153)	-115.1%	689,746	2,104,961	(1,415,215)	-67.2%	4,133,951
(470,686)	(471,856)	1,280	-0.3%	0				
(523,532)	(121,029)	(402,503)	-332.6%	(2,840,890)	(2,831,136)	(9,755)	-0.3%	(1,819,476)
				<b>Total Non-Operating Revenue/(Expense)</b>				
				(2,151,144)	(726,174)	(1,424,970)	-196.2%	2,314,475
\$ (1,374,700)	\$ (747,945)	\$ (626,755)	83.8%	\$ 387,454	\$ 2,258,434	\$ (1,862,980)	-82.8%	\$ 2,170,950
				<b>Excess Revenue over Expense</b>				
				\$ 387,454	\$ 2,258,434	\$ (1,862,980)	-82.8%	\$ 2,170,950

**Hurley Medical Center**  
**Statement of Changes in Net Assets**  
**For the Period Ended December 31, 2012 and 2011**

	<u>12/31/2012</u>	<u>12/31/2011</u>
<b>Unrestricted Net Assets:</b>		
Balance at the Beginning of the Year	\$ 95,859,334	\$ 91,629,638
Excess of Revenue over Expense	387,454	2,170,960
<b>Balance at the End of the Period</b>	<b><u>\$ 96,246,788</u></b>	<b><u>\$ 93,800,598</u></b>
<b>Restricted Net Assets:</b>		
Balance at the Beginning of the Year	\$ 4,874,960	\$ 5,584,502
Restricted Gifts and Bequests	1,452,507	1,167,680
Income from Investments	2,799	(1,195)
Transfer of Funds:		
To Unrestricted Funds:		
Property, Plant, Equipment Additions		(13,750)
Other Operating Revenue	(243,993)	(322,760)
<b>Balance at the End of the Period</b>	<b><u>\$ 6,086,273</u></b>	<b><u>\$ 6,414,477</u></b>

**Hurley Medical Center**  
**Statement of Cash Flows**  
For the Period Ended December 31, 2012 and 2011

	12/31/2012	12/31/2011		12/31/2012	12/31/2011
<b>Cash Flows from operating activities:</b>			<b>Cash Flows from investing activities:</b>		
Revenues in excess of expenses	\$ 387,454	\$ 2,170,960	Purchase of property and equipment	(7,896,650)	(11,744,297)
Adjustments to reconcile revenue in excess of expenses to net cash provided by operating activities :			Equity Distribution (Purchase) of accumulated earnings from Joint Ventures	(538,219)	(790,000)
Depreciation	8,300,000	6,765,102	Disposal(purchase) of Assets Whose Use is Limited	4,180,128	6,731,517
Amortization of Bond Costs and Deferred Defeasance	(12,186)	(28,170)	<b>Net cash provided by (used in) Investing activities</b>	<b>(4,254,741)</b>	<b>(5,802,760)</b>
(Gain)/Loss on disposal of equipment	(6,914)	(10,825)	<b>Cash Flows from financing activities:</b>		
Change in operating assets and liabilities:			Proceed from debt	0	5,074,383
Accounts receivable	(7,997,918)	(4,160,951)	Repayment of debt	(4,449,558)	(3,911,110)
Inventories	(10,949)	(184,965)	<b>Net cash provided by (used in) finance activities</b>	<b>(4,449,558)</b>	<b>1,163,273</b>
Prepaid Expenses	(357,743)	58,307	<b>Net increase (decrease) in cash</b>	<b>3,782,709</b>	<b>7,357,117</b>
Assets Whose Use is Limited	13,124,202	2,639,056	<b>Cash at the beginning of year</b>	<b>2,601,049</b>	<b>7,128,814</b>
Accounts Payable	(6,273,174)	(3,557,600)	<b>Cash at the end of the period</b>	<b>\$ 6,383,758</b>	<b>\$ 14,485,931</b>
Accrued Pension	1,548,492	3,463,168			
Other Accrued Expenses	2,574,431	4,012,567			
Amounts Due to Restricted Funds	1,211,313	829,975			
<b>Net cash provided by (used in) operating activities</b>	<b>12,487,008</b>	<b>11,996,624</b>			

**APPENDIX C**

**SUMMARY OF PRINCIPAL DOCUMENTS**



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Brief descriptions of the Indenture and the 2013 Restated Contract of Lease are included hereafter in this Official Statement. Such descriptions do not purport to be comprehensive or definitive; all references herein to the Indenture and the 2013 Restated Contract of Lease are qualified in their entirety by reference to each such document, copies of which are available for review prior to the issuance and delivery of the Series 2013 Bonds at the offices of the Authority and thereafter at the principal corporate trust office of the Trustee. All references to the Series 2013 Bonds are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto included in the Indenture.

## DEFINITIONS

The following are definitions of certain terms used in the Indenture and the 2013 Restated Contract of Lease.

“Acquisition Fund (2013 Project)” shall mean the Building Authority Revenue Rental Bonds, Series 2013A, Acquisition Fund created under the Indenture.

“Act” shall mean Act No. 31, Public Acts of Michigan, 1948 (First Extra Session), as amended.

“Act of Bankruptcy” shall mean any of the following events: (i) the Lessee or the Authority shall (a) apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee, liquidator or the like of the Lessee or the Authority or of all or any substantial part of the property of either of them, (b) commence a voluntary case under the Bankruptcy Code or any Federal bankruptcy law enacted in substitution thereof, or (c) file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts; or (ii) a proceeding or case shall be commenced, without the application or consent of the Lessee or the Authority, in any court of competent jurisdiction, seeking (a) the liquidation, reorganization, dissolution, winding-up, or composition or adjustment of debts, of the Lessee or the Authority, (b) the appointment of a trustee, receiver, custodian, liquidator or the like of the Lessee or the Authority or of all or any substantial part of the property of either of them, or (c) similar relief in respect of the Lessee or the Authority under any law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts, and any such proceeding shall not have been dismissed within thirty (30) days after the commencement thereof.

“Additional Bonds” shall mean any bonds other than the Series 2013 Bonds authorized to be issued under the Indenture.

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

“Affiliate Guaranty” shall mean a guarantee of the cash rental payments required under the 2013 Restated Contract of Lease, in a form satisfying the requirements set forth in the 2013 Restated Contract of Lease and otherwise acceptable to the Authority.

“Affiliate Lease” shall mean an Affiliate Lease entered into by an Affiliate as lessee and the Lessee as lessor in a form satisfying the requirements set forth in the 2013 Restated Contract of Lease and otherwise acceptable to the Authority.

“Authority” shall mean the City of Flint Hospital Building Authority, a building authority organized and existing under and pursuant to the provisions of the Act.

“Authority Expense Fund” shall mean the Authority Expense Fund created by the Indenture.

“Authorized Authority Representative” shall mean the person or, if more than one, any of the persons designated by the Commission from time to time to act on behalf of the Authority, such designation to be conclusively evidenced by an unrevoked certificate furnished to the Trustee containing the specimen signature of such person or persons signed on behalf of the Commission by its Chairperson or Vice Chairperson and Secretary-Treasurer.

“Authorized Authority Representative’s Order” shall mean, with respect to the Series 2013 Bonds, a written directive signed by the Authorized Authority Representative and dated the date of sale of the Series 2013 Bonds designating certain terms of the Series 2013 Bonds as required by the Indenture.

“Authorized Denomination” shall mean, with respect to the Series 2013 Bonds, \$5,000 and integral multiples thereof.

“Balloon Indebtedness” shall mean Bonds, Parity Bonds or Group Indebtedness, 25% or more of the original principal amount of which matures during any consecutive twelve-month period, if such maturing principal amount is not required to be amortized below such percentage by mandatory redemption or prepayment prior to such twelve-month period. Balloon Indebtedness does not include Bonds, Parity Bonds or Group Indebtedness that otherwise would be classified as Put Indebtedness.

“Bankruptcy Code” shall mean Title XI of the United States Code, being Pub. L. 95-598, Title I, November 6, 1978. 92 Stat. 2549 et. seq., as amended.

“Basic Rent” shall mean the portion of rentals payable under an Affiliate Lease in an amount equal to the fair market rental value of the Leased Property as determined in good faith by the Lessee which amount shall at all times be not less than 125% of the maximum annual debt service requirement (calculated in the same manner as the Maximum Annual Debt Service Requirement) on all outstanding Bonds and Parity Bonds (or ratable portion thereof) issued to finance the Leased Property.

“Board of Hospital Managers” or “Board” shall mean the board created pursuant to the Charter of the City of Flint, Michigan, in which Board is placed the supervision and exclusive authority to manage and operate all hospitals owned or leased by the City of Flint, including Hurley Medical Center, and which Board is granted such power as may be required for the faithful performance of its duties by the Charter of the City of Flint.

“Bond” or “Bonds” shall mean any of the Series 2013 Bonds or Additional Bonds.

“Bond Counsel” shall mean a law firm that is recognized nationally as having expertise in municipal finance law and is acceptable to the Authority, the Lessee and the Trustee.

“Bondholder,” “Holder” or “holder” shall mean the person in whose name the Bond or Parity Bond, as the case may be, is registered.

“Bond Year” shall mean the annual period beginning at the close of business on July 1 and ending at the close of business on July 1 of the next succeeding calendar year, except that the first Bond Year shall be the period commencing on the Issue Date and ending at the close of business on July 1, 2013.

“Book Value,” when used with respect to Property of the Lessee shall mean the value of such Property net of accumulated depreciation and amortization, as reflected in the most recent audited financial statements of the Lessee which have been prepared in accordance with generally accepted accounting principles.

“Business Day” shall mean any day on which the Trustee and the Paying Agent are not authorized or required by law to remain closed and on which The New York Stock Exchange is not closed.

“Capitalized Interest” shall mean amounts irrevocably deposited in escrow to pay interest on Bonds, Parity Bonds or Group Indebtedness and interest earned on amounts irrevocably deposited in escrow to pay interest on such Bonds, Parity Bonds or Group indebtedness.

“Capitalized Lease” means any lease of real or personal property which, in accordance with generally accepted accounting principles, is required to be capitalized on the balance sheet of the lessee.

“Capitalized Rentals” shall mean, as of the date of determination, the amount at which the aggregate Net Rentals due and to become due under a Capitalized Lease under which a Person is a lessee would be reflected as a liability on a balance sheet of such Person.

“Cash Rentals” shall mean all of the cash rental payments payable by the Lessee to the Authority pursuant to the 2013 Restated Contract of Lease. The obligation to make such cash rental payments is self liquidating as provided in the 2013 Restated Contract of Lease and is not a general obligation of the City of Flint.

“Certified Resolution” or “Resolution” shall mean a copy of an ordinance or resolution certified by the Secretary of the Authority, under its corporate seal, to have been duly adopted by the Commission of the Authority and to be in full force and effect on the date of such certification.

“Code” shall mean the Internal Revenue Code of 1986, as amended.

“Commission” shall mean the Commission of the Authority.

“Commitment Indebtedness” shall mean the obligation of the Authority or Lessee to repay amounts disbursed pursuant to a commitment from a financial institution to refinance or purchase when due, when tendered or when required to be repurchased, Bonds, Parity Bonds or Group Indebtedness, which Bonds, Parity Bonds or Group Indebtedness would be classified as Balloon or Put Indebtedness and which commitment is incurred in accordance with the Indenture, and the obligation of the Authority or the Lessee to pay interest or penalties on amounts disbursed for such purposes, plus any fees or expenses payable to such financial institution with respect to such commitment.

“Completion Indebtedness” shall mean any Additional Bonds, Parity Bonds or Group Indebtedness: (a) incurred for the purpose of financing the completion of the acquisition, construction, remodeling, renovation or equipping of Facilities with respect to which Bonds, Parity Bonds or Group Indebtedness has been incurred in accordance with the provisions of the Indenture; and (b) with a principal amount not in excess of the amount required to provide a completed and equipped Facility of substantially the same type and scope contemplated at the time such prior Bonds, Parity Bonds or Group Indebtedness were originally incurred, to provide for Capitalized Interest during the period of construction, to provide any reserve fund relating to such Completion Indebtedness and to pay the costs and expenses of issuing such Completion Indebtedness.

“Completion of the 2013 Project” shall mean the earlier of (i) the disbursement of all amounts in the Acquisition Fund (2013 Project) for costs associated with the acquisition and/or installation of the 2013 Project (or the reimbursement of the Lessee for same as provided herein) or (ii) the receipt by the Trustee of a certified copy of

a resolution of the Lessee to the effect that the capital improvement program, which constitutes the 2013 Project intended to be financed with the proceeds of the Series 2013A Bonds, has been completed.

“Continuing Disclosure Agreement” shall mean that certain Disclosure Dissemination Agent Agreement between the Lessee and the Dissemination Agent dated the date of issuance and delivery of the Series 2013 Bonds as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“Council” shall mean the Council of the City of Flint, Michigan, the legislative and governing body thereof.

“Counsel” shall mean an attorney at law satisfactory to the Trustee, which attorney may be counsel to the Lessee or the Authority.

“Crossover Date,” with respect to Crossover Refunding Indebtedness, shall mean the date on which the principal portion of the Crossover Refunded Indebtedness is paid or redeemed, or on which it is proposed that it be paid or redeemed, from the proceeds of such Crossover Refunding Indebtedness.

“Crossover Refunded Indebtedness” shall mean any Bonds, Parity Bonds or Group Indebtedness refunded by Crossover Refunding Indebtedness.

“Crossover Refunding Indebtedness” shall mean any Bonds, Parity Bonds or Group Indebtedness issued for the purpose of refunding other Bonds, Parity Bonds or Group Indebtedness, if the proceeds of such Crossover Refunding Indebtedness are irrevocably deposited in escrow to secure the payment on the applicable Crossover Date of the Crossover Refunded Indebtedness, and the earnings on such escrow deposit are required to be applied to pay interest on either or both of such Crossover Refunding Indebtedness or such Crossover Refunded Indebtedness until the Crossover Date.

“Days Cash on Hand” for any period, shall mean the ratio of (a) Unrestricted Liquid Funds of the Lessee, as shown on the audited financial statements of the Lessee for the immediately preceding Fiscal Year to (b) the quotient of total operating expenses of the Lessee (including provision for bad debts, but excluding depreciation and amortization) as shown on the audited financial statements of the Lessee for the immediately preceding such Fiscal Year, divided by 365.

“Debt Service Reserve Fund (Series 1998A)” shall mean the Building Authority Revenue Refunding Bonds, Series 1998A, Debt Service Reserve Fund created by the 1998 Indenture.

“Debt Service Reserve Fund (Series 1998B)” shall mean the Building Authority Revenue Rental Bonds, Series 1998B, Debt Service Reserve Fund created by the 1998 Indenture.

“Debt Service Reserve Fund (Series 2003)” shall mean the Building Authority Revenue and Revenue Refunding Bonds, Series 2003, Debt Service Reserve Fund created by the 2003 Indenture.

“Debt Service Reserve Fund (Series 2010)” shall mean the Building Authority Revenue Rental Bonds, Series 2010, Debt Service Reserve Fund created by the 2010 Indenture.

“Debt Service Reserve Fund (Series 2013A)” shall mean the Building Authority Revenue Rental Bonds, Series 2013A, Debt Service Reserve Fund created by the Indenture.

“Debt Service Reserve Fund (Series 2013B)” shall mean the Building Authority Revenue Refunding Bonds, Series 2013B, Debt Service Reserve Fund created by the Indenture.

“Designated Affiliate” shall mean a corporation, limited liability company, partnership, joint venture, association, business trust or any other legal entity designated by the Lessee as such in accordance with the 2013 Restated Contract of Lease, and over which the Lessee maintains control, directly or indirectly, including the power to direct the management, policies, disposition of assets and actions of such Designated Affiliate to the extent

required to cause such Designated Affiliate to comply with the terms and conditions of the Indenture and the 2013 Restated Contract of Lease, whether through the ownership of such Person's voting securities, partnership interests, membership, reserved powers, the power to appoint such Person's members, trustees or directors or otherwise.

"Escrow Deposit Agreement" shall mean the Escrow Deposit Agreement dated as of April 1, 2013, by and between the Authority and U.S. Bank National Association, as Escrow Trustee.

"Escrow Deposit Fund" shall mean the Escrow Deposit Fund created by the Escrow Deposit Agreement.

"Facilities" shall mean all land, leasehold interests and buildings and all fixtures and equipment (as defined in the Uniform Commercial Code or equivalent statute in effect in the state where such fixtures or equipment are located) of a Person.

"Fiscal Year" or "Year" shall mean the fiscal year of the Lessee, beginning on July 1 and ending on June 30 or such other period as the Lessee may designate as its fiscal year.

"Fitch" shall mean Fitch, Inc. and its successors.

"Governmental Securities" shall mean direct obligations of the United States of America and obligations the timely payment of which is fully guaranteed by the United States of America.

"Group Indebtedness" shall mean, with respect to any Designated Affiliate, (i) all Indebtedness of such Person for money borrowed or credit extended which is not Short-Term; (ii) all Indebtedness of such Person incurred or assumed in connection with the acquisition or construction of Property which is not Short-Term; (iii) all Short-Term Indebtedness incurred by the Person which is of the type described in Section 9(a)(7) of Part I of the Indenture; (iv) the Person's Guaranties of Indebtedness which are not Short-Term; and (v) Capitalized Rentals under Capitalized Leases entered into by the Person; provided, however, that Indebtedness that could be described by more than one of the foregoing categories shall not in any case be considered more than once for the purpose of any calculation made under the Indenture.

"Guaranty" means all obligations of a Designated Affiliate guaranteeing, or in effect guaranteeing, any Indebtedness, dividend or other obligation of any Primary Obligor in any manner, whether directly or indirectly, including but not limited to obligations incurred through an agreement, contingent or otherwise, by such Designated Affiliate: (1) to purchase such Indebtedness or obligation or any Property constituting security therefor; (2) to advance or supply funds: (i) for the purchase or payment of such Indebtedness or obligation, or (ii) to maintain working capital or other balance sheet condition; (3) to purchase securities or other Property or services primarily for the purpose of assuring the owner of such Indebtedness or obligation of the ability of the Primary Obligor to make payment of the Indebtedness or obligation; or (4) otherwise to assure the owner of such Indebtedness or obligation against loss in respect thereof.

"Hospital Consultant" shall mean any firm of hospital consultants, or any firm of independent public accountants having the experience and skill necessary to prepare hospital management studies or feasibility studies for use in connection with the financing of health care facilities and having a national reputation for such experience and skill.

"Hurley Medical Center" shall mean the Real Property, Tangible Assets and Properties, the 1977 Project, the Improvements to the Hospital and the 1986B Project, the 1989 Project, the 1995 Project, the 1998 Project, the 2003 Project, the 2010 Project, the 2011 Project, and the 2013 Project, together with any future improvements thereto and enlargements thereof.

"Indebtedness" shall mean, for any Designated Affiliate, (a) all Guaranties by such Person, (b) all liabilities (exclusive of reserves such as those established for deferred taxes or litigation) recorded or required to be recorded as such on the audited financial statements of such Person in accordance with generally accepted accounting principles, and (c) all obligations for the payment of money incurred or assumed by such Person (i) due and payable in all events or (ii) if incurred or assumed primarily to assure the repayment of money borrowed or credit extended,



due and payable upon the occurrence of a condition precedent or upon the performance of work, possession of Property as lessee, rendering of services by others or otherwise, and shall include, without limitation, Non-Recourse Indebtedness; provided that Indebtedness shall not include Indebtedness of one Designated Affiliate to another Designated Affiliate or the Lessee, any Guaranty by any Designated Affiliate of Indebtedness of any other Designated Affiliate or the Lessee, Interest Rate Agreements or any obligation to repay moneys deposited by patients or others with a Designated Affiliate as security for or as prepayment of the cost of patient care or any rights of residents of life care, elderly housing or similar Facilities to endowment or similar funds deposited by or on behalf of such residents.

“Indenture” shall mean the Bond Resolution and Indenture of Trust for the Series 2013 Bonds approved by the Commission of the Authority on January 7, 2013.

“Independent Architect” shall mean an architect, engineer or firm of architects or engineers, acceptable to the Trustee and licensed by, or permitted to practice in, the state where the construction involved is located, which architect, engineer or firm of architects or engineers shall have no interest, direct or indirect, in the Lessee or any Designated Affiliate and, in the case of an individual, shall not be a member, director, officer or employee of the Lessee or any Designated Affiliate and, in the case of a firm, shall not have a partner, member, director, officer or employee who is a member, director, officer or employee of the Lessee or any Designated Affiliate; it being understood that an arm’s-length contract with the Lessee or any Designated Affiliate for the performance of architectural or engineering services shall not in and of itself be regarded as creating an interest in or an employee relationship with such entity and that the term Independent Architect may include an architect or engineer or a firm of architects or engineers who otherwise meet the requirements of this definition and who also are under contract to construct the facility which they have designed.

“Interest Rate Agreement” shall mean an interest rate exchange, hedge or similar agreement entered into in order to hedge the interest payable on all or a portion of any Bonds, Parity Bonds or Indebtedness, which agreement may include, without limitation, an interest rate swap, a forward or futures contract or an option (e.g., a call, put, cap, floor or collar).

“Investment Income” shall have reference to and mean and include all interest earned through the investment and reinvestment of moneys.

“Issue Date” shall mean, with respect to the Series 2013 Bonds, the date on which the Series 2013 Bonds are delivered to the purchaser or purchasers thereof upon original issuance.

“Issued,” when used with respect to Bonds, shall mean sold or otherwise disposed of for value and delivered by the Authority.

“Leased Property” shall mean the Property subject to an Affiliate Lease.

“Lessee” shall mean the City of Flint, a Michigan home rule city corporation, acting by and through its Board of Hospital Managers, as lessee under the 2013 Restated Contract of Lease.

“Lessee’s Authorized Representative” shall mean the person or persons identified as such by a certificate of the President and Chief Executive Officer of Hurley Medical Center furnished to the Trustee.

“Maximum Annual Debt Service Requirement” shall mean at any given time of determination the maximum principal and interest payments on the Outstanding Series 2013 Bonds, Parity Bonds and Group Indebtedness (including the Additional Bonds or Group Indebtedness proposed to be issued, if required to be included in a computation by the specific provision of the Indenture) in the then current or in any succeeding Fiscal Year by reason of stated maturities, scheduled mandatory prepayments or by operation of any mandatory sinking fund: provided that: (a) the amount of such payments for a future period shall be calculated in accordance with the assumptions contained in the Indenture; (b) interest shall be excluded from the determination of the debt service requirements to the extent that Capitalized Interest is available to pay such interest; (c) principal of Series 2013 Bonds, Parity Bonds or Group Indebtedness shall be excluded to the extent that amounts are on deposit in an

irrevocable escrow and such amounts (including, where appropriate, the earnings or other increment to accrue thereon) are required to be applied to pay such principal and such amounts so required to be applied are sufficient to pay such principal and (d) with respect to any Bonds, Parity Bonds or Group Indebtedness for which the number of actual payments of principal in any Fiscal Year is greater than those in the immediately preceding and/or succeeding Fiscal Years solely by reason of the fact that such principal payments are scheduled to occur other than on a specified date or dates or by reasons of this clause (d), the last principal payment in such Fiscal Year for which the number of payments is higher shall be deemed to be required to be made in the next preceding or succeeding Fiscal Year, as appropriate and as designated by the Lessee.

“Moody’s” shall mean Moody’s Investors Service and its successors.

“Net Income Available for Debt Service” shall mean all operating revenues derived from Hurley Medical Center and Designated Affiliates minus the operating expenses of Hurley Medical Center and Designated Affiliates (other than the interest component of cash rentals paid under the 2013 Restated Contract of Lease and interest on Group Indebtedness (net of any Capitalized Interest), depreciation and amortization during the period of determination), determined in accordance with generally accepted accounting principles, plus investment income, unrestricted endowment income and net proceeds from business interruption insurance of Hurley Medical Center and Designated Affiliates. In calculating Net Income Available for Debt Service, there shall be excluded from revenues any earnings that constitute Capitalized Interest and earnings on amounts which are irrevocably deposited in escrow to pay the principal of any Series 2013 Bonds, Parity Bonds or Group Indebtedness. If any of the Series 2013 Bonds remains Outstanding, the Net Income Available for Debt Service shall not exceed, for any Fiscal Year for which calculated, the excess of total unrestricted revenues of Hurley Medical Center and Designated Affiliates over total expenses of Hurley Medical Center and Designated Affiliates as stated in the audited financial statements of Hurley Medical Center for such Fiscal Year, plus depreciation, amortization and interest expense on the Outstanding Series 2013 Bonds, Parity Bonds and Group Indebtedness, and before taking into account extraordinary gains or losses, unrealized gains or losses (including those relating to hedging activities), and gains or losses associated with any refinancing.

“Net Rentals” means all fixed rents (including as such all payments which the lessee is obligated to make to the lessor on termination of the lease or surrender of the Property other than upon termination of the lease for a default thereunder) payable under a lease or sublease of real or personal property excluding any amounts required to be paid by the lessee (whether or not designated as rents or additional rents) on account of maintenance, repairs, insurance, taxes and similar charges. Net Rentals for any future period under any so-called “percentage lease” shall be computed on the basis of the amount reasonably estimated to be payable thereunder for such period, but in any event not less than the amount paid or payable thereunder during the immediately preceding period of the same duration as such future period; provided that the amount estimated to be payable under any such percentage lease shall in all cases recognize any change in the applicable percentage called for by the terms of such lease.

“1989 Indenture” shall mean the Bond Resolution and Indenture of Trust adopted by the Commission of the Authority on March 22, 1990.

“1995 Indenture” shall mean the Bond Resolution and Indenture of Trust adopted by the Commission of the Authority on November 10, 1995.

“1998 Indenture” shall mean the Bond Resolution and Indenture of Trust adopted by the Commission of the Authority on April 1, 1998.

“Non-Recourse Indebtedness” means any Indebtedness the liability for which is effectively limited to property, plant and equipment (other than the land) and the income therefrom not less than 80% of the cost of which property, plant and equipment shall have been financed solely with the proceeds of such Indebtedness, with no recourse, directly or indirectly, to any other Property of any Designated Affiliate or the Lessee.

“Opinion of Bond Counsel” shall mean a written opinion of Bond Counsel in form and substance acceptable to the Authority, the Lessee and the Trustee, which opinion may be based on a ruling or rulings of the Internal Revenue Service.

“Outstanding under the Indenture” or “outstanding hereunder” or “outstanding,” when used with reference to Bonds or the Parity Bonds, shall mean, at any date as of which the amount of outstanding Bonds or Parity Bonds is to be determined, the aggregate of all Bonds or Parity Bonds theretofore authenticated and delivered under the indenture, except:

(a) Bonds or Parity Bonds cancelled by the Trustee or delivered to the Trustee for cancellation at or prior to such date;

(b) Bonds or Parity Bonds for the payment or redemption of which cash or Governmental Securities shall have been theretofore deposited with the Trustee (whether upon or prior to the maturity or redemption date of any such Bonds or Parity Bonds); provided that if such Bonds or Parity Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given or arrangements satisfactory to the Trustee shall have been made therefor, or waiver of such notice satisfactory in form to the Trustee shall have been filed with the Trustee;

(c) On or after the applicable redemption date, Bonds or Parity Bonds for the redemption of which cash or Governmental Securities shall have been theretofore deposited with the Trustee in an amount equal to the redemption price thereof; provided that notice of such redemption shall have been given as provided in the Indenture or provisions satisfactory to the Trustee shall have been made therefor; and

(d) Bonds or Parity Bonds in exchange for or in lieu of which other Bonds or Parity Bonds have been authenticated and delivered pursuant to the Indenture or law.

“Parity Bonds” shall mean the outstanding bonds of the Authority payable out of Cash Rentals on an equal and ratable basis with the Series 2013 Bonds issued under the Indenture and shall include, without limitation, any Additional Bonds, the Series 1998 Bonds, the Series 2003 Bonds, the Series 2010 Bonds, the Series 2011 Bond, and any additional bonds issued under the 2011 Indenture, the 2010 Indenture, the 2003 Indenture or the 1998 Indenture.

“Paying Agent” shall mean the Trustee and any other Paying Agent appointed and serving pursuant to the Indenture.

“Permitted Investments” shall mean (i) bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States; (ii) certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, or a savings and loan association, savings bank, or a credit union, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of funds belonging to the State under a law or rule of the State or the United States of America; (iii) commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase; (iv) United States government or federal agency obligation repurchase agreements; (v) bankers’ acceptances of United States banks; (vi) obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than 1 standard rating service; (vii) mutual funds registered under the investment company act of 1940, title I or chapter 686, 54 stat. 798, 15 U.S.C. 80a-1 to 80a-3 and 801-64, with authority to purchase only investment vehicles that are legal for direct investment by local units of government in the State; provided, however, that a mutual fund is not disqualified as a Permitted Investment solely by reason of either of the following: (x) the purchase of securities on a when-issued or delayed delivery basis; (y) the ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned; and (z) the limited ability to borrow and pledge a like portion of the portfolio’s assets for temporary or emergency purchases; (viii) obligations described in subsections (i) through (vii) above if purchased through an interlocal agreement under the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512; (ix) investment pools organized under the Surplus Fund Investment Pool Act, 1982 PA 367, MCL 129.111 to 129.118; (x) the investment pools organized under Local Government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150; and (xi) such other investment vehicles as may be permitted under applicable State law and approved by Counsel.

“Person” shall mean any natural person, firm, partnership, joint venture, limited liability company, association, corporation, business trust or public body, agency or political subdivision or any similar entity.

“Primary Obligor” shall mean the Person who is primarily obligated on an obligation which is guaranteed by another Person.

“Projected Rate” shall mean the projected yield at par of an obligation as set forth in the report of a professional consulting firm or investment banking firm having the skill and experience necessary to make the determination required and having a favorable, national reputation for such skill and experience (which consultant or firm and report including, without limitation, the scope, form, substance and other aspects thereof, are acceptable to the Trustee). Such report shall state that in determining the Projected Rate such consultant or firm reviewed the yield evaluations at par of not less than three obligations selected by such consultant or firm, the interest on which is exempt from federal income tax (or, if it is not expected that it will be reasonably possible to issue such tax-exempt obligations to refinance the Bonds, Parity Bonds or Group Indebtedness with respect to which debt service is being estimated, obligations the interest on which is subject to federal income tax) which obligations such consultant or firm states in its opinion are reasonable comparators for use in developing such Projected Rate and which obligations: (i) were outstanding on a date selected by the consultant or firm, which date so selected occurred during the 45-day period preceding the date of the calculation using the Projected Rate in question, (ii) to the extent practicable, are obligations of persons (or an authority on behalf of persons) engaged in operations similar to those of Hurley Medical Center and having a credit rating similar to that of Hurley Medical Center, (iii) are not entitled to the benefits of any credit enhancement, including without limitation any letter of credit or insurance policy, and (iv) to the extent practicable, have a remaining term and amortization schedule substantially the same as the obligation with respect to which such Projected Rate is being developed.

“Property” shall mean any and all rights, titles and interests in and to any and all property, whether real or personal, tangible (including cash) or intangible, wherever situated, and whether now owned or hereafter acquired.

“Put Indebtedness” shall mean Bonds, Parity Bonds or Group Indebtedness that are payable or required to be purchased or redeemed, at the option of the holder thereof, prior to their stated maturity date or that are required to be repurchased, whether or not at the option of the holder thereof, prior to their stated maturity, other than pursuant to any mandatory sinking fund or analogous fund.

“Rating Service” shall mean Moody’s, S&P, or Fitch.

“Record Date” shall mean, with respect to any Interest Payment Date for the Series 2013 Bonds, June 15 and December 15 (whether or not a Business Day).

“Redemption Fund” shall mean the Bond and Interest Redemption Fund established pursuant to the Indenture.

“Redemption Requirements” for any Fiscal Year shall mean the mandatory redemption requirements for all Outstanding Series 2013A Bonds or the Series 2013B Bonds, as the case may be, for that Fiscal Year designated by the Authorized Authority Representative at the time of sale as provided in the Indenture, if any.

“Reserve Amount (Series 2013A)” shall mean the amount equal to the least of (i) 10 percent of the stated principal amount of the Outstanding Series 2013A Bonds (or, if the amount of the original issue discount or premium with respect to the Series 2013A Bonds exceeds 2 percent of the stated principal amount, 10 percent of the amount equal to the stated principal amount reduced by the original issue discount or increased by the original issue premium), (ii) the maximum annual principal and interest requirements on the Outstanding Series 2013A Bonds, or (iii) 125 percent of the average annual principal and interest requirements on the Outstanding Series 2013A Bonds.

“Reserve Amount (Series 2013B)” shall mean the amount equal to the least of (i) 10 percent of the stated principal amount of the Outstanding Series 2013B Bonds (or, if the amount of the original issue discount or premium with respect to the Series 2013B Bonds exceeds 2 percent of the stated principal amount, 10 percent of the amount equal to the stated principal amount reduced by the original issue discount or increased by the original issue premium), (ii) the maximum annual principal and interest requirements on the Outstanding Series 2013B Bonds, or (iii) 125 percent of the average annual principal and interest requirements on the Outstanding Series 2013B Bonds.

“Reserve Amount (Series 1998A)” shall mean the amount equal to the least of (i) 10 percent of the stated principal amount of the Outstanding Series 1998A Bonds (or, if the amount of the original issue discount or premium with respect to the Series 1998A Bonds exceeds 2 percent of the stated principal amount, 10 percent of the amount equal to the stated principal amount reduced by the original issue discount or increased by the original issue premium), (ii) the maximum annual principal and interest requirements on the Outstanding Series 1998A Bonds, or (iii) 125 percent of the average annual principal and interest requirements on the Outstanding Series 1998A Bonds.

“Reserve Amount (Series 1998B)” shall mean the amount equal to the least of (i) 10 percent of the stated principal amount of the Outstanding Series 1998B Bonds (or, if the amount of the original issue discount or premium with respect to the Series 1998B Bonds exceeds 2 percent of the stated principal amount, 10 percent of the amount equal to the stated principal amount reduced by the original issue discount or increased by the original issue premium), (ii) the maximum annual principal and interest requirements on the Outstanding Series 1998B Bonds, or (iii) 125 percent of the average annual principal and interest requirements on the Outstanding Series 1998B Bonds.

“Reserve Amount (Series 2003)” shall mean the amount equal to the least of (i) 10 percent of the stated principal amount of the Outstanding Series 2003 Bonds (or, if the amount of the original issue discount or premium with respect to the Series 2003 Bonds exceeds 2 percent of the stated principal amount, 10 percent of the amount equal to the stated principal amount reduced by the original issue discount or increased by the original issue premium), (ii) the maximum annual principal and interest requirements on the Outstanding Series 2003 Bonds, or (iii) 125 percent of the average annual principal and interest requirements on the Outstanding Series 2003 Bonds.

“Reserve Amount (Series 2010)” shall mean the amount equal to the least of (i) 10 percent of the stated principal amount of the Outstanding Series 2010 Bonds (or, if the amount of the original issue discount or premium with respect to the Series 2010 Bonds exceeds 2 percent of the stated principal amount, 10 percent of the amount equal to the stated principal amount reduced by the original issue discount or increased by the original issue premium), (ii) the maximum annual principal and interest requirements on the Outstanding Series 2010 Bonds, or (iii) 125 percent of the average annual principal and interest requirements on the Outstanding Series 2010 Bonds.

“Revenues” shall mean operating revenues plus investment income, unrestricted endowment income and net proceeds of business interruption insurance (but excluding from revenues and income any earnings that constitute Capitalized Interest and earnings on amounts that are irrevocably deposited in escrow to pay the principal of any Bonds, Parity Bonds or Group Indebtedness) of the Lessee and Designated Affiliates for the most recent Fiscal Year.

“Series 1989 Bonds” shall mean any of the Authority’s Building Authority Revenue Rental Bonds, Series 1989 (Hurley Medical Center), issued under the 1989 Indenture.

“Series 1995B Bonds” shall mean any of the Authority’s Building Authority Revenue Rental Bonds, Series 1995B (Hurley Medical Center), issued under the 1995 Indenture.

“Series 1998 Bonds” shall mean the Series 1998A Bonds and the Series 1998B Bonds.

“Series 1998A Bonds” shall mean any of the Authority’s Building Authority Revenue Refunding Bonds, Series 1998A (Hurley Medical Center), issued under the 1998 Indenture.

“Series 1998A Rebate Fund” shall mean the Series 1998A Rebate Fund established pursuant to the 1998 Indenture.

“Series 1998B Bonds” shall mean any of the Authority’s Building Authority Revenue Rental Bonds, Series 1998B (Hurley Medical Center), issued under the 1998 Indenture.

“Series 1998B Rebate Fund” shall mean the Series 1998B Rebate Fund established pursuant to the 1998 Indenture.

“Series 2003 Bonds” shall mean any of the Authority’s Building Authority Revenue and Revenue Refunding Bonds, Series 2003 (Hurley Medical Center), issued under the 2003 Indenture.

“Series 2003 Rebate Fund” shall mean the Series 2003 Rebate Fund established pursuant to the 2003 Indenture.

“Series 2010 Bonds” shall mean any of the Authority’s Building Authority Revenue Rental Bonds, Series 2010 (Hurley Medical Center), issued under the 2010 Indenture.

“Series 2010 Special Fund” shall mean the “Building Authority Revenue Rental Bonds, Series 2010 Special Fund” established pursuant to the 2010 Indenture.

“Series 2010 Rebate Fund” shall mean the 2010 Rebate Fund established pursuant to the 2010 Indenture.

“Series 2011 Bond” shall mean the Authority’s Building Authority Revenue Rental Bond, Series 2011 (Hurley Medical Center), issued under the 2011 Indenture.

“Series 2013 Bonds” shall mean any of the Authority’s Series 2013A Bonds and Series 2013B Bonds hereinafter defined.

“Series 2013A Bonds” shall mean any of the Authority’s Building Authority Revenue Rental Bonds, Series 2013A (Hurley Medical Center), issued under the Indenture.

“Series 2013A Rebate Fund” shall mean the Series 2013A Rebate Fund established pursuant to the Indenture.

“Series 2013A Special Fund” shall mean the Building Authority Revenue Rental Bonds, Series 2013A, Special Fund established pursuant to the Indenture.

“Series 2013B Bonds” shall mean any of the Authority’s Building Authority Revenue Refunding Bonds, Series 2013B (Hurley Medical Center), issued under the 2010 Indenture.

“Series 2013B Rebate Fund” shall mean the Series 2013B Rebate Fund established pursuant to the Indenture.

“Series 2013B Special Fund” shall mean the Building Authority Revenue Refunding Bonds, Series 2013B, Special Fund established pursuant the Indenture.

“Short-Term,” when used in connection with Bonds, Parity Bonds or Indebtedness, shall mean having an original maturity less than or equal to one year and not renewable at the option of the debtor for a term greater than one year beyond the date of original issuance.

“State” shall mean the State of Michigan.

“Subordinated Indebtedness” shall mean bonds of the Authority supported by indebtedness of the Lessee or Indebtedness of a Designated Affiliate which is specifically subordinated to the payment of principal and interest on Bonds and Parity Bonds and having the provisions set forth in the Indenture.

“Trustee” shall mean a bank or trust company appointed as provided in the Indenture, initially U.S. Bank National Association, and any surviving, resulting or transferee corporation or association succeeding to its powers as a successor trustee under the Indenture.

“2003 Indenture” shall mean the Bond Resolution and Indenture of Trust adopted by the Commission of the Authority on May 12, 2003.

“2010 Indenture” shall mean the Bond Resolution and Indenture of Trust adopted by the Commission of the Authority on February 18, 2010.

“2011 Indenture” shall mean the Bond Resolution and Indenture of Trust adopted by the Commission of the Authority on September 30, 2011.

“2013 Project” shall mean the acquisition, construction and installation of buildings, improvements, facilities and equipment for Hurley Medical Center substantially as described in Exhibit A-1 to the 2013 Restated Contract of Lease.

“2013 Restated Contract of Lease” shall mean the Eighth Amended and Restated Contract of Lease (Revenue Rental), dated as of February 1, 2013, by and between the Authority and the Lessee, as the same may be hereafter amended or supplemented as permitted under the Indenture, the 2003 Indenture, the 2010 Indenture, the 2011 Indenture, and the 1998 Indenture.

“Underwriter” shall mean Raymond James & Associates, Inc.

“Written Request” shall mean with reference to the Authority, a request in writing signed by the Authorized Authority Representative and with reference to the Lessee shall mean a request in writing signed by the Lessee’s Authorized Representative.

#### **SUMMARY OF CERTAIN PROVISIONS OF THE 2013 RESTATED CONTRACT OF LEASE**

The 2013 Restated Contract of Lease contains various covenants, security provisions, terms and conditions, certain of which are summarized below. Reference is made to the 2013 Restated Contract of Lease for a full and complete statement of its provisions.

#### **Term of Lease**

The Authority will lease the Hurley Medical Center to the Lessee for a term commencing simultaneously with the date of issuance of the Series 2013 Bonds and ending on July 1, 2040, or such earlier date as provided in the 2013 Restated Contract of Lease. The Lessee shall, as of the effective date of the 2013 Restated Contract of Lease, have sole and exclusive possession of Hurley Medical Center during the term of the 2013 Restated Contract of Lease, subject to such possession by the Authority of Hurley Medical Center as shall be necessary and convenient for the Authority to undertake its obligations and exercise its rights pursuant to the 2013 Restated Contract of Lease. The Authority covenants that so long as the Lessee shall promptly pay the rent and all other sums payable by it under the 2013 Restated Contract of Lease and shall duly and promptly perform and observe all the terms, conditions and agreements contained in the 2013 Restated Contract of Lease obligatory upon it, the Lessee shall have and enjoy during the term of the 2013 Restated Contract of Lease quiet and undisputed possession of Hurley Medical Center. When all of the Bonds and the Parity Bonds issued by the Authority to finance Hurley Medical Center have been paid in full, the Authority shall convey to the Lessee all of its right, title and interest in Hurley Medical Center and any lands, air space, easements or rights-of-way appertaining thereto. Upon such conveyance by the Authority to the Lessee, the 2013 Restated Contract of Lease and the leasehold term shall terminate and the Authority shall have no further interest in or obligations with respect to, Hurley Medical Center.

#### **Payment of Cash Rentals**

The Lessee agrees under the 2013 Restated Contract of Lease to pay to the Authority cash rentals for Hurley Medical Center; said cash rentals and all other payments to be made by the Lessee shall be made to the Trustee. The obligation to make such cash rental payments is self-liquidating, is not a general obligation of the City of Flint and does not constitute an indebtedness of the City of Flint within any constitutional or charter limitation. Such cash rental payments are payable from the net revenues (gross revenues, including without limitation, receipts derived from any sale, lease or other disposition of any of the Property, less the reasonable expenses of administration, operation and maintenance) of Hurley Medical Center and all other health care facilities of the Lessee. Said net revenues are pledged to the making of said cash rental payments, and the net revenues so pledged

shall be and remain subject to said pledge until the payment in full of such cash rental payments, and which pledge is on parity with the pledge of net revenues for the payment of any Parity Bonds.

The Lessee shall pay to the Authority, as rental for Hurley Medical Center, the following:

A. Series 2013 Bonds.

(1) The Series 2013A Bonds

(i) On the last Business Day of each January, February, March, April, May, July, August, September, October and November, and on the tenth day of each June and December, commencing April 30, 2013, a sum sufficient to provide for the payment as the same becomes due of the next maturing interest on the Series 2013A Bonds, provided that the amount so set aside for interest on each of April 30, 2013, May 31, 2013 and June 10, 2013 shall not be less than one-third of the amount of interest maturing on July 1, 2013, and thereafter the amount so set aside for interest on such dates shall not be less than one-sixth of the amount of interest maturing on the next Interest Payment Date, and the Lessee shall pay to the Authority on the last Business Day of each January, February, March, April, May, July, August, September, October and November, and on the tenth day of each June and December, commencing July 31, 2017, a sum sufficient to provide for the payment as the same becomes due, whether by maturity, redemption or otherwise, of the next maturing principal of the Series 2013A Bonds, provided that the amount so paid for principal on such dates shall not be less than one-twelfth of the amount of principal due, whether by maturity, redemption or otherwise, on the payment date immediately following, and if there shall be any deficiency in the amount previously paid, then the amount of such deficiency shall be added to the then current requirement. In addition to the foregoing, the Lessee shall pay to the Authority no later than the date on which any notice of redemption of the Series 2013A Bonds is given pursuant to Section 2(c) of Part I of the Indenture the balance of the amount needed to pay on the redemption date the principal of, premium, if any and interest on the Series 2013A Bonds called for redemption. The maturities, redemption and interest payment dates of the Series 2013A Bonds shall be determined by the Authority with the approval of the Lessee, which approval shall be conclusively presumed by the execution of the 2013 Amended and Restated Contract of Lease. The Authority shall provide the Lessee with a schedule of principal and interest payments upon issuance of the Series 2013A Bonds.

(ii) If at any time while any Series 2013A Bonds remain outstanding, the amount on deposit in the Debt Service Reserve Fund (Series 2013A), determined by valuing investments therein at fair market value, shall be less than the Reserve Amount (Series 2013A) because of a transfer from the Debt Service Reserve Fund (Series 2013A), then the Lessee shall pay on the last Business Day of each calendar quarter commencing with the calendar quarter in which the deficiency first occurs, a sum sufficient to restore the Debt Service Reserve Fund (Series 2013A) to the Reserve Amount (Series 2013A), provided that the amount so paid to restore the Debt Service Reserve Fund (Series 2013A) on the last Business Day of each calendar quarter shall not be less than one-fourth of the amount of such deficiency. Interest earned on investment of moneys in the Debt Service Reserve Fund (Series 2013A) shall be used only to pay principal of and interest on the Series 2013A Bonds while any of the Series 2013A Bonds shall be outstanding or, at the direction of the Authority as provided in the Indenture, to fund the Series 2013A Rebate Fund.

(iii) Under the Indenture, the Trustee is required to determine on the first Business Day after January 1 of each year the amount on deposit in the Debt Service Reserve Fund (Series 2013A). If the amount on deposit in the Debt Service Reserve Fund (Series 2013A) on any such Business Day, determined by valuing investments therein at fair market value, is determined to be less than ninety percent (90%) of the Reserve Amount (Series 2013A) because of a change in the value of such investments, then the Lessee shall pay on the last Business Day of each calendar quarter commencing with the calendar quarter in which such deficiency is determined a sum sufficient to restore the Debt Service Reserve Fund (Series 2013A) to one hundred percent (100%) of the Reserve Amount (Series 2013A), provided that the amount so paid to restore the Debt Service Reserve Fund (Series 2013A) on the last day Business Day of each calendar quarter shall not be less than one-eighth of the amount of such deficiency.

(iv) At the direction of the Authority, the Lessee shall pay the amounts required to satisfy the Authority's obligations to fund the Series 2013A Rebate Fund and make payments to the United States required under Section 148(f) of the Code with respect to the Series 2013A Bonds pursuant to the Indenture.



(2) The Series 2013B Bonds

(i) On the last Business Day of each January, February, March, April, May, July, August, September, October and November, and on the tenth day of each June and December, commencing May 31, 2013, a sum sufficient to provide for the payment as the same becomes due of the next maturing interest on the Series 2013B Bonds, provided that the amount so set aside for interest on each of May 31, 2013 and June 10, 2013 shall not be less than one-half of the amount of interest maturing on July 1, 2013, and thereafter the amount so set aside for interest on such dates shall not be less than one-sixth of the amount of interest maturing on the next Interest Payment Date, and the Lessee shall pay to the Authority on the last Business Day of each January, February, March, April, May, July, August, September, October and November, and on the tenth day of each June and December, commencing May 31, 2013, a sum sufficient to provide for the payment as the same becomes due, whether by maturity, redemption or otherwise, of the next maturing principal of the Series 2013B Bonds, provided that the amount so set aside for principal on each of May 31, 2013 and June 10, 2013 shall not be less than one-half of the amount of principal maturing on July 1, 2013, no amount need be paid for principal on such dates during the period July 2013 through June 2014, and thereafter the amount so paid for principal on such dates shall not be less than one-twelfth of the amount of principal due, whether by maturity, redemption or otherwise, on the payment date immediately following, and if there shall be any deficiency in the amount previously paid, then the amount of such deficiency shall be added to the then current requirement. In addition to the foregoing, the Lessee shall pay to the Authority no later than the date on which any notice of redemption of the Series 2013B Bonds is given pursuant to Section 3(c) of Part I of the Indenture the balance of the amount needed to pay on the redemption date the principal of, premium, if any and interest on the Series 2013B Bonds called for redemption. The maturities, redemption and interest payment dates of the Series 2013B Bonds shall be determined by the Authority with the approval of the Lessee, which approval shall be conclusively presumed by the execution of the 2013 Amended and Restated Contract of Lease. The Authority shall provide the Lessee with a schedule of principal and interest payments upon issuance of the Series 2013B Bonds.

(ii) If at any time while any Series 2013B Bonds remain outstanding, the amount on deposit in the Debt Service Reserve Fund (Series 2013B), determined by valuing investments therein at fair market value shall be less than the Reserve Amount (Series 2013B) because of a transfer from the Debt Service Reserve Fund (Series 2013B), then the Lessee shall pay on the last Business Day of each calendar quarter commencing with the calendar quarter in which the deficiency first occurs, a sum sufficient to restore the Debt Service Reserve Fund (Series 2013B) to the Reserve Amount (Series 2013B) provided that the amount so paid to restore the Debt Service Reserve Fund (Series 2013B) on the last Business Day of each calendar quarter shall not be less than one-fourth of the amount of such deficiency. Interest earned on investment of moneys in the Debt Service Reserve Fund (Series 2013B) shall be used only to pay principal of and interest on the Series 2013B Bonds while any of the Series 2013B Bonds shall be outstanding or, at the direction of the Authority as provided in the Indenture, to fund the Series 2013B Rebate Fund.

(iii) Under the Indenture, the Trustee is required to determine on the first Business Day after January 1 of each year the amount on deposit in the Debt Service Reserve Fund (Series 2013B). If the amount on deposit in the Debt Service Reserve Fund (Series 2013B) on any such Business Day, determined by valuing investments therein at fair market value, is determined to be less than ninety percent (90%) of the Reserve Amount (Series 2013B) because of a change in the value of such investments, then the Lessee shall pay on the last Business Day of each calendar quarter commencing with the calendar quarter in which such deficiency is determined a sum sufficient to restore the Debt Service Reserve Fund (Series 2013B) to one hundred percent (100%) of the Reserve Amount (Series 2013B), provided that the amount so paid to restore the Debt Service Reserve Fund (Series 2013B) on the last day Business Day of each calendar quarter shall be not less than one-eighth of the amount of such deficiency.

(iv) At the direction of the Authority, the Lessee shall pay the amounts required to satisfy the Authority's obligation to fund the Series 2013B Rebate Fund and make payments to the United States required under Section 148(f) of the Code with respect to the Series 2013B Bonds pursuant to the Indenture.

B. Series 2011 Bond

(1) On the tenth day of each calendar month commencing December 10, 2011, a sum sufficient to provide for the payment as the same becomes due of the next monthly installment of the maturing principal of and interest on the Series 2011 Bond. In addition to the foregoing, the Lessee shall pay to the Authority no later than the date on which any notice of redemption of the Series 2011 Bond is given pursuant to Section 2(c) of Part I of the Indenture the balance of the amount needed to pay on the redemption date the principal of and interest on the Series 2011 Bond or portion thereof called for redemption. The monthly principal and interest payment requirements and payment dates of the Series 2011 Bond shall be determined by the Authority with the approval of the Lessee, which approval shall be conclusively presumed by the execution of the 2013 Restated Contract of Lease. The Authority shall provide the Lessee with a schedule of the monthly principal and interest payment requirements and payment dates upon issuance of the Series 2011 Bond.

(2) At the direction of the Authority, the Lessee shall pay the amounts required to satisfy the Authority's obligations to fund the Series 2011 Rebate Fund and make payments to the United States required under Section 148(f) of the Code with respect to the Series 2011 Bond pursuant to the 2011 Indenture.

C. Series 2010 Bonds

(1) On the last Business Day of each January, February, March, April, May, July, August, September, October and November, and on the tenth day of each June and December, commencing April 30, 2010, a sum sufficient to provide for the payment as the same becomes due of the next maturing interest on the Series 2010 Bonds, provided that the amount so set aside for interest on each of April 30, 2010, May 28, 2010 and June 10, 2010 shall not be less than one-third of the amount of interest maturing on July 1, 2010, and thereafter the amount so set aside for interest on such dates shall not be less than one-sixth of the amount of interest maturing on the next Interest Payment Date, and the Lessee shall pay to the Authority on the last Business Day of each January, February, March, April, May, July, August, September, October and November, and on the tenth day of each June and December, commencing July 30, 2010, a sum sufficient to provide for the payment as the same becomes due, whether by maturity, redemption or otherwise, of the next maturing principal of the Series 2010 Bonds, provided that the amount so paid for principal on such dates shall not be less than one-twelfth of the amount of principal due, whether by maturity, redemption or otherwise, on the payment date immediately following, and if there shall be any deficiency in the amount previously paid, then the amount of such deficiency shall be added to the then current requirement. In addition to the foregoing, the Lessee shall pay to the Authority no later than the date on which any notice of redemption of the Series 2010 Bonds is given pursuant to the Indenture the balance of the amount needed to pay on the redemption date the principal of, premium, if any and interest on the Series 2010 Bonds called for redemption.

(2) If at any time while any Series 2010 Bonds remain outstanding, the amount on deposit in the Debt Service Reserve Fund (Series 2010), determined by valuing investments therein at fair market value, shall be less than the Reserve Amount (Series 2010) because of a transfer from the Debt Service Reserve Fund (Series 2010), then the Lessee shall pay on the last Business Day of each calendar quarter commencing with the calendar quarter in which the deficiency first occurs, a sum sufficient to restore the Debt Service Reserve Fund (Series 2010) to the Reserve Amount (Series 2010), provided that the amount so paid to restore the Debt Service Reserve Fund (Series 2010) on the last Business Day of each calendar quarter shall not be less than one-fourth of the amount of such deficiency. Interest earned on investment of moneys in the Debt Service Reserve Fund (Series 2010) shall be used only to pay principal of and interest on the Series 2010 Bonds while any of the Series 2010 Bonds shall be outstanding or, at the direction of the Authority as provided in the Indenture, to fund the Series 2010 Rebate Fund.

(3) Under the Indenture, the Trustee is required to determine on the first Business Day after January 1 of each year the amount on deposit in the Debt Service Reserve Fund (Series 2010). If the amount on deposit in the Debt Service Reserve Fund (Series 2010) on any such Business Day, determined by valuing investments therein at fair market value, is determined to be less than ninety percent (90%) of the Reserve Amount (Series 2010) because of a change in the value of such investments, then the Lessee shall pay on the last Business Day of each calendar quarter commencing with the calendar quarter in which such deficiency is determined a sum sufficient to restore the Debt Service Reserve Fund (Series 2010) to one hundred percent (100%) of the Reserve

Amount (Series 2010), provided that the amount so paid to restore the Debt Service Reserve Fund (Series 2010) on the last day Business Day of each calendar quarter shall not be less than one-eighth of the amount of such deficiency.

(4) At the direction of the Authority, the Lessee shall pay the amounts required to satisfy the Authority's obligations to fund the Series 2010 Rebate Fund and make payments to the United States required under Section 148(f) of the Code with respect to the Series 2010 Bonds pursuant to the 2010 Indenture.

D. Series 2003 Bonds

(1) On the last Business Day of each January, February, March, April, May, July, August, September, October and November, and on the tenth day of each June and December, commencing July 31, 2003, a sum sufficient to provide for the payment as the same becomes due of the next maturing interest on the Series 2003 Bonds, provided that the amount so set aside for interest on such dates shall not be less than one-sixth of the amount of interest maturing on the next Interest Payment Date, and the Lessee shall pay to the Authority on the last Business Day of each January, February, March, April, May, July, August, September, October and November, and on the tenth day of each June and December, commencing July 31, 2006, a sum sufficient to provide for the payment as the same becomes due, whether by maturity, redemption or otherwise, of the next maturing principal of the Series 2003 Bonds, provided that the amount so paid for principal on such dates shall not be less than one-twelfth of the amount of principal due, whether by maturity, redemption or otherwise, on the payment date immediately following, and if there shall be any deficiency in the amount previously paid, then the amount of such deficiency shall be added to the then current requirement. In addition to the foregoing, the Lessee shall pay to the Authority no later than the date on which any notice of redemption of the Series 2003 Bonds is given pursuant to the 2003 Indenture the balance of the amount needed to pay on the redemption date the principal of, premium, if any and interest on the Series 2003 Bonds called for redemption.

(2) If at any time while any Series 2003 Bonds remain outstanding, the amount on deposit in the Debt Service Reserve Fund (Series 2003), determined by valuing investments therein at fair market value, shall be less than the Reserve Amount (Series 2003) because of a transfer from the Debt Service Reserve Fund (Series 2003), then the Lessee shall pay on the last Business Day of each calendar quarter commencing with the calendar quarter in which the deficiency first occurs, a sum sufficient to restore the Debt Service Reserve Fund (Series 2003) to the Reserve Amount (Series 2003), provided that the amount so paid to restore the Debt Service Reserve Fund (Series 2003) on the last Business Day of each calendar quarter shall not be less than one-fourth of the amount of such deficiency. Interest earned on investment of moneys in the Debt Service Reserve Fund (Series 2003) shall be used only to pay principal of and interest on the Series 2003 Bonds while any of the Series 2003 Bonds shall be outstanding or, at the direction of the Authority as provided in the 2003 Indenture, to fund the Series 2003 Rebate Fund.

(3) Under the 2003 Indenture, the Trustee is required to determine on the first Business Day after January 1 of each year the amount on deposit in the Debt Service Reserve Fund (Series 2003). If the amount on deposit in the Debt Service Reserve Fund (Series 2003) on any such Business Day, determined by valuing investments therein at fair market value, is determined to be less than ninety percent (90%) of the Reserve Amount (Series 2003) because of a change in the value of such investments, then the Lessee shall pay on the last Business Day of each calendar quarter commencing with the calendar quarter in which such deficiency is determined a sum sufficient to restore the Debt Service Reserve Fund (Series 2003) to one hundred percent (100%) of the Reserve Amount (Series 2003), provided that the amount so paid to restore the Debt Service Reserve Fund (Series 2003) on the last day Business Day of each calendar month shall not be less than one-eighth of the amount of such deficiency.

(4) At the direction of the Authority, the Lessee shall pay the amounts required to satisfy the Authority's obligations to fund the Series 2003 Rebate Fund and make payments to the United States required under Section 148(f) of the Code with respect to the Series 2003 Bonds pursuant to the 2003 Indenture.

E. Series 1998A Bonds

(1) On the last Business Day of each January, February, March, April, May, July, August, September, October and November, and on the tenth day of each June and December, commencing April 30, 1998, a

sum sufficient to provide for the payment as the same becomes due of the next maturing interest on the Series 1998A Bonds, provided that the amount so set aside for interest on such dates shall not be less than one-sixth of the amount of interest maturing on the next Interest Payment Date, and the Lessee shall pay to the Authority on the last Business Day of each January, February, March, April, May, July, August, September, October and November, and on the tenth day of each June and December, commencing July 31, 1998, a sum sufficient to provide for the payment as the same becomes due, whether by maturity, redemption or otherwise, of the next maturing principal of the Series 1998A Bonds, provided that the amount so paid for principal on such dates shall not be less than one-twelfth of the amount of principal due, whether by maturity, redemption or otherwise, on the payment date immediately following, and if there shall be any deficiency in the amount previously paid, then the amount of such deficiency shall be added to the then current requirement. In addition to the foregoing, the Lessee shall pay to the Authority no later than the date on which any notice of redemption of the Series 1998A Bonds is given pursuant to the 1998 Indenture, the balance of the amount needed to pay on the redemption date the principal of, premium, if any and interest on the Series 1998A Bonds called for redemption.

(2) If at any time while any Series 1998A Bonds remain outstanding, the amount on deposit in the Debt Service Reserve Fund (Series 1998A), determined by valuing investments therein at fair market value, shall be less than the Reserve Amount (Series 1998A) because of a transfer from the Debt Service Reserve Fund (Series 1998A), then the Lessee shall pay on the last Business Day of each calendar quarter commencing with the calendar quarter in which the deficiency first occurs, a sum sufficient to restore the Debt Service Reserve Fund (Series 1998A) to the Reserve Amount (Series 1998A) provided that the amount so paid to restore the Debt Service Reserve Fund (Series 1998A) on the last Business Day of each calendar quarter shall not be less than one-fourth of the amount of such deficiency. Interest earned on investment of moneys in the Debt Service Reserve Fund (Series 1998A) shall be used only to pay principal of and interest on the Series 1998A Bonds while any of the Series 1998A Bonds shall be outstanding or, at the direction of the Authority as provided in the 1998 Indenture, to fund the Series 1998A Rebate Fund.

(3) Under the 1998 Indenture, the Trustee is required to determine on the first Business Day after January 1 of each year the amount on deposit in the Debt Service Reserve Fund (Series 1998A). If the amount on deposit in the Debt Reserve Fund (Series 1998A) on any such Business Day, determined by valuing investments therein at fair market value, is determined to be less than ninety percent (90%) of the Reserve Amount (Series 1998A) because of a change in the value of such investments, then the Lessee shall pay on the last Business Day of each calendar quarter commencing with the calendar quarter in which such deficiency is determined a sum sufficient to restore the Debt Service Reserve Fund (Series 1998A) to one hundred percent (100%) of the Reserve Amount (Series 1998A), provided that the amount so paid to restore the Debt Service Reserve Fund (Series 1998A) on the last Business Day of each calendar quarter shall be not less than one-eighth of the amount of such deficiency.

(4) At the direction of the Authority, the Lessee shall pay the amounts required to satisfy the Authority's obligation to fund the Series 1998A Rebate Fund and make payments to the United States required under Section 148(f) of the Code with respect to the Series 1998A Bonds pursuant to the 1998 Indenture.

#### F. Series 1998B Bonds

(1) On the last Business Day of each January, February, March, April, May, July, August, September, October and November, and on the tenth day of each June and December, commencing April 30, 1998, a sum sufficient to provide for the payment as the same becomes due of the next maturing interest on the Series 1998B Bonds, provided that the amount so set aside for interest on such dates shall not be less than one-sixth of the amount of interest maturing on the next Interest Payment Date, and the Lessee shall pay to the Authority on the last Business Day of each January, February, March, April, May, July, August, September, October and November, and on the tenth day of each June and December, commencing July 31, 1998, a sum sufficient to provide for the payment as the same becomes due, whether by maturity, redemption or otherwise, of the next maturing principal of the Series 1998B Bonds, provided that the amount so paid for principal on such dates shall not be less than one-twelfth of the amount of principal due, whether by maturity, redemption or otherwise, on the payment date immediately following, and if there shall be any deficiency in the amount previously paid, then the amount of such deficiency shall be added to the then current requirement. In addition to the foregoing, the Lessee shall pay to the Authority no later than the date on which any notice of redemption of the Series 1998B Bonds is given pursuant to

the 1998 Indenture the balance of the amount needed to pay on the redemption date the principal of, premium, if any and interest on the Series 1998B Bonds called for redemption.

(2) If at any time while any Series 1998B Bonds remain outstanding, the amount on deposit in the Debt Service Reserve Fund (Series 1998B), determined by valuing investments therein at fair market value shall be less than the Reserve Amount (Series 1998B) because of a transfer from the Debt Service Reserve Fund (Series 1998B), then the Lessee shall pay on the last Business Day of each calendar quarter commencing with the calendar quarter in which the deficiency first occurs, a sum sufficient to restore the Debt Service Reserve Fund (Series 1998B) to the Reserve Amount (Series 1998B) provided that the amount so paid to restore the Debt Service Reserve Fund (Series 1998B) on the last Business Day of each calendar quarter shall not be less than one-fourth of the amount of such deficiency. Interest earned on investment of moneys in the Debt Service Reserve Fund (Series 1998B) prior to Completion of the 1998B Project (as defined in the 1998 Indenture) shall be deposited as received in the Acquisition Fund (1998B Project) (as defined in the 1998 Indenture) and applied in accordance with the 1998 Indenture. Interest earned on investment of moneys in the Debt Service Reserve Fund (Series 1998B) shall be used only to pay principal of and interest on the Series 1998B Bonds while any of the Series 1998B Bonds shall be outstanding or, at the direction of the Authority as provided in the 1998 Indenture, to fund the Series 1998B Rebate Fund.

(3) Under the 1998 Indenture, the Trustee is required to determine on the first Business Day after January 1 of each year the amount on deposit in the Debt Service Reserve Fund (Series 1998B). If the amount on deposit in the Debt Reserve Fund (Series 1998B) on any such Business Day, determined by valuing investments therein at fair market value, is determined to be less than ninety percent (90%) of the Reserve Amount (Series 1998B) because of a change in the value of such investments, then the Lessee shall pay on the last Business Day of each calendar quarter commencing with the calendar quarter in which such deficiency is determined a sum sufficient to restore the Debt Service Fund (Series 1998B) to one hundred percent (100%) of the Reserve Amount (Series 1998B), provided that the amount so paid to restore the Debt Service Reserve Fund (Series 1998B) on the last day Business Day of each calendar quarter shall be not less than one-eighth of the amount of such deficiency.

(4) At the direction of the Authority, the Lessee shall pay the amounts required to satisfy the Authority's obligation to fund the Series 1998B Rebate Fund and make payments to the United States required under Section 148(f) of the Code with respect to the Series 1998B Bonds pursuant to the 1998 Indenture.

### **Expenses and Fees**

The Lessee shall pay to the Authority the expenses and fees incurred by the Authority in connection with the issuance and sale of the Series 2013 Bonds, including the fees and expenses required to be paid pursuant to the respective Bond Purchase Contracts relating to the foregoing Bonds and Parity Bonds, respectively, and the fees, charges, costs and expenses of and other moneys required to be paid to the Trustee, and any paying agent in accordance with the Indenture, the 2011 Indenture, the 2010 Indenture, the 2003 Indenture and the 1998 Indenture, to the Dissemination Agent in accordance with the Continuing Disclosure Agreement.

### **Acceleration**

In the event that the Trustee declares all principal of and interest on the outstanding Bonds and Parity Bonds, to be due and payable upon the occurrence of an Event of Default, as provided in the Indenture, the Lessee shall pay the Authority upon demand the amount certified in writing by the Trustee to be needed to pay all principal and interest on the outstanding bonds and Parity Bonds.

### **Maintenance of Hurley Medical Center**

The Lessee shall, at its own expense, operate and maintain Hurley Medical Center and shall keep the same in good condition and repair and pay all costs and expenses thereof provided in the 2013 Restated Contract of Lease.

## **Insurance**

The Lessee shall provide at its own expense insurance with respect to its Property, the operation thereof and its business against such casualties, contingencies and risks (including but not limited to public liability and employee dishonesty) and in amounts not less than is customary in the case of hospitals engaged in the same or similar activities and similarly situated and as is adequate to protect its operations and Property. Such insurance shall be payable to the Lessee, the Authority and the Trustee as their interests may appear and shall be made effective from the date of commencement of the term of the 2013 Restated Contract of Lease.

## **Damage or Destruction**

If prior to full payment of the Bonds and Parity Bonds (or prior to provisions for payment thereof having been made in accordance with the provisions of the Indenture), Hurley Medical Center shall be damaged or partially or totally destroyed by whatever cause, there shall be no abatement or reduction in the cash rentals payable under the 2013 Restated Contract of Lease, and, to the extent that the claim for loss resulting from such damage or destruction is not in excess of the greater of \$5,000,000 or five percent (5%) of Revenues of the Lessee for the most recent Fiscal Year (provided, however, that Revenues shall exclude any Revenues of any Designated Affiliate of the Hurley Medical Center for its last Fiscal Year), the Lessee (i) will promptly repair, rebuild or restore the Property damaged or destroyed with such changes, alterations and modifications (including the substitution and addition of other property) as may be desired by it and as will not impair the character or significance of Hurley Medical Center, and (ii) will apply for such purpose so much as may be necessary of any insurance proceeds resulting from claims for such losses not in excess of the greater of \$5,000,000 or five percent (5%) of Revenues of the Lessee for the most recent Fiscal Year (provided, however, that Revenues shall exclude any Revenues of any Designated Affiliate of the Hurley Medical Center for its last Fiscal Year) as well as any additional available moneys necessary therefor.

If, prior to full payment of the Bonds and Parity Bonds (or provision for payment thereof having been made in accordance with the provisions of the Indenture), Hurley Medical Center shall be destroyed (in whole or in part) or damaged as aforesaid to such extent that the claim for loss resulting from such destruction or damage is in excess of the greater of \$5,000,000 or five percent (5%) of Revenues of the Lessee for the most recent Fiscal Year (provided, however, that Revenues shall exclude any Revenues of any Designated Affiliate of the Hurley Medical Center for its last Fiscal Year), the Lessee shall promptly give, or cause to be given, written notice thereof to the Authority and Trustee. If such claim for such loss is in excess of the greater of \$5,000,000 or five percent (5%) of Revenues of the Lessee for the most recent Fiscal Year (provided, however, that Revenues shall exclude any Revenues of any Designated Affiliate of the Hurley Medical Center for its last Fiscal Year), the Lessee shall have the option of (i) continuing to pay cash rentals and proceeding promptly to repair, rebuild or restore the Property damaged or destroyed with such changes, alterations and modification (including the substitution and addition of other property) as may be desired by the Lessee and as will not impair the character or significance of Hurley Medical Center, and the Trustee will, upon delivery to the Trustee of a certificate signed by the Lessee and approved by an Independent Architect selected by the Lessee, setting forth the costs theretofore incurred or paid, apply so much as may be necessary of the proceeds from time to time available of such insurance to payment of the costs of such repair, rebuilding or restoration, either on completion thereof or as the work progresses or (ii) requesting the Authority to cause the Bonds or Parity Bonds to be redeemed as provided in the 2013 Restated Contract of Lease.

In the event the Lessee does not elect to cause the Bonds or Parity Bonds to be redeemed and said proceeds and other moneys available therefor are not sufficient to pay in full costs of such repair, rebuilding or restoration, the Lessee will nonetheless complete the work thereof and will pay the portion of the cost thereof in excess of the amount of said proceeds and other available moneys. The Lessee shall not, by reason of the payment of such excess costs, be entitled to any reimbursement from the Authority or any diminution in or postponement of the cash rentals payable under the 2013 Restated Contract of Lease. Any balance of such proceeds remaining after the payment of all costs of such repair, rebuilding or restoration shall be paid into the Redemption Fund. If the Bonds and Parity Bonds have been fully paid or provision for the payment of the Bonds and Parity Bonds has been made in accordance with the Indenture, all proceeds shall be paid to the Lessee.

In the event that the Lessee shall elect not to cause Hurley Medical Center to be repaired or rebuilt, the Lessee shall direct the Authority to cause the entire insurance proceeds to be applied to the redemption of such Bonds or Parity Bonds as are then redeemable, and in such event the Authority shall cause the Trustee so to apply

the same; provided, that no part of any such insurance proceeds may be applied for such purposes unless (1) all of the Bonds and Parity Bonds are to be redeemed or refunded in accordance with the Indenture, or (2) in the event that less than all of the Bonds and Parity Bonds are to be redeemed, the Lessee shall furnish, or cause to be furnished to the Authority and the Trustee a certificate of an Independent Architect, independent engineer, Hospital Consultant or other expert selected by the Lessee and acceptable to the Authority, stating (A) that the Property forming a part of the Hurley Medical Center that was damaged or destroyed is not essential to the Lessee's use or occupancy of the Hurley Medical Center, or (B) that the Hurley Medical Center has been restored to a condition substantially equivalent to the condition prior to such damage or destruction.

### **Condemnation; Title Insurance**

Unless the 2013 Restated Contract of Lease terminates pursuant to its terms, in the event that title to or the temporary use of the Hurley Medical Center or any part thereof shall be taken under the exercise of the power of eminent domain by an governmental body or by any Person acting under governmental authority, there shall be no abatement or reduction in the cash rental payments payable by the Lessee under the 2013 Restated Contract of Lease. The Authority and the Lessee shall cause the net proceeds received by them and the Trustee or any of them from any award made in such eminent domain proceedings to be applied in one or more of the following ways as shall be directed in writing by the Lessee:

(i) to the restoration of the remaining portion of the Hurley Medical Center to substantially the same condition as it existed prior to the exercise of said power of eminent domain;

(ii) to the acquisition, by construction or otherwise, by the Authority of other land and improvements suitable for the Lessee's operation of the Hurley Medical Center (which land and improvements shall be deemed a part of the Hurley Medical Center and available for use and occupancy by the Lessee without the payment of any cash rental payments other than as provided in the 2013 Restated Contract of Lease, to the same extent as if such land or other improvements were specifically described therein and demised thereby); or

(iii) to redemption of the principal of any of the Bonds or Parity Bonds, together with accrued interest thereon to the date of redemption pursuant to the Indenture and the corresponding provisions of the 2011 Indenture, the 2010 Indenture, the 2003 Indenture and the 1998 Indenture, or provision for the payment thereof in accordance with the Indenture and the corresponding provisions of the 2011 Indenture, the 2010 Indenture, the 2003 Indenture and the 1998 Indenture; provided, that no part of any such condemnation award may be applied for such purposes unless (1) all of the Bonds and Parity Bonds are to be redeemed or refunded in accordance with Indenture, the 2011 Indenture, the 2010 Indenture, the 2003 Indenture and the 1998 Indenture upon exercise of the Lessee's option to terminate authorized by the Indenture, or (2) in the event that less than all of the Bonds and Parity Bonds are to be redeemed the Lessee shall furnish, or cause to be furnished to the Authority and the Trustee a certificate of an Independent Architect, independent engineer, Hospital Consultant or other expert selected by the Lessee and acceptable to the Authority stating (A) that the Property forming a part of the Hurley Medical Center that was taken by such condemnation is not essential to the Lessee's use or occupancy or the Hurley Medical Center, or (B) that the Hurley Medical Center has been restored to a condition substantially equivalent to its condition prior to the taking by such condemnation proceedings, or (C) that land or improvements have been acquired which are suitable for the Lessee's operation of the Hurley Medical Center as contemplated by the foregoing subparagraph (ii).

Unless the 2013 Restated Contract of Lease terminates pursuant to its terms, within 90 days from the date of entry of a final order in any eminent domain proceedings granting condemnation, the Lessee shall direct the Authority and the Trustee in writing as to which of the ways specified in the 2013 Restated Contract of Lease the Lessee elects to apply the net proceeds of the condemnation award.

Any balance of the net proceeds of the award in such eminent domain proceedings shall be paid into the Redemption Fund. If the Bonds and Parity Bonds have been fully paid (or provision for payment thereof has been made in accordance with the provisions of the Indenture, the 2011 Indenture, the 2010 Indenture, the 2003 Indenture and the 1998 Indenture), all net proceeds shall be paid to the Lessee. The Authority shall cooperate fully with the Lessee in the handling and conduct of any prospective or pending condemnation proceedings with respect to Hurley Medical Center or any part thereof and will, to the extent it may lawfully do so, permit the Lessee to litigate in any such proceedings in its own name or in the name and behalf of the Authority. In no event shall the Authority

voluntarily settle or consent to the settlement of any prospective or pending condemnation proceedings with respect to the Hurley Medical Center or any part thereof without the written consent of the Lessee.

The Authority and the Lessee shall cause the proceeds of any title insurance with respect to Hurley Medical Center received by them or the Trustee or any of them to be applied in accordance with the provisions of the 2013 Restated Contract of Lease governing application of the condemnation proceeds as though such proceeds of title insurance were an award in an eminent domain proceeding.

### **General Conditions**

Hurley Medical Center shall not be used or permitted to be used in any unlawful manner or in any manner which would violate the provisions of any state or federal permit or regulation or of any contract or agreement between the Lessee or the Authority and any third party. The Lessee shall hold the Authority and the members of its Commission harmless and keep it fully indemnified at all times against any loss, injury, or liability to any person or property by reason of the use, misuse or non-use of Hurley Medical Center or from any act or omission in, on or about Hurley Medical Center. The Lessee shall, at its own expense, make any changes or alterations in, on or about Hurley Medical Center which may be required by any applicable statute, charter, ordinance or governmental regulation or order, and shall save the Authority harmless and free from all cost or damage in respect thereto.

### **Inspections**

The Authority, through its officers, employees or agents, may enter Hurley Medical Center at any time during the term of the 2013 Restated Contract of Lease for the purpose of inspecting the same and determining whether the Lessee is complying with the covenants, agreements, terms and conditions thereof.

### **Covenant with Bondholders**

The Authority and the Lessee have agreed that inasmuch as the 2013 Restated Contract of Lease, and particularly the obligations of the Lessee to make cash rental payments to the Authority, provide the security for payment of the principal of, premium, if any, and interest on the Bonds and Parity Bonds, the 2013 Restated Contract of Lease is made for the benefit of the holders of said Bonds and Parity Bonds as well as for the benefit of the parties and that the holders of said Bonds and Parity Bonds shall have all rights and remedies provided by law and especially by the Act. The parties further covenant and agree that they will not do or permit to be done any act, and that the 2013 Restated Contract of Lease will not be amended in any manner, which would impair the security of said Bonds and Parity Bonds or the rights of the holders thereof. Any amendment of the 2013 Restated Contract of Lease to authorize the issuance of Additional Bonds as permitted by the Indenture and providing for the payment of additional cash rentals for the payment thereof shall not be deemed to impair the security of the Bonds and Parity Bonds or the rights of the holders thereof.

### **Sale, Lease or Other Disposition of Property**

The Lessee agrees that it will not in any consecutive twelve month period, sell, lease or otherwise dispose of Property which, together with all other Property transferred by the Lessee and Designated Affiliates in transactions other than in the ordinary course of business and other than those described in subsections (a) through (j) hereof, totals for any consecutive twelve month period in excess of 10% of the total value of the Property of the Lessee and Designated Affiliates (calculated on the basis of the Book Value of the assets shown on the assets side of the balance sheet in the financial statements of the Lessee for the Fiscal Year next preceding the date of such sale, lease or other disposition for which financial statements of the Lessee reported on by independent certified public accountants are available) except for transfers or other dispositions in the ordinary course of business and except for transfers of Property:

- (a) which is replaced with Property of equal or greater value and usefulness;
- (b) To any Person, if prior to such sale, lease or other disposition there is delivered to the Authority a certificate signed by an authorized officer of the Lessee stating that, in the judgment of the signer, such Property has or within the next succeeding 24 calendar months is reasonably expected to, become inadequate, obsolete, worn out,



unsuitable, unprofitable, undesirable or unnecessary and the sale, lease, removal or other disposition thereof will not impair the structural soundness, efficiency or economic value of the remaining Property;

(c) Upon fair and reasonable terms no less favorable to the Lessee than would obtain in a comparable arm's-length transaction, if following such transfer the proceeds received by the Lessee are applied to acquire additional Property or are applied to the payment of cash rentals required under the 2013 Restated Contract of Lease;

(d) To any Person, if such Property consists solely of assets which are specifically restricted by the donor or grantor to a particular purpose which is inconsistent with their use for the payment of cash rentals required under the 2013 Restated Contract of Lease;

(e) Pursuant to the provisions of the 2013 Restated Contract of Lease governing sale or assignment of all or substantially all of the Lessee's leasehold interest thereunder;

(f) Pursuant to the provisions of the 2013 Restated Contract of Lease governing release of unimproved property from the lien thereof;

(g) Pursuant to the provisions of the 2013 Restated Contract of Lease governing Affiliate Guaranties;

(h) Pursuant to the provisions of the 2013 Restated Contract of Lease governing Affiliate Leases;

(i) Pursuant to the provisions of the 2013 Restated Contract of Lease governing transfers to prevent Affiliate bankruptcies; or

(j) To any Person upon delivery to the Authority of: (i) a certificate of an authorized officer of the Lessee (accompanied by the independent certified public accountant's report mentioned below) certifying that during the Fiscal Year immediately preceding the proposed disposition for which financial statements have been reported upon by independent certified public accountants, the ratio of Net Income Available or Debt Service to the Maximum Annual Debt Service Requirement, taking into account such disposition, would not have been reduced to less than 1.50 to 1.00, or (ii) a written report of a Hospital Consultant stating that the estimated or forecasted ratio of Net Income Available for Debt Service to the Maximum Annual Debt Service Requirement for the full succeeding Fiscal Year immediately following the date of such report taking into account such disposition will not be reduced to less than 1.75 to 1.00.

The foregoing provisions notwithstanding, the Lessee further agrees that except as permitted in subsequent paragraphs "Sale or Assignment of Leasehold" and "Release of Unimproved Property", it will not sell, lease, donate or otherwise dispose of Property which could reasonably be expected at the time of such sale, lease, donation or disposition to result in a reduction of the ratio of Net Income Available for Debt Service to the Maximum Annual Debt Service Requirement for any Fiscal Year to fall below 1.10 to 1.00. In the event that the Authority, the Trustee or the holder or holders of 10% or more of the outstanding principal amount of the Bonds and Parity Bonds objects to any such sale, lease, donation or disposition on the grounds that the same is prohibited by this paragraph, the Lessee shall have the right to retain a Hospital Consultant to review whether such sale, lease, donation or disposition could reasonably be or could have reasonably been expected at the time thereof to result in a reduction of the ratio of Net Income Available for Debt Service to the Maximum Annual Debt Service Requirement which is prohibited by this paragraph. If the Hospital Consultant concludes in a report (which report, including without limitation, the scope, form, substance and other aspects thereof, are acceptable to the Authority and which is delivered to the Authority within three months after the receipt of such objection) that such sale, lease, donation or disposition could not reasonably be or could not reasonably have been expected at the time thereof to result in such a prohibited reduction, such conclusion shall be determinative as to whether this paragraph has been violated; it being understood that, regardless of whether such a report has been prepared, the Lessee retains the right to litigate, in the course of a declaratory judgment action or in connection with the enforcement of the remedies set forth in the Indenture, whether or not such a sale, lease, donation or disposition could reasonably be or could reasonably have been expected to result in such a prohibited reduction. The foregoing provisions of this paragraph notwithstanding, neither the Authority, the Trustee nor the holder of any Bonds or Parity Bonds shall have the right to object to any

such sale, lease, donation or disposition under this paragraph more than six months after the date of receipt by the Authority of the audited financial statements required to be delivered pursuant to the 2013 Restated Contract of Lease for the Fiscal Year during which such sale, lease, donation or disposition occurred.

### **Sale or Assignment of Leasehold**

The Lessee covenants that it will not sell or assign all or substantially all of its leasehold interest under the 2013 Restated Contract of Lease to any Person unless:

(a) the transferee entity shall be a corporation, business association or governmental entity organized and existing under the laws of the United States of America or any state thereof and shall execute and deliver to the Authority an appropriate instrument, satisfactory to the Authority, containing the agreement of such transferee entity to assume the due and punctual payment of cash rental payments under the 2013 Restated Contract of Lease and the due and punctual performance and observance of all the covenants and conditions of the 2013 Restated Contract of Lease to be kept and performed by the Lessee;

(b) the Lessee, immediately after such sale or assignment, would not be in default in the performance or observance of any covenants or conditions of the 2013 Restated Contract of Lease (including any covenant or condition which imposes restrictions upon the activities of the Lessee);

(c) if all amounts due or to become due on the Bonds and any Parity Bonds have not been fully paid to the holders thereof, there shall have been delivered to the Authority an opinion of nationally recognized bond counsel, in form and substance satisfactory to the Authority, to the effect that under then existing law the consummation of such sale or assignment, whether or not contemplated on any date of the delivery of such Bonds or Parity Bonds, would not adversely affect the validity of or exemption from federal income taxation of interest payable on such Bonds or Parity Bonds;

(d) the Authority receives (A) a report of a Hospital Consultant to the effect that an estimated or forecasted ratio of net income available for debt service (calculated in the same manner as Net Income Available for Debt Service) to the maximum annual debt service requirement (calculated in the same manner as Maximum Annual Debt Service Requirement) of at least 1.25 to 1.00 will be maintained by such transferee entity for each of such transferee's two fiscal years immediately following such sale or assignment and (B) a certificate of an officer of the transferee entity to the effect that the ratio of net income available for debt service (calculated in the same manner as Net Income Available for Debt Service) to the maximum annual debt service requirement (calculated in the same manner as Maximum Annual Debt Service Requirement) for such transferee's two most recent fiscal years would have been at least 1.25 to 1.00 if such sale or assignment had occurred prior to such fiscal years; and

(e) the Authority shall receive an opinion of counsel as conclusive evidence that any such sale or assignment, and any such assumption, complies with the provisions stated above and that it is proper for the Authority under the provisions stated above to join in the execution of any instrument required to be executed and delivered by the provisions stated above.

In case of any such sale or assignment and upon any such assumption by the transferee entity, such transferee entity shall succeed to and be substituted for its predecessor, with the same effect as if it had been named in the 2013 Restated Contract of Lease as the Lessee and the original Lessee shall be released of all obligations under the 2013 Restated Contract of Lease.

### **Release of Unimproved Property**

Notwithstanding any other provisions to the contrary, the Lessee and the Authority may amend the 2013 Restated Contract of Lease to effect the release from Hurley Medical Center of any unimproved portion of real property (i.e., land not occupied by building or unrelatable machinery and equipment, roads and walks, utility lines and the like). Within thirty days of receipt of (i) notice by the Lessee specifying the land to be released and that it will be used for hospital purposes and enclosing proposed documentation, (ii) the approval of the Trustee of the amendment to the 2013 Restated Contract of Lease in accordance with this paragraph and acknowledging receipt of the required consideration, and (iii) the written opinion of a registered engineer that such release shall not

adversely alter the scope, character, operation or productive capacity of Hurley Medical Center, or destroy ingress to or egress from the remaining Property, the Authority shall execute and deliver an amendment to the 2013 Restated Contract of Lease and documents of conveyance pertaining to such release in form and substance reasonably acceptable to the Authority and its counsel. The consideration for such release shall be an amount deemed fair and adequate by a Member of the American Institute of Real Estate Appraisers (MAI), but not less than the original cost thereof to the Authority calculated on a per acre basis, for each acre or fraction thereof to be released, and shall be deposited in the Redemption Fund or such other fund as the Lessee in writing shall direct. The land so released shall be free and clear of any claims of the Authority, the Trustee and the holders of any Bonds or Parity Bonds. Such release shall not entitle the Lessee to any abatement or diminution of the cash rentals payable except in the event the Lessee elects to prepay any portion of the cash rentals and such prepayment is applied to the payment or redemption of a portion of the Bonds or Parity Bonds.

### **Affiliate Guaranties**

So long as no default shall have occurred and be continuing under the Indenture, the Lessee may, without the prior consent of the Authority or any holder of any Bond or Parity Bond dispose (other than by Affiliate Lease) of its Property (the "Transferred Property") in any twelve month period in amounts in excess of the then applicable limitations set forth in the 2013 Restated Contract of Lease subject to the following conditions: (a) such disposition is to an Affiliate; (b) the Affiliate executes and delivers an Affiliate Guaranty; and (c) the following documents and showings shall be executed and delivered to the Authority, addressed to it, not less than 10 Business Days prior to such disposition:

(i) an appraisal of the fair market value of the portion of the Transferred Property which is real property by a Member of the American Institute of Real Estate Appraisers (MAI) and an appraisal of the fair market value of the portion of the Transferred Property (other than cash) which is not real property by an expert acceptable to the Authority;

(ii) a certificate of an authorized officer of the Lessee (accompanied by the independent certified public accountant's report mentioned below) certifying that during the Fiscal Year immediately preceding the proposed disposition for which financial statements have been reported upon by independent certified public accountants, the Lessee's ratio of Net Income Available for Debt Service to Maximum Annual Debt Service Requirement for such Fiscal Year is not less than 1.25 to 1.00;

(iii) a written report of the Lessee or, if requested by the Authority or if, taking into account the proposed disposition, the Lessee would have sold, leased or otherwise disposed of 10% (calculated as provided in the provisions of the 2013 Restated Contract of Lease summarized above under "Sale, Lease or Other Disposition of Property") or more of its Property in the preceding twelve month period in dispositions other than dispositions made in the ordinary course of business or of the types described in paragraphs (a) through (d) under "Sale, Lease or Other Disposition of Property", a written report of a Hospital Consultant (which report, including without limitation, the scope, form, substance and other aspects thereof, are acceptable to the Authority), to the effect that: (A) the Lessee's estimated or forecasted ratio of Net Income Available for Debt Service to Maximum Annual Debt Service Requirement for each of the two full Fiscal Years immediately following the date of such report taking into account the disposition of the Transferred Property will be not less than 1.25 to 1.00 and (B) sufficient revenues and cash flow could be generated by the Lessee to pay the operating expenses of the Hurley Medical Center and the cash rentals due during such two Fiscal Years and the Lessee's unrestricted fund balances determined in accordance with generally accepted accounting principles will not be made negative by such disposition;

(iv) a written opinion of independent counsel (which counsel and opinion, including without limitation the scope, form, substance and other aspects thereof, are acceptable to the Authority) to the effect that: (A) such disposition will not adversely affect the status of the Lessee as a Tax-Exempt Organization, if it has such status; (B) the guarantor executing the Affiliate Guaranty is an Affiliate; (C) the Affiliate Guaranty involved is valid, binding and enforceable in accordance with its terms (subject to customary exceptions for laws affecting creditors' rights and the availability of equitable remedies) at least to the extent of the appraised fair market value of the Transferred Property determined as provided above; (D) the conditions precedent to the disposition of the Transferred Property imposed hereby have been satisfied; (E) no default or event of default will result from such disposition under the terms and provisions hereof or of any other mortgage, agreement or other instrument known to such Counsel after

due inquiry by which the Lessee or its Property is or may be bound; and (F) such disposition is not subject to any authorization, consent, approval or review by any governmental body or regulatory authority not theretofore obtained or effected, as required; and

(v) a written opinion of nationally recognized bond counsel selected by the Lessee and acceptable to the Authority to the effect that such disposition will not adversely affect the validity of any Bonds or Parity Bonds or the exemption from federal income tax of the interest paid on any such Bonds or Parity Bonds, which opinion may rely on the opinion of independent counsel referred to in (iv) above as to matters set forth therein.

The requirements of the foregoing subsection (ii) and subsection (iii) (A) shall be deemed satisfied if: (i) in the written opinion of a Hospital Consultant (which Hospital Consultant and opinion, including, without limitation, the scope, form, substance and other aspects thereof, are acceptable to the Authority and which opinion, if requested by the Authority, is accompanied by a concurring opinion of independent counsel, which counsel and opinion, including, without limitation, the scope, form, substance and other aspects thereof, are acceptable to the Authority, as to any conclusions of law supporting the opinion of such Hospital Consultant) applicable laws or regulations have prevented or will prevent the Lessee from generating the amount of Net Income Available for Debt Service required to be generated by such subsections, or either thereof, as a prerequisite to such disposition; and (ii) the ratio of Net Income Available for Debt Service to Maximum Annual Debt Service Requirement for the two Fiscal Years preceding the dates of such transfer and the estimated or forecasted ratio for two Fiscal Years following the date of such transfer are both at least 1.00 to 1.00.

Each Affiliate Guaranty shall be executed by the Affiliate and the Lessee, and shall:

- (a) unconditionally guarantee to the Authority payment of the cash rentals;
- (b) provide that the amounts so guaranteed shall not diminish as the cash rental payments are repaid;
- (c) provide that the obligations under such Affiliate Guaranty shall be absolute and unconditional and shall remain in full force and effect until the cash rental payments shall have been paid or provided for; provided that such obligations may be discharged prior to payment in full of the cash rental payments if the Affiliate deposits with the Lessee or the Authority cash in an amount equal to the fair market value of the Transferred Property at either the time of the transfer or at the time of such deposit, whichever is higher; provided, that in the event any part or all of the Transferred Property acquired by such Affiliate in connection with the execution and delivery of such Affiliate Guaranty shall constitute real property, the Affiliate Guaranty may be discharged only if the Affiliate reconveys such portion of the Transferred Property to the Lessee; provided further that any such moneys so deposited with the Authority to effect the discharge of the Affiliate Guaranty may be invested at the written request of the Affiliate in Governmental Securities with a final maturity of not more than one year from the date of such investment;
- (d) provide that upon an event of default in the payment of cash rental payments when and as the same shall become due, whether at the stated maturity thereof or otherwise, the Authority may proceed first directly against the Affiliate under its Affiliate Guaranty without proceeding against or exhausting any other remedies which it may have against any other person, firm or corporation (including, without limitation, the Lessee) and without resorting to any other security held by the Authority;
- (e) provide that the Affiliate and the Lessee covenant and agree that they will not take any action or omit to take any action, which action or omission may result in constituting any Bonds or Parity Bonds "arbitrage bonds" within the meaning of such term as used in Section 148(a) of the Code, including, but not limited to, any action with respect to the investment of the proceeds of any Bonds or Parity Bonds or any other securities or moneys deposited with the Trustee pursuant thereto;
- (f) provide that the Affiliate may not incur any additional indebtedness or liabilities of any kind (including, without limitation, any guaranties or any indebtedness shown on the liability side of the balance sheet) except: (i) liabilities (other than for borrowed money and other than rents payable under lease agreements) incurred

in the regular operations of the Affiliate; (ii) liabilities for borrowed money and rents payable under lease agreements, both payable solely to the Lessee and (iii) Affiliate Guaranties and Affiliate Leases;

(g) prohibit mergers or consolidation by the Affiliate, or one or more corporations merging into or consolidating with the Affiliate except with or by the Lessee or with another Affiliate if the merger with another Affiliate is consented to by the Authority and the surviving entity assumes the obligations under the Affiliate Guaranty;

(h) prohibit transfers of any or all of the assets of the Affiliate except to the Lessee or to another Affiliate if prior to such transfer to another Affiliate the requirements set forth in the foregoing subsections (c)(i) through (v) of the first paragraph under "Affiliate Guaranties" are satisfied and except in the ordinary course of, and pursuant to the reasonable requirements of, the Affiliate's activities and upon fair and reasonable terms no less favorable to the Affiliate than would obtain in a comparable arm's-length transaction;

(i) provide that the Transferred Property will be reconveyed to the Lessee prior to any dissolution of the Affiliate;

(j) provide that the occurrence and continuance of any of the following events shall constitute an "event of default" under the Affiliate Guaranty: (i) failure by the Lessee or the Affiliate to pay any installment of principal, interest or premium, if any, on any obligation and the continuance of such failure for five days (other than principal, interest or premium owing on any obligation where the Lessee or any Affiliate is the only creditor and the Lessee or any Affiliate is the only debtor); (ii) failure of the Affiliate to comply with or perform any covenant of the Affiliate Guaranty and the failure to remedy such default for 30 days after written notice from the Lessee, the Authority or the holders of at least 25% in aggregate principal amount of the Bonds and Parity Bonds; (iii) bankruptcy or reorganization of the Affiliate; and (iv) the occurrence of an event of default under the Indenture, the 2011 Indenture, the 2010 Indenture, the 2003 Indenture or the 1998 Indenture; provided that the Affiliate Guaranty may include such other events of default as are approved by the parties thereto; and

(k) contain provisions similar to those appearing in the 2013 Restated Contract of Lease providing for maintenance of insurance, right of entry by the Authority, maintenance and use of the Transferred Property, compliance with law, payment of taxes, charges and assessments, removal of liens, permitted contests, maintenance of rates and charges, disposition of insurance and condemnation proceeds, maintenance of status as an Affiliate, further assurances, indemnity, amendment and delivery of financial statements and annual certificates evidencing compliance with the terms of the Affiliate Guaranty.

Any Affiliate Guaranty shall be subject to amendment, change or modification to the extent and subject to the same conditions as the Indenture. Any Affiliate Guaranty and all payments due the Lessee thereunder shall be collaterally assigned to the Authority as additional security for the cash rentals due under the 2013 Restated Contract of Lease. The Lessee shall remain primarily obligated on the cash rentals due under the 2013 Restated Contract of Lease despite the existence of any Affiliate Guaranties.

### **Affiliate Leases**

So long as no default shall have occurred and be continuing under the Indenture, the 2010 Indenture, the 2011 Indenture, the 2003 Indenture or the 1998 Indenture, the Lessee may, without the prior consent of the Authority or the holder of any Bonds or Parity Bonds, dispose of Property (the "Leased Property") by lease or sublease of a portion of its leasehold interest under the 2013 Restated Contract of Lease to an Affiliate in any twelve month period in excess of the then applicable limitations summarized above under "Sale, Lease or Other Disposition of Property", subject to the following conditions: (a) the Affiliate and the Lessee execute and deliver an Affiliate Lease and (b) the following documents and showings shall be executed and delivered to the Authority addressed to it, not less than 10 days prior to the execution of such Affiliate Lease:

(i) an appraisal of the fair market and fair market rental values of the portion of the Leased Property which is real property by a Member of the American Institute of Real Estate Appraisers (MAI) and an appraisal of the fair market and fair market rental values of the portion of the Leased Property which is not real property by an expert acceptable to the Authority;

(ii) a certification of an authorized officer of the Lessee (accompanied by the independent certified public accountant's report mentioned below) certifying that during the Fiscal Year immediately preceding the proposed lease for which financial statements have been reported upon by independent certified public accountants, the Lessee's ratio of the Lessee's Net Income Available for Debt Service to Maximum Annual Debt Service Requirement for such Fiscal Year is not less than 1.25 to 1.00;

(iii) a written report of the Lessee or, if requested by the Authority or, if taking into account the proposed lease, the Lessee would have sold, leased or otherwise disposed of 10% (calculated as provided in the provisions of the 2013 Restated Contract of Lease summarized above under "Sale, Lease or Other Disposition of Property") or more of its Property in the preceding twelve month period in dispositions other than dispositions in the ordinary course of business or of the types described in paragraphs (a) through (d) of the above provisions under "Sale, Lease or Other Disposition of Property", a written report of a Hospital Consultant (which report, including without limitation the scope, form, substance and other aspects thereof, are acceptable to the Authority), to the effect that: (A) (1) the estimated or forecasted ratio of the Lessee's Net Income Available for Debt Service to Maximum Annual Debts Service Requirement for each of the two full Fiscal Years immediately following the date of such report, taking into account the leasing of such Property, will be not less than 1.25 to 1.00 and (2) the Affiliate's estimated or forecasted income available for payment of Basic Rent for each of such Affiliate's two full fiscal years immediately following the date of such report will be not less than 100% of the maximum annual payments of Basic Rent to be paid under the Affiliate Lease in the current or any succeeding fiscal year, and (B) after consummation of the Affiliate Lease and giving effect thereto sufficient revenues and cash flow could be generated by the Lessee to pay the operating expenses of the Hurley Medical Center and the cash rentals during such two Fiscal Years;

(iv) a written opinion of independent counsel (which counsel and opinion, including without limitation the scope, form, substance and other aspects thereof, are acceptable to the Authority) to the effect that (A) such Affiliate Lease will not adversely affect the status of the Lessee as a Tax-Exempt Organization, if it otherwise has such status; (B) the Affiliate lessee involved is an Affiliate; (C) the Affiliate Lease involved is valid, binding and enforceable in accordance with its terms (subject to customary exceptions for laws affecting creditors' rights and the availability of equitable remedies and subject to the qualification that the provisions requiring merger of the Affiliate with the Lessee upon the termination of the Affiliate Lease for the reasons set forth in subparagraph (xii) of the following paragraph may not be enforceable); (D) the conditions precedent to the leasing of the Leased Property imposed by the 2013 Restated Contract of Lease have been satisfied; (E) no default or event of default will result from such leasing under the terms and provisions of the Indenture or of any other mortgage, agreement or other instrument known to such Counsel after due inquiry by which the Lessee or its Property is or may be bound; and (F) such Affiliate Lease is not subject to any authorization, consent, approval or review by any governmental body or regulatory authority not theretofore obtained or effected, as required;

(v) a written opinion of nationally recognized bond counsel selected by the Lessee and acceptable to the Authority to the effect that such leasing will not adversely affect the validity of the Bonds and the Parity Bonds or the exemption from federal income tax of the interest paid on any such Bonds or Parity Bonds, which opinion may rely on the opinion of independent counsel referred to in (iv) above as to matters set forth therein; and

(vi) current documents authorizing and providing for the merger of the Affiliate into the Lessee upon the terms and conditions set forth in the Affiliate Lease.

Each Affiliate Lease shall be executed by the Affiliate and the Lessee and shall:

(i) provide that the Affiliate Lease have a term not less than the final maturity of all Bonds and Parity Bonds;

(ii) provide that the Affiliate shall pay an amount equal to Basic Rent to the Lessee during the term of such Affiliate Lease;

(iii) provide that the Affiliate shall pay all costs and expenses of the Lessee incurred in connection with such Affiliate Lease as additional rent;

(iv) provide that the obligations of the Affiliate under the Affiliate Lease shall be absolute and unconditional and the Affiliate Lease shall not terminate, the Affiliate shall not have any right to terminate or avoid the Affiliate Lease and the Affiliate shall not be entitled to any abatement or reduction of Basic Rent, additional rent or any other amounts payable thereunder;

(v) provide that the Affiliate will remain obligated under the Affiliate Lease in accordance with its terms and will not take any action to terminate, rescind or avoid the Affiliate Lease, notwithstanding (A) the bankruptcy, insolvency, reorganization, composition, readjustment, liquidation, dissolution, winding-up or other proceeding affecting the Lessee or any assignee of the Lessee, and (B) any action with respect to the Affiliate Lease which may be taken by any trustee, receiver or liquidator (or similar official) in any such proceeding;

(vi) provide that the Affiliate and the Lessee covenant and agree that they will not take any action or fail to take any action which may result in constituting any Bonds or Parity Bonds “arbitrage bonds” within the meaning of such term as used in Section 148(a) of the Code, including without limitation any action with respect to the investment of the proceeds of any Bonds or Parity Bonds or any other moneys or securities deposited with the Trustee pursuant thereto;

(vii) provide that the Affiliate shall not assign any part or all of its rights and interests under the Affiliate Lease and shall not sublease all or any part of the Leased Property except pursuant to subleases which are consented to by the Lessee and not objected to by the Authority;

(viii) provide that the Affiliate may not incur any additional indebtedness or liabilities of any kind (including, without limitation, any guaranties or any indebtedness shown on the liability side of the balance sheet) except: (A) liabilities (other than for borrowed money and other than rents payable under lease agreements) incurred in the regular operations of the Affiliate; (B) liabilities for borrowed money and rents payable under lease agreements, both payable solely to the Lessee; and (C) Affiliate Guaranties and Affiliate Leases;

(ix) prohibit mergers or consolidation by the Affiliate, or one or more corporations merging into or consolidating with the Affiliate except with or by the Lessee;

(x) prohibit transfers of any or all of the assets of the Affiliate except to the Lessee or in the ordinary course of, and pursuant to the reasonable requirements of, the Affiliate’s activities and upon fair and reasonable terms no less favorable to the Affiliate than would obtain in a comparable arm’s-length transaction;

(xi) provide that occurrence and continuance of any of the following events shall constitute an “event of default” under the Affiliate Lease: (A) failure of the Affiliate to make any payment of Basic Rent or additional rent and the continuance of the same for five days; (B) failure of the Affiliate to comply with or perform any covenant of the Affiliate Lease and the failure to remedy such default for 30 days after written notice from the Lessee, the Authority or the holders of at least 25% in aggregate principal amount of the Bonds and the Parity Bonds; (C) bankruptcy or reorganization of the Affiliate; and (D) the occurrence of an event of default under the Indenture, the 1998 Indenture, the 2003 Indenture, the 2010 Indenture or the 2011 Indenture; provided that the Affiliate Lease may include such other events of default as are approved by the parties thereto;

(xii) provide that (A) the Affiliate Lease is subject to the limitation that whenever an event of default thereunder shall have occurred and be continuing, the Lessee, or the Authority as assignee of the Lessee, shall have the right at its election at any time thereafter to give the Affiliate written notice terminating the term of the Affiliate Lease on a date specified in such notice; (B) an Affiliate’s rights as lessee under the Affiliate Lease will in all events terminate, if: (1) the Lessee makes, or is required to make, any payment with respect to the Affiliate pursuant to the provisions of the 2013 Restated Contract of Lease (or the Lessee enters into any guaranty in lien of any such payment); (2) the Affiliate’s income available for Basic Rent in any fiscal year of the Affiliate is less than 100% of the Basic Rent payable by the Affiliate during such year; (3) the Lessee’s ratio of Net Income Available for Debt Service to Maximum Annual Debt Service Requirement is less than 1.25 to 1.00 in any Fiscal Year; or (4) the Affiliate and the Lessee do not (I) deliver annually to the Authority current merger documents concurrently approved by each of them providing for the merger of the Affiliate into the Lessee upon the occurrence of an event described in clauses (1), (2) or (3) above or upon the failure of the Affiliate and Lessee in any year to deliver the merger documents required by this subparagraph (4) and such failure continues for more than 45 days after notice

concerning such failure is given to such Affiliate and the Lessee by the Authority or (II) keep such merger documents in fully authorized and executed form; and the Affiliate and the Lessee shall, if the conditions described under "Prevention of Affiliate Bankruptcies" below are satisfied, unless the Authority directs or agrees to the contrary, immediately commence obtaining all such approvals, consents, assignments and transfers of licenses and contractual and other rights as shall be necessary, in the judgment of the Authority, to enable the Lessee to operate the facilities which constitute the Leased Property and upon obtaining all such approvals, consents, assignments and transfers of licenses and contractual and other rights to the satisfaction of the Authority, the Affiliate shall merge into the Lessee unless the Authority directs or agrees that such merger shall not occur; and

(xiii) contain provisions similar to those appearing in the 2013 Restated Contract of Lease providing for maintenance of insurance, right of entry by the Authority, maintenance and use of the Leased Property, compliance with law, payment of taxes, charges and assessments, removal of liens, maintaining of rates and charges, disposition of insurance and condemnation proceeds, maintenance of status as an Affiliate, further assurances, indemnity, amendment and delivery of financial statements and annual certificates evidencing compliance with the terms of the Affiliate Lease and that the Lessee shall have the right to intervene and enforce each of these provisions.

From and after the execution of an Affiliate Lease, the Affiliate and the Lessee may from time to time make additions, substitutions, replacements and other changes in and to the equipment constituting a part of the Leased Property subject to such Affiliate Lease without the necessity of delivery of the documents and showings described in this subsection (b) unless any or all of such documents and showings are requested by the Authority; provided, however, that the Lessee will deliver to the Authority, not less than ten (10) Business Days prior to any such addition, substitution, replacement or change, notice of such proposed change and information satisfactory to the Authority regarding the same. Any Affiliate Lease may be amended, changed, or modified to the same extent and subject to the same conditions as the Indenture. The Lessee shall remain primarily obligated on the cash rental payments. Any Affiliate Lease and all payments due thereunder shall be collaterally assigned to the Authority as additional security for the cash rental payments due under the 2013 Restated Contract of Lease.

#### **Prevention of Affiliate Bankruptcies**

The Lessee covenants and agrees that upon the direction of the Authority it will make such payments of debts of each Affiliate which is a party to an Affiliate Lease as are necessary in order to forestall the institution of involuntary bankruptcy proceedings under Title XI of the United States Code, as amended, or state law against such Affiliate by creditors of such Affiliate; provided, however, that the Lessee may guarantee any of such debts in lieu of making payment thereof if such guaranty is effective in forestalling the institution of any such involuntary bankruptcy proceedings; and provided further, that the Lessee will make such payments (or guaranties in lieu thereof) only for such period of time as is reasonably required, in the opinion of the Authority, to assure that the Lessee may obtain such approvals, consents, assignments and transfers of licenses and contractual rights as are necessary to enable the Lessee to operate the facilities which are the subject of such Affiliate Lease.

Each Affiliate which is a party to an Affiliate Lease shall covenant and agree in such Affiliate Lease that, if and to the extent the Lessee expends any amounts in connection with the discharge of its obligations pursuant to the foregoing provisions, such Affiliate will forthwith repay, as additional rent under such Affiliate Lease, such amounts to the Lessee.

The obligations of the Lessee under this heading shall be for the sole benefit of the Authority, the Trustee and the holders of the Bonds and Parity Bonds and shall not be deemed to give to any other party any right to enforce such obligations against the Lessee.

No transfer of Property by the Lessee made pursuant to and in compliance with the provisions under "Sale, Lease or Other Disposition of Property" shall in any event be deemed to be a payment by the Lessee made pursuant to the provisions of this heading for the purposes of the 2013 Restated Contract of Lease or of any Affiliate Lease.

#### **Hurley Medical Center Rates**

The rates established for Hurley Medical Center are estimated to be sufficient to provide for the payment of the expenses of administration and operation of Hurley Medical Center and such expenses for the maintenance



thereof as may be necessary to preserve the same in good repair and working order and to assure that Net Income Available for Debt Service will at all times be not less than 110% of the Maximum Annual Debt Service Requirement so as to provide for the rental for and all other amounts to be paid pursuant to the 2013 Restated Contract of Lease. Rates shall be fixed and revised from time to time by the Lessee, so as to produce the foregoing amounts, and the Lessee covenants and agrees that it will collect the established rates for services of Hurley Medical Center, as long as any of the Bonds and any Parity Bonds payable out of the cash rentals provided under the 2013 Restated Contract of Lease are outstanding. The obligation of the Lessee to make such cash rental payments shall not be subject to any setoff by the Lessee nor shall there be any abatement of the cash rental payments for any cause including, but not limited to, casualty that results in the Hurley Medical Center becoming untenable except in the event the Lessee elects to prepay any portion of the cash rentals and such prepayment is applied to the payment or redemption of Bonds or Parity Bonds.

If in any Fiscal Year while any of the Series 2010, the Series 2011 Bond or the Series 2013 Bonds remains Outstanding, Net Income Available for Debt Service is less than 130% of the Maximum Annual Debt Service Requirement, then the Lessee shall promptly retain a Hospital Consultant to examine the rates, fees and charges of the Lessee and the methods of operation of Hurley Medical Center and to make such recommendations as to rates, fees and charges as the Hospital Consultant believes are appropriate to enable the Lessee and Designated Affiliates to produce Net Income Available for Debt Service.

No free service shall be furnished by Hurley Medical Center to any person, firm or corporation, public or private, or to any public agency or instrumentality, provided that the rendering of service by, or the use of, Hurley Medical Center free of charge or at discounted rates shall be permitted by the Lessee to the extent necessary for retaining the municipal or tax exempt status of Hurley Medical Center or its eligibility for grants, loans, subsidies or payments from the United States of America or any instrumentality thereof or from the State of Michigan or any instrumentality thereof or from any third party insurers of health care or reimbursers of hospital costs.

#### **Liquidity Covenant**

The Lessee covenants and agrees that so long as any of the Series 2010 Bonds, the Series 2011 Bond or the Series 2013 Bonds remains Outstanding, the Lessee shall maintain Unrestricted Liquid Funds equal to at least fifty (50) Days Cash on Hand as of June 30, 2010 and as of the end of each Fiscal Year thereafter (the "Liquidity Covenant"). If, at the end of any such Fiscal Year, the Lessee is not in compliance with the Liquidity Covenant, the Lessee shall, within 90 days after the end of such Fiscal Year, retain a Hospital Consultant to prepare and deliver written recommendations to the Lessee for improving Cash on Hand to comply with the Liquidity Covenant, which report shall be delivered no later than 150 days after the end of such Fiscal Year. Notwithstanding the foregoing, the Lessee shall not be in default of the Liquidity Covenant unless (i) the Lessee fails to engage a Hospital Consultant within 90 days after the end of such Fiscal Year or (ii) the Lessee's Days Cash on Hand falls below thirty-five (35) as of the end of such Fiscal Year. Compliance with the Liquidity Covenant shall be tested as of the end of each Fiscal Year, if any of the Series 2010 Bonds, the Series 2011 Bond or the Series 2013 Bonds then remains Outstanding

### **SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE**

The Indenture contains various covenants, security provisions, terms and conditions, certain of which are summarized below. Reference is made to the Indenture for a full and complete statement of its provisions.

#### **Application of Series 2013 Bond Proceeds**

The proceeds of the sale of the Series 2013A Bonds shall be applied upon receipt as follows:

- (a) The preissuance accrued interest, if any, shall be deposited in the Series 2013A Special Fund and applied to the payment of interest on the Series 2013A Bonds on the first Interest Payment Date.
- (b) An amount of such proceeds equal to the Reserve Amount (Series 2013A) shall be deposited in the Debt Service Reserve Fund (Series 2013A).

(c) An amount of such proceeds sufficient to pay the costs of issuance specified in the recitals to the Indenture allocable to the Series 2013A Bonds shall be deposited in the Authority Expense Fund and applied to payment of the costs allocable to issuance of the Series 2013A Bonds.

The balance of such proceeds after application pursuant to (a), (b) and (c) above shall be deposited in the Acquisition Fund (2013 Project) and applied to the costs of the 2013 Project in accordance with the 2013 Restated Contract of Lease and the Indenture.

The proceeds of the sale of the Series 2013B Bonds shall be applied upon receipt as follows:

(a) The preissuance accrued interest, if any, shall be deposited in the Series 2013B Special Fund and applied to the payment of interest on the Series 2013B Bonds on the first Interest Payment Date.

(b) An amount of such proceeds equal to the Reserve Amount (Series 2013B) shall be deposited in the Debt Service Reserve Fund (Series 2013B).

(c) An amount of such proceeds sufficient to pay the costs of issuance specified in the recitals to the Indenture allocable to the Series 2013B Bonds shall be deposited in the Authority Expense Fund and applied to payment of the costs allocable to issuance of the Series 2013B Bonds.

(d) An amount of such proceeds sufficient, when increased by other available amounts, to provide for the payment and defeasance of the Series 1998 Bonds To Be Refunded pursuant to the 1998 Indenture and the Series 2003 Bonds to Be Refunded pursuant to the 2003 Indenture shall be deposited in the Escrow Deposit Fund and applied in accordance with the Escrow Deposit Agreement.

The balance of such proceeds, if any, after application pursuant to (a), (b), (c) and (d) above shall be deposited in the Series 2013B Special Fund and applied to payment of interest on the Series 2013B Bonds on the first Interest Payment Date.

## **Indenture Funds**

### **Redemption Fund**

The Indenture establishes for the Series 2013 Bonds and the Parity Bonds a Bond and Interest Redemption Fund (the "Redemption Fund"). There shall be deposited into the Redemption Fund all moneys remaining in the redemption fund for the Series 2011 Bond, the Series 2010 Bonds, the Series 2003 Bonds, and the Series 1998 Bonds. The Redemption Fund shall henceforth serve as the Redemption Fund for all purposes under the 1998 Indenture, the 2003 Indenture, the 2010 Indenture and the 2011 Indenture.

There shall be deposited into the Redemption Fund all Cash Rentals on which there is a first and prior lien pledged for the payment of the Series 2013 Bonds and any Parity Bonds. Moneys in the Redemption Fund shall be kept in a separate account and shall be used only to pay the principal of, premium, if any, and interest on the Series 2013 Bonds and any Parity Bonds, as provided in the Indenture, by the 1998 Indenture, the 2010 Indenture, the 2003 Indenture and the 2011 Indenture, respectively.

### **Debt Service Reserve Fund (Series 2013A)**

The Indenture establishes, solely for the benefit of the holders of the Series 2013A Bonds (and not for the benefit of any holders of the Series 2013B Bonds or any holders of Parity Bonds), the Building Authority Revenue Rental Bonds, Series 2013A, Debt Service Reserve Fund, which shall be separate from the Redemption Fund. Such Debt Service Reserve Fund (Series 2013A) shall be funded initially from proceeds of the sale of the Series 2013A Bonds or otherwise as directed by the Authorized Authority Representative and shall be maintained in an amount equal to the Reserve Amount (Series 2013A). When the principal and interest owing upon the Series 2013A Bonds shall be reduced to the amount of the Debt Service Reserve Fund (Series 2013A), then the principal and interest of

such Series 2013A Bonds shall be paid from the Debt Service Reserve Fund (Series 2013A) as such principal and interest become due.

If on any Interest Payment Date the amount of moneys on deposit and available in the Redemption Fund, when added to the amount of moneys on deposit and available in the Series 2013A Special Fund, is insufficient to pay principal of or interest on the Series 2013A Bonds, then the Trustee shall transfer from the Debt Service Reserve Fund (Series 2013A) to the Series 2013A Special Fund an amount equal to the amount necessary, together with moneys on deposit and available in the Redemption Fund and the Series 2013A Special Fund, to pay the principal of and interest on the Series 2013A Bonds that are due and payable on such Interest Payment Date. The Trustee shall immediately advise the Authority and the Lessee of any deficiency in the Debt Service Reserve Fund (Series 2013A) as a result of such transfer. Moneys on deposit in the Debt Service Reserve Fund (Series 2013A) shall only be used to pay principal of and interest on the Series 2013A Bonds, and shall not be used to pay any amounts due with respect to any other Bonds or Parity Bonds of the Authority.

If at any time the amount on deposit in such Debt Service Reserve Fund (Series 2013A), determined by valuing investments therein at fair market value, is less than the Reserve Amount (Series 2013A) because of a transfer from the Debt Service Reserve Fund (Series 2013A), then there shall be paid (by the Authority out of Cash Rentals) an amount sufficient to restore the Debt Service Reserve Fund (Series 2013A) to the Reserve Amount (Series 2013A). Such amount shall be paid in four substantially equal quarterly installments on the last Business Day of each calendar quarter commencing with the calendar quarter in which such deficiency first occurs and shall be deposited in the Debt Service Reserve Fund (Series 2013A).

On the first Business Day after January 1 of each year, the Trustee shall determine the amount on deposit in the Debt Service Reserve Fund (Series 2013A) by valuing investments therein at fair market value and, if the amount then on deposit in the Debt Service Reserve Fund (Series 2013A) is determined to be less than ninety percent (90%) of the Reserve Amount (Series 2013A) because of a change in the value of such investments, then there shall be paid (by the Authority out of Cash Rentals) an amount sufficient to restore the Debt Service Reserve Fund (Series 2013A) to one hundred percent (100%) of the Reserve Amount (Series 2013A). Such amount shall be paid in eight substantially equal quarterly installments on the last Business Day of each calendar quarter commencing with the calendar quarter in which such deficiency is determined and shall be deposited in the Debt Service Reserve Fund (Series 2013A).

If at any time the amount on deposit in the Debt Service Reserve Fund (Series 2013A), determined by valuing investments therein at fair market value, is in excess of the Reserve Amount (Series 2013A), such excess in the Debt Service Reserve Fund (Series 2013A) shall be transferred as soon as practicable (but in any event no less often than once a Fiscal Year) to the Series 2013A Special Fund and shall be used only to pay directly to the holders thereof principal of and interest on the Series 2013A Bonds while any of such Series 2013A Bonds shall be outstanding or, at the direction of the Authority, to fund the Series 2013A Rebate Fund.

#### Debt Service Reserve Fund (Series 2013B)

The Indenture establishes, solely for the benefit of the holders of the Series 2013B Bonds (and not for the benefit of any holders of the Series 2013A Bonds or any holders of Parity Bonds), the Building Authority Revenue Refunding Bonds, Series 2013B, Debt Service Reserve Fund, which shall be separate from the Redemption Fund. Such Debt Service Reserve Fund (Series 2013B) shall be funded initially from proceeds of the sale of the Series 2013B Bonds and/or surplus amounts as described in the Indenture, or otherwise as directed by the Authorized Authority Representative and shall be maintained in an amount equal to the Reserve Amount (Series 2013B). When the principal and interest owing upon the Series 2013B Bonds shall be reduced to the amount of the Debt Service Reserve Fund (Series 2013B), then the principal and interest of such Series 2013B Bonds shall be paid from the Debt Service Reserve Fund (Series 2013B) as such principal and interest become due.

If on any Interest Payment Date the amount of moneys on deposit and available in the Redemption Fund, when added to the amount of moneys on deposit and available in the Series 2013B Special Fund, is insufficient to pay principal of or interest on the Series 2013B Bonds, then the Trustee shall transfer from the Debt Service Reserve Fund (Series 2013B) to the Series 2013B Special Fund an amount equal to the amount necessary, together with moneys on deposit and available in the Redemption Fund and the Series 2013B Special Fund, to pay the principal of

and interest on the Series 2013B Bonds that are due and payable on such Interest Payment Date. The Trustee shall immediately advise the Authority and the Lessee of any deficiency in the Debt Service Reserve Fund (Series 2013B) as a result of such transfer. Moneys on deposit in the Debt Service Reserve Fund (Series 2013B) shall only be used to pay principal of and interest on the Series 2013B Bonds, and shall not be used to pay any amounts due with respect to any other Bonds or Parity Bonds of the Authority.

If at any time the amount on deposit in such Debt Service Reserve Fund (Series 2013B), determined by valuing investments therein at fair market value, is less than the Reserve Amount (Series 2013B) because of a transfer from the Debt Service Reserve Fund (Series 2013B), then there shall be paid (by the Authority out of Cash Rentals) an amount sufficient to restore the Debt Service Reserve Fund (Series 2013B) to the Reserve Amount (Series 2013B). Such amount shall be paid in four substantially equal quarterly installments on the last Business Day of each calendar quarter commencing with the calendar quarter in which such deficiency first occurs and shall be deposited in the Debt Service Reserve Fund (Series 2013B).

On the first Business Day after January 1 of each year, the Trustee shall determine the amount on deposit in the Debt Service Reserve Fund (Series 2013B) by valuing investments therein at fair market value and, if the amount then on deposit in the Debt Service Reserve Fund (Series 2013B) is determined to be less than ninety percent (90%) of the Reserve Amount (Series 2013B) because of a change in the value of such investments, then there shall be paid (by the Authority out of Cash Rentals) an amount sufficient to restore the Debt Service Reserve Fund (Series 2013B) to one hundred percent (100%) of the Reserve Amount (Series 2013B). Such amount shall be paid in eight substantially equal quarterly installments on the last Business Day of each calendar quarter commencing with the calendar quarter in which such deficiency is determined and shall be deposited in the Debt Service Reserve Fund (Series 2013B).

If at any time the amount on deposit in the Debt Service Reserve Fund (Series 2013B), determined by valuing investments therein at fair market value, is in excess of the Reserve Amount (Series 2013B), such excess in the Debt Service Reserve Fund (Series 2013B) shall be transferred as soon as practicable (but in any event no less often than once a Fiscal Year) to the Series 2013B Special Fund and shall be used only to pay directly to the holders thereof principal of and interest on the Series 2013B Bonds while any of such Series 2013B Bonds shall be outstanding or, at the direction of the Authority, to fund the Series 2013B Rebate Fund.

#### Authority Expense Fund

The Indenture establishes an Authority Expense Fund into which shall be paid proceeds of the sale of the Series 2013A Bonds and Series 2013B Bonds in the amounts determined as provided in the Indenture and any moneys received by the Authority from the Lessee for payment of the expenses of the Authority and from which shall be paid any such expenses (including expenses incidental to issuance and payment of the Series 2013 Bonds) that are not paid directly by the Lessee (the "Authority Expense Fund"). There shall be deposited into the Authority Expense Fund all moneys remaining in the authority expense fund for the Series 2011 Bond established pursuant to the 2011 Indenture.

#### Series 2013A Special Fund

The Indenture establishes, solely for the benefit of the holders of the Series 2013A Bonds (and not for the benefit of any holders of the Series 2013B Bonds or any Parity Bonds), the Building Authority Revenue Rental Bonds, Series 2013A, Special Fund (the "Series 2013A Special Fund"), into which shall be deposited (i) any amounts transferred from the Debt Service Reserve Fund (Series 2013A) pursuant to the Indenture, (ii) Investment Income on amounts deposited in the Debt Service Reserve Fund (Series 2013A) transferred pursuant to the Indenture, and (iii) if so directed by the Authority, any excess amounts released from the Series 2013A Rebate Fund pursuant to the Indenture. Moneys in the Series 2013A Special Fund shall be kept in a separate account and shall be used only to pay the principal of, premium, if any, and interest on the Series 2013A Bonds or, at the direction of the Authority as provided in the Indenture, to fund the Series 2013A Rebate Fund. The Lessee shall receive a credit for amounts on deposit in the Series 2013A Special Fund against Cash Rentals next due under the 2013 Restated Contract of Lease. On each Interest Payment Date, the Trustee shall withdraw amounts on deposit in the Series 2013A Special Fund for payment of the principal of, premium, if any, and interest on the Series 2013A Bonds prior to withdrawing any amounts therefor from the Redemption Fund.

### Series 2013B Special Fund

The Indenture establishes, solely for the benefit of the holders of the Series 2013B Bonds (and not for the benefit of any holders of the Series 2013A Bonds or any Parity Bonds), the Building Authority Revenue Refunding Bonds, Series 2013B, Special Fund (the “Series 2013B Special Fund”), into which shall be deposited (i) any amounts transferred from the Debt Service Reserve Fund (Series 2013B) pursuant to the Indenture, (ii) Investment Income on amounts deposited in the Debt Service Reserve Fund (Series 2013B) transferred pursuant to the Indenture, (iii) any amounts released to the Authority for deposit therein as provided in the Escrow Deposit Agreement, and (iv) if so directed by the Authority, any excess amounts released from the Series 2013B Rebate Fund pursuant to the Indenture. Moneys in the Series 2013B Special Fund shall be kept in a separate account and shall be used only to pay the principal of, premium, if any, and interest on the Series 2013B Bonds or, at the direction of the Authority as provided in the Indenture, to fund the Series 2013B Rebate Fund. The Lessee shall receive a credit for amounts on deposit in the Series 2013B Special Fund against Cash Rentals next due under the 2013 Restated Contract of Lease. On each Interest Payment Date, the Trustee shall withdraw amounts on deposit in the Series 2013B Special Fund for payment of the principal of, premium, if any, and interest on the Series 2013B Bonds prior to withdrawing any amounts therefor from the Redemption Fund.

### Series 2013A Rebate Fund

The Indenture establishes the Series 2013A Rebate Fund, which shall be held by the Trustee, for the sole purpose of funding the obligation of the Authority, pursuant to Section 148(f) of the Code, to rebate to the United States certain excess interest earned on moneys in the Debt Service Reserve Fund (Series 2013A), the Authority Expense Fund, and the Acquisition Fund (2013A Project), and any other moneys that, upon the advice of Bond Counsel, are required to be treated as gross proceeds of the Series 2013A Bonds pursuant to Section 148(f) of the Code. The Authority shall direct the Trustee in writing (signed by the Authorized Authority Representative) to transfer into the Series 2013A Rebate Fund, or shall deposit thereto from funds available to the Authority, as soon as practicable, but not later than the last Business Day not exceeding sixty (60) days after the end of each Bond Year and after payment of the last outstanding Series 2013A Bond, an amount sufficient to make the amount on deposit in the Series 2013A Rebate Fund equal to 100% of the amount certified by the Authority as the amount required to be rebated to the United States pursuant to Section 148(f) of the Code as of the end of such Bond Year. Transfers may be directed by the Authority from the Redemption Fund, the Authority Expense Fund, the Series 2013A Special Fund or from excess amounts in the Debt Service Reserve Fund (Series 2013A). The Trustee, at the direction of the Authority, shall make payments to the United States from the Series 2013A Rebate Fund no less frequently than every five (5) years and within sixty (60) days of the payment of the last outstanding Series 2013A Bond, as provided in Section 148(f) of the Code. If at any time the Authority certifies to the Trustee in writing that the amount on deposit in the Series 2013A Rebate Fund exceeds the amount required to be rebated to the United States pursuant to Section 148(f) of the Code at such time, the Trustee shall transfer or apply the excess amount as directed by the Authority in such written certification after consultation with Bond Counsel, which may be for any lawful purpose consistent with the provisions of the Indenture.

### Series 2013B Rebate Fund

The Indenture establishes the Series 2013B Rebate Fund, which shall be held by the Trustee, for the sole purpose of funding the obligation of the Authority, pursuant to Section 148(f) of the Code, to rebate to the United States certain excess interest earned on moneys in the Debt Service Reserve Fund (Series 2013B), the Authority Expense Fund, and the Escrow Deposit Fund, and any other moneys that, upon the advice of Bond Counsel, are required to be treated as gross proceeds of the Series 2013B Bonds pursuant to Section 148(f) of the Code. The Authority shall direct the Trustee in writing (signed by the Authorized Authority Representative) to transfer into the Series 2013B Rebate Fund, or shall deposit thereto from funds available to the Authority, as soon as practicable, but not later than the last Business Day not exceeding sixty (60) days after the end of each Bond Year and after payment of the last outstanding Series 2013B Bond, an amount sufficient to make the amount on deposit in the Series 2013B Rebate Fund equal to 100% of the amount certified by the Authority as the amount required to be rebated to the United States pursuant to Section 148(f) of the Code as of the end of such Bond Year. Transfers may be directed by the Authority from the Redemption Fund, the Authority Expense Fund, the Series 2013B Special Fund or from excess amounts in the Debt Service Reserve Fund (Series 2013B). The Trustee, at the direction of the Authority, shall make payments to the United States from the Series 2013B Rebate Fund no less frequently than every five (5)

years and within sixty (60) days of the payment of the last outstanding Series 2013B Bond, as provided in Section 148(f) of the Code. If at any time the Authority certifies to the Trustee in writing that the amount on deposit in the Series 2013B Rebate Fund exceeds the amount required to be rebated to the United States pursuant to Section 148(f) of the Code at such time, the Trustee shall transfer or apply the excess amount as directed by the Authority in such written certification after consultation with Bond Counsel, which may be for any lawful purpose consistent with the provisions of the Indenture.

#### Acquisition Fund (2013 Project)

The Indenture establishes for the 2013 Project for which the Series 2013A Bonds, in part, are to be issued, a Building Authority Revenue Rental Bonds, Series 2013A, Acquisition Fund (the “Acquisition Fund (2013 Project)”), which shall be maintained with the Trustee for the account of the Authority. On the Issue Date, moneys received from the sale of the Series 2013A Bonds shall be deposited in the Acquisition Fund (2013 Project) in accordance with the Indenture. All moneys deposited in the Acquisition Fund (2013 Project) and all Investment Income realized from investment of moneys in the Acquisition Fund (2013 Project) and the Debt Service Reserve Fund (2013A) and shall be used to pay (or, subject to the provisions of Treas. Reg. §1.150-2, reimburse the Lessee for) such costs of the 2013 Project as are identified in written requisitions by the Lessee’s Authorized Representative to the Trustee as provided in the Indenture. Any unexpended balance in the Acquisition Fund (2013 Project) remaining after Completion of the 2013 Project may be used for improvements or enlargements of the Hurley Medical Center or for other projects of the Authority leased to the Lessee if such use be approved by the Treasurer of the State of Michigan (if required under applicable law) and the Lessee. Any remaining balance not so used shall be paid into the Series 2013A Special Fund and the Lessee shall receive a credit therefor against the Cash Rentals next due under the 2013 Restated Contract of Lease or, at the written direction of the Authority, shall be transferred to the Series 2013A Rebate Fund. The Trustee shall, at the written direction of the Lessee’s Authorized Representative, invest moneys in the Acquisition Fund (2013 Project) in Permitted Investments, which shall mature, or which shall be subject to redemption by the holder thereof at the option of such holder, not later than the earliest date estimated by the Lessee after the date of such investment or deposit when the funds so invested or deposited shall be needed to pay costs of the 2013 Project. In investing moneys in the Acquisition Fund (2013 Project) in Permitted Investments, the Trustee shall comply with written or oral instructions, if any, delivered by the Authorized Authority Representative, subject, however, to all applicable provisions of the Indenture.

#### Deposit of Funds with Trustee

All moneys in the Debt Service Reserve Fund (Series 2013A), the Debt Service Reserve Fund (Series 2013B), the Authority Expense Fund, the Series 2013A Special Fund, the Series 2013B Special Fund, the Series 2013A Rebate Fund, the Series 2013B Rebate Fund and the Redemption Fund shall be deposited with the Trustee, and shall each be kept in a separate account by the Trustee. Moneys in such funds held by the Trustee, including those being accumulated for the payment of the next maturing principal and interest shall be invested by the Trustee in Permitted Investments, which investments shall be in amounts maturing not later than the date on which such amounts will be required to be available to pay debt service or to make rebate payments to the United States pursuant to Section 148(f) of the Code. In investing moneys in such funds in Permitted Investments, the Trustee shall comply with written or oral instructions, if any, delivered by the Authorized Authority Representative, subject, however, to all applicable provisions of the Indenture. In the event of any such investment, the securities, certificates or receipts representing the same shall be kept on deposit with the Trustee or the bank and/or trust company, as the case may be, maintaining the deposit of the fund and/or account from which such investment or deposit was made (or the agent through which such investment was made shall have sufficient rights of possession thereof) and the Investment Income therefrom shall become a part of such fund or account.

Prior to the Completion of the 2013 Project, any Investment Income with respect to moneys in the Debt Service Reserve Fund (Series 2013A) shall be transferred as soon as practicable (but in any event no less than once every Fiscal Year) to the Acquisition Fund (2013 Project) and after Completion of the 2013 Project, any Investment Income with respect to moneys in the Debt Service Reserve Fund (Series 2013A) shall be transferred as soon as practicable (but in any event no less than once every Fiscal Year) to the Series 2013A Special Fund, provided, however, that Investment Income shall not be transferred from the Debt Service Reserve Fund (Series 2013A) if such transfer would cause the amount on deposit herein, determined by valuing investments therein at a fair market value, to be less than the Reserve Amount (Series 2013A).

### **Nonarbitrage and Tax Covenants**

The Authority covenants that it will not make any use of the gross proceeds of the Series 2013 Bonds that, if such use had been reasonably expected on the date of issuance of the Series 2013 Bonds, would have caused the Series 2013 Bonds to be “arbitrage bonds” within the meaning of the Code and regulations issued thereunder, and that it will comply with the requirements of said section and said regulations, as the same may be amended from time to time, so long as any of the Series 2013 Bonds remains outstanding.

The Authority covenants to comply with the requirements of Section 148(f) of the Code in such manner as to prevent the interest on the Series 2013 Bonds from being includable in gross income for purposes of federal income taxation and, in particular, to rebate to the United States in a timely manner all amounts required to be so rebated pursuant to Section 148(f) of the Code.

The Authority covenants to comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Series 2013 Bonds in order that the interest thereon be (or continue to be) excluded from gross income for federal income tax purposes.

### **Additional Bonds**

(a) (1) Subject to the terms and conditions set forth in the Indenture, and so long as no Event of Default has occurred and is continuing, the Authority may issue and deliver one or more series of Additional Bonds equally and ratably secured with the Series 2013 Bonds and any Parity Bonds for any one or more purposes permitted by applicable law at the time of issuance of such Additional Bonds. The Authority covenants that it will not issue any bonds secured equally and ratably with the Series 2013 Bonds and any other Parity Bonds without satisfying with respect to such bonds the requirements described under this heading with respect to Additional Bonds. The Authority further covenants that it will not issue any “Additional Bonds,” as such term is defined in the 2011 Indenture, the 2010 Indenture, the 2003 Indenture or the 1998 Indenture, under any of those respective indentures, but only under and in compliance with the Indenture.

The Lessee is authorized under the 2013 Restated Contract of Lease to designate one or more of its Affiliates as “Designated Affiliates” in accordance with the requirements of the 2013 Restated Contract Lease. For purposes of determining compliance with the tests set forth below relating to the issuance of Additional Bonds, the financial results of Designated Affiliates and the debt service on the Indebtedness of Designated Affiliates is included. As set forth in the 2013 Restated Contract Lease, the Lessee shall cause the Designated Affiliates to incur Indebtedness only in accordance with the tests set forth below; accordingly, the provisions of the Indenture set forth below relating to the issuance of Additional Bonds refer to Indebtedness and Group Indebtedness. In no event shall any provision of the Indenture be construed to allow the Authority to issue under the Indenture any obligation other than Additional Bonds.

(2) Prior to the delivery by the Authority of any Additional Bonds under this heading or the issuance of any Group Indebtedness by any Designated Affiliate, there shall be filed with the Trustee a written report addressed to the Trustee of a Hospital Consultant stating (a) that the Net Income Available for Debt Service for the most recent Fiscal Year preceding the date of such report for which audited financial statements of Hurley Medical Center, reported on by independent public accountants, are available was not less than 125% of the Maximum Annual Debt Service Requirement on the then outstanding Bonds, Parity Bonds and Group Indebtedness (other than the Additional Bonds or Group Indebtedness then being issued) and (b) that the estimated or forecasted Net income Available for Debt Service for each of the two Fiscal Years immediately following the issuance of said Additional Bonds or Group Indebtedness (or the anticipated completion date of the Facilities to be acquired or constructed with the proceeds of such Additional Bonds or Group Indebtedness if such Additional Bonds or Group Indebtedness are being issued to finance the acquisition or construction of Facilities), is not less than 125% of the estimated Maximum Annual Debt Service Requirement on the outstanding Bonds, Parity Bonds and Group Indebtedness and the Additional Bonds or Group Indebtedness then proposed to be issued.

Notwithstanding the forgoing, for as long as any of the Series 2010 Bonds, the Series 2011 Bond or the Series 2013 Bonds remain Outstanding, prior to the delivery by the Authority of any Additional Bonds under the Indenture or the issuance of any Group Indebtedness by any Designated Affiliate, there shall be filed with the

Trustee a written report addressed to the Trustee of a Hospital Consultant stating (a) that average the Net Income Available for Debt Service for the two Fiscal Years immediately preceding the date of such report for which audited financial statements of Hurley Medical Center, reported on by independent public accountants, are available was not less than 135% of the Maximum Annual Debt Service Requirement on the then outstanding Bonds, Parity Bonds and Group Indebtedness (other than the Additional Bonds or Group Indebtedness then being issued) and (b) that the estimated or forecasted Net Income Available for Debt Service for each of the two Fiscal Years immediately following the issuance of said Additional Bonds or Group Indebtedness (or the anticipated completion date of the Facilities to be acquired or constructed with the proceeds of such Additional Bonds or Group Indebtedness if such Additional Bonds or Group Indebtedness are being issued to finance the acquisition or construction of Facilities), is not less than 135% of the estimated Maximum Annual Debt Service Requirement on the outstanding Bonds, Parity Bonds and Group Indebtedness and the Additional Bonds or Group Indebtedness then proposed to be issued.

(3) The requirements of clause (a) or (b) of the foregoing subsection (2) shall be deemed satisfied if: (a) the written Hospital Consultant's report contains an opinion of such Hospital Consultant that applicable laws or regulations have prevented or will prevent the Lessee and Designated Affiliates from generating the amount of Net Income Available for Debt Service required to be generated by either or both of such subparagraphs as a prerequisite to the issuance of Additional Bonds or Group Indebtedness and, if requested by the Trustee, such report is accompanied by a concurring opinion of independent Counsel acceptable to the Trustee as to any conclusions of law supporting the opinion of such Hospital Consultant; and (b) the Net Income Available for Debt Service so generated is at least 100% of the Maximum Annual Debt Service Requirement on the outstanding Bonds, Parity Bonds and Group Indebtedness and the Net Income Available for Debt Service estimated or forecasted to be so generated is at least 100% of such estimated Maximum Annual Debt Service Requirement on the outstanding Bonds, Parity Bonds and Group Indebtedness and the Additional Bonds or Group Indebtedness proposed to be issued.

(4) The foregoing subsection (2) notwithstanding, the written report referred to in the foregoing subsection (2) is not required if there shall be filed with the Trustee a certificate addressed to the Trustee and signed by the Lessee's Authorized Representative (which certificate shall be accompanied by the audited financial statements of the Lessee for the most recent Fiscal Year preceding the date of such certificate for which financial statements of the Lessee, reported on by independent public accountants, are available) stating that the Net Income Available for Debt Service for such Fiscal Year is not less than 125% (135% if any of the Series 2010 Bonds, the Series 2011 Bond or the Series 2013 Bonds remain Outstanding) of the estimated Maximum Annual Debt Service Requirement on the then outstanding Bonds, Parity Bonds and Group Indebtedness and the Additional Bonds or Group Indebtedness proposed to be issued.

(5) The foregoing subsection (2) notwithstanding, Completion Indebtedness consisting of Additional Bonds or Group Indebtedness may be issued if there is filed with the Trustee: (i) a certificate addressed to the Trustee and signed by the Lessee's Authorized Representative stating that at the time the original Bonds, Parity Bonds or Group Indebtedness for the Facilities to be completed was incurred, the Lessee had reason to believe that the proceeds of such Bonds, Parity Bonds or Group Indebtedness together with other moneys then expected to be available would provide sufficient moneys for the completion of such Facilities; (ii) a statement of an Independent Architect or an expert acceptable to the Trustee setting forth the amount estimated to be needed to complete the Facilities and (iii) a certificate signed by the Lessee's Authorized Representative stating that the proceeds of such Completion Indebtedness to be applied to the completion of the Facilities, together with a reasonable estimate of investment income to be earned on such proceeds and available to pay such costs, the amount of moneys, if any, committed to such completion from available cash or marketable securities and reasonably estimated earnings thereon, enumerated bank loans (including letters or lines of credit) and federal or state grants reasonably expected to be available, will be in an amount not less than the amount set forth in the statement of an Independent Architect or other expert referred to in (ii) of this subsection (5).

(6) The foregoing subsection (2) notwithstanding, Short-Term Indebtedness consisting of Additional Bonds or Group Indebtedness may be issued (other than Short-Term Indebtedness incurred in accordance with subsection (7) below) in a total principal amount which at the time incurred does not, together with the principal amount of all other such Short-Term Indebtedness of the Authority and the Designated Affiliates then outstanding under this subsection (6) and the principal payable on all Bonds, Parity Bonds and Group Indebtedness during the next succeeding 12 months, excluding such principal to the extent that amounts are on deposit in an



irrevocable escrow and such amounts (including, where appropriate, the earnings or other increments to accrue thereon) are required to be applied to pay such principal and such amounts so required to be applied are sufficient to pay such principal, exceed 25% of Revenues of the Lessee and Designated Affiliates for the most recent Fiscal Year; provided, however, that for a period of 20 consecutive calendar days in each Fiscal Year the total amount of such Short-Term Indebtedness outstanding under this subsection (6) shall be not more than 5% of Revenues of the Lessee and Designated Affiliates during the preceding Fiscal Year plus such additional amount as the Lessee's Authorized Representative certifies is (1) attributable to Short-Term Indebtedness incurred to offset a temporary delay in the receipt of funds due from third party payors and (2) in the minimum amount reasonably practicable taking into account such delay. For the purposes of this subsection, Short-Term Indebtedness shall not include overdrafts to banks to the extent there are immediately available funds of the Lessee and Designated Affiliates sufficient to pay such overdrafts and such overdrafts are incurred and corrected in the normal course of business.

(7) The foregoing subsection (2) notwithstanding, Short-Term Indebtedness consisting of Additional Bonds or Group Indebtedness may be issued if:

(i) there is in effect at the time the Short-Term Indebtedness provided for by this subsection (7) is incurred, a binding commitment (including without limitation letters or lines of credit or insurance) which may be subject only to commercially reasonable contingencies, by a financial institution generally regarded as responsible, which commitment and institution are acceptable to the Trustee, to provide financing sufficient to pay such Short-Term Indebtedness at its maturity; and

(ii) the conditions described in subsection (2)(a) above are met with respect to such Short-Term Indebtedness when it is assumed that such Short-Term Indebtedness is Additional Bonds or Group Indebtedness maturing over 30 years from the date of issuance of the Short-Term Indebtedness, bears interest on the unpaid principal balance at the Projected Rate and is payable on a level annual debt service basis over a 30-year period.

(8) The foregoing subsection (2) notwithstanding, Non-Recourse Indebtedness and Subordinated Indebtedness consisting of Additional Bonds or Group Indebtedness may be issued without limit.

(9) The foregoing subsection (2) notwithstanding, Guaranties may be issued by Designated Affiliates for the payment of a sum certain of the obligation of any other Person; provided that the conditions set forth in subsection (2)(a) above are satisfied if it is assumed that the Indebtedness guaranteed is Group Indebtedness. In making the calculation described in this subsection Net Income Available for Debt Service shall not be deemed to include any revenues of the Primary Obligor and the debt service payable with respect to the Indebtedness guaranteed shall be calculated in accordance with the assumptions contained in the Indenture.

(10) The foregoing subsection (2) notwithstanding, the following may be issued or incurred: (i) liabilities for contributions to self-insurance or shared or pooled-risk insurance programs required or permitted to be maintained under the Lease and (ii) Indebtedness consisting of accounts payable incurred in the ordinary course of business or other Indebtedness not incurred or assumed primarily to assure the repayment of money borrowed or credit extended which Indebtedness is incurred in the ordinary course of business; provided that such accounts will not be allowed to become overdue for a period in excess of that which is ordinary for similar institutions without being contested in good faith and by appropriate proceedings and (iii) Indebtedness incurred in connection with a sale of accounts receivable with or without recourse on commercially reasonable terms by the Lessee or any Designated Affiliate consisting of an obligation to repurchase all or a portion of such accounts receivable upon certain conditions, provided that the principal amount of such Indebtedness permitted by this subsection (10)(iii) shall not exceed the aggregate face amount of such accounts receivable.

(11) The foregoing subsection (2) notwithstanding, Indebtedness consisting of Additional Bonds or Group Indebtedness may be issued if the principal amount of which at the time incurred, together with the aggregate principal amount of all other Bonds, Parity Bonds and Indebtedness then outstanding which was issued pursuant to the provisions described in this subsection (11) and which has not been subsequently reclassified as having been issued under the provisions of the Indenture described in subsections (2) or (7) above, does not exceed 15% of Revenues of the Lessee and Designated Affiliates for the latest preceding Fiscal Year.

(12) Any Additional Bonds permitted to be issued under the Indenture may bear interest at any rate lawful at the time of issuance thereof, may mature over any period of time not exceeding 40 years from the date of issuance and have such other terms and provisions, all as may be agreed upon by the Lessee and the Authority. It is understood and agreed, however, that any such Additional Bonds shall be given a series designation by year or alphabetical letter differentiating such Additional Bonds from other Bonds, Parity Bonds or Group Indebtedness then outstanding.

(13) In determining the Maximum Annual Debt Service Requirement for any purpose under the Indenture (including the computation of any required deposit into a revenue rental reserve), if the terms of any Bonds, Parity Bonds or Group Indebtedness being considered are such that interest thereon for any future period of time is to be calculated at a rate that is not then susceptible of precise determination, then for the purpose of making such determination of Maximum Annual Debt Service Requirement, interest on such Bonds, Parity Bonds or Group Indebtedness for such period (the "Determination Period") shall be computed by assuming that the rate of interest applicable to the Determination Period is equal to the annual rate of interest (calculated in the manner in which the rate of interest for the Determination Period is to be calculated) that would have been in effect on a date specified by the Lessee's Authorized Representative, which date shall be any date occurring within the 45-day period next preceding the date on which such calculation is made.

In the case of Balloon or Put Indebtedness issued as permitted by the Indenture, the amortization schedule of such Indebtedness and the debt service payable with respect to such Indebtedness for future periods shall be calculated on the assumption that such Indebtedness is being issued simultaneously with such calculation. With respect to Put Indebtedness, if the option or requirement that such Indebtedness be paid, purchased, repurchased or redeemed prior to its stated maturity date has expired as of the date of calculation, such Put Indebtedness shall be deemed payable in accordance with its terms.

No debt service shall be deemed payable with respect to Commitment Indebtedness until such time as funding occurs under the commitment that gave rise to such Commitment Indebtedness. From and after such funding, the amount of such debt service shall be calculated in accordance with the actual amount required to be repaid on such Commitment Indebtedness and the actual interest rate and amortization schedule applicable thereto. For purposes of the Indenture, no additional indebtedness shall be deemed to arise when any funding occurs under any such commitment or any such commitment is renewed upon terms that provide for substantially the same terms of repayment of amounts disbursed pursuant to such commitment as obtained prior to such renewal, and no additional indebtedness shall be deemed to arise when variable rate indebtedness is converted to fixed rate indebtedness on terms consistent with those in effect with respect to such variable rate indebtedness immediately prior to the conversion.

(b) Nothing in the Indenture shall prevent the issuance by the Authority of bonds to finance additional projects for lease to the Lessee.

(c) Permission by the Treasurer of the State of Michigan (or such other state commission or agency as shall have jurisdiction over the issuance of municipal bonds) to issue such Additional Bonds shall constitute a conclusive presumption of the existence of conditions permitting the issuance thereof.

(d) (1) If any such Additional Bonds to be issued pursuant to the Indenture constitute Balloon Indebtedness, either (i) (a) there shall be in effect at the time such Additional Bonds are issued a binding commitment by a financial institution generally regarded as responsible, which commitment and institution are acceptable to the Trustee, to provide financing sufficient to pay the principal amount of such Balloon Indebtedness coming due in each consecutive twelve-month period in which 25% or more of the original principal amount of such Balloon Indebtedness comes due and (b) the conditions set forth in the Indenture shall be met with respect to the portion of such Balloon Indebtedness becoming due during each such twelve-month period when it is assumed that such portion of such Balloon Indebtedness matures over 30 years from the date of issuance, bears interest on the unpaid principal balance at the Projected Rate and is payable on a level annual debt service basis over a 30 year period; or (ii) (a) the Lessee shall establish in a resolution filed with the Trustee an amortization schedule for such Balloon Indebtedness, which amortization schedule shall provide for payments of principal and interest for each Fiscal Year that are not less than the amounts required to make any actual payments required to be made in such Fiscal Year by the terms of such Balloon Indebtedness, (b) the Lessee shall agree in such resolution to deposit each

Fiscal Year with a bank or trust company (pursuant to an agreement between the Lessee and such bank or trust company, which agreement shall be satisfactory in form and substance to the Trustee) the amount of principal shown on such amortization schedule net of any amount of principal actually paid on such Balloon Indebtedness during such Fiscal Year (other than from amounts on deposit with such bank or trust company), which deposit shall be made prior to any such required actual payment during such Fiscal Year if the amounts so on deposit are intended to be the source of such actual payments, and (c) the conditions described in the Indenture shall be met with respect to such Balloon Indebtedness when it is assumed that such Balloon Indebtedness is actually payable in accordance with such amortization schedule.

(2) If any such Additional Bonds to be issued pursuant to the Indenture constitute Put Indebtedness, such Additional Bonds may be issued only if (i) when the aggregate principal amount of the Put Indebtedness to be issued, together with the outstanding principal amount of Put Indebtedness already incurred, does not exceed 15% of the operating revenues plus investment income, unrestricted endowment income and net proceeds of business interruption insurance applicable to Hurley Medical Center (but excluding from revenues and income any earnings that constitute Capitalized Interest and earnings on amounts that are irrevocably deposited in escrow to pay the principal of any Bonds, Parity Bonds or Group Indebtedness) for the most recent Fiscal Year for which financial statements for the Lessee reported upon by independent public accountants are available and the conditions set forth in the Indenture are met with respect to such Put Indebtedness when it is assumed that such Put Indebtedness bears interest at the Projected Rate and is amortized on a level annual debt service basis over a 30 year period commencing with the next succeeding Put Date; or (ii) when the aggregate principal amount of the Put Indebtedness to be issued, together with the outstanding principal amount of Put Indebtedness already incurred, exceeds 15% of the operating revenues plus investment income, unrestricted endowment income and net proceeds of business interruption insurance applicable to the Lessee (but excluding from revenues and income any earnings that constitute Capitalized Interest and earnings on amounts that are irrevocably deposited in escrow to pay the principal of any Bonds, Parity Bonds or Group Indebtedness) for the most recent Fiscal Year for which financial statements for the Lessee reported upon by independent public accountants are available, (a) there is in effect at the time such Put Indebtedness is incurred a binding commitment by a financial institution generally regarded as responsible, which commitment and institution are acceptable to the Trustee, to provide financing sufficient to pay such Put Indebtedness on any Put Date occurring during the term of such commitment, and (b) the conditions set forth in the Indenture are met with respect to such Put Indebtedness when it is assumed that such Put Indebtedness bears interest at the Projected Rate and is payable on a level annual debt service basis over a 30 year period commencing with the next succeeding Put Date.

(3) If any of such Additional Bonds to be issued pursuant to the Indenture are issued for the purpose of refunding or advance refunding outstanding Bonds, Parity Bonds or Group Indebtedness so as to render such Bonds, Parity Bonds or Group Indebtedness (or any portion thereof) no longer outstanding, prior to the issuance of such refunding bonds either (i) there shall be delivered to the Trustee a certificate signed by the Lessee's Authorized Representative demonstrating that, immediately after the issuance of such refunding bonds and taking into account the refunding or advance refunding of the outstanding Bonds, Parity Bonds or Group Indebtedness, the Maximum Annual Debt Service Requirement will not be increased by more than 15% or (ii) the conditions described in the Indenture shall be met with respect to such proposed refunding or advance refunding bonds.

(4) If any such Additional Bonds to be issued pursuant to the Indenture constitute Crossover Refunding Indebtedness, prior to the issuance of such Crossover Refunding Indebtedness, either (i) there shall be delivered to the Trustee a certificate signed by the Lessee's Authorized Representative demonstrating that, immediately after the issuance of the proposed Crossover Refunding Indebtedness, the Maximum Annual Debt Service Requirement will not be increased by more than 15%, or (ii) the conditions described in the Indenture shall be met with respect to such proposed Crossover Refunding Indebtedness.

(5) Except for the purpose of determining whether any particular Guaranty may be incurred in which case it shall be assumed that 100% of the Indebtedness guaranteed is Group Indebtedness of the guarantor Designated Affiliate under such Guaranty and except for the purpose of calculating any historical debt service requirements in which case the debt service requirements in respect of the guarantor included in Maximum Annual Debt Service Requirements under a Guaranty shall be deemed to be the actual amount paid on such Guaranty by the guarantor, a guarantor shall be considered liable only for 20% of the annual debt service requirement on the Indebtedness guaranteed; provided, however, if the guarantor has been required by reason of its guaranty to make a

payment in respect of such Indebtedness within the immediately preceding 24 months, the guarantor shall be considered liable for 100% of the annual debt service requirement on the Indebtedness guaranteed.

(6) Anything in the Indenture to the contrary notwithstanding, any portion of any Bonds, Parity Bonds or Indebtedness for which the Lessee certifies to the Trustee that an Interest Rate Agreement has been obtained shall be deemed to bear interest for the period of time that such Interest Rate Agreement is in effect at a net rate which takes into account the interest payments made by the Lessee or Designated Affiliate on such Bonds, Parity Bonds or Indebtedness and the payments made or received by the Lessee or Designated Affiliate on such Interest Rate Agreement provided that the long-term credit rating of the provider of such Interest Rate Agreement (or any guarantor thereof) is the higher of: (i) one of the three highest Rating Categories of any Rating Agency (without regard to any refinements of gradation of Rating Category by numerical modifier or otherwise) or (ii) the rating of the Parity Bonds of the Authority without regard to credit enhancement. In addition, so long as any Bonds, Parity Bonds or Indebtedness is deemed to bear interest at a rate taking into account an Interest Rate Agreement, any payments made by the Lessee or Designated Affiliate on such Interest Rate Agreement and any payments received by the Lessee or Designated Affiliate on such Interest Rate Agreement shall be excluded from revenues and expenses respectively in the calculation of Net Income Available for Debt Service.

(e) Any issue of Subordinated Indebtedness shall be evidenced by instruments, or issued under an indenture or other document, containing provisions for the subordination of such Subordinated Indebtedness (to which appropriate reference shall be made in the instruments evidencing such Subordinated Indebtedness) substantially as follows (the term “debentures” being, for convenience, used in the provisions set forth below to designate the instruments issued to evidence Subordinated Indebtedness and the term “this New Indenture” to designate the instrument, indenture or other document containing such provisions, and the term “Obligor” referring to the Authority, the Lessee or the Designated Affiliate that is obligor on the Superior Indebtedness):

“All debentures issued under this New Indenture shall be issued subject to the following provisions and each person taking or holding any such debenture whether upon original issue or upon transfer or assignment thereof accepts and agrees to be bound by such provisions.

“All debentures issued hereunder and any coupons thereto appertaining shall, to the extent and in the manner hereinafter set forth, be subordinated and subject in right to the prior payment in full of Superior Indebtedness as defined in this Section. For all purposes of this Section the term “Superior Indebtedness” shall mean all Bonds or Additional Bonds now or hereafter issued under that certain Bond Resolution and Indenture of Trust (the “Authority Indenture”), as supplemented and modified to the date hereof, or as the same may hereafter from time to time be further supplemented and modified, of the City of Flint Hospital Building Authority (the “Authority”) to U.S. Bank National Association, Detroit, Michigan (the “Authority Trustee”) and all Parity Bonds as defined in the Authority Indenture.

“No payment on account of principal, premium, if any, sinking funds or interest on the debentures shall be made, nor shall any property or assets be applied to the purchase or other acquisition or retirement of the debentures, unless full payment of amounts then due and payable for principal, premium, if any, sinking funds and interest on Superior Indebtedness has been made or duly provided for in accordance with the terms of such Superior Indebtedness. No payment on account of principal, premium, if any, sinking funds or interest on the debentures shall be made, nor shall any property or assets be applied to the purchase or other acquisition or retirement of the debentures, if, at the time of such payment or application or immediately after giving effect thereto, (i) there shall exist a default in the payment of principal, premium, if any, sinking funds or interest with respect to any Superior Indebtedness, or (ii) there shall have occurred an event of default (other than a default in the payment of principal, premium, if any, sinking funds or interest) with respect to any Superior Indebtedness, as defined therein or in the instrument under which the same is outstanding, permitting the holders thereof to accelerate the maturity thereof and such event of default shall not have been cured or waived or shall not have ceased to exist.

“Upon (i) any acceleration of maturity of the principal amount due on the debentures or (ii) any payment or distribution of any kind or character, whether in cash, property or securities, upon any dissolution or winding-up or total or partial liquidation, reorganization or arrangement of the Obligor, whether voluntary or involuntary or in bankruptcy, insolvency, receivership or other proceedings, all principal, premium, if any, interest and other amounts due or to become due upon or in respect of all Superior Indebtedness shall first be paid in full, or payment thereof

provided for in accordance with the terms of such Superior Indebtedness, before any payment is made on account of the principal, premium, if any, or interest on the indebtedness evidenced by the debentures, and upon any such dissolution or winding-up or liquidation, reorganization or arrangement, any payment or distribution of any kind or character whether in cash, property or securities, to which the holders of the debentures or the New Trustee under this New Indenture would be entitled, except for the provisions hereof, shall be paid by the Obligor, or by any receiver, trustee in bankruptcy, liquidating trustee, agent or other person making such payment or distribution, to the Authority Trustee to the extent necessary to pay all Superior Indebtedness in full after giving effect to any concurrent payment or distribution to the Authority Trustee for the holders of Superior Indebtedness, before any payment or distribution is made to the holders of the indebtedness evidenced by the debentures or to the New Trustee under this New Indenture.

“In the event that, in violation of any of the foregoing provisions, any payment or distribution of any kind or character, whether in cash, property or securities, shall be received by the New Trustee under this New Indenture or by the holders of the debentures before all Superior Indebtedness is paid in full, or provision made for such payment in accordance with the terms of such Superior Indebtedness, such payment or distribution shall be held in trust for the benefit of, and shall be paid over or delivered to the Authority Trustee for application to the payment of all Superior Indebtedness remaining unpaid to the extent necessary to pay all such Superior Indebtedness in full in accordance with its terms, after giving effect to any concurrent payment or distribution to the Authority Trustee for the holders of such Superior Indebtedness.

“No present or future holder of Superior Indebtedness shall be prejudiced in his right to enforce subordination of the indebtedness evidenced by the debentures by any act or failure to act on the part of the Obligor or anyone in custody of its assets or property.

“The foregoing subordination provisions shall be for the benefit of the holders of Superior Indebtedness and may be enforced by the Authority Trustee against the holders of debentures or any trustee thereof.”

The indentures or other instruments creating or evidencing subordinated debt or pursuant to which any subordinated debt is issued shall provide: (i) that the foregoing provisions are solely for the purpose of defining the relative rights of the holders of “Superior Indebtedness” (as defined therein) on the one hand and the holders of the Subordinated Indebtedness on the other hand, and that nothing therein shall impair, as between the Obligor and the holders of the Subordinated Indebtedness, the obligation of the Obligor, which is unconditional and absolute, to pay to the holders thereof the principal thereof, premium, if any, and interest thereon in accordance with its terms, nor shall anything therein prevent the holders of the Subordinated Indebtedness or any New Trustee on their behalf from exercising all remedies otherwise permitted by applicable law or thereunder upon default thereunder, subject to the rights set forth above of the holders of “Superior Indebtedness” to receive cash, property or securities otherwise payable or deliverable to the holders of the Subordinated Indebtedness, (ii) that upon any payment or distribution of assets of any Obligor of the character referred to in the fourth paragraph of the foregoing provisions, the New Trustee under any indenture relating to Subordinated Indebtedness shall be entitled to rely upon any order or decree of a court of competent jurisdiction in which such dissolution, winding-up, liquidation, reorganization or arrangement proceedings are pending, and upon a certificate of the receiver, trustee in bankruptcy, liquidating trustee, agent or other person making any such payment or distribution, delivered to said New Trustee for the purpose of ascertaining the persons entitled to participate in such distribution, the holders of “Superior Indebtedness” and other indebtedness of such Obligor, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to the foregoing provisions, and (iii) that the New Trustee under any indenture relating to Subordinated Indebtedness and any paying agent therefor shall not be charged with knowledge of the existence of any facts which would prohibit the making of any payment of moneys to or by such New Trustee or such paying agent, unless and until such New Trustee or such paying agent, as the case may be, shall have received written notice thereof from any Obligor or from one or more holders of Superior Indebtedness, or from the Authority Trustee.

### **Lien of Indenture**

The aggregate principal amount of Bonds of each series which may be executed by the Authority and authenticated and delivered by the Trustee and secured by the Indenture, is not limited except as is or may hereafter be provided in the Indenture or as may be limited by law. The Indenture creates and shall be and constitutes a

continuing, irrevocable and exclusive lien upon, and pledge of, the payments to be made by the Lessee to the Authority pursuant to the 2013 Restated Contract of Lease to the extent provided in the Indenture, to secure the full and final payment of the principal of, premium, if any, and interest on, all Bonds which may, from time to time, be executed, authenticated and delivered under the Indenture. All Bonds and Parity Bonds of each series issued and to be issued under the Indenture and under the 1998 Indenture, the 2003 Indenture, the 2010 Indenture and the 2011 Indenture are and are to be, but only to the extent provided in the Indenture and under the 1998 Indenture, the 2003 Indenture, the 2010 Indenture and the 2011 Indenture, equally and ratably secured by the Indenture, and under the 1998 Indenture, the 2003 Indenture, the 2010 Indenture and the 2011 Indenture, without preference, priority or distinction on account of the actual time or times of the authentication or delivery or maturity of the Bonds of each series, or any of them, so that all Bonds and Parity Bonds of each series at any time outstanding under the Indenture, and under the 1998 Indenture, the 2003 Indenture, the 2010 Indenture and the 2011 Indenture, shall have the same right, lien and preference under and by virtue of the Indenture, and under the 1998 Indenture, the 2003 Indenture, the 2010 Indenture and the 2011 Indenture, and shall all be equally and ratably secured by the Indenture, and by the 1998 Indenture, the 2003 Indenture, the 2010 Indenture and the 2011 Indenture, with like effect as if they had all been executed, authenticated and delivered simultaneously on the date of the Indenture, whether the same, or any of them, shall actually be disposed of at such date, or whether they, or any of them, shall be disposed of at some future date, or whether they, or any of them, shall have been authorized to be authenticated and delivered or may be authorized to be authenticated and delivered hereafter pursuant to the Indenture, or pursuant to the 1998 Indenture, the 2003 Indenture, the 2010 Indenture or the 2011 Indenture.

#### **Default Provisions and Remedies of Trustee and Bondholders**

If any of the following events occur it is defined in the Indenture as and declared to be and to constitute an “Event of Default”:

- (a) Failure to pay when due the principal of or interest or premium, if any, on any Bond or any Parity Bond, whether at the stated maturity thereof, or upon proceedings for redemption thereof by declaration or otherwise;
- (b) Failure in the performance or observance of any other of the covenants, agreements or conditions on the part of the Authority contained in the Indenture, the 1998 Indenture, the 2003 Indenture, the 2010 Indenture or the 2011 Indenture, or in the Bonds or Parity Bonds, and the continuance thereof for a period of 45 days after written notice given by the Trustee or the owners of not less than 20% in aggregate principal amount of any series of the Bonds and Parity Bonds then outstanding, as provided in the Indenture;
- (c) The occurrence of an Act of Bankruptcy;
- (d) The occurrence of an event of default as defined in the 1998 Indenture, the 2003 Indenture, the 2010 Indenture, or in the 2011 Indenture.

The term “default” shall mean the events specified in clauses (a), (b), (c), and (d) above, exclusive of any period of grace and irrespective of the giving of any written notice pursuant to the Indenture.

#### **Protection of Security**

Upon the happening of any Event of Default, the Trustee shall have the power to, but unless requested in writing by the owners of 20% in aggregate principal amount of any series of the Bonds and Parity Bonds then outstanding, and furnished with reasonable security and indemnity, shall be under no obligation to, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient to prevent any impairment of the security under the Indenture, the 1998 Indenture, the 2003 Indenture, the 2010 Indenture and the 2011 Indenture by any acts that may be unlawful or in violation of the Indenture and such suits and proceedings as the Trustee may be advised shall be necessary or expedient to preserve or protect its interests and the interests of the Bondholders, including the appointment of a receiver.

### Trustee Remedies

Upon the occurrence of an Event of Default, the Trustee may, as an alternative, pursue any available remedy to enforce the payment of the principal and premium of and interest on, the Bonds then outstanding, including, without limitation, mandamus.

Upon the happening and continuance of any Event of Default, then and in every case the Trustee may proceed, and upon the written request of the owners of not less than 20% in aggregate principal amount of any series of the Bonds and Parity Bonds then outstanding, shall proceed, to protect and enforce its rights and the rights of all Bondholders and holders of Parity Bonds, under Act 31 and under the Indenture, the 1998 Indenture, the 2003 Indenture, the 2010 Indenture and the 2011 Indenture, forthwith by such suits, actions or special proceedings in equity or at law, or by proceedings in the office of any board or officer having jurisdiction, whether for the specific performance of any covenant or agreement contained in the Indenture, the 1998 Indenture, the 2003 Indenture, the 2010 Indenture or the 2011 Indenture in aid of the execution of any power granted in the Indenture, in the 1998 Indenture in 2003 Indenture, in the 2010 Indenture, in the 2011 Indenture or in Act 31 or for the enforcement of any legal or equitable right or remedy as the Trustee, being advised by Counsel, shall deem most effectual to protect and enforce such rights or to perform any of its duties under the Indenture, the 1998 Indenture, the 2003 Indenture, the 2010 Indenture and the 2011 Indenture.

Upon the happening and continuance of any Event of Default, then and in every case the Trustee may, and upon the written request of the owners of not less than a majority in aggregate principal amount of all Bonds and Parity Bonds then outstanding, shall, declare the principal of and interest on all Bonds and Parity Bonds to be immediately due and payable; provided, however, that, if any Bond or Parity Bond has by its terms been accelerated, the Trustee shall declare the principal of and interest on all Bonds and Parity Bonds to be immediately due and payable; and further provided that, if all Events of Default shall have been made good, then, with the written consent of the owners of not less than a majority in aggregate principal amount of all Bonds and Parity Bonds then outstanding, or with the written consent of the owner or owners of each Bond and Parity Bond that has by its terms been accelerated, the Trustee shall annul such declaration and its consequences.

No remedy by the terms of the Indenture conferred upon or reserved to the Trustee (or to the Bondholders) is intended to be exclusive of any other remedy, but each and every remedy shall, to the fullest extent permitted by law, be cumulative and in addition to any other remedy given to the Trustee or to the Bondholders under the Indenture or under the 1998 Indenture, under the 2003 Indenture, under the 2010 Indenture or under the 2011 Indenture or now or hereafter existing by law.

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, to the fullest extent permitted by law, 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 Indenture whether by the Trustee or by the Bondholders, shall extend to or shall affect any subsequent default or Event of Default or shall impair any rights or remedies consequent on such subsequent default or Event of Default.

### Bondholder Remedies

The Indenture provides that anything therein to the contrary notwithstanding, the owners of a majority in aggregate principal amount of the Bonds and Parity Bonds then outstanding shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture or the 1998 Indenture, the 2003 Indenture, the 2010 Indenture or the 2011 Indenture or for the appointment of a receiver or any other proceedings under the Indenture; provided, however, that such direction shall not be otherwise than in accordance with the provisions of law, the Indenture, the 1998 Indenture, the 2003 Indenture, the 2010 Indenture and the 2011 Indenture.

### Application of Funds

All moneys received by the Trustee pursuant to any right given or action taken under the provisions of the Indenture, the 1998 Indenture, the 2003 Indenture, the 2010 Indenture and the 2011 Indenture shall be applied first to the payment of the costs and expenses, including fees and expenses of experts and attorneys engaged by the Trustee, of the proceedings resulting in the collection of such moneys and of the expenses, liabilities and advances incurred or made by the Trustee under the Indenture and under the 1998 Indenture, the 2003 Indenture, the 2010 Indenture and the 2011 Indenture except as a result of its negligence or bad faith. The balance of such moneys, after providing for the foregoing, shall be deposited by the Trustee in the Redemption Fund to the extent that such moneys have been received pursuant to the 2013 Restated Contract of Lease and all moneys in said fund shall be applied as follows:

FIRST -- To the payment to the persons entitled thereto of all installments of interest then due on the Bonds and Parity Bonds in the order of 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 hereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds and Parity Bonds; and

SECOND -- To the payment to the persons entitled thereto of the unpaid principal of any of the Bonds and Parity Bonds which shall have become due (other than Bonds or Parity Bonds called for redemption for the payment of which moneys are held pursuant to the provisions of the Indenture, the 1998 Indenture, the 2003 Indenture, the 2010 Indenture or the 2011 Indenture), in the order of their due dates, with interest on such Bonds and Parity Bonds at the rate borne thereby from the respective dates upon which they become due and, if the amount available shall not be sufficient to pay in full Bonds and Parity Bonds due on any particular date, together with such interest, then to the payment, ratably, according to the amount of principal due on such date, to the persons entitled thereto without any discrimination or preference; and

THIRD -- To the payment of the interest on and the principal of the Bonds, to the purchase and retirement of Bonds and to the redemption of Bonds, all in accordance with the provisions of the Indenture.

If the principal of all the Bonds and Parity Bonds shall have become or shall have been declared due and payable, all such moneys in the Redemption Fund shall be applied to the payment of the principal and interest then due and unpaid upon such Bonds and Parity Bonds (other than for Bonds previously called for redemption for the payment of which moneys are held pursuant to the provisions of the Indenture) 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 or Parity Bond over any other Bond or Parity Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to differences in the respective rates of interest specified in the Bonds and the Parity Bonds.

Whenever moneys are to be applied pursuant to the provisions of the Indenture, the 1998 Indenture, the 2003 Indenture, the 2010 Indenture or the 2011 Indenture, such moneys shall be applied at such times, and from time to time, as the Trustee shall determine, having due regard to 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 funds, 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 dates shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and shall not be required to make payment to the holder of any Bond or Parity Bond until such Bond or Parity Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

### Action by Trustee

All rights of action (including the right to file proof of claims) under the Indenture, under the 1998 Indenture, under the 2003 Indenture, under the 2010 Indenture, under the 2011 Indenture or under any of the Bonds or Parity Bonds may be enforced by the Trustee without the possession of any of the Bonds or Parity Bonds or the production thereof in any trial or other proceedings relating thereto and any such suit or proceedings instituted by



the Trustee shall be brought in its name as Trustee without the necessity of joining as plaintiffs or defendants any holders of the Bonds or Parity Bonds, and any recovery of judgment shall be first for the equal and ratable benefit of the holders of the outstanding Bonds and Parity Bonds; provided, that no provision of the Indenture, the 1998 Indenture, the 2003 Indenture, the 2010 Indenture or the 2011 Indenture shall impair the first lien upon the revenues of the Hurley Medical Center under the 2013 Restated Contract of Lease.

#### Rights of Bondholders

The Bondholders shall not have any right to institute any suit, action or proceeding for the enforcement of any covenant or provision of the Indenture, the 1998 Indenture, the 2003 Indenture, the 2010 Indenture, or the 2011 Indenture, or for the appointment of a receiver or any other remedy under the Indenture, unless (i) a default has occurred of which the Trustee has been notified as provided in the Indenture, or of which by said provision in the Indenture it is deemed to have notice; (ii) such default shall have become an Event of Default; (iii) the owners of 20% in aggregate principal amount of any series of the Bonds and Parity Bonds then outstanding shall have made written request to the Trustee, shall have offered reasonable opportunity either to proceed to exercise the powers granted in the Indenture or to institute such action, suit or proceeding in the Trustee's name and shall have offered to the Trustee security or indemnity as provided in the Indenture; and (iv) the Trustee shall have thereafter failed or refused to exercise the powers granted in the Indenture, or to institute such action, suit or proceeding in its own name. Such notification, request and offer of indemnity are declared in every case at the option of the Trustee to be conditions precedent to the execution of the powers and trust of the Indenture, the 1998 Indenture, the 2003 Indenture, the 2010 Indenture and the 2011 Indenture, and to any action or cause of action for the enforcement of the Indenture, the 1998 Indenture, the 2003 Indenture, the 2010 Indenture or the 2011 Indenture or for the appointment of a receiver or for any other remedy under the Indenture, it being understood and intended that no Bondholder shall have any right in any manner whatsoever to enforce any right under the Indenture except in the manner provided in the Indenture, the 1998 Indenture, the 2003 Indenture, the 2010 Indenture or the 2011 Indenture, provided, and that all proceedings shall be instituted, had and maintained in the manner provided in the Indenture and in the 1998 Indenture, the 2003 Indenture, the 2010 Indenture and the 2011 Indenture provided and for the equal and ratable benefit of the holders of all Bonds and Parity Bonds then outstanding, provided that amounts recovered pursuant to the 2013 Restated Contract of Lease shall be paid into the Redemption Fund therefor as provided in the Indenture.

Nothing in the Indenture, the 1998 Indenture, the 2003 Indenture, the 2010 Indenture or the 2011 Indenture, contained shall, however, affect or impair any right of enforcement conferred on any Bondholder by Act 31, or the right of any Bondholder to enforce the payment of the principal of, premium, if any, and interest on any Bond or Parity Bond at and after the maturity thereof, or the obligation of the Authority to pay the principal of, premium, if any, and interest on, each of the Bonds or Parity Bonds issued under the Indenture to the respective holders thereof at the time, place, from the source and in the manner in said Bonds and Parity Bonds and the Indenture, the 1998 Indenture, the 2003 Indenture, the 2010 Indenture and the 2011 Indenture expressed.

#### Supplemental Indentures

The Authority and the Trustee may, without the consent of, or notice to, any of the Bondholders or holders of Parity Bonds, enter into an indenture or indentures supplemental to the Indenture for any one or more of the following purposes:

(a) To cure any ambiguity or to correct or supplement any provision contained in the Indenture or in any supplemental indenture which may be defective or inconsistent with any other provision contained in the Indenture or in any supplemental indenture or to make such other provisions in regard to matters or questions arising under the Indenture which shall not adversely affect the interests of the Bondholders or holders of Parity Bonds;

(b) To grant to or confer upon the Trustee for the benefit of the Bondholders or holders of Parity Bonds any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Bondholders or holders of Parity Bonds or the Trustee;

(c) To grant or pledge to the Trustee for the benefit of the Bondholders and holders of Parity Bonds any additional security other than that granted or pledged under the Indenture;

(d) To permit the qualification of the Indenture under the Trust Indenture Act of 1939, as then amended, or any similar federal statute hereafter in effect or to permit the qualification of the Bonds for sale under the securities laws of any state of the United States;

(e) To secure or maintain ratings from any Rating Service in the highest short-term or commercial paper debt rating category and the highest long-term debt rating categories of such Rating Service that are available for the Bonds, which changes will not restrict, limit or reduce the obligation of the Authority to pay the principal of and premium, if any, and interest on the Bonds as provided in the Indenture or otherwise adversely affect the owners of the Bonds under the Indenture; and

(f) To appoint a depository for the Series 2013 Bonds in the City of New York, New York, in the event that the Book-Entry Only System set forth in the Indenture is discontinued with respect to the Series 2013 Bonds.

#### Bondholder Approval

Exclusive of supplemental indentures described under the Indenture and subject to the terms and provisions described under this heading, and not otherwise, the holders of a majority in the aggregate principal amount of the Bonds and any Parity Bonds then outstanding or a majority in the aggregate principal amount of the Bonds and any Parity Bonds then outstanding and affected by such indenture or indentures supplemental thereto, shall have the right, from time to time, anything contained in the Indenture to the contrary notwithstanding, to consent to and approve such other indenture or indentures supplemental hereto as shall be deemed necessary and desirable by the Authority for the purpose of modifying, altering, amending, adding to or rescinding in any particular, any of the terms or provisions contained in the Indenture or in any supplemental indenture; provided, however, that nothing under this heading shall permit, or be construed as permitting (a) an extension of the maturity of the principal of or the interest payment date on any Bond or Parity Bond, or (b) a reduction in the principal amount of or a premium on any Bond or Parity Bond, or a reduction in the rate of interest on any Bond or Parity Bond, or (c) a change in preference or priority of any Bond or Parity Bond over any other Bond or Parity Bond, or (d) a reduction in the aggregate principal amount of the Bonds or Parity Bonds required for consent to such supplemental indenture.

If at any time the Authority shall request the Trustee to enter into any supplemental resolution for any of the purposes under this heading, the Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed execution of such supplemental indenture to be mailed to all holders of Bonds and Parity Bonds. Such notice shall briefly set forth the nature of the proposed supplemental resolution and shall state that copies thereof are on file at the principal office of the Trustee for inspection by all Bondholders and holders of Parity Bonds. If, within 60 days or such longer period as shall be prescribed by the Authority following the mailing of such notice, the holders of a majority in aggregate principal amount of the Bonds and Parity Bonds outstanding or the holders of a majority of each series of the Bonds and Parity Bonds then outstanding and affected by such supplemental indenture at the time of the execution of any such supplemental indenture shall have consented to and approved the execution thereof as provided in the Indenture, no holder of any Bond or Parity Bond shall have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Authority from executing the same or from taking any action pursuant to the provisions thereof. Upon the execution of any supplemental indenture, the Indenture shall be and be deemed to be modified and amended in accordance therewith.

#### Defeasance

Subject to the provisions of the 1998 Indenture with respect to defeasance of the Series 1998 Bonds, the 2003 Indenture with respect to defeasance of the Series 2003 Bonds, the 2010 Indenture with respect to the defeasance of the 2010 Bonds, and the 2011 Indenture with respect to the defeasance of the 2011 Bond, if the Authority shall pay or cause to be paid to the holders of the Bonds and any Parity Bonds the principal, premium, if any, and interest to become due thereon at the times and in the manner stipulated therein and in the Indenture, or if provision is made by the Authority for such payments, and if the Authority shall keep, perform and observe substantially all the covenants and promises in the Bonds and Parity Bonds and in the Indenture required to be kept, performed and observed by it or on its part, then the Authority's pledge under the Indenture of Cash Rentals received by the Authority under the 2013 Restated Contract of Lease, and all covenants, agreements and other

obligations of the Authority to the holders shall cease, determine and be void. In such event, the Trustee shall execute and deliver to the Authority such instruments in writing as shall be requisite to evidence such discharge and satisfaction, and assign and deliver to the Authority any property at the time which may then be in its possession by virtue of the Indenture, except amounts required to be paid to the Lessee, which shall be assigned and delivered to the Lessee, and except cash or securities held by the Trustee for the payment of principal of, and of interest and premium, if any, on the Bonds and any Parity Bonds.

Any Bonds or Parity Bonds for the purchase, payment or redemption of which sufficient moneys shall have been deposited with the Trustee (whether upon or prior to the maturity or the redemption date of such Bonds or Parity Bonds) shall be deemed to be paid within the meaning of the Indenture, the 1998 Indenture, the 2003 Indenture, the 2010 Indenture or the 2011 Indenture, provided, however, that if such Bonds or Parity Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been duly given or waived in accordance herewith or arrangements satisfactory to the Trustee shall have been made for the giving thereof. The principal and purchase price of and interest and premium, if any, on the Bonds or Parity Bonds shall, prior to the maturity or redemption date thereof, as applicable, be deemed to have been paid within the meaning and with the effect expressed in the Indenture, the 1998 Indenture, the 2003 Indenture, the 2010 Indenture or the 2011 Indenture if (a) there shall have been deposited with the Trustee either (i) moneys in an amount which shall be sufficient or (ii) direct obligations of the United States of America the principal of and interest on which when due without reinvestment will provide moneys which, together with the moneys (if any) deposited with the Trustee at the same time, shall be sufficient to pay when due the purchase price, principal, premium, if any, and interest due and to become due on said Bonds or Parity Bonds on or prior to the redemption date or maturity date thereof, as applicable, and (b) in the event such Bonds or Parity Bonds are not by their terms subject to redemption or tender for purchase within the next succeeding 60 days, the Authority shall have given the Trustee in form satisfactory to it irrevocable instructions to give notice to the holders of such Bonds or Parity Bonds that the deposit required by (a) above has been made with the Trustee and that the Bonds or Parity Bonds are deemed to have been paid in accordance with the Indenture, the 1998 Indenture, the 2003 Indenture, the 2010 Indenture or the 2011 Indenture, and stating that such tender, maturity or redemption date upon which moneys are to be available for the payment of the principal of, purchase price, premium, if any, and interest on such Bonds or Parity Bonds.

Neither direct obligations of the United States of America nor moneys deposited with the Trustee pursuant hereto nor principal or interest payments on any such securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal and purchase price of and interest and premium, if any, on the Bonds or Parity Bonds; provided, however, that any cash received from such principal or interest payments on such direct obligations of the United States of America deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in direct obligations of the United States of America maturing at times and in amounts sufficient to pay when due the principal and purchase price of and interest and premium, if any, to become due on said Bonds or Parity Bonds on and prior to such redemption date, tender date or maturity date thereof, as the case may be, and interest earned from such reinvestment shall be paid over to the Authority, as received by the Trustee, free and clear of any trust, lien or pledge.

The Bonds or Parity Bonds of any series or portion of a series may be paid or provided for in one or more of the ways described above under this heading, in which case such Bonds or Parity Bonds or portions thereof shall cease to be entitled to any security under the Indenture, the 1998 Indenture, the 2003 Indenture, the 2010 Indenture or the 2011 Indenture, as the case may be.

**APPENDIX D**

**FORM OF BOND COUNSEL OPINION  
(Series 2013A)**

March \_\_, 2013

City of Flint Hospital Building Authority  
Flint, Michigan

U.S. Bank National Association  
Detroit, Michigan

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the City of Flint Hospital Building Authority (the “Authority”) of its \$21,940,000 Building Authority Revenue Rental Bonds, Series 2013A (Hurley Medical Center) (the “Series 2013A Bonds”).

The Series 2013A Bonds are being issued pursuant to the provisions of Act No. 31, Michigan Public Acts of 1948 (First Extra Session), as amended (“Act 31”), under a Bond Resolution and Indenture of Trust adopted by the Commission of the Authority on January 7, 2013 (the “Indenture”). The Series 2013A Bonds are being issued for the purpose of financing the cost of certain capital improvements to Hurley Medical Center.

The Series 2013A Bonds are being issued by the Authority in anticipation of contract obligations of the City of Flint, Michigan, acting by and through its Board of Hospital Managers (the “Lessee”), under the Eighth Amended and Restated Contract of Lease (Revenue Rental, dated as of February 1, 2013 (the “2013 Restated Contract of Lease”), by and between the Lessee and the Authority, to make cash rental and other payments to the Authority, which payments are established in amounts fully sufficient to pay the operating expenses of the Authority and to pay the principal of, premium, if any, and interest on the Series 2013A Bonds and additional bonds and related obligations of equal standing issued as described in the 2013 Restated Contract of Lease and the Indenture. By the terms of the 2013 Restated Contract of Lease, the Lessee has obligated itself to make the said cash rental payments to the Authority only out of the net revenues of Hurley Medical Center and all other health care facilities of the Lessee. Such obligation of the Lessee to pay rentals is self-liquidating and does not constitute a full faith and credit general obligation of the City of Flint.

We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion. As to questions of fact material to our opinion, we have relied upon certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

Based on the foregoing, we are of the opinion, under existing law, as follows:

1. The Authority is a public body corporate of the State of Michigan, is legally organized and validly existing under the Constitution and laws of the State of Michigan, including particularly Act 31, and is legally authorized and empowered to adopt the Indenture, to enter into the 2013 Restated Contract of Lease, and to issue and deliver the Series 2013A Bonds.

2. The Series 2013A Bonds have been duly authorized, executed and delivered and are valid and binding obligations of the Authority.

3. The Indenture and the 2013 Restated Contract of Lease have been validly adopted, executed and delivered by the Authority, which is empowered thereby and by law to carry out its obligations, perform its duties and exercise its rights thereunder in accordance with the terms thereof, and each is binding upon the Authority.

4. By the execution of the 2013 Restated Contract of Lease and the approval and adoption of the Indenture, without the necessity of any further act or filing by any person, the cash rentals payable by the Lessee pursuant to the 2013 Restated Contract of Lease are subject to a lien, made a statutory lien by Act 31, for the benefit and security of the holders from time to time of the Series 2013A Bonds, which is on a parity with the lien established for the benefit and security of the holders from time to time of (i) the Authority's Building Authority Revenue Refunding Bonds, Series 1998A, and the Authority's Building Authority Revenue Rental Bonds, Series 1998B, issued pursuant to the Bond Resolution and Indenture of Trust adopted by the Commission of the Authority on January 29, 1998, and readopted with technical corrections on April 1, 1998 (the "1998 Indenture"), (ii) the Authority's Building Authority Revenue and Revenue Refunding Bonds, Series 2003, issued pursuant to the Bond Resolution and Indenture of Trust adopted by the Commission of the Authority on May 12, 2003 (the "2003 Indenture"), (iii) the Authority's Building Authority Revenue Rental Bonds, Series 2010, issued pursuant to the Bond Resolution and Indenture of Trust adopted by the Commission of the Authority on February 18, 2010 (the "2010 Indenture"), (iv) the Authority's Building Authority Revenue Rental Bond, Series 2011, issued pursuant to the Bond Resolution and Indenture of Trust adopted by the Commission of the Authority on September 30, 2011 (the "2011 Indenture"), (v) the Authority's Building Authority Revenue Refunding Bonds, Series 2013B, to be issued pursuant to the Indenture (when and if issued), and (vi) any additional bonds of equal standing issued by the Authority after the date hereof as permitted by and pursuant to the Indenture.

5. The interest on the Series 2013A Bonds (a) is excluded from gross income for federal income tax purposes, and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that certain corporations must take into account interest on the Series 2013A Bonds in determining adjusted current earnings for the purpose of computing such alternative minimum tax. The opinion set forth in clause (a) above is subject to the condition that the Authority comply with all requirements of the Internal Revenue Code

of 1986, as amended (the “Code”), that must be satisfied subsequent to the issuance of the Series 2013A Bonds in order that interest thereon be (or continue to be) excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause the interest on the Series 2013A Bonds to be included in gross income retroactive to the date of issuance of the Series 2013A Bonds. The Authority has covenanted in the Indenture to comply with all such requirements.

6. The principal and interest on the Series 2013A Bonds are exempt from taxation by the State of Michigan and by any other taxing authority within the State of Michigan, except estate taxes and taxes on gains realized from the sale, payment or other disposition thereof.

It is understood that the rights of the holders of the Series 2013A Bonds and the enforceability thereof 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 be subject to the exercise of judicial discretion in appropriate cases in accordance with general principles of equity.

Respectfully submitted,

**FORM OF BOND COUNSEL OPINION  
(Series 2013B)**

April \_\_, 2013

City of Flint Hospital Building Authority  
Flint, Michigan

U.S. Bank National Association  
Detroit, Michigan

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the City of Flint Hospital Building Authority (the “Authority”) of its \$36,590,000 Building Authority Revenue Refunding Bonds, Series 2013B (Hurley Medical Center) (the “Series 2013B Bonds”).

The Series 2013B Bonds are being issued pursuant to the provisions of Act No. 31, Michigan Public Acts of 1948 (First Extra Session), as amended (“Act 31”), under a Bond Resolution and Indenture of Trust adopted by the Commission of the Authority on January 7, 2013 (the “Indenture”). The Series 2013B Bonds are being issued for the purpose of refinancing the cost of certain capital improvements to Hurley Medical Center.

The Series 2013B Bonds are being issued by the Authority in anticipation of contract obligations of the City of Flint, Michigan, acting by and through its Board of Hospital Managers (the “Lessee”), under the Eighth Amended and Restated Contract of Lease (Revenue Rental, dated as of February 1, 2013 (the “2013 Restated Contract of Lease”), by and between the Lessee and the Authority, to make cash rental and other payments to the Authority, which payments are established in amounts fully sufficient to pay the operating expenses of the Authority and to pay the principal of, premium, if any, and interest on the Series 2013B Bonds and additional bonds and related obligations of equal standing issued as described in the 2013 Restated Contract of Lease and the Indenture. By the terms of the 2013 Restated Contract of Lease, the Lessee has obligated itself to make the said cash rental payments to the Authority only out of the net revenues of Hurley Medical Center and all other health care facilities of the Lessee. Such obligation of the Lessee to pay rentals is self-liquidating and does not constitute a full faith and credit general obligation of the City of Flint.

We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion. As to questions of fact material to our opinion, we have relied upon certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

Based on the foregoing, we are of the opinion, under existing law, as follows:

1. The Authority is a public body corporate of the State of Michigan, is legally organized and validly existing under the Constitution and laws of the State of Michigan, including particularly Act 31, and is legally authorized and empowered to adopt the Indenture, to enter into the 2013 Restated Contract of Lease, and to issue and deliver the Series 2013B Bonds.

2. The Series 2013B Bonds have been duly authorized, executed and delivered and are valid and binding obligations of the Authority.

3. The Indenture and the 2013 Restated Contract of Lease have been validly adopted, executed and delivered by the Authority, which is empowered thereby and by law to carry out its obligations, perform its duties and exercise its rights thereunder in accordance with the terms thereof, and each is binding upon the Authority.

4. By the execution of the 2013 Restated Contract of Lease and the approval and adoption of the Indenture, without the necessity of any further act or filing by any person, the cash rentals payable by the Lessee pursuant to the 2013 Restated Contract of Lease are subject to a lien, made a statutory lien by Act 31, for the benefit and security of the holders from time to time of the Series 2013B Bonds, which is on a parity with the lien established for the benefit and security of the holders from time to time of (i) the Authority's Building Authority Revenue Refunding Bonds, Series 1998A, and the Authority's Building Authority Revenue Rental Bonds, Series 1998B, issued pursuant to the Bond Resolution and Indenture of Trust adopted by the Commission of the Authority on January 29, 1998, and readopted with technical corrections on April 1, 1998 (the "1998 Indenture"), (ii) the Authority's Building Authority Revenue and Revenue Refunding Bonds, Series 2003, issued pursuant to the Bond Resolution and Indenture of Trust adopted by the Commission of the Authority on May 12, 2003 (the "2003 Indenture"), (iii) the Authority's Building Authority Revenue Rental Bonds, Series 2010, issued pursuant to the Bond Resolution and Indenture of Trust adopted by the Commission of the Authority on February 18, 2010 (the "2010 Indenture"), (iv) the Authority's Building Authority Revenue Rental Bond, Series 2011, issued pursuant to the Bond Resolution and Indenture of Trust adopted by the Commission of the Authority on September 30, 2011 (the "2011 Indenture"), (v) the Authority's Building Authority Revenue Rental Bonds, Series 2013A, issued pursuant to the Indenture, and (vi) any additional bonds of equal standing issued by the Authority after the date hereof as permitted by and pursuant to the Indenture.

5. The interest on the Series 2013B Bonds (a) is excluded from gross income for federal income tax purposes, and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that certain corporations must take into account interest on the Series 2013B Bonds in determining adjusted current earnings for the purpose of computing such alternative minimum tax. The opinion set forth in clause (a) above is subject to the condition that the Authority comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of



the Series 2013B Bonds in order that interest thereon be (or continue to be) excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause the interest on the Series 2013B Bonds to be included in gross income retroactive to the date of issuance of the Series 2013B Bonds. The Authority has covenanted in the Indenture to comply with all such requirements.

6. The principal and interest on the Series 2013B Bonds are exempt from taxation by the State of Michigan and by any other taxing authority within the State of Michigan, except estate taxes and taxes on gains realized from the sale, payment or other disposition thereof.

It is understood that the rights of the holders of the Series 2013B Bonds and the enforceability thereof 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 be subject to the exercise of judicial discretion in appropriate cases in accordance with general principles of equity.

Respectfully submitted,

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