

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series 2020 Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Series 2020 Bonds is not treated as a preference item in calculating the alternative minimum tax under the Code. In addition, in the opinion of Bond Counsel, under existing statutes, the Series 2020 Bonds and the interest thereon are exempt from taxation by the State of Michigan and by any taxing authority within the State of Michigan, except inheritance and estate taxes and taxes on gains realized from the sale, payment or other disposition thereof. See "TAX MATTERS" herein.



**\$45,830,000
CITY OF FLINT HOSPITAL BUILDING AUTHORITY
Building Authority Revenue and Revenue Refunding Bonds,
Series 2020 (Hurley Medical Center)**

Dated: Date of Delivery

Due: July 1, as shown herein

The Series 2020 Bonds will constitute limited obligations of the City of Flint Hospital Building Authority (the "Authority"), will be issued under the Indenture (as defined herein), will be secured as provided by the Indenture and the 2020 Restated Contract of Lease (as defined herein), and will be equally and ratably payable from Cash Rentals (as defined herein) made by the Board of Hospital Managers, City of Flint, Michigan (the "Board"), on behalf of Hurley Medical Center (the "Medical Center"), and from certain funds held under the Indenture. The operation, maintenance and management of the Medical Center is under the supervision and exclusive management of the Board. The proceeds of the Series 2020 Bonds will be used to (i) finance the costs of the renovation of and upgrades to certain facilities occupied by the Medical Center and the purchase and installation of equipment, including medical and electrical equipment and clinical information technology and software, (ii) refund the Series 2010 Bonds (as defined herein), (iii) fund a debt service reserve fund for the Series 2020 Bonds for the benefit of the holders of the Series 2020 Bonds and (iv) pay certain expenses incurred in connection with the issuance of the Series 2020 Bonds. The sources of payment of, and security for, the Series 2020 Bonds are more fully described in this Official Statement.

The Series 2020 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 2020 Bonds. Purchasers of the Series 2020 Bonds will not receive certificates representing their interests in the Series 2020 Bonds purchased. Ownership by the beneficial owners of the Series 2020 Bonds will be evidenced by book-entry only. Principal of and interest on the Series 2020 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 2020 Bonds. As long as Cede & Co. is the registered owner as nominee of DTC, payments on the Series 2020 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 2020 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 2020 Bondholder is advised to read "SECURITY FOR THE SERIES 2020 BONDS" and "BONDHOLDERS' RISKS" herein for a description of the security for the Series 2020 Bonds and for a discussion of certain risk factors which should be considered in connection with an investment in the Series 2020 Bonds.

The Series 2020 Bonds will be issued in denominations of \$5,000 or any integral multiple thereof. Interest on the Series 2020 Bonds will be payable on each January 1 and July 1, commencing July 1, 2020. The Series 2020 Bonds are subject to extraordinary, optional and mandatory redemption prior to maturity as described herein.

THE SERIES 2020 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 2020 BONDS. THE OBLIGATION OF THE BOARD TO MAKE PAYMENTS OF CASH RENTALS IS A LIMITED OBLIGATION OF THE BOARD PAYABLE SOLELY FROM THE NET REVENUES OF THE MEDICAL CENTER. THE AUTHORITY HAS NO TAXING POWER.

The Series 2020 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 2020 Bonds by Hawkins Delafield & Wood LLP, Bond Counsel. Certain legal matters will be passed upon for the Board by its Associate General Counsel and for the Underwriter by its counsel, Dorsey & Whitney LLP, Des Moines, Iowa. It is expected that the Series 2020 Bonds in definitive form will be available for delivery to the Underwriter through the facilities of DTC on or about April 3, 2020.

This cover page contains certain information for quick reference only. It is not a summary of the Series 2020 Bonds or the security for the Series 2020 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®

PRINCIPAL AMOUNTS, MATURITIES, INTEREST RATES, PRICES, YIELDS AND CUSIP[†]

\$45,830,000

**CITY OF FLINT HOSPITAL BUILDING AUTHORITY
BUILDING AUTHORITY REVENUE AND REVENUE REFUNDING
BONDS, SERIES 2020
(HURLEY MEDICAL CENTER)**

\$22,765,000 Serial Bonds

<u>Maturity (July 1)</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>CUSIP[†]</u>
2021	\$ 180,000	5.000%	104.512%	339511EG8
2022	185,000	5.000%	107.832%	339511EH6
2023	195,000	5.000%	111.074%	339511EJ2
2024	925,000	5.000%	114.161%	339511EK9
2025	925,000	5.000%	117.035%	339511EL7
2026	925,000	5.000%	119.600%	339511EM5
2027	925,000	5.000%	121.792%	339511EN3
2028	925,000	5.000%	123.550%	339511EP8
2029	2,175,000	5.000%	125.298%	339511EQ6
2030	2,290,000	5.000%	126.707%	339511ER4
2031	2,405,000	5.000%	126.181%*	339511ES2
2032	2,525,000	4.000%	114.647%*	339511ET0
2033	2,620,000	4.000%	114.256%*	339511EU7
2034	2,730,000	4.000%	113.964%*	339511EV5
2035	2,835,000	4.000%	113.576%*	339511EW3

\$23,065,000 Term Bonds

\$9,205,000	4.00%	Term Bonds due July 1, 2038,	Price 112.708%* to Yield 2.580%,	CUSIP [†] : 339511EX1
\$1,515,000	5.00%	Term Bonds due July 1, 2038,	Price 110.098%* to Yield 3.800%,	CUSIP [†] : 339511EZ6
\$12,345,000	4.00%	Term Bonds due July 1, 2041,	Price 111.848%* to Yield 2.670%,	CUSIP [†] : 339511EY9

[†] CUSIP numbers appearing on the inside 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, the Trustee, the Underwriter and the Board are not responsible for the selection of CUSIP numbers and makes no representation as to their correctness on the Series 2020 Bonds or as set forth on the inside cover of this Official Statement.

* Priced to call date of July 1, 2030

REGARDING USE OF THIS OFFICIAL STATEMENT

No dealer, broker, salesperson or other person has been authorized by the Authority, the Board 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 2020 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 Board, 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.

THE SERIES 2020 BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION BY REASON OF THE PROVISIONS OF SECTION 3(a)(2) OF THE SECURITIES ACT OF 1933, AS AMENDED. THE REGISTRATION OR QUALIFICATION OF THESE SECURITIES IN ACCORDANCE WITH APPLICABLE PROVISIONS OF THE SECURITIES LAWS OF THE JURISDICTIONS IN WHICH THEY HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER JURISDICTIONS SHALL NOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER OF THESE JURISDICTIONS NOR ANY OF THEIR AGENCIES HAVE PASSED UPON THE MERITS OF THE SECURITIES OR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE BOARD, THE MEDICAL CENTER AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2020 BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2020 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 2020 Bonds 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 2020 Bonds in accordance with applicable provisions of securities laws of the states in which the Series 2020 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 2020 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. Neither the Board nor the Medical Center plans 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

\$45,830,000

**City of Flint Hospital Building Authority
Building Authority Revenue and Revenue Refunding Bonds,
Series 2020 (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 \$45,830,000 aggregate principal amount of Building Authority Revenue and Revenue Refunding Bonds, Series 2020 (Hurley Medical Center) (the “Series 2020 Bonds”) of the City of Flint Hospital Building Authority (the “Authority”). The Series 2020 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 December 4, 2019 (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 2020 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 2020 Restated Contract of Lease. See “SECURITY FOR THE SERIES 2020 BONDS” herein.

The Board and the Medical Center. Hurley Medical Center (the “Medical Center”) was established in 1908, as a result a result of a bequest of James J. Hurley to the City. Pursuant to the City’s Charter, the Board of Hospital Managers of the City (the “Board”) supervises and has the exclusive management of the operations, maintenance and management of the Medical Center. The Medical Center is a 443–licensed bed, tertiary care teaching facility. Appendix A contains information on the Board and on the history, organization, ownership, operations and financial performance of the Medical Center.

Purpose of the Series 2020 Bonds. The proceeds to be received by the Authority from the sale of the Series 2020 Bonds, together with other available funds, will be used to (i) finance the costs of the renovation of and upgrades to certain facilities occupied by the Medical Center and the purchase and installation of equipment, including medical and electrical equipment and clinical information technology and software (the “Project”), (ii) refund the outstanding principal amount of the Authority’s outstanding Building Authority Revenue Rental Bonds, Series 2010 (Hurley Medical Center) (the “Series 2010 Bonds”), (iii) fund the Debt Service Reserve Fund (Series 2020) (defined herein) for the benefit of the holders of the Series 2020 Bonds and (iv) pay certain expenses incurred in connection with the issuance

of the Series 2020 Bonds. See “PLAN OF FINANCE” and “ESTIMATED SOURCES AND USES OF FUNDS” herein.

Security for the Series 2020 Bonds. The Series 2020 Bonds are limited obligations of the Authority and will be payable from payments of Cash Rentals to be made under the Ninth Amended and Restated Contract of Lease (Revenue Rental), dated as of April 1, 2020 (the “2020 Restated Contract of Lease”), between the Authority and the Board (in such capacity, the “Lessee”). Under the 2020 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, premium, if any, and interest on the Series 2020 Bonds when due. The Indenture provides for the establishment of a debt service reserve fund for the Series 2020 Bonds (the “Debt Service Reserve Fund (Series 2020)”). For further information concerning the security for the Series 2020 Bonds, see “SECURITY FOR THE SERIES 2020 BONDS” herein.

Parity Bonds and Additional Bonds. The Authority has heretofore issued several series of bonds which are payable from Cash Rentals on a parity with the Series 2020 Bonds. See “PARITY BONDS” herein. The Indenture provides for the issuance of additional series of bonds (the “Additional Bonds”) on parity with the Series 2020 Bonds, and all other bonds issued on a parity therewith, 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 bonds described under the heading “PARITY BONDS” herein, Series 2020 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 2020 Bonds, and the outstanding Parity 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 2020) held for the Series 2020 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 2020 Bonds).

Bondholders’ Risks. There are risks associated with the purchase of the Series 2020 Bonds. See “BONDHOLDERS’ RISKS” for a discussion of some of these risks.

Continuing Disclosure. The Board will enter into an undertaking for the benefit of the holders of the Series 2020 Bonds to provide certain information quarterly and annually and to provide notice of certain events. 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 but not defined herein.

THE SERIES 2020 BONDS

General

Beneficial interests in the Series 2020 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 2020 Bonds have no right to a Book-Entry System for the Series 2020 Bonds.

So long as Cede & Co. is the registered owner of the Series 2020 Bonds, as nominee of DTC, references herein to the holders or registered owners of the Series 2020 Bonds will mean Cede & Co. and will not mean the Beneficial Owners (as hereinafter defined) of the Series 2020 Bonds.

Discontinuation of Book-Entry System

In the event that the Authority determines that the Beneficial Owners should be able to obtain Series 2020 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 2020 Bond certificates. In such event, the Trustee shall issue, transfer and exchange initial Series 2020 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 2020 Bonds registered in whatever name or names the Beneficial Owners transferring or exchanging initial Series 2020 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 2020 Bonds

The following information is subject in its entirety to the provisions described below under “BOOK-ENTRY SYSTEM” while the Series 2020 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 2020 Bonds and matters pertaining to transfers and exchanges while the Book-Entry System is in place. The Series 2020 Bonds, which will bear interest at the rates per annum and mature in the years and in the principal amounts as shown on the inside 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 2020 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 2020 Bonds will be payable semiannually on January 1 and July 1 of each year, commencing July 1, 2020. Principal of the Series 2020 Bonds will be paid to the registered owners at maturity or upon earlier redemption upon presentation and surrender of the Series 2020 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 2020 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 2020 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 2020 Bonds register kept by the Trustee, notwithstanding the exchange or transfer thereof subsequent to the Record Date and prior to such Interest Payment Date.

Any Series 2020 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 2020 Bonds of any other authorized denominations of the same aggregate principal amount and of the same series, maturity and interest rate.

Each Series 2020 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 2020 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 2020 Bond is registered upon the books of the Authority as the absolute owner of such Series 2020 Bond, whether such Series 2020 Bond shall be overdue or not, for the purpose of receiving payment of the principal of and interest on such Series 2020 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 2020 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 2020 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 2020 Bond or portion thereof within ten days prior to selection of Series 2020 Bonds of the same series and maturity for redemption or (b) any Series 2020 Bond or portion thereof selected for redemption.

Redemption

Optional Redemption. The Series 2020 Bonds maturing after July 1, 2020 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, 2030, 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 2020 Bonds maturing July 1, 2038 bearing interest at 4.00%, maturing July 1, 2038 bearing interest at 5.00% and maturing July 1, 2041 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 2020 Bonds Maturing July 1, 2038 Bearing Interest at 4.00%

<u>Date</u> <u>(July 1)</u>	<u>Principal</u> <u>Amount</u>
2036	\$2,950,000
2037	3,065,000
2038*	3,190,000

* Maturity

Series 2020 Bonds Maturing July 1, 2038 Bearing Interest at 5.00%

<u>Date</u> <u>(July 1)</u>	<u>Principal</u> <u>Amount</u>
2029	\$120,000
2030	125,000
2031	130,000
2032	140,000
2033	145,000
2034	155,000
2035	165,000
2036	170,000
2037	175,000
2038*	190,000

* Maturity

Series 2020 Bonds Maturing July 1, 2041

<u>Date</u> <u>(July 1)</u>	<u>Principal</u> <u>Amount</u>
2039	\$3,315,000
2040	4,425,000
2041*	4,605,000

* Maturity

The principal amount of Series 2020 Bonds required to be redeemed on each mandatory redemption date shall be reduced by the principal amount of any maturity of Series 2020 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 2020 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 2020 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 2020 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 2020 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 2020 Bonds may be redeemed from such maturities or portions thereof as are selected by the Board 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 2020 Bonds, the Board shall receive credit against its required deposits into the Redemption Fund with respect to the Series 2020 Bonds of the related maturity or maturities.

Notice of Redemption; Effect. Notice of redemption of the Series 2020 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 2020 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 2020 Bonds or any defect therein will not affect the validity of the proceedings for such

redemption as to the registered owners of any Series 2020 Bonds to whom notice has been mailed. See “BOOK-ENTRY SYSTEM.”

All Series 2020 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 2020 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 2020 Bonds. The ownership of one fully registered Series 2020 Bond for each maturity as set forth on the inside 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 2020 BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE BONDHOLDERS, HOLDERS OR REGISTERED OWNERS OF THE SERIES 2020 BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES 2020 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.

Purchases of the Series 2020 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2020 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2020 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 2020 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 2020 Bonds, except in the event that use of the book-entry-only system for the Series 2020 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2020 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 2020 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 2020 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2020 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.

While the Series 2020 Bonds are in the book-entry-only system, redemption notices shall be sent to DTC. If less than all of the Series 2020 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 2020 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 2020 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 2020 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 2020 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 2020 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, 2020 Bond certificates are required to be printed and delivered.

In addition, the Authority may discontinue the book-entry-only system for the Series 2020 Bonds at any time by giving reasonable notice to DTC. In that event, Series 2020 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 BOARD 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 2020 BONDS

General

The principal of, premium, if any, and interest on the Series 2020 Bonds will be limited obligations of the Authority and will be payable from payments to be made under the 2020 Restated Contract of Lease. Under the 2020 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 2020 Bonds and any 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 2020 Restated Contract of Lease and the amounts payable to the Authority under the 2020 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 2020 Bonds and any Parity Bonds. The Lessee will agree under the 2020 Restated Contract of Lease to make its payments thereunder directly to the Trustee.

The Indenture provides for the establishment and funding of the Debt Service Reserve Fund (Series 2020) for the exclusive benefit of the registered owners of the Series 2020 Bonds in an amount equal to the Reserve Amount (Series 2020), which is initially \$4,369,206.20 (the “Reserve Amount (Series 2020)”). The Reserve Amount (Series 2020) is also referred to herein as a Reserve Amount. See “SUMMARY OF PRINCIPAL DOCUMENTS – Definitions” in Appendix C. Amounts in the Debt Service Reserve Fund (Series 2020) will be applied to payment of principal of and interest on the Series 2020 Bonds in the event and to the extent that amounts on deposit in the Redemption Fund and the Series 2020 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 the Debt Service Reserve Fund (Series 2020) is less than the Reserve Amount because of a transfer from the Debt Service Reserve Fund (Series 2020), there will be paid by the Authority out of Cash Rentals, in four substantially equal quarterly installments (commencing with the last Business Day of the calendar quarter in which such transfer occurred), an amount sufficient to restore the Debt Service Reserve Fund (Series 2020) to the Reserve Amount. On the first Business Day after January 1 of each year, the Trustee will determine the amount on deposit in the Debt Service Reserve Fund (Series 2020) by valuing investments therein at fair market value and if the amount then on deposit in the Debt Service Reserve Fund (Series 2020) is determined to be less than 90%

of the 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 four substantially equal installments (commencing with the last Business Day of the calendar quarter in which such deficiency is determined), an amount sufficient to restore the Debt Service Reserve Fund (Series 2020) to 100% of the Reserve Amount. Amounts on deposit in the Debt Service Reserve Fund (Series 2020) will be available to pay debt service on the Series 2020 Bonds as described above, but will not be available to pay debt service on any other 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 2020)” in Appendix C.

Designated Affiliates

Under the 2020 Restated Contract of Lease, the Medical Center is permitted to designate certain affiliates as “Designated Affiliates.” Subject to the 2020 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 2020 Restated Contract of Lease – Sale, Lease or Other Disposition of Property,” “– Affiliate Guaranties” and “– Affiliate Leases” in Appendix C. 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 2020 Restated Contract of Lease. **However, no Designated Affiliate will directly guaranty or otherwise be responsible for payment on the Series 2020 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 2020 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 2020 Bonds, no affiliates of the Medical Center will be “Designated Affiliates” under the 2020 Restated Contract of Lease.

RATE AND LIQUIDITY COVENANTS

Rate Covenant

Pursuant to the 2020 Restated Contract of Lease, the Board has agreed to set the Medical Center’s 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 2020 Restated Contract of Lease. Rates are to be fixed and revised from time to time by the Board, so as to produce the foregoing amounts, and the Board has covenanted and agreed that it will collect the established rates for services of the Medical Center for as long as any of the Series 2020 Bonds or any Parity Bonds payable out of the Cash Rentals are outstanding. The obligation of the Board to make the Cash Rentals is not subject to any setoff by the Board 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 Board elects to prepay any portion of the cash rentals and such prepayment is applied to the payment or redemption of the Series 2020 Bonds or Parity Bonds. See “SUMMARY OF PRINCIPAL DOCUMENTS – Summary of Certain Provisions of the 2020 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 2020 BONDS.”

Pursuant to the 2020 Restated Contract of Lease, the Board has agreed that, if in any fiscal year while any of the Series 2013 Bonds (defined herein) or the Series 2020 Bonds remains Outstanding, the ratio determined by dividing Net Income Available for Debt Service by the Maximum Annual Debt Service Requirement is less than 1.30 to 1.00, then the Board shall promptly retain a Hospital Consultant to examine the rates, fees and charges of the Board 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 Board to cause the Medical Center and Designated Affiliates to produce Net Income Available for Debt Service as required by the 2020 Restated Contract of Lease. See “SUMMARY OF PRINCIPAL DOCUMENTS – Summary of Certain Provisions of the 2020 Restated Contract of Lease – Hurley Medical Center Rates” in Appendix C.

The Indenture provides that the holder or holders of Series 2020 Bonds or Parity Bonds representing in the aggregate not less than 20% of the entire issue of any outstanding Series 2020 Bonds or Parity Bonds of any series, may by suit, action or other proceedings protect and enforce the statutory lien on Cash Rentals and enforce and compel the performance of all duties of the officials of the Authority, including, but not limited to, compelling the Board by proceedings in a court of competent jurisdiction or other appropriate forum to pay the Cash Rentals required to be paid by the 2020 Restated Contract of Lease, and requiring the Board to fix and collect rates as required by the 2020 Restated Contract of Lease to be so fixed and collected by the Board for payment of the Cash Rentals required to be paid by said 2020 Restated Contract of Lease. However, there can be no assurance of the availability of remedies adequate to protect the interests of the holders of the Series 2020 Bonds. See “BONHOLDERS’ RISKS – Factors Concerning Enforceability Generally” herein.

Liquidity Covenant

Pursuant to the 2020 Restated Contract of Lease, while the Series 2013 Bonds or the Series 2020 Bonds remain outstanding, the Board has agreed to cause the Medical Center to comply with a 50 days cash on hand requirement as of the end of each fiscal year and to retain a Hospital Consultant upon a failure to maintain 50 days cash on hand; provided, however, that the Board shall not be in default of such days cash on hand requirement unless (i) the Board 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 2020 Restated Contract of Lease – Liquidity Covenant” in Appendix C.

PARITY BONDS

Upon the issuance of the Series 2020 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 2020 Bonds:

- \$21,940,000 Building Authority Revenue Rental Bonds, Series 2013A (Hurley Medical Center) (the “Series 2013A Bonds”), issued pursuant to a Bond Resolution and Indenture of Trust adopted on January 7, 2013 (the “2013 Indenture”), outstanding in the principal amount of \$21,395,000; and

- \$36,590,000 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”), issued pursuant to the 2013 Indenture, outstanding in the principal amount of \$14,510,000.

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 2020 Bonds and the other outstanding Parity 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 2020 Bonds, together with other available funds, will be used to (i) finance the costs of the Project (as defined below), (ii) refund the Series 2010 Bonds, (iii) fund the Debt Service Reserve Fund (Series 2020) and (iv) pay certain expenses incurred in connection with the issuance of the Series 2020 Bonds.

The Authority will use a portion of the proceeds of the Series 2020 Bonds to renovate and upgrade certain facilities occupied by the Medical Center and to purchase and install equipment, including medical and electrical equipment and clinical information technology and software (the “Project”). At closing, the Authority anticipates reimbursing the Medical Center for approximately \$1,500,000 of prior Project expenditures.

A portion of the proceeds of the Series 2020 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 April 1, 2020 (the “Escrow Agreement”), between the Escrow Trustee and the Board. 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 Series 2010 Bonds on the date of redemption. The Investment Securities and moneys deposited with the Escrow Trustee will be deposited in an irrevocable escrow fund established pursuant the Escrow Agreement and pledged to secure the payment of the principal of and interest on the Series 2010 Bonds.

THE AUTHORITY

Powers

The Authority is a hospital building authority organized and existing under and pursuant to the provisions of 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.

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:

Thomas James, Chair
Ira Rutherford, Vice Chair
Charlotte Edwards
Cass Wisniewski, Secretary-Treasurer (non-voting member)
Ada Washington
Christopher Flores

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ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds are as follows (all amounts have been rounded to the nearest dollar):

Sources of Funds:

Series 2020 Bond Proceeds	\$45,830,000
Original Issue Premium	7,019,789
Trustee Held Funds	<u>3,954,762</u>
TOTAL SOURCES OF FUNDS	<u>\$56,804,551</u>

Uses of Funds:

Deposit to Escrow to Refund Series 2010 Bonds	\$31,740,300
Project Fund	20,000,000
Debt Service Reserve Fund (2020)	4,369,206
Costs of Issuance ⁽¹⁾	<u>695,045</u>
TOTAL USES OF FUNDS	<u>\$56,804,551</u>

⁽¹⁾ Includes Underwriter's discount.

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ESTIMATED ANNUAL DEBT SERVICE REQUIREMENTS¹

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 2020 Bonds and outstanding Parity Bonds, including payment at maturity or by mandatory sinking fund redemption (all amounts are rounded to the nearest dollar).

Bond Year Ending July 1,	Series 2020 Bonds		Series 2013 Bonds	Total
	Principal	Interest	Debt Service	
2020		\$ 481,287	\$8,324,875	\$8,806,162
2021	\$ 180,000	1,968,900	3,732,600	5,881,500
2022	185,000	1,959,900	3,732,713	5,877,613
2023	195,000	1,950,650	3,732,438	5,878,088
2024	925,000	1,940,900	3,731,525	6,597,425
2025	925,000	1,894,650	3,720,975	6,540,625
2026	925,000	1,848,400	3,724,350	6,497,750
2027	925,000	1,802,150	3,730,650	6,457,800
2028	925,000	1,755,900	3,734,375	6,415,275
2029	2,295,000	1,709,650	980,263	4,984,913
2030	2,415,000	1,594,900	975,862	4,985,762
2031	2,535,000	1,474,150	975,150	4,984,300
2032	2,665,000	1,347,400	972,863	4,985,263
2033	2,765,000	1,239,400	979,000	4,983,400
2034	2,885,000	1,127,350	973,037	4,985,387
2035	3,000,000	1,010,400	975,500	4,985,900
2036	3,120,000	888,750	975,862	4,984,612
2037	3,240,000	762,250	979,125	4,981,375
2038	3,380,000	630,900	975,025	4,985,925
2039	3,315,000	493,800	978,825	4,787,625
2040	4,425,000	361,200		4,786,200
2041	<u>4,605,000</u>	<u>184,200</u>		<u>4,789,200</u>
TOTAL:	\$45,830,000	\$28,427,087	\$48,905,013	\$123,162,100

See “MANAGEMENT’S DISCUSSION OF FINANCIAL PERFORMANCE – Historical and Pro-Forma Maximum Annual Debt Service Coverage” in Appendix A hereto, for the historical and pro forma debt service coverage ratio information of the Medical Center.

BONDHOLDERS’ RISKS

The purchase of the Series 2020 Bonds involves certain investment risks that are discussed throughout this Official Statement. Accordingly, each prospective purchaser of the Series 2020 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 2020 Bonds depends directly on the ability of the Board to cause the Medical Center to collectively generate revenues sufficient to cover the debt service on the Series 2020 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 2020 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 2020 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 purchase of the Series 2020 Bonds.

Changes in Federal and State Law

From time to time, there are legislative proposals that, if enacted, could adversely affect the federal and state tax matters referred to herein, adversely affect the marketability or market value of the Series 2020 Bonds, or otherwise prevent holders of the Series 2020 Bonds from realizing the full benefit of the tax exemption of interest on the Series 2020 Bonds. No prediction is made concerning future events. The opinions expressed by Bond Counsel in connection with the issuance of the Series 2020 Bonds are based upon existing law. Purchasers of the Series 2020 Bonds should consult their own tax advisors regarding any pending or proposed legislation, regulatory actions, or litigation.

Regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability or tax status of the Series 2020 Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Series 2020 Bonds would be impacted thereby.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2020 Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise

prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Series 2020 Bonds. Prospective purchasers of the Series 2020 Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

Federal Budget Issues

The Budget Control Act of 2011 (the “BCA”) mandates significant reductions and spending caps on the federal budget for the federal fiscal years 2012-2021, including a reduction of 2% on all Medicare payments during this period. Subsequent legislation enacted by Congress extended the Medicare reduction through 2029. The Medicaid program would be exempt from such automatic reductions.

President Trump’s 2020 budget proposal calls for an approximately \$600 billion reduction in Medicare spending and an approximately \$1 trillion reduction in Medicaid and ACA (defined herein) spending over the next ten years. It is impossible to predict what portion, if any, of these proposed federal health care spending reductions will be included in a Congressionally approved budget.

It is possible that Congress will take action to eliminate some or all of the reductions in the future and any Congressional action could be made retroactive in order to eliminate some or all of the cuts even to the extent they were imposed. However, there is no certainty that Congress will take any action. Absent further Congressional action, these automatic spending cuts will become permanent. Because Congress may make changes to the budget in the future, it is impossible to predict the impact any spending cuts may have upon the Medical Center. Similarly, it is impossible to predict whether any automatic reductions to Medicare may be triggered in lieu of other spending cuts that may be proposed by Congress. If and to the extent Medicare and/or Medicaid spending is reduced under either scenario or any future legislative proposals, this may have a material adverse effect upon the financial condition of the Medical Center. Ultimately, these reductions or alternatives could have a disproportionate impact on providers and could have an adverse effect on the financial condition of the Medical Center, which could be material.

In the past, the United States government has shut down and curtailed most routine operations after Congress failed to enact legislation appropriating funds for a fiscal year, or to adopt a continuing resolution for interim authorization of appropriations for the remainder of a fiscal year. During such shutdowns, many federal employees are furloughed and other federal employees were required to report to work without known compensation dates. If a government shutdown occurs in the future, there can be no assurance that federal payments, including Medicare payments or Medicaid payments to the states will occur on a timely basis or at all during such a shutdown. While prior governmental shutdowns and continuing resolutions have not had a material adverse effect on the Medical Center’s revenues, there can be no assurance that future governmental shutdowns will not adversely affect such revenues.

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.

Health Care Reform

The Affordable Care Act ("ACA"), initially enacted in 2010, has significantly changed, and continues to change, how health care services are covered, delivered, and financed in the United States. The primary goal of the ACA – extending health coverage to millions of uninsured legal U.S. residents – has taken place through a combination of private sector health insurance reforms and Medicaid program expansion (discussed below). To fund Medicaid expansion, the ACA includes a broad array of quality improvement programs, cost efficiency incentives, and enhanced fraud and abuse enforcement measures, each designed to generate savings within the Medicare and Medicaid programs. Additionally, the ACA created health insurance exchanges – competitive markets for individuals and small employers to purchase health insurance – and financial programs designed to encourage insurance companies to offer plans on the health insurance exchanges.

The ACA and its implementation have been, and remain, politically controversial. The ACA has continually faced, and continues to face, legal and legislative challenges, including repeal efforts. President Trump and Republican leaders of Congress have repeatedly cited health care reform, and particularly repeal and replacement of the ACA, as a key goal. To that end, Congressional leaders have introduced various ACA repeal bills. While no bills wholly repealing the ACA have passed both chambers of Congress, the Tax Cuts and Jobs Act of 2017 (the "Tax Cuts and Jobs Act") effectively eliminated a key provision of the ACA – a tax penalty associated with failing to maintain health coverage (the "Individual Mandate Tax Penalty") by reducing the penalty to zero dollars effective January 1, 2019. Additionally, on December 14, 2018, a Texas Federal District Court judge, in the case of *Texas v. Azar* declared the ACA unconstitutional, reasoning that the Individual Mandate Tax Penalty was essential to and not severable from the remainder of the ACA. The case has been appealed to the U.S. Court of Appeals for the Fifth Circuit. In a letter dated March 25, 2019, the U.S. Department of Justice stated that it "has determined that the district court's judgment should be affirmed." On December 18, 2019, the 5th Circuit Court of Appeals ruled that the Individual Mandate Tax Penalty was unconstitutional, but remanded the case to the Federal District Court for further analysis as to whether the unconstitutionality of the Individual Mandate Tax Penalty renders the remainder of the ACA unconstitutional. The ACA will remain law while the case proceeds through further district court analysis and any further appeals process; however, the case creates additional uncertainty as to whether any or all of the ACA could be struck down, which creates operational risk for the health care industry. Management of the Medical Center cannot predict the effect of the elimination of the Individual Mandate Tax Penalty, the final result and effect of the *Texas v. Azar* case, the likelihood of any future ACA repeal bills or other health care reform bills becoming law, or the subsequent effects of any such laws or legal decisions, though such effects could materially impact the Medical Center's business or financial condition. In particular, any legal, legislative or executive action that (1) reduces federal health care program spending, (2) increases the number of individuals without health insurance, (3) reduces the number of people seeking health care, or (4) otherwise significantly alters the health care delivery system or insurance markets, could have a material adverse impact on the financial condition or operations of the Medical Center.

Executive branch actions can also have a significant impact on the viability of the ACA. President Trump has issued executive actions directly aimed at the ACA: (1) one requiring federal

agencies with authorities and responsibilities under the ACA to “exercise all authority and discretion available to them to waive, defer, grant exemptions from, or delay” parts of the law that place “unwarranted economic and regulatory burdens” on states, individuals or health care providers, (2) a second instructing federal agencies to make new rules allowing the proliferation of “association health plans” and short term health insurance, which plans have fewer benefit requirements than those sold through ACA insurance exchanges, (3) a third ordering the federal government to withhold ACA cost sharing subsidies currently paid to insurance companies in order to reduce deductibles and co pays for many low income people, and (4) a fourth order regarding health care price and quality transparency that directs federal rulemaking by executive agencies to increase transparency of healthcare price and quality information. Additional executive branch actions include: (i) the issuance of a final rule in June 2018 by the Department of Labor to enable the formation of health plans that would be exempt from certain ACA essential health benefits requirements; (ii) the issuance of a final rule in August 2018 by the Departments of Labor, Treasury, and Health and Human Services to expand the availability of short-term, limited duration health insurance; (iii) eliminating cost-sharing reduction payments to insurers that would otherwise offset deductibles and other out-of-pocket expenses for health plan enrollees at or below 250 percent of the federal poverty level; (iv) relaxing requirements for state innovation waivers that could reduce enrollment in the individual and small group markets and lead to additional enrollment in short-term, limited duration insurance and association health plans; (v) the issuance of a final rule by the Departments of Labor, Treasury, and Health and Human Services (“DHHS”) that would incentivize the use of health reimbursement arrangements by employers to permit employees to purchase health insurance in the individual market; and (vi) a proposed rule from CMS that would require hospitals to make public their standard charges for all items and services payor-specific negotiated rates. The uncertainty resulting from these executive branch policies led to reduced exchange enrollment in 2018 with final CMS reported data for 2019 indicating further decline, and is expected to further worsen the individual and small group market risk pools in future years. It is also anticipated that these and future policies may create additional cost and reimbursement pressures on hospitals.

These executive actions have the potential to significantly impact the insurance exchange market by causing a reduction in the number of healthy individuals in the ACA health insurance exchanges, a reduction in the number of plans available on the health insurance exchanges, and/or an increase in insurance premiums. Management cannot predict the likelihood or effect of any current or future executive actions on the Medical Center’s business or financial condition, though such effects could be material.

The majority of the ACA remains law. Certain key provisions of the law are briefly described below:

1. Private Health Insurance Coverage Expansion/Insurance Market Reforms. One key provision of the ACA was the Individual Mandate Tax Penalty (discussed above) which required most Americans to maintain “minimum essential” health coverage or pay a tax penalty to the federal government. Individuals who were not deemed exempt from the Individual Mandate Tax Penalty and otherwise did not obtain health coverage through an employer or government program were expected to satisfy the mandate by purchasing insurance from a private company or through a “health insurance exchange.” The health insurance exchanges are government established organizations that provide competitive markets for buying health insurance by offering individuals and small employers a choice of different health plans, certifying plans that participate, and providing information to help consumers better understand their options. The Tax Cuts and Jobs Act effectively eliminated the Individual Mandate Tax Penalty by reducing the penalty to zero dollars effective January 1, 2019. While the effect of the elimination of the Individual Mandate Tax Penalty remains uncertain, it has been predicted that it will result in fewer healthy individuals purchasing insurance (through the exchanges or otherwise) and increase the number of uninsured individuals.

The health insurance exchanges may have a positive impact for health care facilities to the extent they increase the number of individuals with health insurance. Conversely, health insurance exchanges may have a negative financial impact on health care providers to the extent (1) insurance plans purchased on the exchanges reimburse providers at lower rates or (2) high deductible plans offered on the exchanges become more prevalent and lead to lower inpatient volumes as patients choose to forgo medical treatment.

The ACA also includes an “employer mandate.” The “employer mandate” provisions require the imposition of penalties on employers having 50 or more employees that do not offer qualifying health insurance coverage to those working 30 or more hours per week. The ACA also established a number of other health insurance market reforms, including bans on lifetime limits and preexisting condition exclusions, new benefit mandates, and increased dependent coverage (until the age of 26).

Management cannot predict the future of the health insurance markets or the effects of current and future health reform efforts on such markets, though such effects may materially affect the Medical Center’s business or financial condition.

2. Spending Reductions. The ACA contains a number of provisions designed to significantly reduce Medicare and Medicaid program spending, including: (1) negative adjustments to the “market basket” updates for Medicare’s inpatient, outpatient, long term acute and inpatient rehabilitation prospective payment systems, and (2) reductions to Medicare and Medicaid disproportionate share hospital (“DSH”) payments. Any reductions to reimbursement under the Medicare and Medicaid programs could have a material adverse impact on the Medical Center’s business or financial condition to the extent such reductions are not offset by increased revenues from providing care to previously uninsured individuals or from other sources.

3. Quality Improvement and Clinical Integration Initiatives. The ACA mandated the creation of a number of payment reform measures designed to incentivize or penalize hospitals based on quality, efficiency and clinical integration measures and authorizes the Center for Medicare & Medicaid Innovation within CMS to develop and test new payment methodologies designed to improve quality of care and lower costs. Current programs include (1) the “Readmission Reduction Program,” which reduces Medicare payments by specified percentages to hospitals with excess or preventable hospital admissions based on historical discharge data, (2) the “Hospital Value-Based Purchasing Program,” which imposes an across-the-board reduction in inpatient reimbursement and then reallocates and redistributes those funds to hospitals based on quality and patient experience measures, and (3) the “Hospital-Acquired Condition Reduction Program,” which negatively adjusts payments to applicable hospitals that rank in the worst-performing quartile for risk-adjusted hospital-acquired condition measures. Management is not currently aware of any situation in which an ACA quality, efficiency, or clinical integration program is materially adversely affecting the business or financial condition of the Medical Center. However, the Medical Center’s business or financial condition may be adversely affected by such programs in the future.

4. Fraud and Abuse Enforcement Enhancements. In an attempt to reduce unnecessary health care spending, the ACA includes a number of provisions aimed at combating fraud and abuse within the Medicare and Medicaid programs. Such provisions provide increased federal funding to fight health care fraud and abuse, provide government agencies with additional enforcement tools and investigation flexibility, facilitate cooperation between agencies by establishing mechanisms for information sharing, and enhance criminal and administrative penalties for non-compliance with the federal fraud and abuse laws (e.g., the Anti-Kickback Law, the Stark Law and the FCA, each as defined and discussed below). Management is not currently aware of any pending recovery audit which, if

determined adversely to the Medical Center, would materially adversely affect the business or financial condition of the Medical Center.

To the extent the ACA remains law, it is difficult to predict the full impact of the ACA on the Medical Center's future revenues and operations due to uncertainty regarding a number of material factors, including: (1) the number of uninsured individuals to ultimately obtain and retain insurance coverage as a result of the ACA, (2) the percentage of any newly insured patients covered by Medicaid versus a commercial plan, (3) the pace at which insurance coverage expands, (4) future changes in the reimbursement rates and methods, (5) the percentage of individuals in the exchanges who select the high deductible plans, (6) the extent to which the enhanced program integrity and fraud and abuse provisions lead to a greater number of civil or criminal actions, (7) the extent to which the ACA tightens health insurers' profits, causing the plans to reduce reimbursement rates, (8) the extent of lost revenues, if any, resulting from ACA quality initiatives, and (9) the success of any clinical integration efforts or programs in which the Medical Center participates.

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, 2019, Medicare (including Medicare HMO) represented approximately 33.2% 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.

Hospitals generally are paid for inpatient and outpatient services provided to Medicare beneficiaries under a prospective payment system ("PPS"). Under PPS, a fixed payment is made to hospitals based on the average cost of care incurred in providing various kinds of services. Additionally, under PPS, the amount paid to the provider for an episode of care is established by federal regulation and is not related to the provider's charges or costs of providing that care. Presently, inpatient and outpatient services, skilled nursing care, and home health care are paid on the basis of PPS.

Value-based purchasing and other alternative payment model initiatives tying health care provider reimbursement to quality, efficiency, or patient outcome measures will increasingly affect health care provider operations and may negatively impact revenues if the provider is unable to meet targeted measures. CMS had set a goal of tying 50% of traditional Medicare payments to quality or value through alternative payment models such as accountable care organizations, bundled payment arrangements or integrated care demonstrations by the end of 2018, and it continues to focus on moving the health care system towards paying for value. In 2016, CMS released final regulations for implementation of the Medicare Access and CHIP Reauthorization Act ("MACRA") and its physician Quality Payment Program

(“QPP”), which dramatically alter the way physicians and other clinicians are reimbursed by Medicare. The QPP and other federal delivery reform initiatives evidence a rapid volume-value shift within Medicare and could present challenges for the Medical Center and the employed or contracted clinicians with whom the Medical Center partners to deliver care. It is generally anticipated that CMS will continue to experiment with additional alternative payment models. Additionally, private payors are moving toward value-based purchasing and alternative payment models.

Hospital Inpatient Reimbursement. Under PPS, acute care hospitals generally are paid for inpatient services provided to Medicare beneficiaries based on established categories of treatments or conditions known as diagnosis related groups (“DRGs”). Hospitals also may receive outlier payments for extraordinarily costly cases that exceed a federally established condition-based threshold. DRG rates and outlier thresholds are subject to adjustment by CMS. There is no guarantee that hospital inpatient reimbursement will cover actual costs of providing services to Medicare patients.

Hospital Outpatient Reimbursement. Hospitals generally are paid for outpatient services provided to Medicare beneficiaries based on established categories of treatments or conditions known as ambulatory payment classifications (“APC”). The actual cost of care, including capital costs, may be more or less than the reimbursements based on APCs. There is no guarantee that hospital outpatient reimbursement will cover actual costs of providing services to Medicare patients.

Bipartisan Budget Act of 2015. The Bipartisan Budget Act of 2015 (the “BBA 2015”) changed the reimbursement methodology for items and services furnished in certain off-campus hospital outpatient departments (“HOPDs”). Beginning January 1, 2017, off-campus HOPDs established on or after November 2, 2015 (“non-excepted HOPDs”) are no longer eligible for payment under the hospital outpatient prospective payment system (“OPPS”) for non-emergency services. A hospital outpatient department is considered to be “off-campus” if it is located more than 250 yards from a main provider hospital or a remote location of a hospital. Instead, non-emergency services performed at these facilities will be paid under the Medicare Physician Fee Schedule (“PFS”) at a set of PFS payment rates that are specific to hospitals. Effective January 1, 2018, these hospital specific PFS rates are based on 40% of the comparable OPPS rate. Beginning January 1, 2019, CMS began applying the PFS equivalent pay rate for certain evaluation and management services when provided at an off-campus HOPD that is paid under the OPPS, including at those HOPDs grandfathered under BBA 2015, stepping down from 70% of OPPS rates in 2019 and 40% of OPPS rates in 2020 and thereafter. The reimbursement changes implemented under the BBA 2015 and the recent CMS reimbursement policies implemented for calendar year 2019 and proposed for calendar year 2020, threaten to further reduce revenues to off-campus HOPDs. While CMS’s adoption of this payment policy with respect to grandfathered HOPDs is currently being challenged in court, there can be no assurance that CMS’s policy will not become permanent.

Section 340B Drug Pricing Program. Hospitals that serve a high percentage of low income patients are eligible for reduced pricing on certain covered outpatient drugs through the 340B program (“340B Program”).

CMS’s calendar year 2018 final OPPS rule, issued on November 13, 2017, substantially reduced Medicare Part B reimbursement for 340B Program drugs paid to hospitals and ASCs. Beginning January 1, 2018, CMS reimbursement for certain separately payable drugs or biologicals that are acquired through the 340B Program by a hospital paid under the OPPS (and not excepted from the payment adjustment policy) is the average sales price (“ASP”) of the drug or biological minus 22.5 percent, an effective reduction of 26.89% in payments for 340B program drugs. In calendar year 2019, rural sole community hospitals, children’s hospitals, and PPS-exempt cancer hospitals are excepted from the 340B payment adjustment. In the calendar year 2019 OPPS final rule, CMS extended the policy to pay ASP minus 22.5% for 340B-acquired drugs when those drugs are furnished by non-excepted off-campus HOPDs. In

the calendar year 2020 OPPS proposed rule, CMS has proposed to continue to pay ASP minus 22.5% for 340B-acquired drugs furnished by non-excepted off-campus HOPDs.

In December 2018, the U.S. District Court for the District of Columbia ruled that DHHS did not have statutory authority to implement the 2018 Medicare OPPS rate reduction related to hospitals that qualify for drug discounts under the 340B Program and granted a permanent injunction against the payment reduction. The hospitals subsequently asked the court for a permanent injunction on the 2019 OPPS final rule. On May 6, 2019, the court held that the 2018 and 2019 rate reductions were unlawful and remanded the rules back to DHHS. The case has been appealed by DHHS. In the 2020 OPPS proposed rule, CMS requested comments on potential corrective actions in the event the government is unsuccessful on appeal, such as implementing a reimbursement rate of ASP plus 3%. Management is unable to predict the ultimate outcome of any appeal and the type of relief that may be ordered by the courts.

A decrease in reimbursement for 340B Program drugs or loss of discount procurement opportunities could have an adverse effect on the Medical Center. Congress is considering further changes to the 340B Program and the regulatory environment for the 340B Program remains uncertain. Any reduction in eligibility for, or other further changes to, the 340B Program generally could have a materially adverse impact on the financial condition or operations of the Medical Center.

Medical Education Payments. Medicare currently pays for a portion of the costs of medical education at hospitals that have teaching programs. These payments are vulnerable to reduction or elimination. The direct and indirect medical education reimbursement programs have repeatedly emerged as targets in the legislative efforts to reduce the federal budget deficit. There can be no assurance that medical education payments will remain at current levels.

Value-Based Payments. The ACA has increased the use of value-based payments to incentivize providers to control costs and provide better quality care. These models can seek both vertical and longitudinal alignment of health care providers and payors and can require providers to share in upside and/or downside financial risk. Current models include bundled payment models and accountable care/population health models. Bundled payment models establish a budgeted payment to cover the entire cost of an episode of care (e.g., a hip or knee replacement). Examples of bundled payment models include, among others, Bundled Payments for Care Improvement (“BPCI”) Initiative models 2, 3 and 4 (which expired September 30, 2018); BPCI-Advanced; Comprehensive Care for Joint Replacement; and the Oncology Care Model. Population health models incentivize providers to maintain or improve quality while reducing cost through shared savings or shared loss arrangements. Population health models usually involve a form of capitated payment, which is a per patient payment for the cost of care over a set period of time. Population health models include the Medicare Shared Savings Program (“MSSP”) and Next Generation Accountable Care Organization (“ACO”) model.

CMS has encouraged the use of alternative payment models and it is generally anticipated that CMS will continue to experiment with additional alternative payment models. Additionally, private payors are moving toward value-based purchasing and alternative payment models. Value-based and other alternative payment model initiatives tying health care provider reimbursement to quality, efficiency, or patient outcome measures will increasingly affect health care provider operations and may negatively impact revenues if the provider is unable to meet targeted measures.

In 2015, CMS set a goal of tying 50% of traditional Medicare payments to quality or value through alternative payment models such as accountable care organizations, bundled payment arrangements or integrated care demonstrations by the end of 2018. While CMS has since stated that it is

no longer aiming for these Obama-era goals, it continues to propose new payment models and evaluate the impact of existing ones, which has led to some confusion in the industry.

Physician Payments. Payment for physician fees is covered under Medicare Part B. Under Part B, physician services are reimbursed in an amount equal to the lesser of actual charges or the amount determined under a fee schedule known as the “resource-based relative value scale” (“RBRVS”). RBRVS sets a relative value for each physician service; that value is then multiplied by a geographic adjustment factor and a nationally-uniform conversion factor to determine the amount Medicare will pay for each service.

In April 2015, MACRA established QPP, which repealed the sustainable growth rate methodology for updates to the PFS, changed the way that Medicare rewards clinicians for services, streamlined existing quality and value programs, and provided for bonus payments to physicians and other clinicians for participating in certain payment models. The QPP provides incentive payments to eligible clinicians participating in Medicare Part B through two tracks: the Merit-based Incentive Payment System (“MIPS”) and Advanced Alternative Payment Models (“Advanced APMs”). In 2016, CMS released final regulations implementing the QPP. The 2020 PFS proposed rule budget neutrality factor would adjust reimbursement levels upward by 0.14% in 2020; otherwise PFS would then remain at the same reimbursement level (0.0% increase) through 2025. Beginning in 2026, the PFS will be increased either by (i) 0.25% annually for providers participating in MIPS, or (ii) 0.75% annually for providers participating in Advanced APMs.

MIPS, which is the “default track” under MACRA, provides eligible clinicians with an adjustment to their Medicare Part B reimbursement based on performance in four categories: Quality, Promoting Interoperability, Improvement Activities and Cost. MIPS combines into a single program aspects of CMS’s prior quality and value programs, including the Physician Quality Reporting System, Medicare Electronic Health Records Incentive Program, and the Physician Value-Based Payment Modifier. MIPS eligible clinicians include physicians, physician assistants, nurse practitioners, clinical nurse specialists and certified registered nurse anesthetists. 2017 was the first MIPS performance period. CMS scored and weighted the data reported for performance year 2017 and is applying a performance adjustment in the 2019 payment year.

Advanced APMs are alternative payment models (“APMs”) that use certified electronic health record technology, provide for payment for covered professional services based on quality measures comparable to those in the quality performance category under MIPS, and either require that participating APM entities bear risk for financial losses of more than a nominal amount under the APM or be a type of Medical Home Model. Eligible clinicians who meet threshold Medicare participation levels in their Advanced APMs may be entitled to incentive payments.

The QPP and other federal delivery reform initiatives evidence a rapid volume-value shift within Medicare and could present challenges for the Medical Center and the employed or contracted clinicians with whom the Medical Center partners to deliver care. The new quality reporting programs may negatively impact the reimbursement amounts received by the Medical Center for the cost of providing physician services.

Current or new legislation that reduces Medicare payments could adversely affect the Medical Center. There is no assurance that the Medical Center will be paid amounts that will reflect adequately its costs incurred in providing inpatient hospital services to Medicare beneficiaries, as well as any changes in the cost of providing health care or in the cost of health care technology being made available to Medicare beneficiaries. The ultimate effect on the Medical Center will depend on its ability to control costs involved in providing inpatient hospital services.

Medicare Trust Funds. Two trust funds are maintained as part of the Medicare Program. Hospital Insurance (“*HI*”) or Medicare Part A, helps to pay for hospital, home health, skilled nursing facility, and hospice care for the aged and disabled and is financed primarily by payroll taxes paid by workers and employers. The Medicare Board of Trustees’ annual report in April 2019 indicated that the HI Trust Fund is not financed adequately and is projected to be exhausted in 2026. The other trust fund and various other components of the Medicare Program also have significant funding challenges. The trustees recommended that Congress and the executive branch work together with a sense of urgency to address the depletion of the HI Trust Fund and the projected growth in hospital and other expenditures. Accordingly, it is likely that statutory and regulatory attempts to contain increases in Medicare costs will continue in the future.

The ACA made several changes to the Medicare program including changing amounts payable to providers through imposition, directly or indirectly, of quality assurance measures.

The ACA amended certain provisions of the Federal False Claims Act and added provisions governing the timing of the obligation to reimburse overpayments, as discussed further below. 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, 2019, Medicaid, including Medicaid HMOs, represented approximately 42.1% 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 ACA required that Medicaid be expanded to all individuals under the age of 65 with income less than 138% of the federal poverty limit, effective in 2014. To fund this expansion, the ACA provided that the federal government would fund 100% of the costs of this expansion from fiscal years 2014 – 2016, decreasing to 90% of the costs of this expansion in fiscal year 2020 and thereafter. In June 2012, the Supreme Court held that the federal government cannot withhold existing federal funds for states that refuse to expand Medicaid as required by the ACA. As of August 1, 2019, 36 states and the District of Columbia had adopted the Medicaid expansion in some form, with the remainder declining to participate in the expansion, or remaining undecided.

Michigan implemented its version of Medicaid expansion through a waiver obtained from the Centers for Medicare and Medicaid Services ("CMS"), effective December 17, 2015. On December 21, 2018, CMS approved a work and community engagement requirement for Medicaid beneficiaries in the expansion population, which is scheduled to be implemented beginning January 1, 2020. If implemented, additional conditions of eligibility may lead to a decline in Medicaid enrollment that may have a material adverse effect on the Medical Center.

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 provides most of its benefits to the Medicaid eligible population through contracted managed care programs. The Comprehensive Health Care Program covers acute, primary and specialty services and prescription drugs through HMOs which are paid capitation rates, and in turn, contract individually with hospitals and other providers. Mental health and substance abuse services are provided to Medicaid beneficiaries through the Managed Specialty Supports and Services program. The Medical Center is not presently experiencing any difficulty in payments from Medicaid HMOs but there is no guarantee that they may not experience difficulty in the future. 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. The State imposes a quality assessment fee that is assessed on all licensed Michigan hospitals retroactive to October 1, 2002. The fee is assessed on each hospital's net patient revenue before deduction of expenses and less Medicare net revenue and is used by the State to supplement Medicaid payments to Michigan hospitals. Although initially scheduled to expire on September 30, 2004, the quality assessment fee was extended indefinitely.

Children's Health Insurance Program. The Children's Health Insurance Program ("CHIP") is a federally funded insurance program for families that are financially ineligible for Medicaid, but cannot afford commercial health insurance. CMS administers CHIP, but each state creates its own program based upon minimum federal guidelines. CHIP insurance is provided through private health plans contracting with the state. Michigan has implemented CHIP, calling its program "MICHild." Michigan must periodically submit its CHIP plan to the federal government for review to determine if it meets federal requirements. If it does not meet the federal requirements, Michigan could lose its federal funding for its program. A decision to tighten the eligibility requirements, thereby decreasing the number of individuals eligible for CHIP, the loss of federal approval for Michigan's program, or the failure of the federal government to appropriate funds for CHIP, could have an adverse financial effect on the Medical Center.

From time to time, Congress and/or the President may seek to expand, reduce or fail to authorize CHIP. The ACA authorized an extension of the CHIP program through September 30, 2015. MACRA extended the CHIP program through September 30, 2017. President Trump signed a six year reauthorization of CHIP into law on January 22, 2018. On February 9, 2018, Congress voted to extend CHIP for an additional four years, effectively extending CHIP through 2027.

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.

Medicare/Medicaid Conditions of Participation

Certain health care facilities must comply with standards called "Conditions of Participation" in order to be eligible for Medicare and Medicaid reimbursement. Under the Medicare rules, hospitals accredited by an approving accrediting body, such as The Joint Commission are deemed to meet most of the Conditions of Participation. However, CMS may request that the state agency responsible for licensing hospitals, on behalf of CMS, conduct a "sample validation survey" of a hospital to determine whether it is complying with the Medicare or Medicaid Conditions of Participation. Failure to maintain The Joint Commission accreditation or to otherwise comply with the Conditions of Participation could have a material adverse effect on the financial condition of the Medical Center.

Special Payments

The Medical Center derives a significant portion of its revenues from supplemental funding from the Medicare disproportionate share program, Michigan provider tax, and Medicaid special payments (collectively "Special Payments") because of its high volumes of Medicaid and uninsured patients. The Medical Center has qualified for all Special Payments in the past, but there can be no assurance that it will qualify for any or all Special Payments in the future. Loss of eligibility or reduction of funding for the

programs providing the Special Payments to the Medical Center could have an adverse effect on the financial condition of the Medical Center, which could be material.

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, 2019, managed care plans represented approximately 3.1% 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, 2019, BCBSM represented approximately 9.9% 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.

Personal Injury Protection Reduction for Michigan Motorists

The Michigan Legislature enacted Senate Bill 1 (Public Act 21 of 2019) ("SB1"), which became effective June 11, 2019. Beginning in mid-2020, SB1 will require that auto insurers who insure Michigan motorists offer capped coverage options for personal injury protection ("PIP") (for example, persons enrolled in Medicaid can elect PIP coverage as low as \$50,000, and Medicare recipients can elect to purchase no PIP coverage). Previously, Michigan motorists were legally mandated to purchase, and auto insurers only offered, unlimited PIP coverage to comport with the Michigan's no-fault auto insurance status. Beginning in mid-2021, reimbursement from auto insurers to health care providers will be limited to either a multiple of the amount payable for such services by Medicare (the Medical Center anticipates that it will receive 250% of the amount payable by Medicare for such services) or a specified percentage of the amount charged for such services. As a result of SB1, the value of services rendered by the Medical Center to a patient injured in an auto accident could exceed such patient's coverage levels, which could result in unpaid services, and will also likely result in decreased reimbursement to the Medical Center for such patients. Litigation challenging the constitutionality of portions of SB1, including the fee schedules for health care providers is pending in State court. Management of the Medical Center cannot predict the outcome of any such litigation or the effect that SB1 may have on the Medical Center's financial condition, although such changes may have an adverse effect on the revenues of the Medical Center, which may be material.

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. The ACA amended the FCA by expanding the number of activities that are subject to civil monetary penalties to include, among other things, failure to report and return known overpayments within statutory limits. FCA investigations and cases have become common in the health care field and may cover a range of activity from submission of intentionally inflated billings, to highly technical billing infractions, to allegations of inadequate care. The FCA provides for potentially severe penalties. In June 2016, the DOJ issued a rule that more than doubled civil monetary penalties under the FCA. These increases took effect on August 1, 2016 and

apply to FCA violations after November 2, 2015. The penalty amounts are adjusted no later than January 15 of each year to reflect changes in the inflation rate. Any person who acts in violation of the FCA is liable for a civil penalty ranging from \$11,463 to \$22,927 per claim, plus three times the amount of damages sustained by the government. As a result, violation or alleged violation of the FCA frequently results in settlements that require multi-million dollar payments and costly corporate integrity agreements.

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 broad interpretation of the Anti-Kickback Statute by courts, 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.

The ACA amended the Anti-Kickback Law to provide explicitly that a claim that includes items or services resulting from a violation of the Anti-Kickback Statute constitutes a false or fraudulent claim for purposes of the FCA. Another amendment provides that an Anti-Kickback Statute violation may be established without showing that an individual knew of the statute’s proscriptions or acted with specific intent to violate the Anti-Kickback Statute, but only that the conduct was generally unlawful. The new standards could significantly expand criminal and civil fraud exposure for transactions and arrangements where there is no intent to violate the Anti-Kickback Statute.

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.

Medicare may deny payment for all services performed by a provider based on a prohibited referral, and a hospital that has billed for prohibited services is obligated to refund the amounts collected from the Medicare program or to make a voluntary self-disclosure to CMS under its Self-Referral Disclosure Protocol (discussed below). As a result, even relatively minor, technical violations of the Stark Law may trigger substantial refund obligations. Moreover, where there are “knowing” violations of the Stark Law, the government may seek substantial civil monetary penalties under FCA, and in some cases, a hospital may be excluded from the Medicare and Medicaid programs. Potential repayments to CMS, settlements, fines or exclusion for a Stark Law violation or alleged violation could have a material adverse effect on a hospital and other health care providers. Increasingly, the federal government is prosecuting Stark Law violations under the FCA, based on the argument that claims resulting from an illegal referral arrangement are also false claims for FCA purposes. See the discussion under the subheading “False Claims Act” above. The DOJ and others have asserted that Medicaid referrals in which a non-expected financial arrangement exists under the Stark Law also create FCA exposure, and have had some success with these arguments in certain courts. CMS has established a voluntary Self-Referral Disclosure Protocol under which hospitals and other entities may report Stark Law violations and seek a reduction in potential refund obligations. The Medical Center may make self-disclosures under this program as appropriate from time to time. Any submission pursuant to the self-disclosure program does not waive or limit the ability of the OIG or DOJ to seek or prosecute violations of the Anti-Kickback Law or impose civil monetary penalties.

Medicaid Integrity Program. The federal Medicaid Integrity Program was created by the Deficit Reduction Act in 2005. The Medicaid Integrity Program was the first federal program established to combat fraud and abuse in the state Medicaid programs. Congress determined a federal program was necessary due to the substantial variations in state Medicaid enforcement efforts. The Medicaid Integrity Program’s enforcement efforts support existing state Medicaid Fraud Control Units. Federal Medicaid Integrity Contractors (“MICs”) are classified into Review MICs, Audit MICs and Educational MICs. Review MICs perform review audits generally to determine trends and patterns of aberrant Medicaid billing practices through data mining. Audit MICs perform post-payment reviews of individual providers through desk and field audits. The Educational MICs are responsible for developing and carrying out a variety of education activities to increase and improve Medicaid enforcement efforts by state government. Once a Medicaid overpayment is identified, the state has one year to recover or attempt to recover the overpayment from the provider before adjustment is made in the federal payment to the state on account of such overpayment; *provided, however*, in the case of fraud, if the state is unable to recover the overpayment from the provider within the one year period because there has not been a final determination of the amount of the overpayment under an administrative or judicial process (as applicable), including as a result of judgment being under appeal, no adjustment shall be made in the federal payment to the state before the date that is 30 days after the final judgment is made.

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 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," to include "business associates" of covered entities, (ii) imposes a breach notification requirement on HIPAA covered entities and business associates, (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. Civil monetary penalties for violations of HIPAA now range to a maximum \$57,051 per violation and/or imprisonment, depending on the violator's degree of intent and the extent of the harm resulting

from the violation. The maximum civil monetary penalty for violations of the same HIPAA provision in a calendar year cannot exceed \$1.71 million. A state attorney general may bring civil action to protect the interests of one or more residents of the state who has been or is threatened or adversely affected by any person who violates HIPAA. A state attorney general may enjoin further violations by a defendant or obtain damages up to \$25,000, in addition to an award of attorney fees. The HITECH Act also requires the DHHS Office for Civil Rights (“OCR”) to conduct periodic audits of covered entity and business associate compliance with the HIPAA Rules. 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.

In recent years, OCR has enhanced its enforcement efforts that include civil monetary penalties and settlement agreements with some related payments reaching into the multimillion dollar range. Further, OCR is initiating an auditing process to evaluate compliance with HIPAA. It is expected that the audits will expose many health care providers and their vendors to enforcement actions under HIPAA.

Audits. Healthcare providers are subject to audits and retroactive audit adjustments with respect to the Medicare and Medicaid programs 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.

Factors Concerning Enforceability Generally

The Series 2020 Bonds will limited obligations of the Authority and will be payable from payments of Cash Rentals to be made under the 2020 Restated Contract of Lease, and the Lessee will pledge 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, premium, if any, and interest on the Series 2020 Bonds when due. The rights of the Authority in and to the 2020 Restated Contract of Lease and the amounts payable to the Authority under the 2020 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 2020 Bonds, and the Lessee will make payments due under the 2020 Restated Contract of Lease directly to the Trustee for payment under the Series 2020 Bonds. The Medical Center's facilities are not pledged as security for the Series 2020 Bonds. In the event the Authority fails to comply with its covenants under the Indenture or the Lessee fails to comply with the covenants under the 2020 Restated Contract of Lease, there can be no assurance of the availability of remedies, including without limitation acceleration of the Series 2020 Bonds or appointment of a receiver, adequate to protect the interest of the holders of the Series 2020 Bonds. For example, a payment default under the 2020 Restated Contract of Lease or the Indenture may lead to the acceleration of the Series 2020 Bonds and any Parity Bonds but such remedy may not be adequate given the pledge of security for the Series 2020 Bonds. Additionally, certain nonpayment covenant defaults under the 2020 Restated Contract of Lease may not be afforded any or all of the remedies under the Indenture. See "SUMMARY OF PRINCIPAL DOCUMENTS – Summary of Certain Provisions of the 2020 Restated Contract of Lease" in Appendix C for a description of the covenants and remedies under the 2020 Restated Contract of Lease. See "SUMMARY OF PRINCIPAL DOCUMENTS – Summary of Certain Provisions of the Indenture – Indenture Funds," "Tax Covenants," " – Additional Bonds, " and " – Default Provisions and Remedies of Trustee and Bondholders" in Appendix C for a description of the covenants and remedies under the Indenture." See also "SECURITY FOR THE SERIES 2020 BONDS" herein.

The rights and remedies provided in the Indenture and the 2020 Restated Contract of Lease may be limited by and are subject to the provisions of federal bankruptcy laws, to other laws or equitable principles that may affect the enforcement of creditors' rights, to the exercise of judicial discretion in appropriate cases and to limitations in legal remedies against the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against municipal corporations in the State of Michigan. If the City were to file a petition under chapter nine of the federal bankruptcy code, the owners of the Series 2020 Bonds could be prohibited from taking any steps to enforce their rights under the Indenture or the 2020 Restated Contract of Lease. There can be no assurance of the availability of remedies adequate to protect the interest of the holders of the Series 2020 Bonds.

The Local Financial Stability and Choice Act, Act 436, Public Acts of Michigan, 2012 ("Act 436") provides for the potential appointment of an Emergency Manager ("EM") for financially distressed local governments. If an EM is appointed for the City, the EM has broad discretion to take actions to alleviate any financial emergency of the City. An EM may, if provided in a 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 a city hospital and/or funds of a city hospital), 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 a city hospital and/or funds of a city hospital) 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 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. A 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 436 provides such authorization after a city first complies with certain State law requirements under each respective statute. The effect of a city bankruptcy filing on a city hospital, as a component unit of a city, such as the Medical Center, or the Authority, is unknown at this time.

The various legal opinions to be delivered concurrently with the delivery of the Series 2020 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.

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, 2020, the capital expenditure threshold is \$3,375,000 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 2020 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.

Pension and OPEB Information

The Medical Center has a defined benefit pension plan and a defined contribution pension plan.

Defined Benefit Pension Plan

The Medical Center participates in an agent multiple-employer defined benefit pension plan (the "Defined Benefit Pension Plan") administered by the Municipal Employees' Retirement System of Michigan ("MERS") that covers all employees. MERS was established as a statewide public employee pension plan by the Michigan Legislature under PA 135 of 1945 and is administered by a nine-member retirement board. MERS issues a publicly available financial report, which includes the financial statements and required supplemental information of this defined benefit plan. This report can be

obtained from MERS on its website or at 1134 Municipal Way, Lansing, MI 48917. See Note 19 to the audited financial statements of the Medical Center attached hereto as Exhibit B for a description of the eligibility and benefits provided under the Defined Benefit Pension Plan.

Article 9, Section 24 of the State of Michigan Constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. The Medical Center retains an independent actuary to determine the annual contribution. The actuarial determines rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The Medical Center's contributions for the years ended June 30, 2019 and June 30, 2018 were \$13,628,634 and \$22,043,768, respectively. The Medical Center recognized pension expense for the Defined Benefit Pension Plan of \$31,113,848 and \$29,729,534 for the fiscal years ended June 30 2019 and 2018, respectively. The net pension liability of the Medical Center as of December 31, 2018 and December 31, 2017 were \$195,173,840 and \$147,720,541, respectively.

See Note 19 to the audited financial statements of the Medical Center attached hereto as Appendix B for further information regarding the Defined Benefit Pension Plan.

Defined Contribution Plan

The Medical Center has a defined contribution pension plan (the "Defined Contribution Pension Plan") established under City ordinance for employees who meet certain requirements as to date of hire. Contributions to the plan are 4.5% of the employee's annual compensation. The Defined Contribution Pension Plan is not available to employees hired after January 1, 2014. The Medical Center recognized pension expense for the Defined Contribution Pension Plan of approximately \$1,300,000 in each of the fiscal years ended June 30, 2019 and June 30, 2018. See Note 9 to the audited financial statements of the Medical Center attached hereto as Appendix B for further information regarding the Defined Contribution Pension Plan

Other Postemployment Benefits

The Medical Center provides postemployment healthcare insurance premiums to eligible retirees and their spouses through its Retiree Health Benefit Plan (the "Plan"). 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 Plan's assets are held in an irrevocable trust administered by the Medical Center. Actuarial reports are prepared annually. The healthcare benefits are provided by the Medical Center's self-insurance plan. The third party administrator that administers the irrevocable trust formulates an illustrative rate based on the coverage provided. The Medical Center's contributions to the Plan for the years ended June 30, 2019 and June 30, 2018, were \$3,841,324 and \$3,884,465, respectively. The net OPEB liability as of the years ended June 30, 2019 and June 30, 2018 were \$23,316,745 and \$28,254,589, respectively.

See Note 13 to the audited financial statements of the Medical Center in Appendix B attached hereto for further information regarding the Plan.

Cyber Security

Hospitals are dependent on electronic information technology systems to deliver high quality, coordinated and cost efficient services. These systems may contain sensitive information or support critical operational functions which may be valued for unauthorized purposes. As a result, the electronic systems and networks may be targets of cyberattack. The Medical Center has taken, and continues to take

measures to protect its information technology systems and the private confidential information those systems may contain against cyber-attack. There can be no assurance that the Medical Center will not experience a significant breach. If such breach occurs the financial consequences of such breach could have a material adverse impact on the Medical Center.

Certain Matters Relating to Security for the Series 2020 Bonds

The facilities occupied by the Medical Center are not pledged as security for the Series 2020 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 2020 Bonds, the Trustee may not realize an amount sufficient to pay in full the Series 2020 Bonds and any Parity 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 2020 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 2020 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 2020 Restated Contract of Lease, create an event of default thereunder.

As described under “SUMMARY OF PRINCIPAL DOCUMENTS – Summary of Certain Provisions of the 2020 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 Series 2020 Bonds and any Parity Bonds. Such amendments may adversely affect the security of the holders of the Series 2020 Bonds and the holders of the requisite percentage may be composed wholly or partially of the holders of Additional Bonds or Parity Bonds.

Additional Indebtedness

The Indenture permits the issuance of Additional Bonds on parity with the Series 2020 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 2020 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 2020 Bonds.

Tax-Exempt Status; Continuing Legal Requirements

The tax-exempt status of interest on the Series 2020 Bonds depends upon the continued compliance by the Authority and the Board 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 2020 Bonds to become subject to Federal income taxation retroactive to the date of issuance of the Series 2020 Bonds. See "TAX MATTERS" herein. In the event the interest on the Series 2020 Bonds is included in gross income for federal income tax purposes due to an uncured covenant breach, the Series 2020 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 Series 2020 Bonds and any 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 2020 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 2020 Bonds. If the Series 2020 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 2020 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 2020 Bonds. See "RATINGS" herein.

Lack of Secondary Market for the Series 2020 Bonds

The market for the Series 2020 Bonds may be restricted or very limited at any given time. The Underwriter plans to engage in secondary market trading of the Series 2020 Bonds (subject to applicable state securities laws). However, the Underwriter is not obligated to engage in secondary market trading of the Series 2020 Bonds, and cannot give assurances that there will be a continuing secondary market in the Series 2020 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 2020 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 Board 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 2020 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 2020 Bonds, to an extent that cannot be determined at this time.

- (1) Adoption of additional legislation or further litigation relating to the ACA.
- (2) Reduced demand for the services of the Medical Center that might result from decreases in population.

(3) 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.

(4) 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.

(5) 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.

(6) 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.

(7) 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.

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

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

(10) Labor shortages (including nurses and other health care professionals), employees' strikes, and other adverse labor actions, including relationships with unions representing Medical Center employees, that could result in a substantial reduction in revenues without corresponding decreases in costs.

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

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

(13) 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 2020 Bonds or questioning or affecting the validity of the Series 2020 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 2020 Restated Contract of Lease or to secure the Series 2020 Bonds in the manner provided in the Indenture and the Act.

The Board and the Medical Center

The Board has advised that (i) no litigation, proceedings or investigations are pending or, to its knowledge, threatened against the Board or 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 Board, 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 2020 Bonds for the purposes described herein.

LEGAL MATTERS

All legal matters incidental to the authorization and issuance of the Series 2020 Bonds by the Authority will be subject to the approving opinion of Hawkins Delafield & Wood LLP, Bond Counsel. Certain legal matters will be passed upon for the Medical Center by its General Counsel and for the Underwriter by its counsel, Dorsey & Whitney LLP, Des Moines, Iowa.

TAX MATTERS

Opinion of Bond Counsel

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series 2020 Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Series 2020 Bonds is not treated as a preference item in calculating the alternative minimum tax under the Code. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority and the Board in connection with the Series 2020 Bonds, and Bond Counsel has assumed compliance by the Authority and the Board with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Series 2020 Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel, under existing statutes, the Series 2020 Bonds and the interest thereon are exempt from taxation by the State of Michigan and by any taxing authority within the State of Michigan, except inheritance and estate taxes and taxes on gains realized from the sale, payment or other disposition thereof.

Bond Counsel expresses no opinion as to any other federal, state or local tax consequences arising with respect to the Series 2020 Bonds, or the ownership or disposition thereof, except as stated above. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion to reflect any action thereafter taken or not taken, any fact or circumstance that may thereafter come to its attention, any change in law or

interpretation thereof that may thereafter occur, or for any other reason. Bond Counsel expresses no opinion as to the consequence of any of the events described in the preceding sentence or the likelihood of their occurrence. In addition, Bond Counsel expresses no opinion on the effect of any action taken or not taken in reliance upon an opinion of other counsel regarding federal, state or local tax matters, including, without limitation, exclusion from gross income for federal income tax purposes of interest on the Series 2020 Bonds.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Series 2020 Bonds in order that interest on the Series 2020 Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Series 2020 Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the federal government. Noncompliance with such requirements may cause interest on the Series 2020 Bonds to become included in gross income for federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Authority and the Board have covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Series 2020 Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral federal income tax matters with respect to the Series 2020 Bonds. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner of a Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Series 2020 Bonds.

Prospective owners of the Series 2020 Bonds should be aware that the ownership of such obligations may result in collateral federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for federal income tax purposes. Interest on the Series 2020 Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Bond Premium

In general, if an owner acquires a bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the bond after the acquisition date (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates), that premium constitutes “bond premium” on that bond (a “Premium Bond”). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner’s yield over the remaining term of the Premium Bond determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An

owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest paid on tax-exempt obligations, including the Series 2020 Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification," or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Series 2020 Bonds from gross income for federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's federal income tax once the required information is furnished to the Internal Revenue Service.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Series 2020 Bonds under federal or state law or otherwise prevent beneficial owners of the Series 2020 Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Series 2020 Bonds.

Prospective purchasers of the Series 2020 Bonds should consult their own tax advisors regarding the foregoing matters.

RATINGS

Moody's Investors Service has assigned a rating of "Ba1 (outlook stable)" on the Series 2020 Bonds and Fitch Inc. has assigned a rating of "BBB- (outlook stable)" on the Series 2020 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 2020 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 2020 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 Board have undertaken no responsibility to bring to the attention of the holders of the Series 2020 Bonds any proposed revision or withdrawal of any rating of the Series 2020 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 2020 Bonds.

FINANCIAL ADVISOR

The Medical Center has retained Kaufman, Hall & Associates, Inc., Skokie, Illinois, a municipal advisory firm registered with the U.S. Securities and Exchange Commission and the Municipal Securities Rulemaking Board (“Kaufman Hall”), as financial advisor in connection with the issuance of the Bonds. Although Kaufman Hall has assisted in the preparation of this Official Statement, Kaufman Hall 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 discretely presented component unit of Hurley Medical Center as of June 30, 2019 and 2018 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. Included in Appendix A are unaudited financial statements of the Medical Center for the six months ended December 31, 2019 and 2018, 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, 2019 and 2018, 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 2020 Bonds from the Authority at a purchase price of \$52,633,993.40, which is equal to the par amount of the Series 2020 Bonds, plus original issue premium of \$7,019,788.90 and less an underwriting discount of \$215,795.50. The purchase contracts between the Authority and the Underwriter provide that the Underwriter will purchase all the Series 2020 Bonds if any are purchased. The Underwriter reserves the right to join with dealers and other underwriters in offering the Series 2020 Bonds to the public. The obligation of the

Underwriter to accept delivery of the Series 2020 Bonds will be subject to various conditions of the purchase contract.

CONTINUING DISCLOSURE

In order to permit the Underwriter and other participating underwriters in the primary offering of the Series 2020 Bonds to comply with paragraph (b)(5) of Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the “Rule”), the Board will covenant and agree, for the benefit of the registered holders or beneficial owners from time to time of the outstanding Series 2020 Bonds, to provide annual reports of specified information and notice of the occurrence of certain events (the “Disclosure Covenants”) and certain quarterly reports pursuant to the Disclosure Dissemination Agent Agreement dated as of April 3, 2020 (the “Disclosure Agreement”) between the Board and Digital Assurance Certification, L.L.C. (the “Dissemination Agent”). Appendix E to this Official Statement contains the form of the Disclosure Agreement.

Breach of the Disclosure Covenants will not constitute a default or an “Event of Default” under the Series 2020 Bonds, the Indenture or the 2020 Restated Contract of Lease. A broker or dealer is to consider a known breach of the Disclosure Covenants, however, before recommending the purchase or sale of the Series 2020 Bonds in the secondary market. Thus, a failure on the part of the Board to observe the Disclosure Covenants may adversely affect the transferability and liquidity of the Series 2020 Bonds and their market price.

Because the Series 2020 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 2020 Bonds after the date of issuance of the Series 2020 Bonds.

During the past five years, the Board failed to file notice of investor calls for the quarters ended September 30, 2018 and September 30, 2016 and failed to timely file notice at least ten days in advance of the investor calls for all other quarters. All required investor calls were conducted by the Medical Center on behalf of the Board. In addition, the Medical Center on behalf of the Board combined investor calls for the fourth quarter of the fiscal year ended June 30, 2018 and the first quarter of the fiscal year ended June 30, 2019, and for the for the fourth quarter of the fiscal year ended June 30, 2016 and the first quarter of the fiscal year ended June 30, 2017.

MISCELLANEOUS

The summaries or descriptions of provisions of the Act, the Series 2020 Bonds, the Indenture and the 2020 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 2020 Bonds, the Indenture, the 2020 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 2020 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 2020 Bonds.

It is anticipated that the CUSIP identification numbers will be printed on the Series 2020 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 2020 Bonds.

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

The Board 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.

[Remainder of page intentionally left blank.]

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

CITY OF FLINT HOSPITAL BUILDING
AUTHORITY

By: /s/ Thomas James
Chairperson

This Official Statement is approved:

CITY OF FLINT BOARD OF HOSPITAL
MANAGERS

By: /s/ Jason Caya
Chairperson

APPENDIX A
HURLEY MEDICAL CENTER

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GENERAL BACKGROUND

Introduction

Hurley Medical Center (the “Medical Center” or “Hurley” or “Hurley Medical Center”) 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” 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.

The Medical Center’s focus in the last seven years has been around renovating in place to modernize various areas of its facility. In 2012, the Medical Center completed the building of a new entrance and emergency department. The Paul F. Reinhart Emergency Trauma Center was named in honor of a longstanding State Medicaid Director who was always very supportive and watchful of Hurley. He showed great interest in helping Hurley continue to care for the vulnerable population that James J. Hurley set out to serve and that the Medical Center is privileged to continue to serve today. Without Mr. Reinhart’s innovative understanding of governmental special payment allocation, many patients within Hurley’s primary service area may not have had the same access to services that Hurley was able to provide under Mr. Reinhart’s compassionate direction. This new 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. Additionally, dedicated space and a dedicated entrance was created for a children’s emergency department. As a children’s hospital-within-a-hospital, creating a pediatric

focused space in the emergency department was a natural extension of the rest of the Medical Center's strategies around pediatric specific spaces. In 2014, Hurley began launching urgent care and occupational health locations throughout the county and in the adjacent counties. These locations offer a lower cost of care for situations not fitting for the Emergency Department. In 2015, the Hurley Children's Clinic was opened atop the Flint Farmer's Market. This innovative location not only provides families with access to fresh fruits and vegetables, but it is across the street from the main bus terminal reducing transportation issues as a barrier to care. In 2017, in an effort to create more presence in the southern part of the county, the Medical Center moved the Bariatric Services and Midwifery and Gynecology Services into a new location. In 2018, the Medical Center opened the newly renovated private room pediatric unit on the 11th floor of the west tower to accommodate additional private rooms for pediatric families. The Medical Center did not add beds to its pediatric service, it simply added more geography in an effort to enhance the patient and family experience through access to more private rooms. In 2019, the Medical Center moved the location of the Diabetes Clinic and Food FARMacy, while opening yet another Urgent Care and Occupational Health location. This new location on the east side of Flint puts the Medical Center in an area that it had not previously offered services, and nicely rounds out the Urgent Care and Occupational Health locations.

The Main Campus of Hurley Medical Center 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, some outpatient operations, a medical office building, the building that formerly housed Hurley's school of nursing and a parking structure.

The Medical Center's west side campus (the "Hurley West Flint Campus") contains the Hurley Sleep Studies Center, Hurley Mental Health Associates, Hurley Surgery Clinic, Hurley Health Services offices, Hand Care Rehabilitation, Family (Pediatric) Rehabilitation, and Hurley Pediatric Subspecialties.

The Medical Center's east side campus contains Hurley Diabetic Resource Center, Hurley Food FARMacy and Hurley Urgent Care and Occupational Health. There are other Hurley Urgent Care and Occupational Health locations at Grand Pointe in Flint bordering Grand Blanc, the main campus of the Medical Center, in Lapeer and in Durand, Michigan.

The Medical Center's south campus ("Hurley South") contains the Hurley Center for Comprehensive Weight Loss and the Hurley Midwifery service.

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

See page A-20 for a map of the Medical Center's facilities.

MEDICAL CENTER AFFILIATES

The Medical Center, in addition to conducting its 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 2020 Restated Contract of Lease.

Hurley Health Services

Hurley Health Services ("HHS"), a Michigan non-profit, 501(c)(3) corporation, owns and operates one primary care practice in Clio, a general surgery practice in Lapeer, as well as, a large OB/GYN practice with locations on the main campus of the hospital and in Flint Township and Clio. The Board of Hospital Managers of the Medical Center appoints three (3) of the five (5) Board Members of HHS, with those three (3) appointing the remaining two (2) members. The consolidated results of operations of HHS are reported discretely 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 and the trauma service. 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 staff to the HHS clinics, some Medical Center clinics, and some Hurley operations departments. 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. One of the flagship components of the Medical Center is its designation as a Children's Miracle Network (CMN) Hospital. The Medical Center is one of only 170 hospitals across the U.S. and Canada to be given this designation. In partnership with CMN National and the recognition they garner, THF is able to obtain more horsepower in fundraising for Hurley Children's Hospital and are able to keep these dollars local. 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

General Acute Care

Adult Medicine
Adult Intensive Care
Behavioral Medicine
Nursery
Obstetrics
Oncology
Orthopedics
Pediatric Critical Care
Pediatric Medicine
Psychiatry
Rehabilitation
Surgery

Specialized Diagnostic Treatment/Support

Anesthesiology
Bariatric Surgery (Comprehensive Weight
Loss)
Blood Bank
Breast Cancer Program
Burn Treatment
Cardiac Catheterization
Case Management
Chaplaincy
Child Life
Diagnostic Imaging
Infection Control
Interventional Radiology
Involuntary Psychiatry
Joint Replacement
Magnetic Resonance Imaging
Neonatal Intensive Care (Level III)
Neuro/Trauma Intensive Care Trauma Center
and Emergency Services (Level I)
Nuclear Medicine
Nutritional & Dietician Services
Parent Education
Patient Support Services
Pediatric Trauma (Level II)
Sleep Disorders
Social Work Services
Stroke Care
Surgical Hospitalist Program
Tumor Registry
Volunteer Services
Wound Care

Outpatient

Asthma Clinic
Back Care
Breastfeeding Clinic
Cardiac Rehabilitation
Cardiovascular Testing
CT/MRI/Ultrasound
Diabetes Resource Center
Endoscopy Laboratory
Emergency Care
Injury Prevention
Laboratory Services
Maternal Fetal Medicine
Occupational Medicine
Occupational Therapy
Outpatient Behavioral Medicine
Pediatric & Adult Specialty
Clinics
Physical Therapy
Pulmonary Rehabilitation
Rehabilitation Psychology
Speech Therapy
Sports Care
Surgery
Urgent Care
Women's Services

One of the Medical Center's core strengths has been the quality and type of healthcare services provided. The Medical Center provides several healthcare services that are not generally provided elsewhere in the area. These include services such as trauma, neonatal, burn and involuntary acute inpatient psychiatric services. 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 trended upward for the last three fiscal years, at 1.55 in FY17, 1.66 in FY18 and 1.70 in FY19. The acuity, quality and type of services provided by Hurley helps with the recruiting of new physicians and makes the Medical Center a key provider for payors.

Commitment to Community and Community Involvement

In these times where healthcare economics are in flux and the health status of the region is poor, the Medical Center's vision continues to include expanding beyond the walls of the hospital to provide the best possible care to its patients and their families before they get sick and after they leave its care. The Medical Center views itself as a partner in caring so that people can stay well, live healthier lives and, when they are sick, return to health faster and with better outcomes.

The Medical Center's most recent Community Health Needs Assessment, which was completed in collaboration with Ascension-Genesys, McLaren-Flint, and the Greater Flint Health Coalition, identified ten priority health needs. Hurley has, and continues to, address several of these priorities in various ways.

Infant / Child Health & Development

- Hurley Children's Center located at the Flint Farmers' Market offers both primary care and pediatric specialty services. Many services that are offered are related to the Flint Water Crisis: Fruit and Vegetable prescription program, Literacy/reading programs, positive parenting, recruiting families to enroll in the Flint Lead Registry, social needs screenings/referrals, including referrals to the Hurley Food FARMacy.
 - Approximately 17,000 fruit and vegetable prescriptions have been distributed since February of 2016.
 - Imagination Library – over 17,000 books distributed in Flint through the program.
 - The Born to Read program at the hospital is giving literacy bundles to every newborn before discharge and connects the family to Early On if they consent. The Medical Center recently achieved a milestone of its 1000th baby served by this program.
- Home Nurse Visitation Programs: Maternal Infant Health Program (MIHP) and Nurse Family Partnership (NFP) see over 300 pregnant women/new moms and their babies up to the age of two.

- Certified Lactation Consultants are on staff and available for both inpatient and outpatient consultation.
- Teen Heart Screenings – in partnership with the Thomas Smith Memorial Foundation, Hurley offers Teen Heart Screening events 2-3 times per year, with 200-350 screenings at each event.
- An Annual Vaccination Fair is held in November at the Flint Farmers’ Market.
- Parenting/breastfeeding classes for pregnant/new moms offered at Hurley Medical Center.
 - Childbirth Preparation
 - Baby care
 - Breastfeeding Basics
 - Phone calls for lactation support
 - Outpatient breastfeeding clinic
- Injury Prevention –
 - Safe Kids Greater Flint: Hurley Medical Center is the lead organization for the Safe Kids Greater Flint Coalition. Safe Kids and Hurley Injury Prevention provide over 15 active programs to the community to educate on the prevention of intentional and unintentional injuries including playground safety and bike safety.
 - Partnering with schools and various community partners, the Medical Center’s injury prevention team offers education on fire safety, bullying, gun safety, distracted driving and many other topics. Over 50 events are offered each year, reaching over 6,000 children.
- A Community Baby Shower is offered annually at the Flint Farmers Market to provide many resources to pregnant/new moms, with 120-150 participants each year.
- Child Abuse Prevention: The Medical Center’s Children’s Hospital has on staff one of only six board certified child abuse specialists in Michigan. Ongoing counseling and teaching occur in the newborn nursery and at all well child visits.

Obesity / Overweight / Healthy Lifestyles

- Several programs/events under the Kohl’s Healthy Kids Grant focus on healthy living for children and families, including large-scale events like school assemblies (3,000-4,000 kids reached each year) and more targeted programs, like free family nutrition counseling with a Registered Dietician (400-800 reached per year).

- Annual CAMP MOVE IT for 8-12 year olds. Overnight 6-day camp for children who are already overweight or struggling with unhealthy habits. Each year 35-40 kids attend.
- Hurley offered over 118 healthy cooking demos via a grant from the Community Foundation of Greater Flint that focused on recipes for mitigating the effects of lead.
- Hurley is the only hospital in the region with a certified Tobacco Treatment Specialist, who provides individual counseling and group classes for those trying to quit smoking.
- Ongoing Corporate Wellness programs at several local companies, reaching several thousand employees with various fitness, nutrition, and screening services.
- Offer the CDC's Diabetes Prevention Program (DPP) at various community and corporate locations.
- Diabetes Self-Management Education and medical nutrition therapy offered for patients with chronic disease. Over 4,000 visits occur per year.
- Nutrition seminars/healthy cooking demos for Cardiac Rehab patients are offered monthly.

Effective Care Delivery for an Aging Population

- Hurley continues its work with the “your health, your choice” program to encourage patients to complete their advanced directives and has held 105 outreach events over three years reaching approximately 775 people.
- Began “HELP” (Hospital Elder Life Program) to have volunteers spend time with elderly patients 70 and older (similar to Child Life model in pediatrics). This reduces delirium in the elderly who have inpatient hospitalizations.
- Fast Track Emergency Department for Seniors reducing the need for anyone over 65 years of age to sit in the waiting room.
- Continued the partnership with the Valley Area Agency on Aging through their Transitions to Care program. This promotes safe transfer of the elderly from inpatient hospitalization to appropriate after care.
- Hurley is the creator of the Senior Caregiver Event which is offered annually to share information about all available community resources for caregivers of the elderly.

Food Insecurity

- Hurley's major initiative began in Fall of 2017, with Hurley screening all patients for food insecurity and opening a Food FARMacy for patients in need. Patients get a referral to visit up to 6 times for healthy food themselves and their entire household. They also get referred/enrolled into additional programs that can help them address

many social needs. Over 1,400 unique patients have visited at least once and there has been over 3,400 visits thus far.

EDUCATIONAL PROGRAMS

Hurley Medical Center's historic involvement in medical education dates back to 1922 when one intern served a rotating internship. Today, Hurley Medical Center has six sponsored residency training programs through the Accreditation Council for Graduate Medical Education (ACGME). These include obstetrics and gynecology, internal medicine, pediatrics, combined internal medicine/pediatrics and the transitional year, as well as, a geriatric medicine fellowship. Other affiliated ACGME residency training programs include orthopedic surgery, emergency medicine and a pediatric emergency medicine fellowship. Accredited programs also include a medical psychology fellowship and pediatric dentistry residency training program. A trauma fellowship is also based at Hurley Medical Center. In total, 106 residents are employed within the Hurley Medical Center sponsored residency training programs. An additional 200 visiting residents from residency training programs throughout the State of Michigan complete clinical rotations in pediatrics, obstetrics and gynecology, trauma, emergency medicine and critical care. Major academic affiliations exist with the Michigan State University College of Human Medicine and the University of Michigan Medical and Dental Schools. One hundred Michigan State University College of Human Medicine medical students are assigned to the Flint campus with a majority of those students serving required rotations at Hurley. Annually 25 University of Michigan medical students are assigned to the Hurley emergency department.

In addition to residency training programs, Hurley Medical Center trains future health care professionals. In the most recent academic year over 1,300 students in the following career paths completed block rotations at Hurley: nursing, physician assistants, social work, nurse practitioners, pharmacy technicians, pharmacist, respiratory therapy, certified registered nurse anesthetists, medical technicians and medical assistants. Hurley Medical Center's reputation as a teaching hospital is well respected and known throughout the United States as evidenced by its affiliations with the following schools: University of Michigan-Flint, Eastern Michigan University, Central University, Ferris State University, Duke University, Wake Forrest University, Lake Erie College of Osteopathic Medicine, University of Bridgeport, Concordia University- Wisconsin, University of Dayton, North Greenville University, University of Findlay and Mott Community College. Student competition for rotations in trauma, emergency room, pediatrics and obstetrics and gynecology make it difficult to accommodate all student requests.

Hurley Medical Center is proud to serve as one of five locations in the United States that trains Special Operations Combat Medics (SOCM). This unique training relationship with the United States Military provides 7 blocks of 30 day training rotations for military personnel who are servicemen enlisted as Navy Seals, Army Rangers, Delta Force and other special operations divisions within the military. SOCM is designed to teach these servicemen the knowledge and skills required to manage combat casualties and to enable them to prescribe appropriate treatments for diagnosed disease in accordance with tactical medical emergency protocols and their corresponding formulary.

STRATEGIC INITIATIVES

Hurley's strategic planning process is ongoing with plans typically encompassing a three year time span. In general, the strategic plan attempts to remain very nimble given the ever changing healthcare landscape. The current strategic plan encompasses seven pillars. The overall theme of the strategic plan is to continue improving the financial health of the organization with a high impact focus on quality and safety.

The seven pillars of the strategic plan include: 1) Financial Excellence; 2) Physician Alignment; 3) Strategic Alignment; 4) Transform Health; 5) Academic Excellence; 6) Clinical Excellence and 7) Employee Talent Development.

Financial Excellence

This pillar of the strategic plan keeps the Medical Center's eyes squarely focused on reducing expenses and maintaining and improving organization wide efficiencies. Repurposing and renovating in place has been and continues to be a major focus given the Medical Center's major strides in business development. Managing volume efficiently and cost effectively has forced a significant amount of innovation in space repurposing. The renovation of the 11th floor into an all private room pediatric unit demonstrated the complete transformation that can take place in what is the oldest patient tower. The "bones" of that tower have been evaluated as great, so the decision to renovate in place rather than building a brand new tower is a much more fiscally responsible decision and gives the Medical Center the opportunity to create a brand new space with all of the modern amenities and safety features. The Medical Center continuously lines up the next areas for review so that it is constantly assessing utilization and upgrading of the plant. All of the expenditures are done with a focus on insuring that the Medical Center truly understands where its costs lie and seeks ways to insure they are at their lowest while insuring that high quality care is still able to be delivered. There is very close alignment amongst the financial and operational leadership which insures that this pillar of the strategic plan is able to be executed.

Physician Alignment

This pillar is arguably the Medical Center's most important pillar. Without the interest of physicians it would not have patients admitted, tests ordered or procedures performed. Insuring that the physicians practicing at Hurley Medical Center feel a sense of ownership in how the hospital operates, how care is delivered, how money is expended and what a patient's experience consists of is the marker of true physician alignment. This pillar keeps the focus on the importance of those individuals who bring their patients as partners in caring for all populations. The Medical Center's Urgent Care strategy was born out of discussions with its physicians. The physicians were seeking an option to have a lower cost of care for their patients that were needing treatment outside of typical office hours. The primary care physicians knew that the Medical Center had an overcrowded emergency department and had lower acuity visits creating some of that crowding. The creation of the urgent cares throughout the county and in two of the contiguous counties has done exactly as expected.

The Medical Center has reduced lower acuity emergency department visits and seen a very significant increase in Urgent Care volume. Having the right care in the right place at the right cost is important for all who are working to care for the collective patient population.

Strategic Alignment

Insuring that the Medical Center's mission of access to care for its immediate community is intact, as well as keeping its eye on being a regional resource for highly specialized care, involves a significant amount of effort in this pillar. In October of 2018, as a result of PAMA (Protecting Access to Medicare Act) and the declining reimbursement associated with outreach laboratory testing done by hospitals, the Medical Center closed its Outreach Lab services throughout the county. In partnering with Quest, a national laboratory services company, it was able to continue to provide patients with access to outreach lab sites and the physician practices that historically relied on Hurley's outreach lab were able to utilize Quest and retain services for their patients. This was an important decision for the Medical Center from a financial standpoint, as it anticipated a loss of \$500,000 in the first year and nearly a million by year two if it were to have continued the service under the declining reimbursement schedule. With Quest's recognition in the market the Medical Center was able to retain access to care for the patient population, while preserving finances for Hurley.

The large investment made in the Medical Center's electronic medical record, Epic, allows it a great advantage in insuring that it cross utilizes health data from other Epic institutions thereby reducing cost of care, patient waits, and improving quality of care. Strategically partnering with the Foundation has been an important source of financial growth for sustaining programs that are important to the Medical Center's mission and to its community.

Transform Health

As already mentioned in the Commitment to Community and Community Involvement section the Medical Center prides itself on being a resource for its community beyond the walls of the hospital. As the main provider in Genesee County for highly vulnerable patient populations the Medical Center takes transforming health very seriously and find itself often looking for options that are more convenient for the population it serves. Whether by disease state, or simply a new geographic location, the Medical Center focuses on services where gaps in care exist and either collaborate to fill these gaps, or go it alone to insure needs are met. Having strong partnerships and involvement from the primary care physicians that utilize Hurley is an important element in driving this pillar as well. The 2019 Community Health Needs Assessment done in Genesee county cited obesity as one of the top five important "health problems" in the community while poor eating habits were among the top five "risky behaviors" in the community. These were both via surveys administered to residents. The Medical Center's maintenance of the Diabetes Clinic in this community is a valuable resource in working with primary care physicians to manage the diabetes it so often sees in its patient population. The Hurley Diabetes Clinic is co-located with the Hurley Food FARMacy, allowing the dieticians from both services to assist patients in compliance with their disease and interventions.

Academic Excellence

As referenced in the Educational Programs section, being a teaching institution is of high value to the Medical Center and the community it serves. It is not always easy to recruit to Flint, however, anyone who has spent time at Hurley for educational purposes is immediately and acutely aware of how essential the Medical Center is. This immediate gratification for individuals looking to truly make a difference in people's lives provides the Medical Center with a recruitment advantage. Hurley values learners in its environment as it sees them as an extra set of eyes and ears that are constantly looking out for the patient, asking questions and challenging the faculty to stay at their best. This all leads to better care and outcomes for the patients the Medical Center is privileged to care for. As noted previously the Medical Center has approximately 200 visiting residents that rotate through Hurley each year. These visiting residents play a critical role in building the Medical Center's ongoing market share as a regional leader for both trauma and pediatrics. Many of them choose their visiting rotation in the Pediatric Intensive Care Unit or in the Emergency Department. They become very familiar with the Medical Center's capabilities and the attending physicians in these services. When these resident physicians graduate and stay in Michigan to practice at other hospitals, many of them think of Hurley first when needing a transfer to a higher level of care for trauma and pediatric patients. The Medical Center has seen these relationships result in transfers to Hurley time and time again through their familiarity with what Hurley is able to handle in its specialty areas.

Clinical Excellence

This pillar is likely very popular on any hospital's strategic plan. It is important in the Medical Center's plan due to the focus on continuing high quality and safe care. In the ever increasing world of publicly reported data the Medical Center realizes how vastly different it is from many other hospitals. The local vulnerable population with a multitude of social determinants that impact their health negatively, force Hurley to engage with patients non-traditionally. Establishment of the Food FARMacy, for example, was one way in which the Medical Center created an opportunity for patients who may be discharged to a home without food and no reliable food source, to have access to an array of nutritious foods that support their diagnosis and condition. This is not just a band-aid service, this service also assists them in securing sustainable sources for their required nutrition. Focusing on how the Medical Center sustains these patients and meeting them "where they are" assists Hurley in insuring that it is delivering high quality and safe care. Additionally, the Medical Center continuously seeks validation of the services it provides. For example, it undergoes a review from the American College of Surgeons (ACS) every three years to reverify Hurley as a Level I adult Trauma Center and a Level II pediatric Trauma Center. This rigorous review is conducted by practicing trauma surgeons from ACS, who spend at least two full days reviewing patients charts, inspecting processes and meeting the trauma team to insure that Hurley meets all of the necessary requirements to maintain its Level I designation. This includes insuring that it analyzes the trauma patient volume and do injury prevention in the community so as to reduce injuries seen on the trauma service. As a result, the injury prevention coordinator is involved in gun violence prevention and playground safety reviews. This brings full circle the Medical Center's community commitment and transforming health interventions.

Employee Talent Development

In the Medical Center's challenging environment, its staff is a very important component of delivering high quality and safe care. Reducing turnover and streamlining training assists in keeping the Medical Center's staffing expense low. Having appropriate training and educational opportunities available, particularly associated with the highly vulnerable patient populations and/or the highly complex clinical services is another important element of retention. Knowing where and when to spend money on human resources is an important focus and one that it continuously assesses. The Medical Center's retention rates are double the national average, with Hurley at 10 years and national overall hospital retention at 5 years. This is attributed to the fact that Hurley has a mission that is easy to identify with and also its willingness to collaborate around its mission with the Medical Center's unions and the workforce in general.

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. Board members serve until a new board member is appointed in their place. Officers are elected by the Board and serve one-year terms. Up to four Board members may reside outside of the City of Flint. Only three members may be health care professionals. The current membership of the Board is as follows:

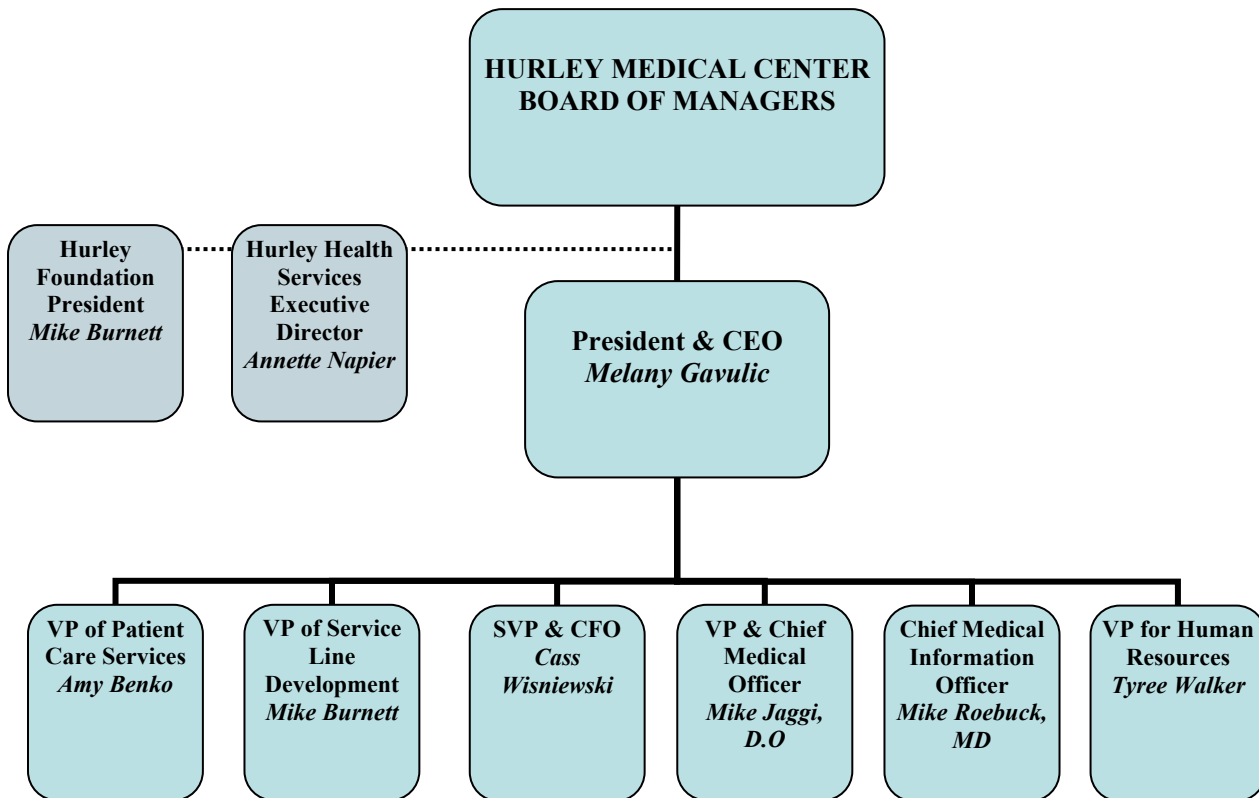
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<u>Member</u>	<u>Principal Business Affiliation</u>	<u>Term Expires</u>	<u>Tenure</u>
<u>Jason Caya (Chair)</u>	<u>Tenacity Brewing</u>	<u>April 2024</u>	<u>5 years</u>
<u>Frances Gilcreast (Vice Chair)</u>	<u>NAACP- Flint Branch, President</u>	<u>April 2023</u>	<u>14 years</u>
<u>Philip Shaltz (Treasurer)</u>	<u>Shaltz Automation</u>	<u>April 2023</u>	<u>11 years</u>
<u>Charlotte P. Edwards (Secretary)</u>	<u>Retired - Assistant Vice President & Community Affairs Officer for Citizens Bank in Flint, Michigan</u>	<u>April 2022</u>	<u>17 years</u>
<u>Carl Bekofske</u>	<u>Attorney at Law in Flint, Michigan</u>	<u>April 2017</u>	<u>11 years</u>
<u>Susan Borrego, PhD</u>	<u>University of Michigan - Flint</u>	<u>April 2020</u>	<u>5 years</u>
<u>Jessie L. Collins</u>	<u>Retired from General Motors Powertrain</u>	<u>April 2015</u>	<u>11 years</u>
<u>Christopher J. Flores</u>	<u>District Director for Congressman Dan Kildee (MI-05)</u>	<u>April 2021</u>	<u>29 years</u>
<u>Marilyn Fuller</u>	<u>Retired Industrial R.N. for General Motors</u>	<u>April 2021</u>	<u>11 years</u>
<u>Thomas James</u>	<u>Century 21 Metro Brokers</u>	<u>April 2019</u>	<u>24 years</u>
<u>Herbert Miller, Pastor</u>	<u>Metropolitan Baptist Tabernacle</u>	<u>April 2022</u>	<u>2 years</u>

<u>Member</u>	<u>Principal Business Affiliation</u>	<u>Term Expires</u>	<u>Tenure</u>
<u>Brian Nolan, M.D.</u>	<u>Pediatric Intensivist at Hurley Medical Center</u>	<u>April 2020</u>	<u>8 year</u>
<u>Daniel Scheid, Rector</u>	<u>St. Paul's Episcopal Church</u>	<u>April 2022</u>	<u>2 years</u>
<u>Harriet Scott</u>	<u>Retired, Flint Community Schools</u>	<u>April 2023</u>	<u>2 years</u>
<u>Ronald Stewart, DDS</u>	<u>Oral & Maxillofacial Surgeon</u>	<u>April 2019</u>	<u>5 years</u>

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 51, 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 a wealth of health care experience within the Medical Center over the last 20 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. Her familiarity with the community and the inner-workings of Hurley Medical Center have contributed to her success over the past seven years that she has served as the CEO.

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 of Graduate Studies in 2005. She received her Registered Nursing License in 1997. She serves on the following Boards: Essential Hospitals Institute Board of Directors, Michigan Health & Hospital Association Board of Directors, Greater Flint Health Coalition Board of Directors, MSU-Flint Area Medical Education Board, Genesee Early College Advisory Board, Kettering Industrial & Manufacturing Engineering Advisory Board, Greater Flint YMCA Foundation Board and the YMCA of Greater Flint Board of Directors.

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

Cass Wisniewski, CPA, MBA, age 67, serves as Senior Vice President and Chief Financial Officer at Hurley Medical Center. Mr. Wisniewski has been a Hurley employee for over eighteen years, serving as Vice President and Corporate Controller prior to assuming the position of SVP & CFO in 2012. Mr. Wisniewski brings a wealth of financial experience to this role with over 40 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 is currently Chair of America's Essential Hospital's Audit, Investment and Compliance 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 and Chief Quality Officer

Franz Michael Jaggi, D.O. FACP FACEP. Vice President and Chief Medical Officer, age 56. 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, serving in that role since 1999. He is a 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 certified by the American Board of Emergency Medicine and the American Board of Internal Medicine. He is active in a number of professional societies and community groups. 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 52. 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 electronic medical record 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 sits on the Greater Flint Health Care Coalition which oversees technology development in the healthcare arena for the City of Flint. He is also a member of the Michigan Health and Hospital Association's Technology Committee.

Amy Benko, PharmD, Vice President for Patient Care Services

Amy Benko, PharmD, age 50, 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 a member of the Institutional Review Board at Hurley Medical Center and serves on numerous other internal committees. Dr. Benko is a member of professional organizations, including American Society of Health-System Pharmacists and the Children’s Oncology Group.

Mike Burnett, MSW, MBA, Vice President of Service Line Development, Chief Strategy Officer and President of the Hurley Foundation

Mike Burnett, MSW, MBA, age 57, serves Hurley Medical Center as Vice President of Service Line Development, Chief Strategy Officer and, President of the Hurley Foundation. 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 Master’s in Business Administration from Baker College in 2011. He is involved in numerous community activities and boards including the Shelter of Flint and the Genesys Hurley Cancer Institute.

Tyree Walker, Vice President for Human Resources

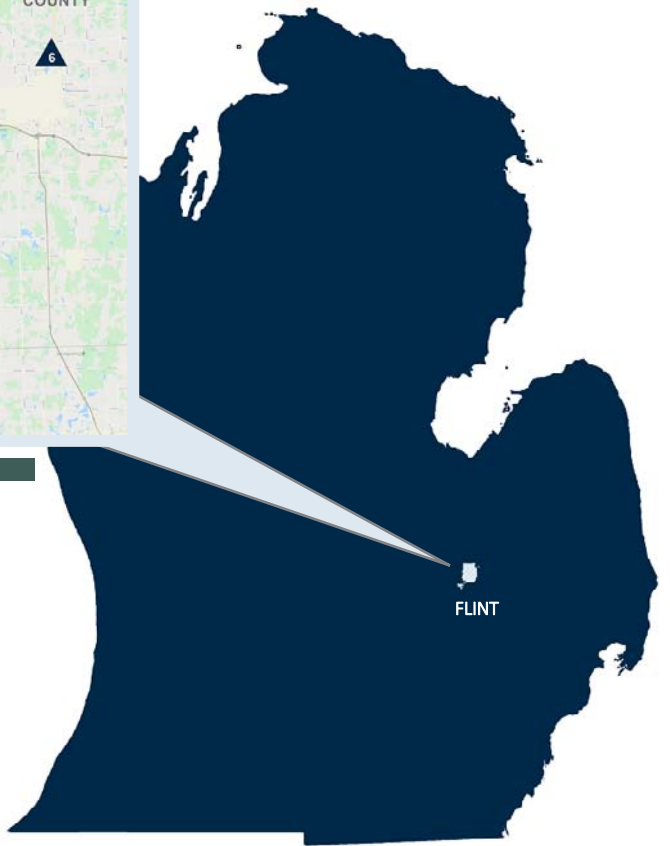
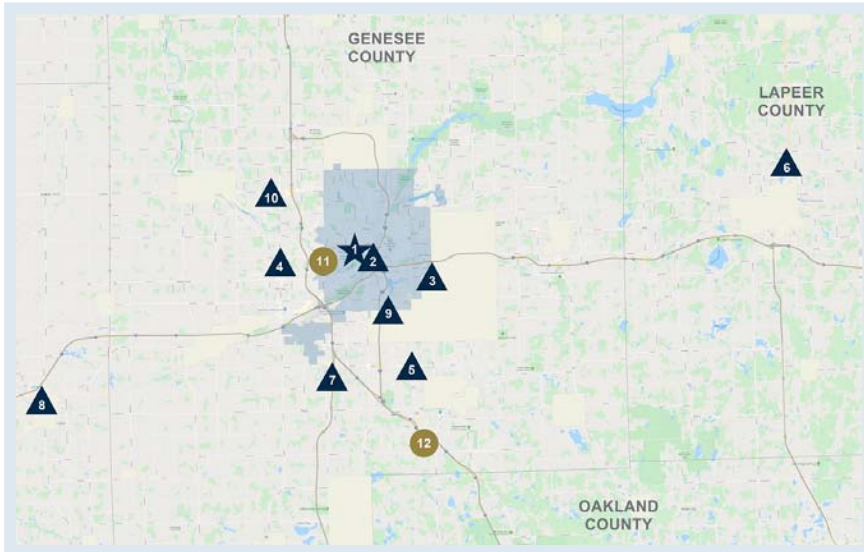
Tyree Walker, age 59 serves as Vice President of Human Resources at Hurley Medical Center. Mr. Walker has been with Hurley Medical Center since October 2014 upon retiring from Vidant Medical Center (Greenville, NC) in July 2014. Prior to assuming the Vidant Medical Center VP of Human Resources position, Mr. Walker began his Human Resources career at Hurley Medical Center from 1982 to 1995 as a Labor Relations Assistant, Personnel Analyst, Employment Manager and Assistant Personnel Director. Mr. Walker received a Bachelor of Arts degree in Public Personnel Administration in 1982 from the University of Michigan-Flint and a Master’s Degree in Personnel Administration from Central Michigan University in 1988. Mr. Walker is a member of numerous professional organizations including: American Society for Healthcare Human Resources Administration, Society for Human Resource Management, and The National Association of Health Services Executives. Mr. Walker also serves on the Board of Trustees for Pitt Community College.

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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 55.2% percent of the discharges for the calendar year ended December 31, 2018. The secondary service area (SSA) consists of the remainder of the zip code areas in Genesee County. The SSA accounted for approximately 32.9% percent of discharges in calendar year ended December 31, 2018. Collectively, the PSA and SSA accounted for 88.1% percent of the Medical Center's patient population for the calendar year ending December 31, 2018. The data indicates that the Medical Center's PSA and SSA extend to a radius of approximately 20 miles from the Main Campus. As the northernmost Level I Trauma and Burn Center in the state of Michigan, Hurley has an extended reach in the northern direction for those patients needing this level of care.

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Hurley

- 1) Hurley Medical Center Main Campus
- 2) Children's Center at Flint Farmers Market
- 3) Hurley East Campus
- 4) Hurley West Flint Campus
- 5) Grand Pointe Campus
- 6) Lapeer Campus
- 7) Hurley South Campus
- 8) Durand Urgent Center
- 9) Hurley Physical Therapy #1
- 10) Hurley Physical Therapy #2

Legend

- ★ Hurley Inpatient Center
- ▲ Hurley Outpatient Center
- Competitor Location

Competitor Locations

- 11) McLaren-Flint
- 12) Ascension-Genesys

The following table provides patient origin data for calendar year 2018:

County	Percentage of Total Patients Calendar Year 2018
Genesee County	88.1%
Lapeer County	3.3%
Shiawassee County	2.1%
Oakland County	1.2%
Tuscola County	1.2%
Saginaw County	1.0%
Other Counties	3.1%
Total	100.0%

Source: The Medical Center

Population

The population of Genesee County decreased slightly from 2010 to 2018, falling from 425,790 in 2010 to 405,588 in 2018. The population of the PSA declined 9.4%, from 164,079 in 2010 to 148,672 in 2018. Over 55.2% 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 declined 1.6%, from 274,905 to 270,372 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

	Population		
	2010	2018 Estimate	Percent Change 2000-2011
Primary Service Area	164,079	148,672	-9.4%
Secondary Service Area	274,905	270,372	-1.6%
Genesee County	425,790	405,058	-4.9%

Source: MHA Data Koala – U.S. Census Bureau

Economic Activity

Genesee County is located in mid-Michigan and is one of the state's 83 counties. It is home to 405,058 residents, 6,838 businesses and a labor force of 180,822 people. The county is also the regional hub for commerce, culture, employment and education. Flint is the largest city in the county with an estimated population of 96,448.

Total employment for Flint and Genesee County was 172,430 people in 2018, edging up just slightly (0.25%) from 2017. In December 2018, the unemployment rate countywide was 4.7%, down over half a percentage point from 5.3% the previous year.

Unemployment	2016	2017	2018	June 2019
Genesee County	5.4%	5.3%	4.7%	5.5%
Michigan	5.0%	4.6%	4.0%	4.2%
National	4.7%	4.1%	3.9%	3.7%

Source: U.S. Census Bureau

* not seasonally adjusted

Since 2017 corporate investment in Genesee County and particularly Flint has contributed to the area's low unemployment rate. Major investments include:

Corporation	Project	Location	Investment	Year
General Motors	Flint Assembly Plant	Flint	\$79M	2017
General Motors	Flint Body Shop	Flint	\$877M	2018
Educare Flint	Early Childhood Education Center	Flint	\$15M	2018
Lear Corporation	Seat Manufacturing Facility	Flint	\$29M	2018
Magna Electronics	Manufacturing Facility	Grand Blanc Twp.	\$50M	2019
General Motors	Part Processing Plant	Burton	\$65M	2019
Huntington Bank	Office & Call Center	Downtown Flint	\$5M	2019
Flint Cultural Center Academy	New K-12 Charter School	Flint	\$38M	2019
Mott Community College	Culinary Institute	Downtown Flint	\$13M	2019
Hilton Garden Inn	Hotel & Banquet Center	Downtown Flint	\$38M	2019
Rassini Brakes	Facility Expansion	Mt Morris	\$8M	2019

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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:

Industry Sector	Number of Employees	%
Health care and social assistance	26,056	16.55%
Retail Trade	23,177	14.72%
Manufacturing	22,319	14.18%
Educational services	15,095	9.59%
Accommodation and food services	11,693	7.43%
Other services, except public administration	8,111	5.15%
Construction	7,554	4.80%
Professional, scientific, and technical services	6,584	4.18%
Public administration	6,318	4.01%
Finance and insurance	5,997	3.81%
Transportation and warehousing	5,693	3.62%
Administrative support and waste management Services	5,646	3.59%
Wholesale Trade	4,116	2.61%
Real estate and rental and leasing	2,577	1.64%
Arts, entertainment, and recreation	2,380	1.51%
Information	2,218	1.41%
Utilities	980	0.62%
Agriculture, forestry, fishing and hunting, and mining	858	0.54%
Management of companies and enterprises	63	0.04%
TOTAL	157,435	100.00

Source: U.S. Bureau of Labor Statistics

Significant employers within Genesee County include the following:

Employer	Number of Employees	Type of Business
General Motors	7,500	Automotive
Ascension Genesys Hospital	3,500	Healthcare
McLaren - Flint	2,785	Healthcare
Hurley Medical Center	2,780	Healthcare
Flint School District	1,298	Education
Diplomat Specialty Pharmacy	1,120	Healthcare
University of Michigan - Flint	1,098	Colleges & Universities
Genesee County	950	Government
Genesee Intermediate School District	900	Education

Source: Genesee County Chamber of Commerce, as of 2019

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 2018:

Hospital	Primary Service Area (Flint)	Secondary Service Area (all others)
Hurley Medical Center	11,685 (43.9%)	6,966 (19.8%)
McLaren Flint	8,398 (31.6%)	8,951 (25.5%)
Ascension Genesys Hospital	4,431 (16.6%)	12,361 (35.2%)
University of Michigan Health System	524 (2.0%)	1,464 (4.2%)
Other	1,571 (5.9%)	5,353 (15.3%)
TOTAL	26,609	35,095

Source: The Medical Center

The following chart outlines the market share, based on discharges, for Genesee County over the three years ending December 31, 2016, 2017 and 2018:

Hospital	2016	2017	2018
Hurley Medical Center	31.8%	30.4%	30.2%
Ascension Genesys Hospital	27.6%	27.7%	27.2%
McLaren Flint	27.0%	27.4%	28.1%
All Others	13.6%	14.5%	14.5%
TOTAL	100%	100%	100%

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	418	-
McLaren Flint	Flint	348	2 miles (8 min)
Ascension Genesys Hospital	Grand Blanc	418	13 miles (18 min)
University of Michigan Health System	Ann Arbor	991	56 miles (1 hr)

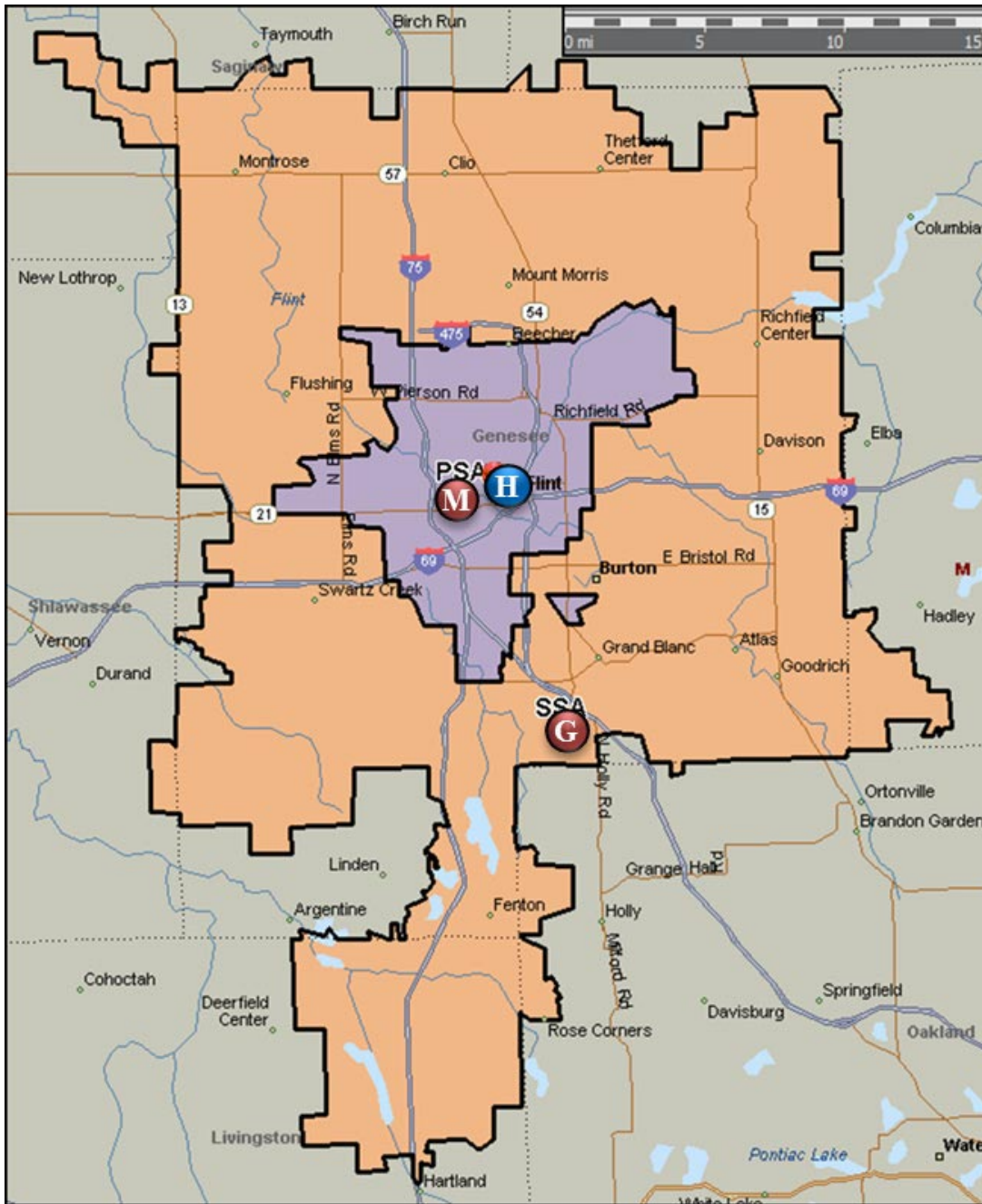
Source: American Hospital Association Guide, 2017 Edition




The following table shows the Medical Center's market share in the PSA by service line:

Service Line	Hurley Medical Center	McLaren – Flint	Ascension Genesys Hospital	All Others	2018 Total Volume
General Medicine	38%	38%	19%	6%	8,787
Cardiac Services	35%	45%	14%	7%	3,492
Obstetrics	69%	11%	16%	4%	2,141
Psychiatry	41%	44%	2%	13%	1,492
General Surgery	35%	34%	21%	10%	1,458
Normal Newborn	67%	14%	16%	3%	1,061
Pediatric Medicine	85%	0%	5%	10%	1,006
Neurology	44%	32%	18%	7%	971
NICU	71%	7%	18%	5%	941
Oncology/Hematology	38%	31%	20%	11%	725
Joint Replacement	16%	33%	37%	14%	662
Trauma	50%	20%	18%	12%	654
Vascular Services	32%	37%	21%	9%	583
Stroke and TIA	35%	44%	15%	6%	479
Spine	30%	25%	23%	21%	440
Orthopedics	39%	30%	19%	12%	354
Urology	21%	42%	24%	14%	280
ENT	60%	21%	10%	9%	273
Gynecology	47%	31%	15%	7%	197
Neurosurgery	33%	44%	3%	19%	149
Pediatric Surgery	42%	1%	2%	55%	140
Thoracic Surgery	35%	24%	30%	11%	132
Bariatric Surgery	49%	44%	0%	7%	75
Ophthalmology	35%	24%	5%	35%	37
Ungroupable	94%	6%	0%	0%	32
Burn	88%	0%	4%	8%	25
Peds Heme-oncology	100%	0%	0%	0%	18
Pediatric Psychiatry	67%	0%	0%	33%	3
TOTAL					26,607

Sources: 2018 MHA Market Date (includes normal newborns)

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

MEDICAL STAFF

The medical staff of the Medical Center is composed of 601 physicians, dentists, psychologists, and podiatrists, of which 472 are members of the Active and Courtesy staffs. Approximately 87% of the total staff is board certified. Medical staff membership has been stable over the last five years. In the past two years, the Medical Center has experienced three retirements of physicians who worked as surgeons in its community for upwards of thirty years each. Two of the three surgeons were instrumental in the trauma coverage. Fortunately, all three were readily replaced and Hurley has not seen a decline in coverage or access for their specialties. Specifically their specialties were orthopedics, neuro surgery and general surgery. In the Medical Center’s strategic priority of physician alignment, it makes every effort to be in front of retirements and assist in planning and recruitment of new physicians to the community. These latest three retirements and subsequent replacements are an example of how the Medical Center’s combined efforts have been successful. The Medical Center employs 36 physicians, via Hurley Health Services, whom are trauma surgeons, specialists or academic faculty physicians.

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

PHYSICIANS BY MEDICAL DEPARTMENT Fiscal Year Ended June 30, 2019

Medical Department	Number	Percent
Medicine	166	27.6
Surgery	148	24.6
Pediatrics	121	20.1
Family Practice	48	8.0
Emergency Medicine	33	5.5
Obstetrics/Gynecology	28	4.7
Radiology	14	2.3
Psychology	10	1.7
Anesthesiology	10	1.7
Psychiatry	7	1.2
Pathology	6	1.0
Radiation Oncology	5	0.8
Pediatric Emergency Medicine	5	0.8
TOTAL	601	100%

Source: The Medical Center

PHYSICIANS BY STAFF CATEGORY
Fiscal Year Ended June 30, 2019

Staff Category	Number of Physicians
Active	392
Courtesy	80
Consulting	0
Emeritus	19
Provisional	108
Leave of Absence	2
TOTAL	601

Source: The Medical Center

TOP TWENTY ADMITTING PHYSICIANS
Fiscal Year Ended June 30, 2019

Specialty	Age*	Inpatient	Percent of
		Admissions	Total Admissions
1. Internal Medicine	60	1,221	5.9
2. Internal Medicine	34	938	4.5
3. Pediatrics	35	703	3.4
4. Pediatric Critical Care	59	623	3
5. Psychology	77	611	3
6. Pediatric Critical Care	68	504	2.4
7. Internal Medicine	39	464	2.2
8. Internal Medicine	50	448	2.2
9. Internal Medicine	61	401	1.9
10. Psychology	63	399	1.9
11. Internal Medicine	72	387	1.9
12. Internal Medicine	58	384	1.9
13. Pediatric Infectious Disease	41	361	1.7
14. Internal Medicine	67	344	1.7
15. Obstetrics/Gynecology	48	344	1.7
16. Obstetrics/Gynecology	41	323	1.6
17. Rheumatology	61	318	1.5
18. Pediatrics	37	315	1.5
19. Internal Medicine	63	312	1.5
20. Pediatrics	38	300	1.5
TOTAL			47.0
<i>*Average Physician Age: 53</i>			

Source: The Medical Center

The following table sets forth a profile of the Medical Center's admitting staff members by specialty for the fiscal year ending June 30, 2019.

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>
Anesthesiology	0		0	4	0
Cardiology	7	51	0.1	9	5
Cardiothoracic Surgery	3	63	0	1	2
Dermatology	0	0	0	1	1
Diagnostic Radiology	0	0	0	2	5
Emergency Medicine	29	51	1.7	17	13
Endocrinology	1	58	1.1	0	0
Family Practice	4	68	1.1	13	9
Gastroenterology	0	0	0	1	2
General Surgery	15	63	2.2	5	9
Geriatric Medicine	5	52	3.2	2	1
Hematology/ Oncology	2	51	0	4	2
Infectious Disease	0	0	0	2	2
Internal Medicine	24	53	35.2	14	8
Interventional Radiology	1	36	0	1	2
Maternal/ Fetal Medicine	2	66	0	1	2
Neonatology	7	42	7	9	8
Nephrology	1	38	0	3	1
Obstetrics/ Gynecology	22	51	14.6	4	8
Ophthalmology	0	0	0	3	5
Oral & Maxillofacial Surgery	1	66	0	0	0
Orthopedic Surgery	12	50	2.8	9	7
Otolaryngology	2	68	0	0	2
Pathology	0	0	0	1	0
Pediatric Cardiology	0	0	0	13	4
Pediatric Critical Care Medicine	4	60	7.2	2	0
Pediatric Dentistry	0	0	0	4	6
Pediatric Endocrinology	1	64	0.1	5	0
Pediatric Hematology/ Oncology	2	55	0.8	0	0
Pediatric Infectious Disease	1	41	1.8	0	0
Pediatric Psychology	0	0	0	1	0
Pediatric Pulmonology	1	48	0.1	1	0
Pediatric Surgery	1	45	0.2	13	8
Pediatrics	21	45	6.6	9	9
Physical Medicine & Rehabilitation	1	56	0	3	0
Plastic Surgery	2	66	0	1	3
Podiatry	0	0	0	4	4
Psychology	3	71	4.9	1	2
Pulmonary Medicine	8	47	1.1	3	3
Radiation Oncology	0	0	0	2	2

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<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>
Rheumatology	1	61	1.5	0	0
Surgical Critical Care	6	46	5.8	3	3
Telemedicine	0	0	0	1	0
Urology	4	51	0	2	2
Vascular Surgery	12	43	0.5	6	3
TOTAL	206	53	100%	180	143

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:

Other Key Position Additions and Departures	Additions Last 3 Fiscal Years	Departures Last 3 Fiscal Years
CRNA	15	11
Nurse Practitioners	37	32
Physician Assistants	35	25

Source: The Medical Center

EMPLOYEES

For the fiscal year ended June 30, 2019, the Medical Center employed approximately 2,427 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. Ten bargaining units represent 1,689 full-time and 512 part-time employees equating to 2,068 employees. There have been no work stoppages since 1986, and management characterizes its relationships with its employees as excellent. Three bargaining agreements expired in fiscal year 2019. Two were successfully renegotiated. Negotiations are ongoing for the third bargaining unit who is operating under a bargaining agreement extension. It is expected that a tentative agreement will be reached soon. Two bargaining agreements will expire on June 30, 2020 with the remaining five agreements expiring in later years.

Nursing Staff

The Medical Center has 949 nurses and 76 nursing assistants on staff. The breakdown, as of fiscal year end 2019, is as follows: 91.8% Registered Nurses (RNs), 0.8% Licensed Practical Nurses (LPNs) and 7.4% Nursing Assistants (NAs).

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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:

Type of Beds	Fiscal Year Ended June 30,		
	2017	2018	2019
Behavioral Health	60	60	60
Burn Care	13	13	13
Coronary Care	13	13	13
General Medical/Surgical	170	170	170
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	23	23	23
Total Licensed Beds	443	443	443
Total Staffed Beds	418	418	418

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, 2018 and 2019.

	Fiscal Year Ended June 30,			Six-Months Ended December 31,	
	2017	2018	2019	2018	2019
Licensed Beds	443	443	443	443	443
Discharges	22,197	21,139	20,632	10,443	9,888
Patient Days	110,228	108,622	108,510	53,719	52,901
Average Length of Stay (days)	4.97	5.14	5.26	5.14	5.35
Inpatient Surgeries	4,463	4,383	3,874	1,960	1,907
Observations	2,192	2,250	2,544	1,171	1,562
Emergency Room Visits	98,740	97,154	94,341	48,083	47,465
Other Outpatient Visits	402,395	372,399	393,837	193,025	214,832
Ambulatory Surgery Cases	6,551	5,869	6,076	2,924	3,281
Medicare Case Mix Index	1.55	1.66	1.70	1.65	1.75

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, 2018 and 2019.

Payer	Fiscal Years Ended June 30,			Six-Months Ended December 31,	
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>
Medicare	21.5%	20.1%	18.3%	17.8%	16.7%
Medicare HMO	9.3%	11.9%	14.9%	14.9%	16.0%
Medicaid	7.4%	7.4%	6.3%	5.7%	7.1%
Medicaid HMO	37.9%	36.7%	35.8%	36.0%	35.5%
Blue Cross	9.3%	9.7%	9.9%	10.0%	9.7%
Commercial HMOs	4.0%	3.2%	3.2%	3.1%	2.7%
All Others	10.6%	11.0%	11.6%	12.4%	12.3%
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, 2017, 2018 and 2019, and the unaudited six-month periods ended December 31, 2018 and 2019. 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, 2018 and 2019 are presented in Appendix B. The unaudited statements of revenue and expenses for the six-month periods ended December 31, 2018 and 2019 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. Historical results are not necessarily indicative of future results.

Balance Sheet	Fiscal Year Ended June 30,			Unaudited Six-Months Ended	
	(GASB) (in thousands)	2017	2018	2019	December 31, 2018
Current Assets:					
Cash	\$79,285	\$55,487	\$73,737	\$65,486	\$88,142
Patient Accounts Receivables, Net	40,549	34,759	44,716	46,882	52,594
Other Receivables	8,379	27,113	24,264	6,455	6,798
Other Assets	<u>17,138</u>	<u>17,571</u>	<u>17,788</u>	<u>18,229</u>	<u>19,599</u>
Total Current Assets	145,351	134,930	160,505	137,052	167,133
Non-current Assets Limited as to Use					
Investments	122,000	121,193	128,327	123,474	130,130
Restricted	28,064	27,716	22,266	18,811	18,661
Property, Plant and Equipment, Net	103,988	103,751	103,894	101,961	104,559
Other Assets	<u>6,337</u>	<u>6,325</u>	<u>6,826</u>	<u>6,325</u>	<u>6,826</u>
Total Assets	405,740	393,915	421,818	387,623	427,309
Total Deferred Outflows of Resources	<u>41,611</u>	<u>14,373</u>	<u>38,964</u>	<u>5,140</u>	<u>30,669</u>
Total Assets and Deferred Outflows of Resources	\$447,351	\$408,288	\$460,782	\$392,763	\$457,978
Liabilities and Fund Net Assets					
Current Liabilities:					
Current Portion of Long-term Debt	\$6,282	\$6,079	\$6,380	\$6,449	\$7,025
Accounts Payable and Other	52,759	39,126	37,015	33,533	36,798
Accrued Expenses	<u>33,439</u>	<u>32,212</u>	<u>37,113</u>	<u>33,238</u>	<u>36,697</u>
Total Current Liabilities	92,480	77,417	80,508	73,220	80,520
Long-term Debt, Less Current Portion	78,756	72,643	66,245	66,254	59,219
Other Long-term Liabilities	<u>233,869</u>	<u>199,335</u>	<u>240,497</u>	<u>188,078</u>	<u>239,304</u>
Total Liabilities	405,105	349,395	387,250	327,552	379,043
Deferred Inflows of Resources	<u>2,936</u>	<u>14,319</u>	<u>11,430</u>	<u>16,415</u>	<u>9,885</u>
Total Liabilities and Deferred Inflows of Resources	408,041	363,714	398,680	343,967	388,928
Total Net Position	<u>39,310</u>	<u>44,574</u>	<u>62,102</u>	<u>48,796</u>	<u>69,050</u>
Total Liabilities and Fund Net Assets	\$447,351	\$408,288	\$460,782	\$392,763	\$457,978

Income Statement	Fiscal Year Ended June 30,			Unaudited Six-Months Ended	
	(GASB) (in thousands)	2017	2018	2019	December 31, 2018
Net Patient Service Revenue	\$414,807	\$394,625	\$415,317	\$198,622	\$208,525
Other Operating Revenue	<u>40,607</u>	<u>40,274</u>	<u>44,447</u>	<u>22,422</u>	<u>19,823</u>
Total Operating Revenue	455,414	434,899	459,764	221,044	228,348
Operating Expenses:					
Depreciation and Amortization	16,837	14,533	13,780	7,576	7,311
All Other	<u>417,895</u>	<u>408,693</u>	<u>432,672</u>	<u>209,666</u>	<u>215,225</u>
Total Operating Expenses	434,732	423,226	446,452	217,242	222,536
Operating Income (Loss)	20,682	11,673	13,312	3,802	5,812
Nonoperating Income (Expense)					
Investment Income (Loss)	(1,451)	(414)	8,698	2,975	2,662
Other Income (Expense)	241	(4)	501	0	0
Interest Expense	<u>(5,161)</u>	<u>(4,743)</u>	<u>(4,457)</u>	<u>(2,228)</u>	<u>(2,059)</u>
Total Non-operating Income (Expense)	(6,371)	(5,161)	4,742	747	603
Excess of Revenue Over Expenses before Other Activity, Restricted Fund Activity and Transfer of Funds	14,311	6,512	18,054	4,549	6,415
Other Activity, Restricted Fund Activity and Transfer of Funds	<u>872</u>	<u>(1,248)</u>	<u>(526)</u>	<u>0</u>	<u>800</u>
Increase in Net Position	<u>\$15,183</u>	<u>\$5,264</u>	<u>\$17,528</u>	<u>\$4,549</u>	<u>7,215</u>

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MANAGEMENT'S DISCUSSION OF FINANCIAL PERFORMANCE

Statement of Net Position

The Medical Center's net position is the difference between its assets and liabilities. The Medical Center's net position increased for the fiscal years ending June 30, 2019 and 2018, by \$17.5 million and \$5.3 million, respectively.

The Medical Center's unrestricted cash and investments position increased in 2019 by \$25.4 million to \$202.1 million at June 30, 2019. Respectively, the day's cash on hand increased from 157.8 days in 2018 to 170.5 days in 2019. The major increase in cash was primarily due to an increase in operating revenue during 2019.

Operating Income

For the year ending June 30, 2019, the Medical Center experienced a net income from operations of \$13.3 million. The comparable prior period operating income was \$11.7 million.

Inpatient activity decreased from the prior year by 2.4% for discharges and patient days remained steady, however length of stay increased to 5.26 days. The increase in the length of stay resulted from Medicare CMI (case mix index) increase by 2.4% or 1.70 versus 1.66 in the previous year. The Medical Center's inpatient market share has remained strong as reflected in the Michigan Hospital Association's market analysis, showing the Medical Center's lead in market share for the last 16 published quarters. Outpatient volume was 5.8%; up as compared to the previous year. Emergency Room visits were down 2.9% primarily due to more urgent care centers opening as well as primary care physician offices extending clinical hours. Outpatient surgeries increased as a result of advances in surgical procedures that traditionally were inpatient. Other operating revenue increased from the prior year as a result of the sale of some outpatient laboratory operations.

Operating expenses increased by 5.5% from the prior year. Increases in the outpatient visits largely drove the proportionate increase in operating expense, specifically in salaries and wages, employee benefits and payroll taxes, and purchased services for outside agencies. Other notable operating expense increases included pension expense and malpractice expense. Pension expense increased as a result of downturn in the investment market during the final quarter of the measurement period. Malpractice expense increased due to one-time large claim settlements.

Non-operating Revenues and Expenses

Non-operating revenues consist primarily of investment earnings on cash balances, joint venture income and interest expense on outstanding long-term debt. Non-operating revenue/expense improved by \$9.9 million over the prior year largely due to investment

income. Interest expense was \$286,000 less as a result of paying off debt. Interest income was favorable due to higher rates. The Medical Center's investment policy is restricted by the State of Michigan law Public Act 20, which restricts investments to US backed governmental securities.

Capital Asset and Debt Administration

The Medical Center had \$104 million invested in capital assets, net of accumulated depreciation, as detailed in footnote 7 to the financial statements. There was \$14.5 million of building infrastructure, clinical equipment and technology infrastructure assets purchased in 2019. At fiscal year-end, the Medical Center had \$73 million in revenue bonds outstanding of which \$31,215,000 is expected to be refunded with proceeds from the Series 2020 Bonds.

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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, 2017, 2018, 2019, and for the annualized six-month period ended December 31, 2019.

(Dollars in Thousands)	Fiscal Year Ended			Annualized
	2017	June 30, 2018	2019	December 31, 2019
Excess of Revenue Over Expenses before Restricted Funds and Transfer of Funds	\$14,618	\$6,734	\$18,723	\$12,830
Add:				
Depreciation and Amortization	16,837	14,533	13,780	14,623
Interest Expense	5,161	4,742	4,457	4,119
Unrealized Investment Loss	2,843	2,268		
Subtract				
Unrealized Investment Income			5,469	306
Income Available for Debt Service	\$39,459	\$28,277	\$31,491	\$31,266
Historical Maximum Annual Debt Service Requirement	\$11,123	\$11,123	\$11,080	\$11,077
Maximum Annual Debt Service Coverage Ratio (x)	3.55	2.54	2.84	2.82
Pro-Forma Maximum Annual Debt Service Requirement *	\$6,597	\$6,597	\$6,597	\$6,597
Pro-Forma Maximum Annual Debt Service Coverage Ratio (x)	5.98	4.29	4.77	4.74

*The Pro-Forma Maximum Annual Debt Service for 7/1/2020 includes the Series 2013A&B Bonds, the Series 2010 Bonds until they are refunded by the Series 2020 Bonds and the Series 2020 Bonds. The Pro-Forma Maximum Annual Debt Service is \$10,501 (in thousands), which results in Pro-Forma Maximum Annual Debt Service Coverage Ratio of 3.00x in FY2019. However, after FY2020, the Pro-Forma Maximum Annual Debt Service drops to the \$6,597 (in thousands) as shown above.

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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, 2017, 2018 and 2019, as well as the pro-forma 2019 capitalization position as adjusted to reflect the issuance of the Series 2020 Bonds.

(Dollars in Thousands)	Fiscal Year Ended June 30,			Pro-Forma
	2017	2018	2019	2019
Outstanding Long-Term Debt	\$78,756	\$72,643	\$66,245	\$81,735
Unrestricted Net Assets Including Net Investment in Capital Assets	\$31,182	\$37,915	\$56,639	\$56,639
Total Capitalization	<u>\$109,938</u>	<u>\$110,559</u>	<u>\$122,884</u>	<u>\$138,374</u>
Long-Term Debt to Capitalization	71.64%	65.71%	53.91%	59.07%

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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, 2019 and the pro-forma unrestricted cash and investments:

Market Value

(Dollars in Thousands)

	Fiscal Year Ended		Pro-Forma	
	June 30, 2019	Annualized December 31, 2019	June 30, 2019	Annualized December 31, 2019
Cash and Cash Equivalents	\$73,737	\$88,142	\$73,737	\$88,142
Investments	<u>128,327</u>	<u>130,130</u>	<u>128,327</u>	<u>130,130</u>
Total	<u>\$202,064</u>	<u>\$218,272</u>	<u>\$202,064</u>	<u>\$218,272</u>
Reimbursement From the Series 2020 Bonds			1,500	1,500
Total Operating Expenses <i>less Depreciation & Amortization</i>	\$446,452	\$445,072	\$446,452	\$445,072
	<u>13,780</u>	<u>14,623</u>	<u>13,780</u>	<u>14,623</u>
Total	<u>\$432,672</u>	<u>\$430,449</u>	<u>\$432,672</u>	<u>\$430,449</u>
Days Cash on Hand	170.5	185.6	171.7	186.9
Total Long Term Debt	\$66,245	\$52,219	\$81,735	\$81,735
Cash and Investments to Long Term Debt	305.03%	417.99%	247.22%	267.05%

Upon issuance of the Series 2020 Bonds, the Medical Center anticipates reimbursing itself for approximately \$1.5 million of prior Project expenditures, which is reflected in the pro-forma figures above.

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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 America's Essential 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 College of Surgeons Level II Pediatric Trauma Center
- American Academy of Pediatric & American College of OB/GYN Level III Neonatal Intensive Care Unit
- American College of Surgeons Bariatric Center of Excellence
- Continuing Medical Education Department – Certification of Accreditation as a sponsor of continuing medical education for physicians Michigan State Medical Society (MSMS) Committee on CME
- 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 Huntington Bank. At June 30, 2019, the balance in the reserve account was approximately \$14 million. The amount necessary to be on deposit in the self-insurance trust is determined annually using actuarial studies performed by Willis Towers Watson, 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 \$20 million/\$20 million.

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APPENDIX B
AUDITED FINANCIAL STATEMENTS OF
HURLEY MEDICAL CENTER

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Hurley Medical Center

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with Additional Information
June 30, 2019**

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Independent Auditor's Report

To the Board of Hospital Managers
Hurley Medical Center

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, fiduciary fund, and blended component unit of Hurley Medical Center (the "Medical Center"), a component unit of the City of Flint, Michigan, as of and for the years ended June 30, 2019 and 2018 and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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 blended component unit of Hurley Medical Center as of June 30, 2019 and 2018 and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Hospital Managers
Hurley Medical Center

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in the net pension liability and related ratios, schedule of Medical Center contributions, schedule of changes in the net OPEB liability and related ratios, schedule of OPEB contributions, and schedule of OPEB investment returns, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2019 on our consideration of Hurley Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hurley Medical Center's internal control over financial reporting and compliance.

Plante & Moran, PLLC

October 30, 2019

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, 2019, 2018, and 2017. Please read it in conjunction with the Medical Center's basic financial statements, which begin on page 7. Unless otherwise indicated, amounts are in thousands.

Financial Highlights

The Medical Center reported operating income of \$13.3 million for the fiscal year ending June 30, 2019. This represents an increase of \$1.6 million from 2018. Operating income for the fiscal year ended June 30, 2018 was \$11.7 million, reflecting a decrease from the year ended June 30, 2017.

Using this Annual Report

The Medical Center's basic financial statements consist of three statements: (a) a statement of net position; (b) a statement of revenues, expenses, and changes in net position; and (c) a statement of cash flows. These basic financial statements and its 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 Position and Statement of Revenues, Expenses, and Changes in Net Position

The Medical Center's basic financial statements begin with the Statement of Net Position on page 7. There was an increase in operating margins. Even though inpatient and outpatient volume dropped, increases in case mix and observation days resulted in a stable position. The Medical Center still leads the inpatient market share as monitored by the Michigan Hospital Association for the last 16 quarters. The statement of net position and the statement of revenues, expenses, and changes in net position report information about the Medical Center's resources and its activities that reflect this activity. 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 position and changes in therein. The net position primarily increased, primarily due to positive operating performance, for fiscal years ending 2019 and 2018, respectively, by \$17.5 million and \$5.3 million.

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 2019, the cash position of the Medical Center increased by approximately \$18.2 million to \$73.8 million.

The Statement of Net Position

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Assets			
Current assets, less assets limited to use	\$ 151,949	\$ 126,564	\$ 136,680
Assets limited as to use	159,149	157,275	158,735
Capital assets	103,894	103,751	103,988
Other assets	<u>6,826</u>	<u>6,325</u>	<u>6,337</u>
Total assets	421,818	393,915	405,740
Deferred Outflow of Resources	<u>38,964</u>	<u>14,373</u>	<u>41,611</u>
Total assets and deferred outflow of resources	460,782	408,288	447,351
Liabilities			
Current liabilities	80,507	77,417	92,480
Net pension/OPEB liability	218,491	175,975	209,584
Long-term debt	66,245	72,644	78,756
Other long term liabilities	<u>22,007</u>	<u>23,359</u>	<u>24,285</u>
Total liabilities	<u>387,250</u>	<u>349,395</u>	<u>405,105</u>
Deferred Inflow of Resources	<u>11,430</u>	<u>14,320</u>	<u>2,936</u>
Total liabilities and deferred inflow of resources	398,680	363,715	408,041
Net Position			
Net investment in capital assets	35,577	29,429	23,460
Donor restricted for specific operating activities	5,463	6,658	8,128
Unrestricted	<u>21,062</u>	<u>8,486</u>	<u>7,722</u>
Total net position	<u>\$ 62,102</u>	<u>\$ 44,573</u>	<u>\$ 39,310</u>

The Medical Center's net position is the difference between its assets and liabilities reported in the statement of net position on pages 7 and 8. The Medical Center's net position increased for the fiscal years ending June 30, 2019 and 2018, by \$17.5 million and \$5.3 million, respectively, primarily due to positive operating performance, net of investment income and losses.

The Medical Center's unrestricted cash and investments position increased in 2019 by \$25.4 million to \$202.1 million at June 30, 2019. Respectively, the day's cash on hand increased from 152.6 days in 2018 to 166.1 days in 2019. The major increase in cash was primarily due to an increase in operating revenue during 2019.

The Medical Center's liability position was changed primarily due to the pay-down of long-term debt obligations in 2019 and 2018, as well as the impact of changes in net pension/OPEB liability due to investment losses in the plans' net positions of \$11.5 million in 2019 and investment gains in the plans/ net positions of \$57.0 million.

Operating Results and Changes in the Medical Center's Net Position

In 2019, the Medical Center's net position increased by \$17.5 million. The primary cause of the increase in net position is the positive financial results for the year ended June 30, 2019.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating Revenue			
Net patient service revenue	\$ 415,317	\$ 394,624	\$ 414,807
Other operating revenue	<u>44,446</u>	<u>40,274</u>	<u>40,607</u>
Total operating revenue	459,763	434,898	455,414
Operating Expenses			
Salaries and wages	175,901	171,032	175,056
Employee benefits and payroll taxes	73,164	65,014	74,018
Operating supplies and expenses	63,614	62,763	62,472
Professional services	65,233	63,456	58,634
Purchased services and other	54,760	46,428	47,715
Depreciation and amortization	<u>13,780</u>	<u>14,533</u>	<u>16,837</u>
Total operating expenses	446,452	423,226	434,732
Nonoperating Revenue (Expenses)	<u>4,743</u>	<u>(4,938)</u>	<u>(6,064)</u>
Excess of Revenue Over Expenses Before Other Activity	18,054	6,734	14,618
Grants, Contributions, and Endowments -			
Restricted gifts, income, and transfer to unrestricted	<u>(1,195)</u>	<u>(1,470)</u>	<u>565</u>
Increase in Net Position	17,528	5,264	15,183
Net Position – Beginning of year	44,573	74,151	58,968
Implementation of GASB No. 75	<u>0</u>	<u>(34,842)</u>	<u>0</u>
Net Position - End of year	<u><u>\$ 62,102</u></u>	<u><u>\$ 44,573</u></u>	<u><u>\$ 74,151</u></u>

Operating Income

For the year ending June 30, 2019, the Medical Center experienced a net income from operations of \$13.3 million. The comparable prior period operating income was \$11.7 million.

Inpatient activity decreased from the prior year by 2.4% for discharges and patient days remained steady, however length of stay to increased to 5.26 days. The increase in the length of stay resulted from Medicare CMI (case mix index) increase by 2.4% or 1.70 versus 1.66 in the previous year. The Medical Center's inpatient market share has remained strong as reflected in the Michigan Hospital Association's market analysis, showing the Medical Center's lead in market share for the last 16 published quarters. Outpatient volume was 5.8% up as compared to the previous year. Emergency Room visits were down 2.9% primarily due to more urgent care centers opening as well as primary care physician offices extending clinical hours. Outpatient surgeries increased as a result of advances in surgical procedures that traditionally were inpatient. Other operating revenue increased from the prior year as a result of the sale of some outpatient laboratory operations.

Operating expenses increased by 5.5% from the prior year. Increases in the outpatient visits largely drove the proportionate increase in operating expense, specifically in salaries and wages, employee benefits and payroll taxes, and purchased services for outside agencies. Other notable operating expense increases included pension expense and malpractice expense. Pension expense increased as a result of downturn in the investment market during the final quarter of the measurement period. Malpractice expense increased due to one time large claim settlements.

Nonoperating Revenues and Expenses

Non-operating revenues consist primarily of investment earnings on cash balances, joint venture income and interest expense on outstanding long-term debt. Non-operating revenue/expense improved by \$9.7 million over the prior year largely due to investment income. Interest expense was \$286,000 less as a result of paying off debt. Interest income was favorable due to higher rates. The Medical Center's investment policy is restricted by the State of Michigan law Public Act 20, which restricts investments to US backed governmental securities.

Capital Asset and Debt Administration

The Medical Center had \$104 million invested in capital assets, net of accumulated depreciation, as detailed in footnote 7 to the financial statements. There was \$14.5 million of building infrastructure, clinical equipment and technology infrastructure assets purchased in 2019. At year end, the Medical Center had \$73 million 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 any questions about this report or need additional financial information, contact the Medical center at: One Hurley Plaza, Flint, MI 48503.

Proprietary Funds
Statement of Net Position

June 30, 2019 and 2018

	2019		2018	
	Hurley Medical Center	Component Unit Hurley Health Services	Hurley Medical Center	Component Unit Hurley Health Services
Assets and Deferred Outflows of Resources				
Current Assets				
Cash and cash equivalents	\$ 73,737,272	\$ 1,820,942	\$ 55,487,102	\$ 1,397,994
Patient accounts receivable - Net (Note 5)	44,716,234	1,246,090	34,758,619	1,408,585
Other receivables	6,367,498	1,825,686	8,679,450	904,093
Estimated third-party payor settlements (Note 4)	17,895,969	-	18,433,856	-
Assets limited as to use (Note 6)	8,555,700	156,508	8,366,047	156,352
Inventory	5,790,256	24,954	5,378,220	39,787
Prepaid expenses and other	3,441,697	306,479	3,826,585	300,398
Total current assets	160,504,626	5,380,659	134,929,879	4,207,209
Assets Limited as to Use (Note 6)				
Held by trustee - Bond	7,905,664	-	8,092,391	-
Restricted and held in trust - Other	14,360,136	-	19,623,451	-
By the board	128,327,467	-	121,193,090	-
Capital Assets - Net (Note 7)	103,894,340	939,935	103,751,019	1,820,503
Other Assets - Investment in joint ventures	6,826,375	42,000	6,325,250	42,000
Total assets	421,818,608	6,362,594	393,915,080	6,069,712
Deferred Outflows of Resources				
Deferred outflows related to bond defeasance	288,012	-	403,719	-
Deferred outflows related to consideration paid for assets	350,000	960,201	350,000	965,871
Deferred outflows related to pensions (Note 19)	38,325,585	-	13,619,567	-
Total deferred outflows of resources	38,963,597	960,201	14,373,286	965,871
Total assets and deferred outflows of resources	\$ 460,782,205	\$ 7,322,795	\$ 408,288,366	\$ 7,035,583

Proprietary Funds
Statement of Net Position (Continued)

June 30, 2019 and 2018

	2019		2018	
	Hurley Medical Center	Component Unit Hurley Health Services	Hurley Medical Center	Component Unit Hurley Health Services
Liabilities, Deferred Inflows of Resources, and Net Position				
Current Liabilities				
Accounts payable and taxes withheld	\$ 19,811,665	\$ 625,179	\$ 16,967,191	\$ 442,884
Current portion of long-term debt (Note 8)	6,380,000	68,820	6,078,809	150,820
Estimated third-party payor settlements (Note 4)	17,203,163	-	22,159,283	-
Accrued expenses	37,112,777	2,055,294	32,211,625	1,339,612
Total current liabilities	80,507,605	2,749,293	77,416,908	1,933,316
Long-term Debt - Net of current portion (Note 8)	66,244,910	312,376	72,643,542	784,091
Other Long-term Liabilities				
Net pension liability (Note 19)	195,173,840	-	147,720,541	-
Other (Note 15)	22,007,188	-	23,359,613	-
Accrued postretirement benefit obligations (Note 13)	23,316,745	-	28,254,589	-
Total liabilities	387,250,288	3,061,669	349,395,193	2,717,407
Deferred Inflows of Resources				
Deferred inflows related to postemployment benefit obligations (Note 13)	6,699,321	-	4,327,231	-
Deferred inflows related to pensions (Note 19)	4,730,859	-	9,992,394	-
Total deferred inflows of resources	11,430,180	-	14,319,625	-
Total liabilities and deferred inflows of resources	398,680,468	3,061,669	363,714,818	2,717,407
Net Position				
Net investment in capital assets	35,576,590	558,739	29,429,460	885,592
Restricted - Donor restricted for specific capital and operating activities	5,463,084	-	6,658,212	-
Unrestricted	21,062,063	3,702,387	8,485,876	3,432,584
Total net position	62,101,737	4,261,126	44,573,548	4,318,176
Total liabilities, deferred inflows of resources, and net position	<u>\$ 460,782,205</u>	<u>\$ 7,322,795</u>	<u>\$ 408,288,366</u>	<u>\$ 7,035,583</u>

Proprietary Funds

Statement of Revenue, Expenses, and Changes in Net Position

Years Ended June 30, 2019 and 2018

	2019		2018	
	Hurley Medical Center	Component Unit Hurley Health Services	Hurley Medical Center	Component Unit Hurley Health Services
Operating Revenue				
Net patient service revenue	\$ 415,316,681	\$ 5,836,105	\$ 394,624,387	\$ 6,656,374
Other operating revenue	44,446,590	30,181,753	40,274,038	29,401,335
Total operating revenue	459,763,271	36,017,858	434,898,425	36,057,709
Operating Expenses				
Salaries and wages	175,900,424	27,304,806	171,031,548	26,436,408
Employee benefits and payroll taxes	73,164,263	4,571,886	65,014,142	4,449,293
Operating supplies and expenses	63,613,588	-	62,763,259	-
Professional services and consultant fees	65,233,147	495,692	63,455,926	708,716
Purchased services and other	54,760,310	3,543,560	46,427,810	4,071,936
Depreciation and amortization	13,780,372	142,180	14,533,335	154,739
Total operating expenses	446,452,104	36,058,124	423,226,020	35,821,092
Operating Income (Loss)	13,311,167	(40,266)	11,672,405	236,617
Nonoperating Income (Expense)				
Investment income (loss)	8,698,332	256	(414,174)	966
Other income (expense)	501,125	(17,040)	(4,313)	15,542
Interest expense	(4,456,602)	-	(4,742,453)	-
Total nonoperating income (expense)	4,742,855	(16,784)	(5,160,940)	16,508
Excess of Revenue Over (Under) Expenses before Other Activity, Restricted Fund Activity, and Transfer of Funds	18,054,022	(57,050)	6,511,465	253,125
Other - Transfers to unrestricted from restricted funds for the purchase of capital assets	669,305	-	222,268	-
Excess of Revenue Over (Under) Expenses before Restricted Fund Activity and Transfer of Funds	18,723,327	(57,050)	6,733,733	253,125
Restricted Fund Activity and Transfer of Funds	(525,833)	-	(1,247,702)	-
Transfer to Unrestricted Net Position - Purchase of capital assets	(669,305)	-	(222,268)	-
Increase (Decrease) in Net Position	17,528,189	(57,050)	5,263,763	253,125
Net Position - Beginning of year	44,573,548	4,318,176	39,309,785	4,065,051
Net Position - End of year	<u>\$ 62,101,737</u>	<u>\$ 4,261,126</u>	<u>\$ 44,573,548</u>	<u>\$ 4,318,176</u>

Proprietary Funds
Statement of Cash Flows

Years Ended June 30, 2019 and 2018

	2019		2018	
	Hurley Medical Center	Component Unit Hurley Health Services	Hurley Medical Center	Component Unit Hurley Health Services
Cash Flows from Operating Activities				
Cash received from patients and third-party payors	\$ 446,504,248	\$ 35,745,426	\$ 408,394,213	\$ 35,486,496
Cash payments to suppliers for services and goods	(235,275,206)	(7,430,397)	(237,009,013)	(8,906,192)
Cash payments to employees for services	(175,900,424)	(27,321,590)	(171,031,548)	(26,436,408)
Net cash provided by operating activities	35,328,618	993,439	353,652	143,896
Cash Flows Provided by Noncapital Financing Activities - Net proceeds from contributions restricted for specific purposes	669,305	-	222,268	-
Cash Flows from Capital and Related Financing Activities				
Principal payment on long-term debt and capital leases	(6,078,810)	(553,715)	(6,282,103)	(145,050)
Decrease in loans receivable	-	-	-	72,990
Interest paid on long-term debt	(4,682,566)	-	(4,951,555)	-
Purchase of capital assets	(14,506,206)	(16,620)	(14,305,252)	(56,869)
Proceeds from sale of capital assets	582,513	-	9,154	108,638
Net cash used in capital and related financing activities	(24,685,069)	(570,335)	(25,529,756)	(20,291)
Cash Flows from Investing Activities				
(Gain) loss from joint venture activity	(501,125)	-	8,960	-
Sale of assets whose use is limited	15,995,554	-	6,060,672	-
Purchases of assets whose use is limited	(12,675,339)	-	(4,148,381)	-
Investment interest and realized gains (losses)	4,118,226	(156)	(764,959)	3,352
Net cash provided by (used in) investing activities	6,937,316	(156)	1,156,292	3,352
Net Increase (Decrease) in Cash and Cash Equivalents	18,250,170	422,948	(23,797,544)	126,957
Cash and Cash Equivalents - Beginning of year	55,487,102	1,397,994	79,284,646	1,271,037
Cash and Cash Equivalents - End of year	\$ 73,737,272	\$ 1,820,942	\$ 55,487,102	\$ 1,397,994

Proprietary Funds
Statement of Cash Flows (Continued)

Years Ended June 30, 2019 and 2018

2019		2018	
Hurley Medical Center	Component Unit Hurley Health Services	Hurley Medical Center	Component Unit Hurley Health Services

A reconciliation of operating income (loss) to net cash from operating activities is as follows:

Reconciliation of Operating Income (Loss) to Net

Cash from Operating Activities

Operating income (loss)	\$ 13,311,167	\$ (40,266)	\$ 11,672,405	\$ 236,617
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation and amortization	13,780,372	142,180	14,533,334	154,739
Provision for bad debts	11,469,241	91,973	13,082,627	88,200
Amortization of bond discounts	(18,631)	-	(33,659)	-
Contributions released from restrictions	(1,195,128)	-	(1,468,093)	-
Changes in operating assets and liabilities:				
Receivables and third-party payor settlements	(23,533,137)	(917,544)	(38,118,746)	(1,097,760)
Inventories	(412,036)	14,833	(243,965)	19,276
Prepaid expenses and other	384,888	(11,751)	(494,252)	998,113
Deferred outflows of resources	(24,590,311)	5,670	27,237,236	(965,871)
Accounts payable and taxes withheld	2,844,474	1,174	(1,539,938)	30,353
Accrued expenses	3,661,709	1,707,170	(2,048,395)	680,229
Net pension liability	47,453,299	-	(27,021,602)	-
Net OPEB liability	(4,937,844)	-	(6,586,870)	-
Deferred inflows of resources	(2,889,445)	-	11,383,570	-
Net cash provided by operating activities	\$ 35,328,618	\$ 993,439	\$ 353,652	\$ 143,896

Fiduciary Fund
Statement of Net Position
Retiree Health Benefit Trust Fund

		June 30, 2019 and 2018	
		2019	2018
Assets			
Cash and cash equivalents		\$ 3,666,151	\$ 2,291,214
Investments:			
Common stock		35,351,082	33,517,301
Corporate bonds		13,610,016	13,429,298
U.S. government or agency bonds		7,060,657	7,849,993
U.S. government collateralized mortgage obligations		8,850,522	7,278,225
Interest receivable		208,260	185,678
Total assets		\$ 68,746,688	\$ 64,551,709
Liabilities and Net Position			
Other Long-term Liabilities		\$ -	\$ 1,321,405
Net Position - Held in trust for retiree health benefits		68,746,688	63,230,304
Total liabilities and net position		\$ 68,746,688	\$ 64,551,709

Fiduciary Fund
Statement of Changes in Net Position
Retiree Health Benefit Trust Fund

Years Ended June 30, 2019 and 2018

	2019	2018
Additions		
Contributions - Employer	\$ 3,841,324	\$ 3,884,465
Contributions - Retiree	2,146,974	2,052,750
Total contributions	5,988,298	5,937,215
Dividends	1,539,830	1,443,931
Realized gain on sale of investments	3,242,211	2,467,868
Net increase in fair value of investments	768,406	731,875
Less investment expenses	(398,057)	(446,022)
Total additions	11,140,688	10,134,867
Deductions - Benefit payments	(5,624,304)	(6,567,031)
Increase in Net Position	5,516,384	3,567,836
Net Position - Beginning of year	63,230,304	59,662,468
Net Position - End of year	\$ 68,746,688	\$ 63,230,304

Note 1 - Nature of Business

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, Michigan. The Authority serves only 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 basic financial statements.

Hurley Health Services (HHS), a support organization to the Medical Center and a municipal entity, is a Michigan nonprofit directorship corporation and is a blended component unit. HHS provides services almost entirely to the Medical Center. HHS, on a consolidated basis, is composed 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.

Note 2 - Significant Accounting Policies

Proprietary Fund Accounting

The Medical Center utilizes the full accrual method of accounting, whereby revenue and expenses are recognized on the accrual basis.

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 Governmental Accounting Standards Board (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 Statement No. 34, the Medical Center is classified as a special purpose government and is required to present statements for enterprise funds and fiduciary funds.

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 limited as to use by board designation or other arrangements under trust agreements or with third-party payors. Cash balances held in the bank exceed the federal depository insurance limit. The Medical Center's cash is only insured up to the federal depository insurance limit.

Assets Limited as to Use

Assets limited as to use include the following:

- 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

Note 2 - Significant Accounting Policies (Continued)

Investments and Investment Income

The Medical Center accounts for its investments in accordance with GASB Statement No. 31, *Accounting for Certain Investments and for External Investment Pools*. All investments are valued at their fair values in the statement of net position 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 net position as nonoperating revenue - 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 other operating revenue. Investment income from all other investments and investment income of endowment funds are reported as nonoperating revenue.

Accounts Receivable

Accounts receivable for 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. An 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.

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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense/expenditure) until then.

The Medical Center reports deferred outflows related to the defeasance loss associated with defeased debt, which is capitalized and amortized over the life of the new debt; consideration paid for assets acquired in a clinic acquisition; and deferred outflows related to the defined benefit plan, made up of employer contributions made subsequent to the measurement date, the variance between the plan's actual investment earnings compared to the plan's assumed investment earnings, and the changes in actuarial assumptions.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time.

The Medical Center reports deferred inflows related to the OPEB plan, made up of differences between projected and actual earnings on investments, differences between the projected and actual experiences, and changes in actuarial assumptions and deferred inflows related to the defined benefit plan, made up of differences between projected and actual earnings on investments and differences between the projected and actual experiences.

Note 2 - Significant Accounting Policies (Continued)

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 two years. Such assets are recorded at cost. Donated capital assets are recorded at acquisition 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:

	Depreciable Life - Years
Land improvements	5 to 25
Buildings	5 to 50
Machinery and equipment	2 to 20
Automotive equipment	2 to 10

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.

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 Net Position

Net position of the Medical Center is classified based on the presence or absence of donor-imposed restrictions. Net investment in capital assets consists of capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital or restricted.

Note 2 - Significant Accounting Policies (Continued)

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 85 and 88 percent of the Medical Center's revenue is based on participation in the Blue Cross/Blue Shield, Medicare, and Medicaid programs for the years ended June 30, 2019 and 2018, 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. Final determination of compliance of such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action, including fines, penalties, and exclusions from the Medicare and Medicaid programs.

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 Medical Center 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 the 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 and physician's ongoing and central activities, yet not critical to the delivery of patient service. During fiscal years 2019 and 2018, the Medical Center received and recorded approximately \$500,000 and \$700,000, respectively, of incentive payments in other operating revenue.

Operating Revenue and Expenses

The Medical Center's statement of revenue, expenses, and changes in net position distinguishes between operating and nonoperating revenue and expenses. Operating revenue results from exchange transactions associated with providing healthcare services, the Medical Center's principal activity. 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' subsidiary, HPMS. A provision for income taxes (at statutory rates) has been provided in the basic financial statements related to this entity's transactions.

Nonoperating Revenue 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 nonoperating expense 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.

Note 2 - Significant Accounting Policies (Continued)

Reclassification

Certain 2018 amounts have been reclassified to conform to the 2019 presentation.

Estimates

The preparation of the basic 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 basic financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

New and Upcoming Accounting Pronouncements

In November 2016, the Governmental Accounting Standards Board issued Statement No. 83, *Certain Asset Retirement Obligations*, which establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The provisions of this statement were effective for the year ended June 30, 2019. No asset retirement obligations have been recorded as a part of the adoption of this standard.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The Medical Center is currently evaluating the impact this standard will have on the basic financial statements when adopted. The provisions of this statement are effective for the Medical Center's basic financial statements for the year ending June 30, 2020.

In June 2017, the GASB issued Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. After review of its current leases, the Medical Center believes the new lease standard will have a significant effect on the Medical Center's statement of net position. The effects on the results of operations are not expected to be significant, as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard. The provisions of this statement are effective for the Medical Center's basic financial statements for the year ending June 30, 2021.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which simplifies accounting for interest cost incurred before the end of construction and requires those costs to be expensed in the period incurred. As a result, interest cost incurred before the end of a construction period will not be capitalized and included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This statement also reiterates that, in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of the standard will be applied prospectively and result in increased interest expense during periods of construction. The provisions of this statement are effective for the Medical Center's financial statements for the June 30, 2021 fiscal year.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests*. This statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. The Medical Center is currently evaluating the impact this standard will have on the financial statements when adopted for the year ending June 30, 2020.

Note 3 - Charity Care

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care is determined based on established policies, using patient income and assets to determine payment ability. The amount reflects the cost of free or discounted health services, net of contributions and other revenue received, as direct assistance for the provision of charity care. The estimated cost of providing charity services is based on data derived from the Medical Center's cost accounting system using the ratio of cost to charges. The Medical Center estimates that it provided \$15,300,000 and \$11,700,000 of services to indigent patients during 2019 and 2018, respectively. The Medical Center estimates costs and expenses incurred to provide charity care totaled \$4,800,000 and \$3,500,000 during 2019 and 2018, respectively. Charity care patients made up approximately 1.07 percent and 0.83 percent of all patients during 2019 and 2018, respectively.

Note 4 - 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 is as 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. The Medical Center participates in a Quality Assurance Assessment Program through the State of Michigan. The amounts paid and received under this program are netted and reported in net patient service revenue.

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.

Health Maintenance Organization (HMO)/Preferred Provider Organization (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. The Medical Center recognized increases totaling approximately \$1,934,000 in net patient service revenue during the year ended June 30, 2019 as a result of unfavorable and favorable changes to prior year settlement estimates and activity. No such change was recognized for the year ended June 30, 2018.

Note 5 - Patient Accounts Receivable

Patient accounts receivable at June 30, 2019 and 2018 and revenue 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 \$9,000,000 and \$8,000,000 at June 30, 2019 and 2018, 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:

	2019	2018
Medicare	25 %	27 %
Blue Cross/Blue Shield of Michigan	9	11
Medicaid	43	39
Other third-party payors	18	17
Self-pay	5	6
Total	<u>100 %</u>	<u>100 %</u>

Note 6 - Assets Limited as to Use

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

	2019	2018
Held by trustee - Bond:		
Cash and cash equivalents	\$ 15,096,624	\$ 12,829,183
U.S. government securities (cost was \$1,350,374 and \$3,669,119 for 2019 and 2018, respectively)	1,330,802	3,587,756
Accrued interest receivable	33,938	41,499
Less assets required for current liabilities	<u>(8,555,700)</u>	<u>(8,366,047)</u>
Total held by trustee - Bond	<u>\$ 7,905,664</u>	<u>\$ 8,092,391</u>
Board designated:		
By board for funded depreciation and capital improvements:		
Cash and cash equivalents	\$ 284,797	\$ 323,325
U.S. government securities (cost was \$30,852,619 and \$30,232,033 for 2019 and 2018, respectively)	31,274,055	29,508,942
Accrued interest receivable	158,837	117,666
By board for operations:		
Cash and cash equivalents	837,621	1,166,217
U.S. government securities (cost of \$94,049,105 and \$92,242,770 for 2019 and 2018, respectively)	95,270,574	89,718,492
Accrued interest receivable	<u>501,583</u>	<u>358,448</u>
Total board designated	<u>\$ 128,327,467</u>	<u>\$ 121,193,090</u>

June 30, 2019 and 2018

Note 6 - Assets Limited as to Use (Continued)

	2019	2018
Held in trust - Self-insurance:		
Cash and cash equivalents	\$ 514,609	\$ 6,224,109
U.S. government securities (cost was \$13,266,363 and \$13,333,397 for 2019 and 2018, respectively)	13,423,712	12,973,274
Accrued interest receivable	82,018	55,412
Total held in trust - Self-insurance	14,020,339	19,252,795
Held in trust - Retirement - Cash and cash equivalents	8	491
Restricted assets - Cash and cash equivalents	339,789	370,165
Total restricted and held in trust - Other	<u>\$ 14,360,136</u>	<u>\$ 19,623,451</u>

Note 7 - Capital Assets

The cost of capital assets and related accumulated depreciation for Hurley Medical Center for June 30, 2019 are summarized below:

	2018	Additions	Disposals and Transfers	2019
Assets not subject to depreciation:				
Land	\$ 4,930,372	\$ -	\$ -	\$ 4,930,372
Construction in progress	6,298,688	14,131,066	(12,316,181)	8,113,573
Total	11,229,060	14,131,066	(12,316,181)	13,043,945
Assets subject to depreciation:				
Land improvements	3,428,144	138,829	(78,982)	3,487,991
Buildings	188,695,242	3,782,764	(2,508,549)	189,969,457
Machinery and equipment	124,503,495	8,400,310	(5,738,450)	127,165,355
Automotive equipment	265,310	-	-	265,310
Total	316,892,191	12,321,903	(8,325,981)	320,888,113
Less accumulated depreciation:				
Land improvements	1,693,303	251,053	(78,065)	1,866,291
Buildings	125,832,421	4,724,761	(2,508,549)	128,048,633
Machinery and equipment	96,663,382	8,780,548	(5,526,225)	99,917,705
Automotive equipment	181,126	23,963	-	205,089
Total	224,370,232	13,780,325	(8,112,839)	230,037,718
Net carrying amount	<u>\$ 103,751,019</u>	<u>\$ 12,672,644</u>	<u>\$ (12,529,323)</u>	<u>\$ 103,894,340</u>

June 30, 2019 and 2018

Note 7 - Capital Assets (Continued)

The cost of capital assets and related accumulated depreciation for Hurley Medical Center for June 30, 2018 are summarized below:

	2017	Additions	Disposals and Transfers	2018
Assets not subject to depreciation:				
Land	\$ 4,930,372	\$ -	\$ -	\$ 4,930,372
Construction in progress	10,439,426	14,352,333	(18,493,071)	6,298,688
Total	15,369,798	14,352,333	(18,493,071)	11,229,060
Assets subject to depreciation:				
Land improvements	3,119,224	450,927	(142,007)	3,428,144
Buildings	181,394,419	8,876,377	(1,575,554)	188,695,242
Machinery and equipment	117,461,926	9,119,768	(2,078,199)	124,503,495
Automotive equipment	233,397	45,999	(14,086)	265,310
Total	302,208,966	18,493,071	(3,809,846)	316,892,191
Less accumulated depreciation:				
Land improvements	1,601,151	234,157	(142,005)	1,693,303
Buildings	122,849,819	4,555,820	(1,573,218)	125,832,421
Machinery and equipment	88,966,435	9,721,249	(2,024,302)	96,663,382
Automotive equipment	173,104	22,109	(14,087)	181,126
Total	213,590,509	14,533,335	(3,753,612)	224,370,232
Net carrying amount	<u>\$ 103,988,255</u>	<u>\$ 18,312,069</u>	<u>\$ (18,549,305)</u>	<u>\$ 103,751,019</u>

Capital asset activity for Hurley Health Services for June 30, 2019 was as follows:

	2018	Additions	Disposals and Transfers	2019
Leasehold improvements	\$ 307,680	\$ -	\$ (5,130)	\$ 302,550
Buildings	1,373,255	-	(650,000)	723,255
Equipment and furnishings	1,219,539	16,620	(330,845)	905,314
Total	2,900,474	16,620	(985,975)	1,931,119
Less accumulated depreciation:				
Leasehold improvements	179,739	11,497	(4,005)	187,231
Buildings	109,861	35,212	(148,950)	(3,877)
Equipment and furnishings	790,371	90,879	(73,420)	807,830
Total	1,079,971	137,588	(226,375)	991,184
Net carrying amount	<u>\$ 1,820,503</u>	<u>\$ (120,968)</u>	<u>\$ (759,600)</u>	<u>\$ 939,935</u>

Note 7 - Capital Assets (Continued)

Capital asset activity for Hurley Health Services for June 30, 2018 was as follows:

	2017	Additions	Disposals and Transfers	2018
Leasehold improvements	\$ 305,472	\$ 2,208	\$ -	\$ 307,680
Buildings	1,373,255	-	-	1,373,255
Equipment and furnishings	1,304,372	54,660	(139,493)	1,219,539
Total	2,983,099	56,868	(139,493)	2,900,474
Less accumulated depreciation:				
Leasehold improvements	167,568	12,171	-	179,739
Buildings	74,649	35,212	-	109,861
Equipment and furnishings	729,412	107,356	(46,397)	790,371
Total	971,629	154,739	(46,397)	1,079,971
Net carrying amount	<u>\$ 2,011,470</u>	<u>\$ (97,871)</u>	<u>\$ (93,096)</u>	<u>\$ 1,820,503</u>

Note 8 - Long-term Debt

Long-term debt activity for the years ended June 30, 2019 and 2018 can be summarized as follows for the Medical Center:

Business-Type Activities

	2019				Due within One Year
	Beginning Balance	Additions	Reductions	Ending Balance	
Bonds and contracts payable - Direct borrowings and direct placements - Mortgage payable					
Series 2010	\$ 31,715,000	\$ -	\$ (500,000)	\$ 31,215,000	\$ 500,000
Series 2011	413,810	-	(413,810)	-	-
Series 2013A	21,940,000	-	(15,000)	21,925,000	530,000
Series 2013B	25,010,000	-	(5,150,000)	19,860,000	5,350,000
Total direct borrowings and direct placements principal outstanding	79,078,810	-	(6,078,810)	73,000,000	6,380,000
Unamortized bond premiums	432,611	-	(69,433)	363,178	-
Unamortized bond discounts	(789,070)	50,802	-	(738,268)	-
Total business-type activities long-term debt	<u>\$ 78,722,351</u>	<u>\$ 50,802</u>	<u>\$ (6,148,243)</u>	<u>\$ 72,624,910</u>	<u>\$ 6,380,000</u>

Notes to Financial Statements

June 30, 2019 and 2018

Note 8 - Long-term Debt (Continued)

	2018				
	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds and contracts payable -					
Direct borrowings and direct placements - Mortgage payable					
Series 2010	\$ 32,215,000	\$ -	\$ (500,000)	\$ 31,715,000	\$ 500,000
Series 2011	1,215,913	-	(802,103)	413,810	413,809
Series 2013A	21,940,000	-	-	21,940,000	15,000
Series 2013B	29,990,000	-	(4,980,000)	25,010,000	5,150,000
Total direct borrowings and direct placements principal outstanding	85,360,913	-	(6,282,103)	79,078,810	6,078,809
Unamortized bond premiums	517,887	-	(85,276)	432,611	-
Unamortized bond discounts	(840,687)	51,617	-	(789,070)	-
Total business-type activities long-term debt	<u>\$ 85,038,113</u>	<u>\$ 51,617</u>	<u>\$ (6,367,379)</u>	<u>\$ 78,722,351</u>	<u>\$ 6,078,809</u>

Component Unit

Long-term debt activity for the years ended June 30, 2019 and 2018 can be summarized as follows for Hurley Health Services:

	2019				
	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds and contracts payable -					
Direct borrowings and direct placements - Mortgage payable	\$ 876,707	\$ -	\$ (512,630)	\$ 364,077	\$ 51,701
Capital leases	58,204	-	(41,085)	17,119	17,119
Total component unit long-term debt	<u>\$ 934,911</u>	<u>\$ -</u>	<u>\$ (553,715)</u>	<u>\$ 381,196</u>	<u>\$ 68,820</u>

Note 8 - Long-term Debt (Continued)

	2018				
	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds and contracts payable - Direct borrowings and direct placements - Mortgage payable	\$ 980,672	\$ -	\$ (103,965)	\$ 876,707	\$ 109,735
Capital leases	99,289	-	(41,085)	58,204	41,085
Total component unit long-term debt	<u>\$ 1,079,961</u>	<u>\$ -</u>	<u>\$ (145,050)</u>	<u>\$ 934,911</u>	<u>\$ 150,820</u>

The Medical Center had deferred outflows of \$288,012 and \$403,719 related to deferred charges on bond refundings at June 30, 2019 and 2018, respectively.

Debt Service Requirements to Maturity

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

Years Ending June 30	Hurley Medical Center			Hurley Health Services			
	Direct Borrowings and Direct Placements		Total	Direct Borrowings and Direct Placements		Other Debt	Total
	Principal	Interest		Principal	Interest	Principal	
2020	\$ 6,380,000	\$ 4,051,700	\$ 10,431,700	\$ 51,701	\$ 17,030	\$ 17,119	\$ 85,850
2021	7,025,000	3,710,225	10,735,225	54,346	14,385	-	68,731
2022	2,455,000	3,585,638	6,040,638	57,126	11,604	-	68,730
2023	2,580,000	3,454,613	6,034,613	60,049	8,681	-	68,730
2024	2,710,000	3,316,900	6,026,900	63,121	5,609	-	68,730
2025-2029	15,800,000	14,191,838	29,991,838	77,734	2,451	-	80,185
2030-2034	13,185,000	9,915,207	23,100,207	-	-	-	-
2035-2039	18,380,000	4,327,880	22,707,880	-	-	-	-
2040	4,485,000	-	4,485,000	-	-	-	-
Total	<u>\$3,000,000</u>	<u>\$16,554,001</u>	<u>\$19,554,001</u>	<u>\$ 364,077</u>	<u>\$ 59,760</u>	<u>\$ 17,119</u>	<u>\$ 440,956</u>

Unused Line of Credit

Hurley Health Services has an unused line of credit in the amount of \$150,000 renewable on October 1 of each year as of June 30, 2019 and 2018 that is collateralized by a certificate of deposit.

Note 8 - Long-term Debt (Continued)

Assets Pledged as Collateral

Direct Borrowings and Direct Placements

The Medical Center's outstanding revenue refunding bonds are payable from the revenue 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 2010 range from \$500,000 in 2020 to \$3,555,000 in 2040, plus interest from 5.84 to 7.5 percent through 2040. Payments on Series 2013A range from \$530,000 in 2020 to \$930,000 in 2040, plus interest from 5.0 to 5.25 percent. Payments on Series 2013B range from \$5,350,000 in 2020 to \$1,305,000 in 2029, plus interest ranging from 3.5 percent to 5.0 percent over the life of the bond.

The net revenue of the Medical Center is pledged for payment of principal and interest on the revenue rental and revenue refunding bonds. Accordingly, the basic 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.

Significant Terms

Direct Borrowings and Direct Placements

The outstanding 2013 Series bond lease agreement with the Authority includes certain financial covenants that, if not met, require the hiring of a consultant. The Medical Center is not in default as a result of violating the covenants unless the Medical Center fails to hire a consultant within 90 days of year end or if days cash on hand falls below 35 days.

Other Debt

The outstanding lease purchase agreement contains certain restrictive covenants, including maintaining a certain minimum debt service ratio and minimum days cash on hand.

During 2016, HHS entered into a mortgage note payable to acquire real property and a building in Lapeer, Michigan. The mortgage note payable is due in monthly installment of \$5,728, including interest of 5 percent. The mortgage note payable is collateralized by the building and real property and is due on August 3, 2025.

Note 9 - Defined Contribution Pension Plan

The Medical Center has a defined contribution plan established under a City of Flint, Michigan 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 revenue, expenses, and changes in net position was approximately \$1,300,000 for the years ended June 30, 2019 and 2018. The defined contribution plan is no longer offered to employees hired after January 1, 2014.

Note 10 - Profit-sharing and 403(b) Retirement Plan

HHS has a qualified 401(k) profit-sharing plan for HPMS employees. Eligible employees, those who 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' contributions to the 401(k) plan were approximately \$80,000 and \$77,000 for 2019 and 2018, 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' contributions to the 403(b) plans amounted to approximately \$475,000 and \$482,000 for 2019 and 2018, respectively.

Note 11 - 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 approximately \$640,000 and \$660,000 for the years ended June 30, 2019 and 2018, respectively. Total rent expense under these leases for HHS was approximately \$503,000 for the years ended June 30, 2019 and 2018, including rental payments to the Medical Center of approximately \$69,000 and \$175,000 for the years ended June 30, 2019 and 2018, respectively.

The following is a schedule of future minimum rental payments:

Years Ending June 30	Hurley Medical Center	Hurley Health Services
2020	\$ 1,324,164	\$ 440,366
2021	1,221,665	411,183
2022	1,021,566	406,122
2023	999,258	402,987
2024	476,422	292,245
Thereafter	355,978	391,777
Total	<u>\$ 5,399,053</u>	<u>\$ 2,344,680</u>

Note 12 - Asset Retirement Obligations

The Medical Center has buildings and various operating equipment. The Medical Center is required to perform future asset retirement activities related to its buildings and operations equipment. The Medical Center has an obligation related to the removal of asbestos and various diagnostic imaging radiation with various buildings on campus upon reconstruction, demolition, or abandonment of the related buildings. The Medical Center has not recorded a liability related to the potential costs associated with the abatement, as the amount of the liability cannot currently be reasonably estimated. The Medical Center currently has no plans or expectation of plans to undertake a major renovation that would require significant abatement or demolition of the buildings. The Medical Center will recognize a liability in the period when sufficient information is available to reasonably estimate the amount of the liability. At the time of asset retirement, the Medical Center will be required to provide funding and financial assurance for this liability through insurance policies.

Note 13 - Other Postemployment Benefit 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 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 593 and 571 at June 30, 2019 and 2018, 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.

Management of the Plan is vested in the pension board, which consists of seven members - three elected by plan members, three appointed by the Medical Center, and the medical center treasurer, who serves as an ex officio member.

Benefits Provided

The healthcare benefits are provided by the Medical Center's self-insurance plan. The third party that administers the Retiree's Health Insurance Trust (RHI Trust) formulates an illustrative rate based on the coverage provided. RHI Trust members receive full or partial health coverage (illustrative rate) depending on the member's date of employment and union affiliation. Those members who were employed by 1989 and retired on or before December 31, 2009 are eligible to receive full healthcare benefits. All other members may receive a specified stipend that is used to offset the cost of the healthcare benefit illustrative rate, and the retiree contributes the remainder. Once RHI Trust members reach the age 65, the member's coverage is converted to a fully insured product, and the stipend is reduced.

Employees Covered by Benefit Terms

The following members were covered by the benefit terms:

	<u>Retiree Health Benefit Plan</u>
Date of member count	June 30, 2019
Inactive plan members or beneficiaries currently receiving benefits	502
Inactive plan members entitled to but not yet receiving benefits	69
Active plan members	<u>2,592</u>
Total plan members	<u><u>3,163</u></u>

Contributions

The pension board establishes contribution rates based on an actuarially determined rate per a funding valuation. For the years ended June 30, 2019 and 2018, the Medical Center's contributions were \$3,841,324 and \$3,884,465, respectively. Employees are not required to contribute to the Plan.

Note 13 - Other Postemployment Benefit Plan (Continued)

Net OPEB Liability

The Medical Center has chosen to use the June 30 measurement date as its measurement date for the net OPEB liability, and, therefore, the total OPEB liability was determined by an actuarial valuation performed as of that date. The June 30, 2019 and 2018 fiscal year ends reported net OPEB liability was determined using a measure of the total OPEB liability and the OPEB net position as of the June 30, 2019 and 2018 measurement date, respectively.

Changes in the net OPEB liability during the measurement year were as follows:

Changes in Net OPEB Liability	Increase (Decrease)		
	Total OPEB Liability	Plan Net Position	Net OPEB Liability
Balance at July 1, 2018	\$ 91,484,893	\$ 63,230,304	\$ 28,254,589
Changes for the year:			
Service cost	753,386	-	753,386
Interest	6,083,297	-	6,083,297
Differences between expected and actual experience	(2,780,513)	-	(2,780,513)
Contributions - Employer	-	3,841,324	(3,841,324)
Net investment income	-	5,152,690	(5,152,690)
Benefit payments, including refunds	(3,477,330)	(3,477,330)	-
Net changes	578,840	5,516,684	(4,937,844)
Balance at June 30, 2019	<u>\$ 92,063,733</u>	<u>\$ 68,746,988</u>	<u>\$ 23,316,745</u>

The plan's fiduciary net position represents 74.67 percent of the total OPEB liability.

Changes in the net OPEB liability during the prior measurement year were as follows:

Changes in Net OPEB Liability	Increase (Decrease)		
	Total OPEB Liability	Plan Net Position	Net OPEB Liability
Balance at July 1, 2017	\$ 94,503,927	\$ 59,662,468	\$ 34,841,459
Changes for the year:			
Service cost	735,528	-	735,528
Interest	6,251,484	-	6,251,484
Changes in benefits	(643,385)	-	(643,385)
Differences between expected and actual experience	(3,012,210)	-	(3,012,210)
Changes in assumptions	(1,836,169)	-	(1,836,169)
Contributions - Employer	-	3,884,465	(3,884,465)
Net investment income	-	4,197,653	(4,197,653)
Benefit payments, including refunds	(4,514,282)	(4,514,282)	-
Net changes	(3,019,034)	3,567,836	(6,586,870)
Balance at June 30, 2018	<u>\$ 91,484,893</u>	<u>\$ 63,230,304</u>	<u>\$ 28,254,589</u>

The plan's fiduciary net position represents 69.12 percent of the total OPEB liability.

Note 13 - Other Postemployment Benefit Plan (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the years ended June 30, 2019 and 2018, the Medical Center recognized OPEB expense of \$1,275,569 and \$1,624,826, respectively.

At June 30, 2019 and 2018, the Medical Center reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 4,561,140	\$ -	\$ 2,593,155
Changes in assumptions	-	1,325,278	-	1,580,723
Net difference between projected and actual earnings on OPEB plan investments	-	812,903	-	153,353
Total	\$ -	\$ 6,699,321	\$ -	\$ 4,327,231

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ending June 30	Amount
2020	\$ 1,280,784
2021	1,280,784
2022	1,280,784
2023	1,242,446
2024	1,067,974
Thereafter	546,549
Total	\$ 6,699,321

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2017. Updated procedures were used to roll forward the total OPEB liability to the OPEB plan's fiscal year end of June 30, 2019 and 2018. The valuation used the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified.

	Retiree Health Benefit Plan
Inflation	2.75 percent
Salary increases (including inflation)	N/A
Investment rate of return (net of investment expenses, including inflation)	6.75%
Healthcare cost trend rate	9.0 percent decreasing to 3.25 percent
Mortality rates	RP-2014 Mortality Table

Note 13 - Other Postemployment Benefit Plan (Continued)

Discount Rate

The discount rate used to measure the total OPEB liability was 6.75 percent as of June 30, 2019 and 2018. The projection of cash flows used to determine the discount rate assumed that the medical center contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the RHI Trust's fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return on RHI Trust investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Investment Rate of Return

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and adding expected inflation. Best estimates of arithmetic real rates of return as of the June 30, 2019 and 2018 measurement dates for each major asset class included in the OPEB plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following tables:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
U.S. equities	40.00 %	10.20 %
International equities	10.00	8.90
U.S. convertibles	10.00	8.60
U.S. fixed income	40.00	4.00

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the Medical Center, calculated using the discount rate of 6.75 percent, as well as what the Medical Center's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate as of June 30, 2019:

	1 Percent Decrease (5.75%)	Current Discount Rate (6.75%)	1 Percent Increase (7.75%)
Net OPEB liability of the Retiree Health Benefit Plan	\$ 32,705,354	\$ 23,316,745	\$ 15,301,495

The following presents the net OPEB liability of the Medical Center, calculated using the discount rate of 6.75 percent, as well as what the Medical Center's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate as of June 30, 2018:

	1 Percent Decrease (5.75%)	Current Discount Rate (6.75%)	1 Percent Increase (7.75%)
Net OPEB liability of the Retiree Health Benefit Plan	\$ 37,584,168	\$ 28,254,589	\$ 20,289,734

Note 13 - Other Postemployment Benefit Plan (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the net OPEB liability of the Medical Center, calculated using the healthcare cost trend rate of 9.00 percent decreasing to 3.25 percent, as well as what the Medical Center's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate as of June 30, 2019:

	1 Percent Decrease	Current Healthcare Cost Trend Rate	1 Percent Increase
Net OPEB liability of the Retiree Health Benefit Plan	\$ 17,186,217	\$ 23,316,745	\$ 30,482,624

The following presents the net OPEB liability of the Medical Center, calculated using the healthcare cost trend rate of 9.00 percent decreasing to 3.25 percent, as well as what the Medical Center's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate as of June 30, 2018:

	1 Percent Decrease	Current Healthcare Cost Trend Rate	1 Percent Increase
Net OPEB liability of the Retiree Health Benefit Plan	\$ 22,162,606	\$ 28,254,589	\$ 35,375,413

OPEB Plan Fiduciary Net Position

For the purpose of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the Plan's fiduciary net position and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the Plan. The Plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with the benefit terms.

Note 14 - 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. The law also allows investments outside the State of Michigan when fully insured. The 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 businesses, certain state and local government obligations, and certain other specified investment vehicles.

The Medical Center has designated deposits and investment policies that are in accordance with statutory authority 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.

Note 14 - Deposits and Investments (Continued)

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 approximately \$73,700,000, excluding petty cash. Of the bank balance, \$750,000 was covered by federal depository insurance. The rest of the bank balance, \$72,950,000, 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' deposits (excluding petty cash) was approximately \$1,300,000, and the bank balance was \$1,400,000. The bank balance was higher than the carrying value due to outstanding checks that had not yet cleared the bank at June 30, 2019. Of the bank balance, \$750,000 was covered by federal depository insurance at June 30, 2019.

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 approximately \$75,909,000 of bank deposits (certificates of deposit and 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 with which it deposits funds 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 balances 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
	2019	2018	
U.S. government or agency bonds	\$ 132,188,610	\$ 128,924,407	Counterparty trust dept.
Corporate stocks	33,928,970	32,088,503	Counterparty trust dept.
Corporate bonds	16,900,265	14,859,431	Counterparty trust dept.
Municipal bonds	3,893,362	4,469,257	Counterparty trust dept.
Repurchase agreement	50,982,479	40,114,791	Counterparty trust dept.

Note 14 - Deposits and Investments (Continued)

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 that 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:

Investment	Fair Value		
	2019	Weighted-average Maturity	2018
Primary Government			
U.S. government or agency bonds	\$ 132,188,610	3.7 years	\$ 128,924,407
GNMA pool	9,257,292	15.31 years	10,019,261
U.S. government CMOs	9,445,627	19.11 years	7,503,756
Corporate bonds	16,900,265	5.65 years	14,859,431
Municipal bonds	3,893,362	Less than 1 year	4,469,257
Money market funds	20,957,096	Less than 1 year	22,825,863
Repurchase agreement	50,982,479	Less than 1 year	40,114,791

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			
	2019	Rating	Rating Organization	2018
U.S. agency bonds	\$ 9,876,905	AA+	Fitch	\$ 9,954,211
U.S. agency bonds	122,311,705		Not Rated	118,970,197
U.S. government CMOs	9,445,627		Not Rated	7,503,756
Corporate bonds	308,407	AAA	S&P	638,905
Corporate bonds	5,407,366	AA+ - A-	S&P	6,424,007
Corporate bonds	4,202,180	BBB+ - B-	S&P	3,972,907
Corporate bonds	219,474	CCC+	S&P	215,315
Corporate bonds	6,762,838		Not Rated	3,608,296
Money market funds	20,957,096		Not Rated	22,825,863
Repurchase agreement	50,982,479		Not Rated	40,114,791

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, 2019 and 2018.

Note 15 - 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.

Note 15 - Risk Management (Continued)

The Medical Center's self-insured retention is \$6 million per occurrence annually, with excess claims-made coverage up to \$20 million annually. 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.

The changes in the aggregate malpractice claims for the past three years were as follows:

	2019	2018	2017
Estimated liability - Beginning of year	\$ 24,184,435	\$ 24,445,924	\$ 26,025,399
Increase in claims liability	10,613,967	293,984	293,984
Defense costs and other fund expenses	(996,811)	(555,473)	(695,684)
Excess insurance premium payments	(554,699)	-	(681,525)
Claim payments	(9,293,964)	-	(496,250)
Estimated liability - End of year	<u>\$ 23,952,928</u>	<u>\$ 24,184,435</u>	<u>\$ 24,445,924</u>

Professional liability for claims is reported in other long-term liabilities, net of \$3,815,775 and \$1,600,000 included as a current liability in accrued expenses for the years ending June 30, 2019 and 2018, respectively. The carrying amount of the insurance trust assets (at market) amounted to \$14,019,847 and \$19,346,545 at June 30, 2019 and 2018, respectively.

The Medical Center is self-insured for workers' compensation claims with a self-insured retainer of \$600,000 per claim. As of June 30, 2019 and 2018, the Medical Center has recorded long-term accrued liabilities for workers' compensation of \$1,901,763 and \$1,725,178, respectively. The changes in the aggregate workers' compensation claims for the past three years were as follows:

	2019	2018	2017
Estimated liability - Beginning of year	\$ 1,725,178	\$ 1,439,441	\$ 1,175,972
Increase in claims liability	2,059,522	1,612,688	1,273,341
Excess premium policy	(99,725)	(99,725)	(99,725)
Claim payments	(1,783,212)	(1,227,226)	(910,147)
Estimated liability - End of year	<u>\$ 1,901,763</u>	<u>\$ 1,725,178</u>	<u>\$ 1,439,441</u>

Total long-term accrued liabilities as of June 30, 2019 and 2018 are \$22,007,188 and \$23,359,613, 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' 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.

Note 16 - Joint Ventures

Hurley Medical Center participates in a privately held joint venture. The 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.

Note 16 - Joint Ventures (Continued)

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, 2019 and 2018 was \$6,826,375 and \$6,325,250, respectively. The arrangement provides that the two entities will share equally in the income or losses of the joint venture. The equity income (loss) to the Medical Center from this joint venture was approximately \$501,125 and \$(12,000) for the years ended June 30, 2019 and 2018, respectively, and is included in other income (expense) on the statement of revenue, expenses, and changes in net position. No distributions were made to the Medical Center during the years ended June 30, 2019 and 2018. GHCI paid the Medical Center \$621,516 and \$564,000 for leased employees for the years ended June 30, 2019 and 2018, respectively. The following is a summary of financial position and results of operations of GHCI as of and for the years ended June 30, 2019 and 2018 (in thousands):

	2019	2018
Total assets	\$ 19,502	\$ 18,848
Total liabilities	5,891	5,886
Total net assets	<u>\$ 13,611</u>	<u>\$ 12,962</u>
	2019	2018
Operating revenue	\$ 9,036	\$ 7,786
Operating expenses	8,463	7,621
Operating income	573	165
Nonoperating income	85	148
Excess of revenue over expense	<u>\$ 658</u>	<u>\$ 313</u>

Note 17 - Union Contract

The Medical Center has nine active collective bargaining agreements and one expired contract currently undergoing active negotiations. These agreements cover approximately 85 percent of the Medical Center's employees. The agreements have varying expiration dates ranging from June 30, 2020 through June 30, 2023.

Note 18 - Related Party Transactions

The Medical Center pays 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, 2019 and 2018 amounted to approximately \$29,721,000 and \$27,906,000, respectively. Amounts paid by HHS to the Medical Center for rent and other miscellaneous expenses for the years ended June 30, 2019 and 2018 amounted to approximately \$69,000 and \$145,000, respectively.

As of June 30, 2019 and 2018, the Medical Center had accounts receivable from HHS of \$352,373 and \$280,752, respectively, and accounts payable to HHS of \$536,635 and \$656,751, respectively.

Note 19 - Agent Defined Benefit Pension Plan Description

In an effort to control future costs, effective January 1, 2014, the Medical Center amended the existing defined benefit plans. The significant plan provisions prior to January 1, 2014 were as follows:

Plan Description

The Medical Center participates in an agent multiple-employer defined benefit pension plan administered by the Municipal Employees' Retirement System of Michigan (MERS of Michigan) that covers all employees of the Medical Center. MERS of Michigan was established as a statewide public employee pension plan by the Michigan Legislature under PA 135 of 1945 and is administered by a nine-member retirement board. MERS of Michigan issues a publicly available financial report, which includes the financial statements and required supplemental information of this defined benefit plan. This report can be obtained at www.mersofmich.com or in writing to MERS of Michigan at 1134 Municipal Way, Lansing, MI 48917.

Benefits Provided

The plan provides certain retirement, disability, and death benefits to plan members and beneficiaries. PA 427 of 1984, as amended, established and amends the benefit provisions of the participants in MERS of Michigan.

The MERS of Michigan plan covers all bargaining and nonbargaining unit employees.

The Medical Center offers a defined benefit plan (the "MERS Plan") that was established by City of Flint, Michigan ordinances, which includes four benefit options. 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 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 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 5 percent for every year thereafter.

The Hurley Post 2014 Plan provides for employer and employee contributions. Benefits fully vest after 15 years of service. Employees may retire at age 50 with 25 years of credited service or age 55 with 15 years of credited service. The monthly retirement benefit is 1 percent of FAC.

Employees hired on or after January 1, 2014 participate in the Hurley Post 2014 Plan.

Plan Membership Covered by Benefit Terms

At the December 31, 2018 measurement date, the following members were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	1,985
Inactive plan members entitled to but not yet receiving benefits	268
Active plan members	<u>1,985</u>
Total plan members covered by MERS of Michigan	<u><u>4,238</u></u>

Note 19 - Agent Defined Benefit Pension Plan Description (Continued)

Contributions

Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, MERS retains an independent actuary to determine the annual contribution. The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS retirement board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

Payable to the Pension Plan

At June 30, 2019 and 2018, the Medical Center reported a payable of \$1,700,000 and \$1,400,000, respectively, in accrued expenses on the statement of net position for the outstanding amount of contributions to the MERS Plan required for the years ended June 30, 2019 and 2018.

Net Pension Liability

The total pension liability reported at June 30, 2019 was determined using a measure of the total pension liability and the pension net position as of December 31, 2018. The December 31, 2018 total pension liability was determined by an actuarial valuation performed as of that date.

Changes in the net pension liability during the measurement year were as follows:

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at December 31, 2017	\$ 591,238,454	\$ 443,517,913	\$ 147,720,541
Changes for the year:			
Service cost	7,326,233	-	7,326,233
Interest	45,880,833	-	45,880,833
Experience differences	(4,451,707)	-	(4,451,707)
Other changes	(877)	-	(877)
Contributions - Employer	-	12,221,518	(12,221,518)
Contributions - Employee	-	6,574,528	(6,574,528)
Net investment loss	-	(16,652,228)	16,652,228
Benefit payments, including refunds	(42,782,322)	(42,782,322)	-
Administrative expenses	-	(842,635)	842,635
Net changes	5,972,160	(41,481,139)	47,453,299
Balance at December 31, 2018	\$ 597,210,614	\$ 402,036,774	\$ 195,173,840

June 30, 2019 and 2018

Note 19 - Agent Defined Benefit Pension Plan Description (Continued)

Changes in the net pension liability during the previous measurement year were as follows:

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at December 31, 2016	\$ 578,695,439	\$ 403,953,296	\$ 174,742,143
Changes for the year:			
Service cost	7,618,014	-	7,618,014
Interest	44,953,604	-	44,953,604
Experience differences	1,140,193	-	1,140,193
Contributions - Employer	-	22,043,768	(22,043,768)
Contributions - Employee	-	6,693,178	(6,693,178)
Net investment income	-	52,833,446	(52,833,446)
Benefit payments, including refunds	(41,168,796)	(41,168,796)	-
Administrative expenses	-	(836,979)	836,979
Net changes	12,543,015	39,564,617	(27,021,602)
Balance at December 31, 2017	\$ 591,238,454	\$ 443,517,913	\$ 147,720,541

Pension Expense and Deferred Outflows of Resources Related to Pensions

For the years ended June 30, 2019 and 2018, the Medical Center recognized pension expense of \$31,113,848 and \$29,729,534, respectively.

At June 30, 2019 and 2018, the Medical Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 684,115	\$ 4,730,859	\$ 912,154	\$ 2,164,067
Changes in assumptions	-	-	7,291,032	-
Net difference between projected and actual earnings on pension plan investments	30,817,973	-	-	7,828,327
Employer contributions to the plan subsequent to the measurement date	6,823,497	-	5,416,381	-
Total	<u>\$ 38,325,585</u>	<u>\$ 4,730,859</u>	<u>\$ 13,619,567</u>	<u>\$ 9,992,394</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows. These amounts are exclusive of the employer contributions to the plan made subsequent to the measurement date of \$6,823,497, which will impact the net pension liability in fiscal year 2020, rather than pension expense.

Years Ending June 30	Amount
2020	\$ 9,484,000
2021	1,925,502
2022	5,133,626
2023	10,228,101

Note 19 - Agent Defined Benefit Pension Plan Description (Continued)

Actuarial Assumptions

The total pension liability in the December 31, 2018 and 2017 actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation		2.5 percent
Salary increases		3.75 percent, in the long term, including inflation
Investment rate of return	8.00 percent, net of investment expense, gross of administrative expense, including inflation	
Mortality rates	The RP-2014 Healthy Annuitant Mortality tables, with rates multiplied by 105 percent	
		The RP-2014 Employee Mortality Tables
		The RP-2014 Juvenile Mortality Tables

Mortality rates were based on a 50 percent male and 50 percent female blend of the tables above. For disabled retirees, the mortality rates were based on the 50 percent male - 50 percent female blend of the RP-2014 Disabled Retiree Mortality Tables.

Discount Rate

The discount rate used to measure the total pension liability was 8 percent (net of investment expenses). The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

Projected Cash Flows

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

June 30, 2019 and 2018

Note 19 - Agent Defined Benefit Pension Plan Description (Continued)

The long-term expected rate of return on pension plan investments was determined using a model in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return as of December 31, 2018, the measurement date, for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global equity	56 %	6 %
Global fixed income	19	1
Real assets	14	7
Diversifying strategies	13	5

The target allocation and best estimates of arithmetic real rates of return as of December 31, 2017, the prior year measurement date, for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global equity	55 %	9 %
Global fixed income	18	4
Real assets	14	10
Diversifying strategies	13	8

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Medical Center at June 30, 2019, calculated using the discount rate of 8.00 percent, as well as what the Medical Center's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.00 percent) or 1 percentage point higher (9.00 percent) than the current rate:

	1 Percent Decrease (7.00%)	Current Discount Rate (8.00%)	1 Percent Increase (9.00%)
Net pension liability of the Medical Center	\$ 254,533,529	\$ 195,173,840	\$ 144,324,708

The following presents the net pension liability of the Medical Center at June 30, 2018, calculated using the discount rate of 8.00 percent, as well as what the Medical Center's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.00 percent) or 1 percentage point higher (9.00 percent) than the current rate:

	1 Percent Decrease (7.00%)	Current Discount Rate (8.00%)	1 Percent Increase (9.00%)
Net pension liability of the Medical Center	\$ 207,533,999	\$ 147,720,541	\$ 96,540,311

Note 19 - Agent Defined Benefit Pension Plan Description (Continued)

Pension Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in the separately issued financial report. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the plan's fiduciary net position and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the plan. The plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with the benefit terms.

Note 20 - Fair Value Measurements

The Medical Center categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Medical Center's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

The Medical Center has the following recurring fair value measurements as of June 30, 2019 and 2018:

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Medical Center has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Medical Center's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Note 20 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at June 30, 2019				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2019
Debt securities:				
Money market mutual funds	\$ 20,957,096	\$ -	\$ -	\$ 20,957,096
U.S. Treasury securities	-	136,081,972	-	136,081,972
Government mortgage-backed securities	-	18,702,919	-	18,702,919
Corporate bonds	-	16,900,265	-	16,900,265
Total debt securities	20,957,096	171,685,156	-	192,642,252
Equity securities - Domestic equity securities	26,221,772	-	-	26,221,772
Private equity funds - International private equity funds	6,413,143	-	-	6,413,143
Total investments at fair value level	\$ 53,592,011	\$ 171,685,156	\$ -	\$ 225,277,167
Assets Measured at Fair Value on a Recurring Basis at June 30, 2018				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2018
Debt securities:				
Money market mutual funds	\$ 22,825,863	\$ -	\$ -	\$ 22,825,863
U.S. Treasury securities	-	133,393,665	-	133,393,665
Government mortgage-backed securities	-	17,523,017	-	17,523,017
Corporate bonds	-	14,859,431	-	14,859,431
Total debt securities	22,825,863	165,776,113	-	188,601,976
Equity securities - Domestic equity securities	26,082,910	-	-	26,082,910
Private equity funds - International private equity funds	6,005,593	-	-	6,005,593
Total investments at fair value level	\$ 54,914,366	\$ 165,776,113	\$ -	\$ 220,690,479

Debt and equity securities classified in Level 1 are valued using prices quotes in active markets for those securities.

The fair value of U.S. Treasury securities, government mortgage-backed securities, corporate bonds, and international private equity funds at June 30, 2019 and 2018 were determined primarily based on Level 2 inputs. The Medical Center estimates the fair value of these investments by automatic methods using other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Required Supplemental Information

Required Supplemental Information
Schedule of Changes in the Net Pension Liability and Related Ratios

	Last Five Fiscal Years				
	2019	2018	2017	2016	2015
Total Pension Liability					
Service cost	\$ 7,326,233	\$ 7,618,014	\$ 7,542,280	\$ 7,442,132	\$ 7,262,751
Interest	45,880,833	44,953,604	44,306,689	42,384,435	41,412,276
Other changes	(877)	-	(1,066)	(1,010)	-
Differences between expected and actual experience	(4,451,707)	1,140,193	(3,480,197)	(303,795)	-
Changes in assumptions	-	-	-	29,164,128	-
Benefit payments, including refunds	(42,782,322)	(41,168,796)	(39,469,485)	(37,836,677)	(36,129,561)
Net Change in Total Pension Liability	5,972,160	12,543,015	8,898,221	40,849,213	12,545,466
Total Pension Liability - Beginning of year	591,238,454	578,695,439	569,797,218	528,948,005	516,402,539
Total Pension Liability - End of year	<u>\$ 597,210,614</u>	<u>\$ 591,238,454</u>	<u>\$ 578,695,439</u>	<u>\$ 569,797,218</u>	<u>\$ 528,948,005</u>
Plan Fiduciary Net Position					
Contributions - Employer	\$ 12,221,518	\$ 22,043,768	\$ 21,315,066	\$ 14,609,493	\$ 5,979,573
Contributions - Member	6,574,528	6,693,178	6,487,981	6,197,682	5,883,466
Net investment (loss) income	(16,652,228)	52,833,446	42,015,304	(5,694,176)	24,690,814
Administrative expenses	(842,635)	(836,979)	(829,764)	(854,403)	(901,753)
Benefit payments, including refunds	(42,782,322)	(41,168,796)	(39,469,485)	(37,836,677)	(36,129,561)
Net Change in Plan Fiduciary Net Position	(41,481,139)	39,564,617	29,519,102	(23,578,081)	(477,461)
Plan Fiduciary Net Position - Beginning of year	443,517,913	403,953,296	374,434,194	398,012,275	398,489,736
Plan Fiduciary Net Position - End of year	<u>\$ 402,036,774</u>	<u>\$ 443,517,913</u>	<u>\$ 403,953,296</u>	<u>\$ 374,434,194</u>	<u>\$ 398,012,275</u>
Medical Center's Net Pension Liability - Ending	<u>\$ 195,173,840</u>	<u>\$ 147,720,541</u>	<u>\$ 174,742,143</u>	<u>\$ 195,363,024</u>	<u>\$ 130,935,730</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	67.32 %	75.02 %	69.80 %	65.71 %	75.25 %
Covered Payroll	\$ 114,343,952	\$ 117,262,869	\$ 113,422,810	\$ 109,316,532	\$ 103,276,871
Medical Center's Net Pension Liability as a Percentage of Covered Payroll	170.69 %	125.97 %	154.06 %	178.71 %	126.78 %

Required Supplemental Information
Schedule of Pension Contributions

Last Ten Fiscal Years
Years Ended June 30

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially determined contribution	\$ 12,221,518	\$ 10,043,768	\$ 8,315,067	\$ 7,609,493	\$ 7,720,716	\$ 9,333,014	\$ 12,682,496	\$ 11,808,875	\$ 6,059,456	\$ 13,041,452
Contributions in relation to the actuarially determined contribution	13,628,634	22,043,768	21,315,067	14,609,493	7,087,266	10,776,547	10,412,640	10,809,936	9,450,835	11,828,597
Contribution Excess (Deficiency)	\$ 1,407,116	\$ 12,000,000	\$ 13,000,000	\$ 7,000,000	\$ (633,450)	\$ 1,443,533	\$ (2,269,856)	\$ (998,939)	\$ 3,391,379	\$ (1,212,855)
Covered Payroll	\$ 114,343,952	\$ 117,262,869	\$ 113,422,810	\$ 109,316,532	\$ 103,276,871	\$ 107,836,591	\$ 82,825,759	\$ 116,841,151	\$ 114,100,876	\$ 123,941,771
Contributions as a Percentage of Covered Payroll	11.92 %	18.80 %	18.79 %	13.36 %	6.86 %	9.99 %	12.57 %	9.25 %	8.28 %	9.54 %

Notes to Schedule of Pension Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date Contributions for the Medical Center's fiscal year ended June 30, 2019 were determined based on the actuarial valuation as of December 31, 2017. The most recent valuation is as of December 31, 2017.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of pay
Remaining amortization period	21 years
Asset valuation method	Five-year smoothed market
Inflation	2.50 percent
Salary increase	3.75 percent in the long term
Investment rate of return	8.0 percent - Gross of pension plan investment expense, including inflation
Retirement age	Experience-based table of rates are specific to the type of eligibility condition
Mortality	RP-2014 Disabled Retiree Mortality Tables of a 50 percent male and 50 percent female blend
Other information	None

Required Supplemental Information
Schedule of Changes in the Net OPEB Liability and Related Ratios

	Last Four Fiscal Years			
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Total OPEB Liability				
Service cost	\$ 753,386	\$ 735,528	\$ 715,842	\$ 787,997
Interest	6,083,297	6,251,484	6,088,805	5,916,624
Changes in benefit terms	-	(643,385)	-	-
Differences between expected and actual experience	(2,780,513)	(3,012,210)	-	-
Changes in assumptions	-	(1,836,169)	-	-
Benefit payments, including refunds	<u>(3,477,330)</u>	<u>(4,514,282)</u>	<u>(4,294,637)</u>	<u>(3,940,800)</u>
Net Change in Total OPEB Liability	578,840	(3,019,034)	2,510,010	2,763,821
Total OPEB Liability - Beginning of year	<u>91,484,893</u>	<u>94,503,927</u>	<u>91,993,917</u>	<u>89,230,096</u>
Total OPEB Liability - End of year	<u>\$ 92,063,733</u>	<u>\$ 91,484,893</u>	<u>\$ 94,503,927</u>	<u>\$ 91,993,917</u>
Plan Fiduciary Net Position				
Contributions - Employer	\$ 3,841,324	\$ 3,884,465	\$ 5,523,202	\$ 5,613,665
Net investment income (loss)	5,152,690	4,197,653	5,308,681	(53,346)
Benefit payments, including refunds	<u>(3,477,330)</u>	<u>(4,514,282)</u>	<u>(4,294,637)</u>	<u>(3,940,800)</u>
Net Change in Plan Fiduciary Net Position	5,516,684	3,567,836	6,537,246	1,619,519
Plan Fiduciary Net Position - Beginning of year	<u>63,230,304</u>	<u>59,662,468</u>	<u>53,125,222</u>	<u>51,505,703</u>
Plan Fiduciary Net Position - End of year	<u>\$ 68,746,988</u>	<u>\$ 63,230,304</u>	<u>\$ 59,662,468</u>	<u>\$ 53,125,222</u>
Net OPEB Liability - Ending	<u>\$ 23,316,745</u>	<u>\$ 28,254,589</u>	<u>\$ 34,841,459</u>	<u>\$ 38,868,695</u>
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	74.67 %	69.12 %	63.13 %	57.75 %

Contributions to the OPEB plan are not based on a measure of pay; therefore, no covered payroll is presented.

Required Supplemental Information
Schedule of OPEB Contributions

Last Ten Fiscal Years
Years Ended June 30

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially determined contribution	\$ 3,841,324	\$ 3,884,465	\$ 5,523,161	\$ 5,558,658	\$ 5,930,118	\$ 5,964,296	\$ 7,011,793	\$ 7,071,235	\$ 7,417,585	\$ 7,521,118
Contributions in relation to the actuarially determined contribution	3,841,324	3,884,465	5,523,202	5,613,665	5,930,124	5,964,300	7,012,008	7,071,240	7,418,004	7,521,118
Contribution Excess	\$ -	\$ -	\$ 41	\$ 55,007	\$ 6	\$ 4	\$ 215	\$ 5	\$ 419	\$ -

Notes to Schedule of OPEB Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date Actuarially determined contributions rates are calculated as of June 30, two years prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method Entry age normal
 Amortization method Level dollar, closed
 Remaining amortization period 19 years
 Asset valuation method Market value
 Inflation 2.75 percent
 Healthcare cost trend rates Trend started at 9.0 percent and gradually decreasing to an ultimate trend rate of 3.25 percent
 Salary increase 3.25 percent, including inflation
 Investment rate of return 6.75 percent, net of OPEB plan investment expense, including inflation
 Retirement age Experience-based table of rates that are specific to the type of eligibility condition
 Mortality Postretirement: RPH-2014 Blue Collar Health Annuitant Mortality Table for males and females, adjusted backward to 2006 with MP-2014. The provision for future mortality improvement is the fully generational projection table MP-2015, beginning in 2006.
 Disabled Retirement: RPH-2014 Disabled Mortality Table for males and females is used, adjusted backward to 2006 with MP-2014. The provision for future mortality improvement is the fully generational projection table MP-2015, beginning in 2006.
 Preretirement: RPH-2014 Blue Collar Employee Mortality Table for males and females is used, adjusted backward to 2006 with MP-2014. The provision for future mortality improvement is the fully generational projection table MP-2015, beginning in 2006.

Hurley Medical Center

Required Supplemental Information Schedule of OPEB Investment Returns

	Last Four Fiscal Years Years Ended June 30			
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Annual money-weighted rate of return, net of investment expense	8.3 %	7.6 %	10.6 %	0.6 %

Additional Information

Independent Auditor's Report on Additional Information

To the Board of Hospital Managers
Hurley Medical Center

We have audited the basic financial statements of Hurley Medical Center as of and for the years ended June 30, 2019 and 2018. Our audits were performed for the purpose of forming an opinion on the basic financial statements as a whole. The consolidating balance sheet and consolidating statement of operations are presented for the purpose of additional analysis and are 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 30, 2019

Consolidating Balance Sheet

June 30, 2019

(with comparative totals for 2018)

	Hurley Medical Center	Hurley Health Services	Eliminating Entries	2019 Consolidated Total	2018 Consolidated Total
Assets					
Current Assets					
Cash and cash equivalents	\$ 73,737,272	\$ 1,820,942	\$ -	\$ 75,558,214	\$ 56,885,096
Patient accounts receivable - Net	44,716,234	1,246,090	(3,841)	45,958,483	36,164,122
Other receivables	6,367,498	1,825,686	(920,501)	7,272,683	8,611,615
Estimated third-party payor settlements	17,895,969	-	-	17,895,969	18,433,856
Assets limited as to use	8,555,700	156,508	-	8,712,208	8,522,399
Inventory	5,790,256	24,954	-	5,815,210	4,126,983
Prepaid expenses and other	3,441,697	306,479	(1,550)	3,746,626	5,417,957
Total current assets	160,504,626	5,380,659	(925,892)	164,959,393	138,162,028
Assets Limited as to Use					
Held by trustee - Bond	7,905,664	-	-	7,905,664	8,092,391
Restricted and held in trust - Other	14,360,136	-	-	14,360,136	19,623,451
By the board	128,327,467	-	-	128,327,467	121,193,090
Capital Assets - Net	103,894,340	939,935	-	104,834,275	105,571,522
Other Assets					
Investment in Hurley Health Services	4,261,126	-	(4,261,126)	-	-
Investment in joint ventures	6,826,375	42,000	-	6,868,375	6,367,250
Other	-	-	-	-	965,871
Total other assets	11,087,501	42,000	(4,261,126)	6,868,375	7,333,121
Total assets	426,079,734	6,362,594	(5,187,018)	427,255,310	399,975,603
Deferred Outflows of Resources	38,963,597	960,201	-	39,923,798	14,373,286
Total assets and deferred outflows of resources	\$ 465,043,331	\$ 7,322,795	\$ (5,187,018)	\$ 467,179,108	\$ 414,348,889

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

Consolidating Balance Sheet (Continued)

June 30, 2019

(with comparative totals for 2018)

	Hurley Medical Center	Hurley Health Services	Eliminating Entries	2019 Consolidated Total	2018 Consolidated Total
Liabilities, Deferred Inflows of Resources, and Net Position					
Current Liabilities					
Accounts payable and taxes withheld	\$ 19,811,665	\$ 625,179	\$ (924,342)	\$ 19,512,502	\$ 16,435,065
Current portion of long-term debt	6,380,000	68,820	-	6,448,820	6,229,629
Estimated third-party payor settlements	17,203,163	-	-	17,203,163	22,159,283
Accrued expenses	37,112,777	2,055,294	-	39,168,071	33,551,237
Total current liabilities	80,507,605	2,749,293	(924,342)	82,332,556	78,375,214
Long-term Debt - Net of current portion - Notes payable	66,244,910	312,376	-	66,557,286	73,427,633
Other Long-term Liabilities					
Net pension liability	195,173,840	-	-	195,173,840	147,720,541
Other	22,007,188	-	-	22,007,188	23,359,613
Accrued postretirement benefit obligations	23,316,745	-	-	23,316,745	28,254,589
Total liabilities	387,250,288	3,061,669	(924,342)	389,387,615	351,137,590
Deferred Inflows of Resources					
Deferred inflows related to postemployment benefit obligations	6,699,321	-	(1,550)	6,697,771	14,319,575
Deferred inflows related to pensions	4,730,859	-	-	4,730,859	-
Total deferred inflows of resources	11,430,180	-	(1,550)	11,428,630	14,319,575
Total liabilities and deferred inflows of resources	398,680,468	3,061,669	(925,892)	400,816,245	365,457,165
Net Position					
Net investment in capital assets	35,576,590	558,739	-	36,135,329	30,315,052
Donor restricted for specific operating activities	5,463,084	-	-	5,463,084	6,658,212
Unrestricted	25,323,189	3,702,387	(4,261,126)	24,764,450	11,918,460
Total net position	66,362,863	4,261,126	(4,261,126)	66,362,863	48,891,724
Total liabilities, deferred inflows of resources, and net position	<u>\$ 465,043,331</u>	<u>\$ 7,322,795</u>	<u>\$ (5,187,018)</u>	<u>\$ 467,179,108</u>	<u>\$ 414,348,889</u>

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

Consolidating Statement of Operations

Year Ended June 30, 2019
(with comparative totals for 2018)

	Hurley Medical Center	Hurley Health Services	Eliminating Entries	2019 Consolidated Total	2018 Consolidated Total
Operating Revenue					
Net patient service revenue	\$ 415,316,681	\$ 5,836,105	\$ (221,048)	\$ 420,931,738	\$ 401,096,761
Other operating revenue	44,446,590	30,181,753	(30,679,209)	43,949,134	39,852,029
Total operating revenue	459,763,271	36,017,858	(30,900,257)	464,880,872	440,948,790
Operating Expenses					
Salaries and wages	175,900,424	27,304,806	-	203,205,230	197,467,956
Employee benefits and payroll taxes	73,164,263	4,571,886	-	77,736,149	69,463,435
Operating supplies and expenses	63,613,588	-	-	63,613,588	62,763,259
Purchased services and other	65,233,147	495,692	(29,058,262)	36,670,577	36,276,246
Purchased services and other	54,760,310	3,543,560	(1,841,995)	56,461,875	48,380,798
Depreciation and amortization	13,780,372	142,180	-	13,922,552	14,688,074
Interest expense	4,456,602	-	-	4,456,602	4,742,453
Total operating expenses	450,908,706	36,058,124	(30,900,257)	456,066,573	433,782,221
Nonoperating Income (Expense)	8,854,565	(40,266)	-	8,814,299	7,166,569
Other Income (Expense)					
Investment income (loss)	8,698,332	256	-	8,698,588	(413,208)
Decrease in investment in Hurley Health Services	(57,050)	-	57,050	-	-
Other income (loss)	501,125	(17,040)	-	484,085	11,229
Total nonoperating income (expense)	9,142,407	(16,784)	57,050	9,182,673	(401,979)
Excess of Revenue Over (Under) Expenses before Other Activity, Restricted Funds Activity, and Transfer of Funds	17,996,972	(57,050)	57,050	17,996,972	6,764,590
Other - Transfers to unrestricted from restricted funds for the purchase of capital assets	669,305	-	-	669,305	222,268
Excess of Revenue Over (Under) Expenses before Other Activity, Restricted Funds Activity, and Transfer of Funds - Before Restricted Fund Activity and Transfer of Funds	18,666,277	(57,050)	57,050	18,666,277	6,986,858
Restricted Fund Activity and Transfer of Funds	(525,833)	-	-	(525,833)	(1,247,702)
Transfer to Unrestricted Net Position - Purchase of capital assets	(669,305)	-	-	(669,305)	(222,268)
Net Position	17,471,139	(57,050)	57,050	17,471,139	5,516,888
Net Assets - Beginning of year	48,891,724	4,318,176	(4,318,176)	48,891,724	43,374,836
Net Assets - End of year	\$ 66,362,863	\$ 4,261,126	\$ (4,261,126)	\$ 66,362,863	\$ 48,891,724

APPENDIX C
SUMMARY OF PRINCIPAL DOCUMENTS

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Brief descriptions of the Indenture and the 2020 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 2020 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 2020 Bonds at the offices of the Authority and thereafter at the principal corporate trust office of the Trustee. All references to the Series 2020 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 2020 Restated Contract of Lease.

“Acquisition Fund (2020 Project)” shall mean the Building Authority Revenue and Revenue Refunding Bonds, Series 2020, Acquisition Fund created under the Indenture.

“Act” or “Act 31” 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 2020 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(1) 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(1) 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 2020 Restated Contract of Lease in a form satisfying the requirements set forth in the 2020 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 2020 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 2020 Bonds, a written directive signed by the Authorized Authority Representative and dated the date of sale of the Series 2020 Bonds designating certain terms of the Series 2020 Bonds as required by the Indenture.

“Authorized Denomination” shall mean, with respect to the Series 2020 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, as may be amended from time to time, in which board is placed the supervision and exclusive authority to manage and operate all hospitals owned or leased by the Lessee, 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 2020 Bonds or Additional Bonds.

“Bond Counsel” shall mean initially, Hawkins Delafield & Wood LLP, and after the issuance of the Series 2020 Bonds, a law firm that is recognized nationally as having expertise in municipal finance law and is acceptable to the Authority and the Lessee.

“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 a period of 12 consecutive months, beginning on July 1 and ending on June 30 of the next succeeding calendar year, except that the first Bond Year shall be the period commencing on the Issue Date and ending on June 30, 2020.

“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” shall mean 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 2020 Restated Contract of Lease. The obligation to make such cash rental payments is self-liquidating as provided in the 2020 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 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 2020 Project” shall mean the earlier of (i) the disbursement of all amounts in the Acquisition Fund (2020 Project) for costs associated with the acquisition and/or installation of the 2020 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 2020 Project intended to be financed with the proceeds of the Series 2020 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 2020 Bonds as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“Counsel” shall mean any attorney, selected by the Lessee, duly admitted to practice law before the highest court of any state who has regularly engaged in the practice of law as a primary occupation and who is not an officer or full-time employee of the Authority, the Lessee or the Trustee.

“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 (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 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.

“Debt Service Reserve Fund (Series 2020)” shall mean the Building Authority Revenue Refunding Bonds, Series 2020, Debt Service Reserve Fund created by the Indenture.

“Designated Affiliate” means a corporation, limited liability company, partnership, joint venture, association, business trust or any other legal entity designated by the Lessee as such in accordance 2020 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 2020 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 Agreement” shall mean the Escrow Deposit Agreement dated the date of the issuance of the Series 2020 Bonds or such other date as may be designated in the Authorized Authority Representative’s Order, between Lessee and Escrow Trustee.

“Escrow 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.

“Government and Industry Restrictions” shall mean any federal, state or other applicable governmental law or regulations (including income tax limitations which must be respected to preserve the exempt status of any Designated Affiliate, eligibility of the Hurley Medical Center or a Designated Affiliate for benefits under any state, local or federal subsidy or exemption program, or conditions imposed specifically on the Hurley Medical Center’s or any Designated Affiliate’s facilities), or any general industry standards or general industry conditions affecting Hurley Medical Center or any Designated Affiliate and their respective health care or research facilities or other licensed facilities placing restrictions and limitations on the (i) rates, fees, research funding and charges to be fixed, charged or collected by Hurley Medical Center or any Designated Affiliate, (ii) rates, fees, research funding and charges to be fixed, charged and collected by Hurley Medical Center or any Designated Affiliate, or (iii) the amount or timing of the receipt of such revenues.

“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 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” shall mean 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: (i) to purchase such Indebtedness or obligation or any Property constituting security therefor; (ii) to advance or supply funds: (a) for the purchase or payment of such Indebtedness or obligation, or (b) to maintain working capital or other balance sheet condition; (iii) 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 (iv) otherwise to assure the owner of such Indebtedness or obligation against loss in respect thereof.

“Hospital Consultant” shall mean a firm (but not an individual) selected by the Lessee which (i) does not have any direct financial interest or any material indirect financial interest in the Lessee or the Authority (other than the agreement or agreements pursuant to which such firm is retained), (ii) is not connected with the Lessee or the Authority as an officer or employee, and (iii) in the good faith opinion of the Lessee making such selection, is qualified to pass upon questions relating to the financial affairs of organizations similar to the Lessees or facilities of the type or types operated by the Lessee and has the skill and experience necessary to render the particular opinion or report required by the Indenture in which such requirement appears.

“Hurley Medical Center” shall mean the real property, tangible assets, properties and the projects financed or refinanced with the proceeds of the Bonds and the Series 2013 Bonds, as further described in the 2020 Restated Contract of Lease, together with any future improvements thereto and enlargements thereof.

“Indebtedness” shall mean, for any Designated Affiliate, (i) all Guaranties by such Person, (ii) 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 (iii) all obligations for the payment of money incurred or assumed by such Person (a) due and payable in all events or (b) 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 2020 Bonds approved by the Commission of the Authority on December 4, 2019.

“Independent Architect” shall mean an architect, engineer or firm of architects or engineers, selected by the Lessee, 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 the date on which the Series 2020 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 Board as lessee under the 2020 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 2020 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: (i) the amount of such payments for a future period shall be calculated in accordance with the assumptions contained in the Indenture; (ii) interest shall be excluded from the determination of the debt service requirements to the extent that Capitalized Interest is available to pay such interest; (iii) principal of Series 2020 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 (iv) 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 (iv), 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 2020 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 that are irrevocably deposited in escrow to pay the principal of any Series 2020 Bonds, Parity Bonds or Group Indebtedness. If any of the Series 2020 Bonds, Parity Bonds and Group Indebtedness 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 2020 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” shall mean 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.

“Non-Recourse Indebtedness” shall mean 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.

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

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

(b) 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); provided that if such 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 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, as the case may be, or provisions satisfactory to the Trustee shall have been made therefor; and

(d) Bonds in exchange for or in lieu of which other 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 2020 Bonds issued under the Indenture and shall include, without limitation, any Additional Bonds, the Series 2020 Bonds, the Series 2013 Bonds and any additional bonds issued under the 2013 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 the 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 purposes; (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 (i) in the case of tax-exempt Bonds or Group Indebtedness, a fixed rate equal to the Thirty-Year Revenue Bond Index most recently published in The Bond Buyer prior to the date of calculation, (ii) in the case of taxable Bonds or Group Indebtedness, the yield to maturity or interpolated (on a day count basis) yield on United States Treasury Securities having an actual or interpolated maturity comparable to the remaining term of such Bonds or Group Indebtedness, in each case, as in effect on the date of calculation, (iii) in the case of Bonds or Group Indebtedness bearing interest at a variable rate, the average interest rate borne by such Bonds or Group Indebtedness over the preceding 12 months (or such lesser period as such Bonds or Group Indebtedness shall have been outstanding) or (iv) such interest rate as shall be specified in a written statement from an investment banking or financial advisory firm as selected by the Lessee, and with substantially level debt service or other specified amortization over a period of up to 30 years (which period shall be designated by the Lessee) from the date of calculation.

“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 2020 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 2020 Bonds 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 2020)” shall mean the amount equal to the least of (i) 10 percent of the stated principal amount of the Outstanding Series 2020 Bonds (or, if the amount of the original issue discount or premium with respect to the Series 2020 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 2020 Bonds, or (iii) 125 percent of the average annual principal and interest requirements on the Outstanding Series 2020 Bonds.

“Responsible Officer” shall mean any officer within the corporate trust department of the Trustee, including any vice president, assistant vice president, assistant secretary, assistant treasurer, trust officer or any other officer of the Trustee who customarily performs functions similar to those performed by the persons who at the time shall be such officers, respectively, or to whom any corporate trust matter is referred because of such person’s knowledge of and familiarity with the particular subject and who shall have direct responsibility for the administration of this Indenture.

“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 2013 Bonds” shall mean any of the Authority’s Series 2013A Bonds and Series 2013B Bonds.

“Series 2013A Bonds” shall mean the Authority’s Building Authority Revenue Rental Bonds, Series 2013A (Hurley Medical Center), issued under the 2013 Indenture.

“Series 2013B Bonds” shall mean the Authority’s Building Authority Revenue Refunding Bonds, Series 2013B (Hurley Medical Center), issued under the 2013 Indenture.

“Series 2020 Bonds” shall mean the Authority’s Building Authority Revenue and Revenue Refunding Bonds, Series 2020 (Hurley Medical Center), authorized under the Indenture.

“Series 2020 Rebate Fund” shall mean the Building Authority Revenue and Revenue Refunding Bonds, Series 2020 Rebate Fund established pursuant to the Indenture.

“Series 2020 Special Fund” shall mean the Building Authority Revenue and Revenue Refunding Bonds, Series 2020 Special Fund established pursuant to 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.

“S&P” shall mean S&P Global Ratings Inc. and its successors.

“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.

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

“2020 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 2020 Restated Contract of Lease.

“2020 Restated Contract of Lease” shall mean the Ninth Amended and Restated Contract of Lease (Revenue Rental), dated as of April 1, 2020 or other date designated in the Authorized Authority Representative’s Order, by and between the Authority and the Lessee, as the same may be hereafter amended or supplemented as permitted under the 2013 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 2020 RESTATED CONTRACT OF LEASE

The 2020 Restated Contract of Lease contains various covenants, security provisions, terms and conditions, certain of which are summarized below. Reference is made to the 2020 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 2020 Bonds and ending on July 1, 2041, or such earlier date as provided in the 2020 Restated Contract of Lease. The Lessee shall, as of the effective date of the 2020 Restated Contract of Lease, have sole and exclusive possession of Hurley Medical Center during the term of the 2020 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 2020 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 2020 Restated Contract of Lease and shall duly and promptly perform and observe all the terms, conditions and agreements contained in the 2020 Restated Contract of Lease obligatory upon it, the Lessee shall have and enjoy during the term of the 2020 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 2020 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 2020 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 2020 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, a sum sufficient to provide for the payment as the same becomes due of the next maturing interest on the Series 2020 Bonds, provided that the amount so set aside for interest on each of May 31, 2020 and June 10, 2020 shall not be less than one-half of the amount of interest maturing on July 1, 2020, 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, 2020, 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 2020 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 2020 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 2020 Bonds called for redemption. The maturities, redemption and interest payment dates of the Series 2020 Bonds shall be determined by the Authority with the approval of the Lessee, which approval shall be conclusively presumed by the execution of the 2020 Restated Contract of Lease. The Authority shall provide the Lessee with a schedule of principal and interest payments upon issuance of the Series 2020 Bonds.

(2) If at any time while any Series 2020 Bonds remain outstanding, the amount on deposit in the Debt Service Reserve Fund (Series 2020), determined by valuing investments therein at fair market value, shall be less than the Reserve Amount (Series 2020) because of a transfer from the Debt Service Reserve Fund (Series 2020), 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 2020) to the Reserve Amount (Series 2020), provided that the amount so paid to restore the Debt Service Reserve Fund (Series 2020) 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 2020) shall be used only to pay principal of and interest on the Series 2020 Bonds while any of the Series 2020 Bonds shall be outstanding or, at the direction of the Authority as provided in the Indenture, to fund the Series 2020 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 2020). If the amount on deposit in the Debt Service Reserve Fund (Series 2020) 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 2020) 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 2020) to one hundred percent (100%) of the Reserve Amount (Series 2020), provided that the amount so paid to restore the Debt Service Reserve Fund (Series 2020) 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 2020 Rebate Fund and make payments to the United States required under Section 148(f) of the Code with respect to the Series 2020 Bonds pursuant to the 2013 Indenture.

B. The Series 2013A 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, 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 the 2013 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.

(2) 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 2013 Indenture, to fund the Series 2013A Rebate Fund.

(3) Under the 2013 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 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 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 2013 Indenture.

C The Series 2013B 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 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 the 2013 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.

(2) 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.

(3) Under the 2013 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.

(4) 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 2013 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 2020 Bonds, including the fees and expenses required to be paid pursuant to the purchase contracts relating to the Series 2020 Bonds 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 and the 2013 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 2020 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 2020 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 2020 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, 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 2020 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 2020 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 and the 2013 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 and the Series 2013 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 2020 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 2020 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 2020 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 2013 Indenture or provision for the payment thereof in accordance with the Indenture and the corresponding provisions of the 2013 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 the Indenture and the 2013 Indenture upon exercise of the Lessee's option to terminate authorized by the 2020 Restated Contract of Lease, 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 of 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 2020 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 2020 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 and the 2013 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 2020 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 2020 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 2020 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 2020 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 2020 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 2020 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 2020 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 2020 Restated Contract of Lease;
- (e) Pursuant to the provisions of the 2020 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 2020 Restated Contract of Lease governing release of unimproved property from the lien thereof;
- (g) Pursuant to the provisions of the 2020 Restated Contract of Lease governing Affiliate Guaranties;

(h) Pursuant to the provisions of the 2020 Restated Contract of Lease governing Affiliate Leases;

(i) Pursuant to the provisions of the 2020 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 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 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 2020 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 2020 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 2020 Restated Contract of Lease and the due and punctual performance and observance of all the covenants and conditions of the 2020 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 2020 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 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 2020 Restated Contract of Lease as the Lessee and the original Lessee shall be released of all obligations under the 2020 Restated Contract of Lease.

Release of Unimproved Property

Notwithstanding any other provisions to the contrary, the Lessee and the Authority may amend the 2020 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) an acknowledgement of the Trustee of receipt of the Required Consideration (as defined below), and (iii) the written opinion of a registered engineer selected by the Lessee 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 2020 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 of Real Estate Appraisers") selected by the Lessee, 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. Such amount shall be certified by the Authority and deemed to be the "Required Consideration." The Required Consideration 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 2020 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 MAI of Real Estate Appraisers 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 2020 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 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 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 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 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 or the 2013 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 2020 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 2020 Restated Contract of Lease. The Lessee shall remain primarily obligated on the cash rentals due under the 2020 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 or the 2013 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 2020 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 MAI of Real Estate Appraisers 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 2020 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 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 2020 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 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 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 or the 2013 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 2020 Restated Contract of Lease (or the Lessee enters into any guaranty in lieu 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 2020 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 2020 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 2020 Restated Contract of Lease or of any Affiliate Lease.

Designated Affiliates

(a) So long as no default shall have occurred and be continuing under the Indenture, the Lessee may designate any Person which meets the requirements of the definition of "Designated Affiliate" as a Designated Affiliate by filing with the Authority and the Trustee a notice of such designation signed by the Authorized Lessee's Representative. Such notice shall be filed prior to the date such designation is to become effective, with such Person to be deemed a Designated Affiliate as of the date specified in such

notice. Such Person shall thereafter be considered a Designated Affiliate until such time as the Authorized Lessee's Representative shall file with the Authority and the Trustee (i) a notice declaring that such Person is no longer a Designated Affiliate and (ii) a certificate of the Authorized Lessee's Representative that immediately after such de-designation no event will have occurred which with the passage of time or the giving of notice, or both, would become default under the Indenture. (b) The Lessee covenants that it will cause each Designated Affiliate to comply with the terms and conditions of the Indenture and the 2020 Restated Contract of Lease which are applicable to such Person. (c) The Lessee shall cause each Designated Affiliate to pay or otherwise transfer to the Lessee such amounts as are necessary for Lessee to duly and punctually pay all cash rentals due under the 2020 Restated Contract of Lease necessary for the Authority to pay the principal of and interest and premium, if any, on, and the purchase price of all Outstanding Bonds and Parity Bonds, and any other amounts payable by the Lessee under the 2020 Restated Contract of Lease, on the dates, at the times, at the places and in the manner provided therein, in the Indenture and in such Bonds and Parity Bonds. Any of the other provisions of the 2020 Restated Contract of Lease notwithstanding, no Designated Affiliate shall be directly obligated to make any payment hereunder. (d) The Lessee covenants to cause each Designated Affiliate to:

(1) Except as otherwise expressly provided herein, (i) preserve its corporate or other separate legal existence, and (ii) be qualified to do business and conduct its affairs in each jurisdiction where its ownership of Property or the conduct of its business or affairs requires such qualification.

(2) Incur no Indebtedness except in compliance with the provisions of the Indenture and promptly pay or otherwise satisfy and discharge all of its obligations and indebtedness and all demands and claims against it as and when the same become due and payable which if not so paid, satisfied or discharged would constitute a default or an event of default under such indebtedness.

(3) At all times, comply with all terms, covenants and provisions of any liens at such time existing upon its Property or any part thereof or securing any of its indebtedness.

(4) Take no action or suffer any action to be taken by others which could (i) result in any Bonds or Parity Bonds being declared invalid, (ii) result in the interest on any Bond or Parity Bonds which is otherwise exempt from federal or state income taxation becoming subject to such taxation or (iii) result in any Bond or Parity Bond becoming subject to the registration provisions of the Securities Act of 1933, as amended.

(5) Operate all of its Facilities so as not to discriminate on a legally impermissible basis.

(6) At its sole cost and expense, promptly comply with all present and future laws, ordinances, orders, decrees, decisions, rules, regulations and requirements of every duly constituted governmental authority, commission and court and the officers thereof which may be applicable to it or any of its affairs, business, operations and Property, any part thereof, any of the streets, alleys, passageways, sidewalks, curbs, gutters, vaults and vault spaces adjoining any of its Property or any part thereof or to the use or manner of use, occupancy or condition of any of its Property or any part thereof.

(7) Maintain insurance with respect to its Property, the operation thereof and its business against such casualties, contingencies and risks and in amounts not less than is customary in the case of Persons engaged in the same or similar activities and similarly situated and as is adequate to protect its operations and Property.

(e) The ability of any Designated Affiliate to merge into, or consolidate with, one or more corporations, or allow one or more corporations to merge into it, or sell, convey or dispose of some, all or

substantively all of its Property to any Person is not limited by the provisions of the 2020 Restated Contract of 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 2020 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 2020 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 2013 Bond or the Series 2020 Bonds remains Outstanding, the ratio determined by dividing Net Income Available for Debt Service by Maximum Annual Debt Service Requirement is less than 1:30:1.00, 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 2013 Bonds or Series 2020 Bonds remain Outstanding, the Lessee shall maintain Unrestricted Liquid Funds equal to at least fifty (50) Days Cash on Hand as of June 30, 2013 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 2013 Bonds or the Series 2020 Bonds then remains Outstanding

Additional Covenants

The Lessee hereby covenants and agrees with the Authority and the Trustee that it will punctually perform all duties with reference to Hurley Medical Center and the 2020 Restated Contract of Lease required by the constitution and laws of the State of Michigan and the Charter of the City of Flint, Michigan, and by the 2020 Restated Contract of Lease; that it will maintain Hurley Medical Center in good condition and continuously operate the same in an efficient manner and at a reasonable cost, during the term of the 2020 Restated Contract of Lease; that it will prepare, keep and file such records, statements and accounts as may be required by law; that it will promptly file with the Authority and the Trustee a copy of each annual statement which is required to be filed with the Michigan Department of Treasury (or its successor), and will also file with the Authority and the Trustee a copy of the annual audit of Hurley Medical Center, certified by a certified public accountant, upon receipt after the close of each Fiscal Year; and that it will furnish a copy of the foregoing statement and audit to any Bondholder or holder or Parity Bonds upon payment of the actual cost of such copy. Any such audit shall be in such reasonable detail as will present the full financial condition of Hurley Medical Center to the holders of Bonds and Parity Bonds and shall include auditor's comments on the manner in which the Board of Hospital Managers has complied with the provisions of the 2020 Restated Contract of Lease.

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.

Security for the Series 2020 Bonds

The Series 2020 Bonds shall be issued in anticipation of and are payable solely from Cash Rentals. The obligation of the Lessee to pay Cash Rentals is a revenue obligation and is not a full faith and credit general obligation of the City of Flint, all as provided in the 2020 Restated Contract of Lease. The Cash Rentals required to be paid by the Lessee to the Authority pursuant to the 2020 Restated Contract of Lease (and by any new or further amended 2020 Restated Contract of Lease providing for issuance of Additional Bonds or Parity Bonds of equal standing) are irrevocably pledged under the Indenture for the payment of the principal of, premium, if any, and interest on the Series 2020 Bonds herein authorized to be issued, the principal of, premium, if any, and interest on Parity Bonds, and on any such Additional Bonds of equal standing. To secure payment of the principal of, premium, if any, and interest on the Parity Bonds and the Series 2020 Bonds authorized under the Indenture (and on any such Additional Bonds of equal standing), there is therein created a lien (by the Act made a statutory lien), to and in favor of the holders of all such Bonds and Parity Bonds, upon the Cash Rentals required to be paid by the Lessee as aforesaid. The Cash Rentals pledged to the payment of the principal of premium, if any, and interest on all such Bonds and Parity Bonds shall be and remain subject to such statutory lien until the principal of, premium, if any, and interest on all such Bonds and Parity Bonds have been paid in full. The holder or holders of Bonds or Parity Bonds representing in the aggregate not less than 20% of the entire issue of any outstanding Bonds or Parity Bonds of any series, may by suit, action or other proceedings protect and enforce such statutory lien and enforce and compel the performance of all duties of the officials of the Authority, including, but not limited to, compelling the Lessee by proceedings in a court of competent jurisdiction or other appropriate forum to pay the Cash Rentals required to be paid by the 2020 Restated Contract of Lease, and requiring the Lessee to fix and collect rates as required by the 2020 Restated Contract of Lease to be so fixed and collected by the Lessee for payment of the Cash Rentals required to be paid by said 2020 Restated Contract of Lease. The powers and remedies granted to the Bondholders in this paragraph shall be in addition to and supplemental to the powers and remedies

hereinafter granted to the Trustee for the benefit of the Bondholders, and all of such powers and remedies shall be cumulative and not exclusive of each other.

Application of Series 2020 Bond Proceeds

The proceeds of the sale of the Series 2020 Bonds shall be applied upon receipt as follows:

(a) The pre-issuance accrued interest, if any, shall be deposited in the Series 2020 Special Fund and applied to the payment of interest on the Series 2020 Bonds on the first Interest Payment Date.

(b) An amount of such proceeds equal to the Reserve Amount (Series 2020) shall be deposited in the Debt Service Reserve Fund (Series 2020); provided, however, that surplus amounts in the Debt Service Reserve Fund (Series 2010), and any other surplus amounts in funds and accounts established under the 2010 Indenture, shall first be transferred to the Debt Service Reserve Fund (Series 2020) in an aggregate amount equal to, but not exceeding, the Reserve Amount (Series 2020), and such proceeds of the sale of the Series 2020 Bonds shall be deposited in the Debt Service Reserve Fund (Series 2020) only to the extent that such surplus amounts are not sufficient fully to fund the Reserve Amount (Series 2020).

(c) An amount of such proceeds sufficient to pay the costs of issuance shall be deposited in the Authority Expense Fund and applied to payment of the costs of issuance of the Series 2020 Bonds.

(d) An amount of such proceeds sufficient, when increased by other available amounts, to provide for the payment and defeasance of the Series 2010 Bonds pursuant to the 2010 Indenture shall be deposited in the Escrow Fund and applied in accordance with the Escrow Agreement.

The balance of such proceeds, if any, after application pursuant to (a), (b), (c) and (d) above shall be deposited in the Acquisition Fund (2020 Project) and applied to the costs of the 2020 Project in accordance with the 2020 Restated Contract of Lease.

Indenture Funds

Redemption Fund

The Indenture establishes for the Series 2020 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 2010 Bonds and the Series 2013 Bonds. The Redemption Fund shall henceforth serve as the Redemption Fund for all purposes under the 2013 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 2020 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 2020 Bonds and any Parity Bonds, as provided in the Indenture and by the 2013 Indenture, respectively.

Debt Service Reserve Fund (Series 2020)

The Indenture establishes, solely for the benefit of the holders of the Series 2020 Bonds (and not for the benefit any holders of Parity Bonds), the Building Authority Revenue and Revenue Refunding Bonds, Series 2020, Debt Service Reserve Fund, which shall be separate from the Redemption Fund.

Such Debt Service Reserve Fund (Series 2020) shall be funded initially from proceeds of the sale of the Series 2020 Bonds and any other surplus amounts in funds and accounts established under the 2010 Indenture or otherwise as directed by the Authorized Authority Representative. The initial deposit into the Building Authority Revenue and Revenue Refunding Bonds, Series 2020, Debt Service Reserve Fund, shall be in amount equal to the Reserve Amount (Series 2020), which shall be certified to the Trustee on the Issue Date. The Building Authority Revenue and Revenue Refunding Bonds, Series 2020, Debt Service Reserve Fund shall be maintained in an amount equal to the Reserve Amount (Series 2020). When the principal and interest owing upon the Series 2020 Bonds shall be reduced to the amount of the Debt Service Reserve Fund (Series 2020), then the principal and interest of such Series 2020 Bonds shall be paid from the Debt Service Reserve Fund (Series 2020) 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 2020 Special Fund, is insufficient to pay principal of or interest on the Series 2020 Bonds, then the Trustee shall transfer from the Debt Service Reserve Fund (Series 2020) to the Series 2020 Special Fund an amount equal to the amount necessary, together with moneys on deposit and available in the Redemption Fund and the Series 2020 Special Fund, to pay the principal of and interest on the Series 2020 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 2020) as a result of such transfer. Moneys on deposit in the Debt Service Reserve Fund (Series 2020) shall only be used to pay principal of and interest on the Series 2020 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 2020), determined by valuing investments therein at fair market value, is less than the Reserve Amount (Series 2020) because of a transfer from the Debt Service Reserve Fund (Series 2020), then there shall be paid (by the Authority out of Cash Rentals) an amount sufficient to restore the Debt Service Reserve Fund (Series 2020) to the Reserve Amount (Series 2020). 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 2020). After any such transfer the Trustee shall determine the value of the remaining investments at fair market value in order to determine the amount necessary to restore the Debt Service Reserve Fund (Series 2020) to the Reserve Amount (Series 2020).

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 2020) by valuing investments therein at fair market value and, if the amount then on deposit in the Debt Service Reserve Fund (Series 2020) is determined to be less than ninety percent (90%) of the Reserve Amount (Series 2020) 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 2020) to one hundred percent (100%) of the Reserve Amount (Series 2020). 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 is determined and shall be deposited in the Debt Service Reserve Fund (Series 2020).

If at any time the amount on deposit in the Debt Service Reserve Fund (Series 2020), determined by valuing investments therein at fair market value on the first Business Day after January 1 of each year, is in excess of the Reserve Amount (Series 2020), such excess in the Debt Service Reserve Fund (Series 2020) shall be transferred as soon as practicable to the Series 2020 Special Fund and shall be used only to pay directly to the holders thereof principal of and interest on the Series 2020 Bonds while any of such Series 2020 Bonds shall be outstanding or, at the direction of the Authority, to fund the Series 2020 Rebate Fund.

The values of the investments in the Debt Service Reserve Fund (2020) shall be determined in accordance with the price provided by pricing services and sources relied upon by the Trustee and the Trustee does not have any duty to independently value any asset or obligation other than the price provided by the pricing services and sources relied upon by the Trustee.

Authority Expense Fund

The Indenture establishes an Authority Expense Fund into which shall be paid proceeds of the sale of the Series 2020 Bonds in 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 2020 Bonds) that are not paid directly by the Lessee (the “Authority Expense Fund”). .

Series 2020 Special Fund

The Indenture establishes, solely for the benefit of the holders of the Series 2020 Bonds (and not for the benefit of any holders of any Parity Bonds), the Building Authority Revenue and Revenue Refunding Bonds, Series 2020, Special Fund (the “Series 2020 Special Fund”) into which shall be deposited (i) any amounts transferred from the Debt Service Reserve Fund (Series 2020) pursuant to the Indenture, (ii) Investment Income on amounts deposited in the Debt Service Reserve Fund (Series 2020) transferred pursuant to the Indenture, (iii) any amounts released to the Authority for deposit therein as provided in the Escrow Agreement and (iv) if so directed by the Authority, any excess amounts released from the Series 2020 Rebate Fund pursuant to the Indenture. Moneys in the Series 2020 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 2020 Bonds or, at the direction of the Authority as provided in the Indenture, to fund the Series 2020 Rebate Fund. The Lessee shall receive a credit for amounts on deposit in the Series 2020 Special Fund against Cash Rentals next due under the 2020 Restated Contract of Lease. On each Interest Payment Date, the Trustee shall withdraw amounts on deposit in the Series 2020 Special Fund for payment of the principal of, premium, if any, and interest on the Series 2020 Bonds prior to withdrawing any amounts therefor from the Redemption Fund.

Series 2020 Rebate Fund

The Indenture establishes the Series 2020 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 2020), the Authority Expense Fund, and the Acquisition Fund (2020 Project), and any other moneys that, upon the advice of Bond Counsel, are required to be treated as gross proceeds of the Series 2020 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 2020 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 2020 Bond, an amount sufficient to make the amount on deposit in the Series 2020 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 2020 Special Fund or from excess amounts in the Debt Service Reserve Fund (Series 2020). The Trustee, at the direction of the Authority, shall make payments to the United States from the Series 2020 Rebate Fund no less frequently than every five (5) years and within sixty (60) days of the payment of the last outstanding Series 2020 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 2020 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 (2020 Project)

The Indenture establishes for the 2020 Project for which the Series 2020 Bonds are in part to be issued, a Building Authority Revenue and Revenue Refunding Bonds, Series 2020, Acquisition Fund (the “Acquisition Fund (2020 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 2020 Bonds shall be deposited in the Acquisition Fund (2020 Project) in accordance with the Indenture. All moneys deposited in the Acquisition Fund (2020 Project) and all Investment Income realized from investment of moneys in the Acquisition Fund (2020 Project) and the Debt Service Reserve Fund (Series 2020) prior to Completion of the 2020 Project shall be deposited in the Acquisition Fund (2020 Project) 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 2020 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 (Series 2013) remaining after Completion of the 2020 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 Bond Counsel, the Treasurer of the State of Michigan (if required under applicable law) and the Lessee (an “Additional Permitted Purpose”). Any remaining balance not so used shall be paid into the Series 2020 Special Fund in accordance with the Indenture and the Lessee shall receive a credit therefor against the Cash Rentals next due under the 2020 Restated Contract of Lease or, at the written direction of the Authority, shall be transferred to the Series 2020 Rebate Fund. The Trustee shall, at the written direction of the Lessee’s Authorized Representative, invest moneys in the Acquisition Fund (2020 Project) in accordance with the provisions of the Indenture.

Deposit of Funds with Trustee

All moneys in the Debt Service Reserve Fund (Series 2020), the Authority Expense Fund, the Series 2020 Special Fund, the Series 2020 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, at the written direction of the Lessee’s Authorized Representative, 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 instructions delivered by the Lessee’s Authorized Representative. The Trustee may conclusively rely upon the Lessee’s Authorized Representative’s written instructions as to both the suitability and legality of the directed investments and such written direction shall be deemed to be a certification that such directed investments constitute Permitted Investments. If the Lessee’s Authorized Representative does not provide the Trustee with written investment directions the Trustee shall hold amounts in such funds held by the Trustee in cash, with no liability for interest. 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.

Although the Authority and Lessee recognize that they may obtain brokerage confirmations or written statements containing comparable information at no additional cost, the Authority and Lessee agree that brokerage confirmations are not required to be issued by the Trustee for each month in which a monthly statement of investments is provided by the Trustee. No statement needs to be provided, however, for any fund or account for any month in which no investment activity occurred during such month in such fund or account.

The Trustee may elect, but shall not be obligated, to credit the funds and accounts held by it with moneys representing income or principal payments due on, or sales proceeds due in respect of, Permitted Investments in such funds and accounts, or to credit to Permitted Investments intended to be purchased with such moneys, in each case before actually receiving the requisite moneys from the payment source, or to otherwise advance funds for account transactions. The Authority acknowledges that the legal obligation to pay the purchase price of any Permitted Investments arises immediately at the time of the purchase. Notwithstanding anything else in the Indenture, (i) any such crediting of funds or assets shall be provisional in nature, and the Trustee shall be authorized to reverse any such transactions or advances of funds in the event that it does not receive good funds with respect thereto, and (ii) nothing in the Indenture shall constitute a waiver of any of the Trustee's rights as a securities intermediary under Uniform Commercial Code §9-206.

Tax Covenants

The Authority covenants that it will not make any use of the gross proceeds of the Series 2020 Bonds that, if such use had been reasonably expected on the date of issuance of the Series 2020 Bonds, would have caused the Series 2020 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 2020 Bonds remain 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 2020 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 2020 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 2020 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 2020 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 2013 Indenture, under the 2013 Indenture, but only under and in compliance with the Indenture.

The Lessee is authorized under the 2020 Restated Contract of Lease to designate one or more of its Affiliates as "Designated Affiliates" in accordance with the requirements of the 2020 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 2020 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 certificate addressed to the Trustee and executed by the Lessee's Authorized Representative to the effect that (i) (a) the ratio determined by dividing Net Income Available for Debt Service for the most recent Fiscal Year preceding the date of such certificate for which audited financial statements of Hurley Medical Center, reported on by independent public accountants, are available by 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) is not less than 1.25:1.00 and (b) that the ratio determined by dividing 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), by 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 is not less than 1.25: 1.00 (provided for as long as any of the Series 2013 Bonds remain Outstanding, such ratio shall be not less than 1.35 to 1:00); or (ii) the ratio determined by dividing Net Income Available for Debt Service for the most recent Fiscal Year preceding the date of such certificate for which financial statements of the Hurley Medical Center, reported on by independent public accountants, are available by 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 is not less than 1.25: 1.00 (provided, for as long as any of the Series 2013 Bonds remain Outstanding, such ratio shall be not less than 1.35 to 1:00); provided, however, the requirements of clause (i) or (ii) of this subsection (2) shall be deemed satisfied if the Trustee receives a report of a Hospital Consultant to the effect that Government and Industry Restrictions prevent the Hurley Medical Center and any Designated Affiliates from generating the required levels of Net Income Available for Debt Service sufficient to result in ratios at least equal to those required by clause (i) or (ii) of this subsection (2), the ratio requirements described in this subsection (2) shall be reduced to the highest ratios that, in the opinion of the Hospital Consultant, are obtainable under such Government and Industry Restrictions, but in no event less than a ratio of 1.0:1.0.

(3) Reserved.

(4) Reserved.

(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 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 as selected by the Lessee 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 responsible financial institution 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 bearing a rate of interest at the Projected Rate.

(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 responsible financial institution 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 rate provided in such refinancing commitment and is payable on a level annual debt service basis over a period of up to 30 years (which period shall be designated by the Lessee); or (ii) (a) the Lessee shall establish in a certificate 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 responsible financial institution (pursuant to an agreement between the Lessee and such responsible financial institution) 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; 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 responsible financial institution 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 rate set forth in such binding commitment and is payable on a level annual debt service basis over a period up to 30 years (which period shall be designated by the Lessee) 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 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 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 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 Service (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 (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 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 2020 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 2013 Indenture are and are to be, but only to the extent provided in the Indenture and under the 2013 Indenture, equally and ratably secured by the Indenture, and under the 2013 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 2013 Indenture, shall have the same right, lien and preference under and by virtue of the Indenture, and under the 2013 Indenture, and shall all be equally and ratably secured by the Indenture, and by the 2013 Indenture with like effect as if they had all been executed, authenticated and delivered simultaneously on the date hereof, 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 2013 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 or the 2013 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 2013 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 and the 2013 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, with reasonable security and indemnity, shall proceed, to protect and enforce its rights and the rights of all Bondholders and holders of Parity Bonds, under Act 31 and under this Indenture and the 2013 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 this Indenture or the 2013 Indenture in aid of the execution of any power granted herein, in the 2013 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 this Indenture and the 2013 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 2013 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 2013 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 and the 2013 Indenture.

Application of Funds

All moneys received by the Trustee pursuant to any right given or action taken under the provisions of the Indenture and the 2013 Indenture shall be applied first to the payment of the costs and expenses, including reasonable 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 2013 Indenture except as a result of its negligence or bad faith, and the creation of a reasonable reserve for anticipated fees, costs and expenses. 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 2020 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 or the 2013 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 or the 2013 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 or the 2013 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 or the 2013 Indenture shall impair the first lien upon the revenues of the Hurley Medical Center under the 2020 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 or the 2013 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 and the 2013 Indenture, and to any action or cause of action for the enforcement of the Indenture or the 2013 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 or the 2013 Indenture, provided, and that all proceedings shall be instituted, had and maintained in the manner provided in the Indenture and the 2013 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 2020 Restated Contract of Lease shall be paid into the Redemption Fund therefor as provided in the Indenture.

Nothing in the Indenture or the 2013 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 and the 2013 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 2020 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 2020 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 indenture 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 be prepared by the Authority and briefly set forth the nature of the proposed supplemental indenture 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.

Consent of Lessee; Approval by State

Anything herein to the contrary notwithstanding, a supplemental indenture under the Indenture which affects any rights of the Lessee shall not become effective unless and until the Lessee shall have consented to the execution of such supplemental indenture.

Before any supplemental indenture under the Indenture is entered into, the same must have been approved by the Treasurer of the State of Michigan or such state agency, if any, as shall have jurisdiction over the issuance of Bonds under Act 31, provided such approval is required by law.

Defeasance

Subject to the provisions of the 2013 Indenture with respect to defeasance of the Series 2013 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 2020 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 or the 2013 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 or the 2013 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 or the 2013 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 or the 2013 Indenture.

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APPENDIX D
FORM OF OPINION OF BOND COUNSEL

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FORM OF OPINION OF HAWKINS DELAFIELD & WOOD LLP

April 3, 2020

City of Flint Hospital Building Authority
Flint, Michigan

Ladies and Gentlemen:

As bond counsel to the City of Flint Hospital Building Authority (the “Authority”), we submit this opinion with respect to issuance by the Authority of its Building Authority Revenue and Revenue Refunding Bonds, Series 2020 (Hurley Medical Center) dated the date hereof, in the aggregate principal amount of \$45,830,000 (the “Bonds”). Capitalized terms used herein and not otherwise defined shall have the meanings assigned in the Indenture (as defined below).

The Bonds are being issued for the purpose of providing funds which will be used to (i) refund the Authority’s outstanding Building Authority Revenue Rental Bonds, Series 2010 (Hurley Medical Center) (the “Series 2010 Bonds”), which financed certain capital improvements to Hurley Medical Center, (ii) finance certain capital improvements to Hurley Medical Center, (iii) make a deposit to a debt service reserve fund for the Bonds and (iv) pay the costs incidental to the issuance of the Bonds.

The Bonds are issued, under and pursuant to Act No. 31, Michigan Public Acts of 1948 (First Extra Session), as amended (the “Act”), an authorizing resolution adopted by the Authority on December 4, 2019 (the “Authorizing Resolution”) and that certain Bond Resolution and Indenture of Trust, adopted by the Authority on December 4, 2019 (the “Indenture”), in anticipation of and are payable as to principal of, premium, if any, and interest from the proceeds of certain specified cash rentals to be paid by the Board of Hospital Managers (the “Board”), pursuant to that certain Ninth Amended and Restated Contract of Lease (Revenue Rental), dated as of April 1, 2020 (the “Contract of Lease”), between the Authority and the Board. By the terms of the Contract of Lease, the Board has obligated itself to make cash rentals payments to the Authority only out of the net revenues of Hurley Medical Center and all other health care facilities of the Board. Such obligation of the Board to pay the cash rentals is self-liquidating and does not constitute a full faith and credit general obligation of the City of Flint.

The Authority has pledged the cash rentals payable by the Board as set forth in the Contract of Lease and certain other funds and accounts as provided by the Indenture to payment of the principal of, premium, if any, and interest on the Bonds and any additional bonds and related obligations of equal standing issued as described in the Contract of Lease and the Indenture.

In rendering this opinion, we have reviewed a certified transcript of proceedings with respect to the Bonds, including a certified copy of the Authorizing Resolution, a certified copy of the Indenture, an executed counterpart of the Contract of Lease and the Tax Certificate of the Board and the Authority, dated

the date hereof (together with all attachments and exhibits, the "Tax Certificate"). We have also reviewed such other information, records, and documents as, in our judgment, are necessary or advisable to deliver the opinions expressed herein, and we have examined an executed Bond or a specimen thereof.

Based upon our examination, we are of the opinion that under existing law:

1. The Authority is a public body corporate of the State of Michigan (the "State"), is legally organized and validly existing under the Constitution and laws of the State, including particularly the Act and is legally authorized and empowered to adopt the Authorizing Resolution and the Indenture, to enter into the Contract of Lease and to issue and deliver the Bonds.

2. The Authorizing Resolution and the Indenture have been duly adopted by the Authority and are valid and binding actions of the Authority.

3. The Contract of Lease has been duly authorized, approved and executed by the Authority, and assuming proper authorization and execution by the Board, constitutes a valid and binding agreement of the Authority, enforceable in accordance with its terms.

4. The Indenture constitutes a valid and binding agreement of the Authority, enforceable in accordance with its terms.

5. The Bonds have been duly authorized, executed and delivered and are the valid and binding obligations of the Authority, payable from and secured by a lien on Cash Rentals (as defined in the Indenture), on a parity basis with the lien thereon securing certain other outstanding obligations of the Authority and any additional bonds of equal standing issued by the Authority after the date hereof as permitted by and pursuant to the Indenture, and the funds on deposit in the funds and accounts established under the Indenture, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

6. Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described below, (i) interest on the Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Code, and (ii) interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax under the Code. The Code establishes certain requirements that must be met subsequent to the issuance and delivery of the Bonds in order that, for federal income tax purposes, interest on the Bonds be excluded from gross income pursuant to Section 103 of the Code. These requirements include, but are not limited to, requirements relating to the use and expenditure of Bond proceeds, restrictions on the investment of Bond proceeds prior to expenditure and the requirement that certain earnings be rebated to the federal government. Noncompliance with such requirements may cause interest on the Bonds to become subject to federal income taxation retroactive to their date of issue, irrespective of the date on which such noncompliance occurs or is ascertained. On the date of delivery of the Bonds, the Authority and the Board will execute the Tax Certificate containing provisions and procedures pursuant to which such requirements can be satisfied. In executing the Tax Certificate, the Authority and the Board covenant that they will comply with the provisions and procedures set forth therein and that they will do and perform all acts and things necessary or desirable to assure that interest paid on the Bonds will, for federal income tax purposes, be excluded from gross income. In rendering the opinion in this paragraph 6 we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectation, and certifications of fact contained in the Tax Certificate with respect to matters affecting the status of interest paid on the Bonds, and (ii) compliance by the Board and the Authority with the procedures and covenants set forth in the Tax Certificate as to such tax matters.

7. Under existing statutes, the Bonds and the interest thereon are exempt from taxation by the State and by any other taxing authority within the State, except estate taxes and taxes on gains realized from the sale, payment or other disposition thereof.

We express no opinion as to any other federal, state or local tax consequences arising with respect to the Bonds, or the ownership or disposition thereof, except as stated in paragraphs 6 and 7 above. We render our opinion under existing statutes and court decisions as of the date hereof, and assume no obligation to update, revise or supplement our opinion to reflect any action hereafter taken or not taken, any fact or circumstance that may hereafter come to our attention, any change in law or interpretation thereof that may hereafter occur, or for any other reason. We express no opinion as to the consequence of any of the events described in the preceding sentence or the likelihood of their occurrence. In addition, we express no opinion on the effect of any action taken or not taken in reliance upon an opinion of other counsel regarding federal, state or local tax matters, including, without limitation, exclusion from gross income for federal income tax purposes of interest on the Bonds.

The enforceability of the rights and remedies set forth in the Authorizing Resolution, the Indenture, the Contract of Lease and the Bonds may be limited by bankruptcy, insolvency, fraudulent conveyance or other laws affecting creditors' rights generally and by the application of general principles of equity, including those relating to equitable subordination.

Respectfully submitted,

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APPENDIX E

FORM OF

DISCLOSURE DISSEMINATION AGENT AGREEMENT

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DISCLOSURE DISSEMINATION AGENT AGREEMENT

This Disclosure Dissemination Agent Agreement (the “Disclosure Agreement”), dated as of April 3, 2020, is executed and delivered by the Board of Hospital Managers, a board created pursuant to Section 6-201 of the Charter of the City of Flint, Michigan, as may be amended from time to time (the “Lessee”) and Digital Assurance Certification, L.L.C., as exclusive Disclosure Dissemination Agent (the “Disclosure Dissemination Agent” or “DAC”) for the benefit of the Holders (hereinafter defined) of the Bonds (hereinafter defined) and in order to provide certain continuing disclosure with respect to the Bonds in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time (the “Rule”).

SECTION 1. Definitions. Capitalized terms not otherwise defined in this Disclosure Agreement shall have the meaning assigned in the Rule or, to the extent not in conflict with the Rule, in the Official Statement (hereinafter defined). The capitalized terms shall have the following meanings:

“Annual Filing Date” means the date, set in Sections 2(a) and 2(f), by which the Annual Report is to be filed with the MSRB.

“Annual Financial Information” means annual financial information as such term is used in paragraph (b)(5)(i) of the Rule and specified in Section 3(a) of this Disclosure Agreement.

“Annual Report” means an Annual Report described in and consistent with Section 3 of this Disclosure Agreement.

“Audited Financial Statements” means the financial statements (if any) of the Lessee and the financial statements (if any) of HHS for the prior fiscal year, certified by an independent auditor as prepared in accordance with generally accepted accounting principles or otherwise, as such term is used in paragraph (b)(5)(i) of the Rule and specified in Section 3(b) of this Disclosure Agreement.

“Bonds” means the bonds as listed on the attached Exhibit A, with the 9-digit CUSIP numbers relating thereto.

“Certification” means a written certification of compliance signed by the Disclosure Representative stating that the Annual Report, Audited Financial Statements, Voluntary Report or Notice Event notice delivered to the Disclosure Dissemination Agent is the Annual Report, Audited Financial Statements, Voluntary Report or Notice Event notice required to be submitted to the MSRB under this Disclosure Agreement. A Certification shall accompany each such document submitted to the Disclosure Dissemination Agent by the Lessee and include the full name of the Bonds and the 9-digit CUSIP numbers for all Bonds to which the document applies.

“Disclosure Dissemination Agent” means Digital Assurance Certification, L.L.C, acting in its capacity as Disclosure Dissemination Agent hereunder, or any successor Disclosure Dissemination Agent designated in writing by the Lessee pursuant to Section 9 hereof.

“Disclosure Representative” means the Senior Vice President and Chief Financial Officer of Hurley Medical Center, or such other person as the Lessee shall designate in writing to the Disclosure Dissemination Agent from time to time as the person responsible for providing Information to the Disclosure Dissemination Agent.

“Financial Obligation” means (i) a debt obligation, (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for an existing or planned debt obligation, or (iii) a guarantee of (i) or (ii). The term “Financial Obligation” shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

“Fitch” shall mean Fitch, Inc. and its successors.

“Holder” means any person (a) having the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries) or (b) treated as the owner of any Bonds for federal income tax purposes.

“HHS” means Hurley Health Services, an affiliate of the Lessee.

“Information” means the Annual Financial Information, the Audited Financial Statements (if any), the Notice Event notices, the Quarterly Reports and the Voluntary Reports.

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

“MSRB” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934.

“Notice Event” means an event listed in Sections 5(a) of this Disclosure Agreement.

“Official Statement” shall mean the Official Statement for the Bonds dated March 11, 2020.

“Quarterly Report” shall mean any Quarterly Report provided by the Lessee pursuant to, and as described in Section 4 of this Disclosure Dissemination Agent Agreement.

“Quarterly Report Date” shall mean not later than 45 days after the end of each of the first three fiscal quarters, and 60 days after the end of the fourth quarter, commencing with the Lessee’s Quarterly Report for the fiscal quarter ended June 30, 2020.

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

“S & P” shall mean Standard & Poor’s Ratings Service and its successors.

“Trustee” means the institution identified as such in the document under which the Bonds were issued.

“Voluntary Report” means the information provided to the Disclosure Dissemination Agent by the Lessee pursuant to Section 7.

SECTION 2. Provision of Annual Reports.

(a) The Lessee is the only “obligated person” (as defined in the Rule) with respect to the Bonds. The Lessee shall provide, annually, an electronic copy of the Annual Report and Certification to the Disclosure Dissemination Agent, together with a copy for the Trustee, not later than the Annual Filing Date. Promptly upon receipt of an electronic copy of the Annual Report and the Certification, the Disclosure Dissemination Agent shall provide an Annual Report to the MSRB not later than the date five months after the first day of the Lessee’s fiscal year, commencing with the Lessee’s Annual Report for its fiscal year ended June 30, 2020. Such date and each anniversary thereof is the Annual Filing Date. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 3 of this Disclosure Agreement.

(b) If on the fifteenth (15th) day prior to the Annual Filing Date, the Disclosure Dissemination Agent has not received a copy of the Annual Report and Certification, the Disclosure Dissemination Agent shall contact the Disclosure Representative by telephone and in writing (which may be by e-mail) to remind the Lessee of its undertaking to provide the Annual Report pursuant to Section 2(a). Upon such reminder, the Disclosure Representative shall either (i) provide the Disclosure Dissemination Agent with an electronic copy of the Annual Report and the Certification) no later than two (2) business days prior to the Annual Filing Date, or (ii) instruct the Disclosure Dissemination Agent in writing that the Lessee will not be able to file the Annual Report within the time required under this Disclosure Agreement, state the date by which the Annual Report for such year will be provided and instruct the Disclosure Dissemination Agent that a Notice Event as described in Section 5(a)(12) has occurred and to immediately send a notice to the MSRB in substantially the form attached as Exhibit B.

(c) If the Disclosure Dissemination Agent has not received an Annual Report and Certification by 6:00 p.m. Eastern time on the Annual Filing Date (or, if such Annual Filing Date falls on a Saturday, Sunday or holiday, then the first business day thereafter) for the Annual Report, a Notice Event described in Section 5(a)(12) shall have occurred and the Lessee irrevocably directs the Disclosure Dissemination Agent to immediately send a notice to the MSRB in substantially the form attached as Exhibit B.

(d) If Audited Financial Statements of the Lessee are prepared but not available prior to the Annual Filing Date, the Lessee shall, when the Audited Financial Statements are available, provide in a timely manner an electronic copy to the Disclosure Dissemination Agent, accompanied by a Certificate, together with a copy for the Trustee, for filing with the MSRB.

(e) The Disclosure Dissemination Agent shall:

- (i) verify the filing specifications of the MSRB each year prior to the Annual Filing Date;;
- (ii) upon receipt, promptly file each Annual Report received under Section 2(a) with the MSRB;
- (iii) upon receipt, promptly file each Audited Financial Statement received under Section 2(d) with the MSRB;

- (iv) upon receipt, promptly file the text of each disclosure to be made with the MSRB together with a completed copy of the Event Notice Cover Sheet in the form attached as Exhibit C, describing the event by checking the applicable box on the Event Notice Cover Sheet for the applicable Notice Event as set forth in Section 5(a); and
- (v) provide the Lessee evidence of the filings of each of the above when made, which shall be by means of the DAC system, for so long as DAC is the Disclosure Dissemination Agent under this Disclosure Agreement.

(f) The Lessee may adjust the Annual Filing Date upon change of its fiscal year by providing written notice of such change and the new Annual Filing Date to the Disclosure Dissemination Agent, Trustee (if any) and the MSRB, provided that the period between the existing Annual Filing Date and new Annual Filing Date shall not exceed one year.

SECTION 3. Content of Annual Reports.

(a) Each Annual Report shall contain Annual Financial Information with respect to the Lessee, including updates to the information provided in Appendix A to the Official Statement under the headings:

- (1) Governance and Management;
- (2) Competition (information under chart outlining market share);
- (3) Medical Staff;
- (4) Historical Operations;
- (5) Summary Financial Information; and
- (8) Management's Discussion of Financial Performance.

(b) Audited Financial Statements prepared in accordance with generally accepted accounting principles ("GAAP") as described in the Official Statement will be included in the Annual Report. If audited financial statements are not available, then, unaudited financial statements, prepared in accordance with GAAP will be included in the Annual Report. Audited Financial Statements (if any) will be provided pursuant to Section 2(d).

Any or all of the items listed above may be included by specific reference from other documents, including official statements of debt issues with respect to which the Lessee is an "obligated person" (as defined by the Rule), which have been previously filed with the Securities and Exchange Commission or available on the MSRB Internet Website. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Lessee will clearly identify each such document so incorporated by reference.

Any annual financial information containing modified operating data or financial information is required to explain, in narrative form, the reasons for the modification and the impact of the change in the type of operating data or financial information being provided.

SECTION 4. Quarterly Report.

(a) The Disclosure Representative shall provide a Quarterly Report to the Dissemination Agent, together with a Quarterly Report Certificate, not later than each Quarterly Report Date.

(b) The Dissemination Agent shall provide the Quarterly Report, through the DAC system, to the MSRB, and the Trustee within five (5) Business Days after receipt thereof from the Disclosure Representative.

(c) The Dissemination Agent shall provide the Disclosure Representative and the Trustee with written confirmation that the Quarterly Report was provided to the MSRB and the Trustee in accordance with Section 5(b) hereof.

(d) If the Dissemination Agent shall not have received the Quarterly Report by the Quarterly Report Date, the Dissemination Agent shall so notify the Disclosure Representative, the MSRB and the Trustee within five (5) Business Days of the Quarterly Report Date, regardless of whether the Dissemination Agent shall have received the Quarterly Report during the period between the Quarterly Report Date and such fifth Business Day. Such notice shall be in substantially the form attached hereto as **Exhibit D**.

(e) The Lessee's Quarterly Report shall contain (i) unaudited interim consolidated financial statements of the Lessee and of HHS for the immediately preceding fiscal quarter prepared in a format substantially similar to the Lessee's or HHS's, as applicable, audited financial statement but excluding notes, (ii) utilization statistics in a format substantially similar to the format displayed under "Historical Operations - Utilization" in Appendix A to the Official Statement, (iii) payer mix data in a format substantially similar to the format displayed under "Historical Operations - Sources of Patient Service Revenue" in Appendix A to the Official Statement and (iv) a discussion of Lessee's financial performance in content and format similar to the information displayed under "Management's Discussion of Financial Performance" in Appendix A to the Official Statement.

(f) The Lessee agrees that as long as the Bonds are rated at or below "**Ba1/BB+**" or their equivalent, by any two or more Rating Agencies then rating the Bonds, the Lessee 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 Bonds, upgrade their respective ratings on the Bonds to "**Baa3/BBB-**" or their equivalent, then the Lessee agrees to hold such telephonic conference calls semi-annually after the filing of the Quarterly Reports for each of the Lessee's second and fourth fiscal quarters. In the event that any two Rating Agencies then rating the Bonds upgrade their respective ratings of the Bonds to "**Baa1/BBB+**" or their equivalent, then the Lessee agrees to hold such telephonic conference calls annually after the filing of the Annual Report. The Lessee agrees that at least ten (10) days prior to a telephonic conference call, it shall file or cause the Disclosure 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. In the event that any two Rating Agencies then rating the Bonds upgrade their respective ratings of the Bonds to **A3/A-** or higher or their equivalent, then the Lessee shall no longer be required to hold

any such telephonic conference call. If there shall be only one Rating Agency, then such credit rating shall determine the frequency of the telephonic conference calls or whether the Lessee is required to hold any such telephonic conference calls.

SECTION 5. Reporting of Notice Events.

(a) The occurrence of any of the following events, if material, with respect to the Bonds constitutes a Notice Event:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults, if material;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements relating to the Bonds reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. “Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax-exempt status of the Bonds;
7. Modifications to rights of Bond holders, if material;
8. Bond calls, if material and tender offers;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the Bonds, if material;
11. Rating changes on the Bonds;
12. Bankruptcy, insolvency, receivership or similar event of the Lessee, the City of Flint, Michigan or HHS;
13. The consummation of a merger, consolidation or acquisition involving the Lessee or the sale of all or substantially all of the assets of the Lessee, other than in the ordinary course of business, the entry into a definitive agreement to undertake such action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material;

15. Incurrence of a Financial Obligation of the Lessee, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the Lessee, any of which affect Holders, if material;
16. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the Lessee, any of which reflect financial difficulties; and
17. Failure to provide annual financial information as required.

Note to paragraph (12): For the purposes of the event identified in subparagraph (12), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

The Lessee shall, in a timely manner not in excess of ten business days after its occurrence, notify the Disclosure Dissemination Agent in writing upon the occurrence of a Notice Event. Such notice shall instruct the Disclosure Dissemination Agent to report the occurrence pursuant to subsection (c). Such notice shall be accompanied with the text of the disclosure that the Lessee desires to make, the written authorization of the Lessee for the Disclosure Dissemination Agent to disseminate such information, and the date the Lessee desires for the Disclosure Dissemination Agent to disseminate the information.

(b) The Disclosure Dissemination Agent is under no obligation to notify the Lessee or the Disclosure Representative of an event that may constitute a Notice Event. In the event the Disclosure Dissemination Agent so notifies the Disclosure Representative, the Disclosure Representative will within five business days of receipt of such notice, instruct the Disclosure Dissemination Agent that (i) a Notice Event has not occurred and no filing is to be made or (ii) a Notice Event has occurred and the Disclosure Dissemination Agent is to report the occurrence pursuant to subsection (c), together with the text of the disclosure that the Lessee desires to make, the written authorization of the Lessee for the Disclosure Dissemination Agent to disseminate such information, and the date the Lessee desires for the Disclosure Dissemination Agent to disseminate the information.

(c) If the Disclosure Dissemination Agent has been instructed by the Lessee as prescribed in subsection (a) or (b)(ii) of this Section 5 to report the occurrence of a Notice Event, the Disclosure Dissemination Agent shall promptly file a notice of such occurrence with the MSRB.

SECTION 6. CUSIP Numbers. Whenever providing information to the Disclosure Dissemination Agent, including but not limited to Annual Reports, documents incorporated by reference to the Annual Reports, Audited Financial Statements, notices of Notice Events, and

Voluntary Reports filed pursuant to Section 7(a), the Lessee shall indicate the full name of the Bonds and the 9-digit CUSIP numbers for the Bonds as to which the provided information relates.

SECTION 7. Additional Disclosure Obligations. The Lessee acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Lessee, and that the failure of the Disclosure Dissemination Agent to so advise the Lessee shall not constitute a breach by the Disclosure Dissemination Agent of any of its duties and responsibilities under this Disclosure Agreement. The Lessee acknowledges and understands that the duties of the Disclosure Dissemination Agent relate exclusively to execution of the mechanical tasks of disseminating information as described in this Disclosure Agreement.

SECTION 8. Voluntary Reports.

(a) The Lessee may instruct the Disclosure Dissemination Agent to file information with the MSRB, from time to time pursuant to a Certification of the Disclosure Representative accompanying such information (a “Voluntary Report”).

(b) Nothing in this Disclosure Agreement shall be deemed to prevent the Lessee from disseminating any other information through the Disclosure Dissemination Agent using the means of dissemination set forth in this Disclosure Agreement or including any other information in any Annual Report, Annual Financial Statement, Voluntary Report or Notice Event notice, in addition to that required by this Disclosure Agreement. If the Lessee chooses to include any information in any Annual Report, Annual Financial Statement, Voluntary Report or Notice Event notice in addition to that which is specifically required by this Disclosure Agreement, the Lessee shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report, Annual Financial Statement, Voluntary Report or Notice Event notice.

SECTION 9. Termination of Reporting Obligation. The obligations of the Lessee and the Disclosure Dissemination Agent under this Disclosure Agreement shall terminate with respect to the Bonds upon the legal defeasance, prior redemption or payment in full of all of the Bonds, when the Lessee is no longer an obligated person with respect to the Bonds, or upon delivery by the Disclosure Representative to the Disclosure Dissemination Agent of an opinion of nationally recognized bond counsel to the effect that continuing disclosure is no longer required.

SECTION 10. Disclosure Dissemination Agent. The Lessee has appointed Digital Assurance Certification, L.L.C. as exclusive Disclosure Dissemination Agent under this Disclosure Agreement. The Lessee may, upon thirty days written notice to the Disclosure Dissemination Agent and the Trustee, replace or appoint a successor Disclosure Dissemination Agent. Upon termination of DAC’s services as Disclosure Dissemination Agent, whether by notice of the Lessee or DAC, the Lessee agrees to appoint a successor Disclosure Dissemination Agent or, alternately, agrees to assume all responsibilities of Disclosure Dissemination Agent under this Disclosure Agreement for the benefit of the Holders of the Bonds. Notwithstanding any replacement or appointment of a successor, the Lessee shall remain liable until payment in full for any and all sums owed and payable to the Disclosure Dissemination Agent. The

Disclosure Dissemination Agent may resign at any time by providing thirty days' prior written notice to the Lessee.

SECTION 11. Remedies in Event of Default. In the event of a failure of the Lessee or the Disclosure Dissemination Agent to comply with any provision of this Disclosure Agreement, the Holders' rights to enforce the provisions of this Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the parties' obligation under this Disclosure Agreement. Any failure by a party to perform in accordance with this Disclosure Agreement shall not constitute a default on the Bonds or under any other document relating to the Bonds, and all rights and remedies shall be limited to those expressly stated herein.

SECTION 12. Duties, Immunities and Liabilities of Disclosure Dissemination Agent.

(a) The Disclosure Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement. The Disclosure Dissemination Agent's obligation to deliver the information at the times and with the contents described herein shall be limited to the extent the Lessee has provided such information to the Disclosure Dissemination Agent as required by this Disclosure Agreement. The Disclosure Dissemination Agent shall have no duty with respect to the content of any disclosures or notice made pursuant to the terms hereof. The Disclosure Dissemination Agent shall have no duty or obligation to review or verify any Information or any other information, disclosures or notices provided to it by the Lessee and shall not be deemed to be acting in any fiduciary capacity for the Lessee, the Holders of the Bonds or any other party. The Disclosure Dissemination Agent shall have no responsibility for the Lessee's failure to report to the Disclosure Dissemination Agent a Notice Event or a duty to determine the materiality thereof. The Disclosure Dissemination Agent shall have no duty to determine, or liability for failing to determine, whether the Lessee has complied with this Disclosure Agreement. The Disclosure Dissemination Agent may conclusively rely upon certifications of the Lessee at all times.

The obligations of the Lessee under this Section shall survive resignation or removal of the Disclosure Dissemination Agent and defeasance, redemption or payment of the Bonds.

(b) The Disclosure Dissemination Agent may, from time to time, consult with legal counsel (either in-house or external) of its own choosing in the event of any disagreement or controversy, or question or doubt as to the construction of any of the provisions hereof or its respective duties hereunder, and shall in no event incur any liability and shall be fully protected in acting in good faith upon the advice of such legal counsel. The reasonable fees and expenses of such counsel shall be payable by the Lessee.

(c) All documents, reports, notices, statements, information and other materials provided to the MSRB under this Agreement shall be provided in an electronic format and accompanied by identifying information as prescribed by the MSRB through the Electronic Municipal Market Access system of the MSRB, or such other system, internet web site, or repository hereafter described by the MSRB for submission of electronic filing pursuant to the Rule.

SECTION 13. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Lessee and the Disclosure Dissemination Agent may amend this

Disclosure Agreement and any provision of this 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 Lessee and the Disclosure 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 herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule; provided neither the Lessee or the Disclosure Dissemination Agent shall be obligated to agree to any amendment modifying their respective duties or obligations without their consent thereto.

Notwithstanding the preceding paragraph, the Disclosure Dissemination Agent shall have the right to adopt amendments to this Disclosure Agreement necessary to comply with modifications to and interpretations of the provisions of the Rule as announced by the Securities and Exchange Commission from time to time by giving not less than 20 days written notice of the intent to do so together with a copy of the proposed amendment to the Lessee. No such amendment shall become effective if the Lessee shall, within 10 days following the giving of such notice, send a notice to the Disclosure Dissemination Agent in writing that it objects to such amendment.

SECTION 14. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Lessee, the Trustee of the Bonds, the Disclosure Dissemination Agent, the underwriter, and the Holders from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 15. Governing Law. This Disclosure Agreement shall be governed by the laws of the State of Michigan (other than with respect to conflicts of laws).

SECTION 16. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

The Disclosure Dissemination Agent and the Lessee have caused this Continuing Disclosure Agreement to be executed, on the date first written above, by their respective officers duly authorized.

DIGITAL ASSURANCE CERTIFICATION, L.L.C.,
as Disclosure Dissemination Agent

By: _____
Name: _____
Title: _____

Board of Hospital Managers of the City of Flint,
Michigan,
as Lessee

By: _____
Name:
Title: Authorized Representative

EXHIBIT A

NAME AND CUSIP NUMBERS OF BONDS

Name of Issuer	City of Flint Hospital Building Authority
Obligated Person(s)	Board of Hospital Managers of City of Flint, Michigan
Name of Bond Issue:	\$45,830,000 Building Authority Revenue and Revenue Refunding Bonds, Series 2020 (Hurley Medical Center) (the “Series 2020 Bonds”)
Date of Issuance:	April 3, 2020
Date of Official Statement:	March 11, 2020

CUSIP Numbers

339511EG8
339511EH6
339511EJ2
339511EK9
339511EL7
339511EM5
339511EN3
339511EP8
339511EQ6
339511ER4
339511ES2
339511ET0
339511EU7
339511EV5
339511EW3
339511EX1
339511EZ6
339511EY9

EXHIBIT C
EVENT NOTICE COVER SHEET

This cover sheet and material event notice will be sent to the MSRB pursuant to Securities and Exchange Commission Rule 15c2-12(b)(5)(i)(C) and (D).

Issuer's and/or Other Obligated Person's Name:

City of Flint Hospital Building Authority/City of Flint, Michigan, acting by and through its Board of Hospital Managers

Issuer's Six-Digit CUSIP Number: _____

or Nine-Digit CUSIP Number(s) of the bonds to which this material event notice relates:

Number of pages of attached: _____

____ Description of Material Event Notice (Check One):

1. Principal and interest payment delinquencies
2. Non-Payment related defaults
3. Unscheduled draws on debt service reserves reflecting financial difficulties
4. Unscheduled draws on credit enhancements reflecting financial difficulties
5. Substitution of credit or liquidity providers, or their failure to perform
6. Adverse tax opinions or events affecting the tax-exempt status of the security
7. Modifications to rights of securities holders
8. Bond calls
9. Defeasances
10. Release, substitution, or sale of property securing repayment of the securities
11. Rating changes
12. Bankruptcy, insolvency, receivership or similar event
13. Consummation of a merger, consolidation or acquisition involving an obligated person, entry into a definitive agreement to undertake such action or the termination of a definite agreement relating to any such actions
14. Appointment of a successor or additional trustee or the change of name of a trustee
15. Incurrence of a Financial Obligation, of the Lessee, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the Issuer, any of which affect Holders, if material
16. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the Lessee, any of which reflect financial difficulties
17. Other material event notice (specify) _____

____ Failure to provide annual financial information as required

I hereby represent that I am authorized by the Lessee or its agent to distribute this information publicly:

Signature:

Name: _____ Title: _____

Employer: Digital Assurance Certification, L.L.C.

Address: _____

City, State, Zip Code: _____

Voice Telephone Number: _____

EXHIBIT D

NOTICE TO MSRB OF FAILURE TO FILE QUARTERLY REPORT

Name of Obligated Person: Board of Hospital Managers of the City of Flint, Michigan

Name of Bonds: \$45,830,000 Building Authority Revenue and Revenue Refunding Bonds, Series 2020 (Hurley Medical Center)

Date of Issuance: April 3, 2020

NOTICE IS HEREBY GIVEN that the above-named Obligated Person has not provided a Quarterly Report with respect to the above-named Bonds as of _____, _____, which is the date as of which the Quarterly Report is required by the Disclosure Dissemination Agent Agreement dated as of April 1, 2020 to be provided. The Obligated Person anticipates that the Quarterly Report will be filed by _____.

Dated: _____

Digital Assurance Certification, L.L.C.

By _____

cc: Disclosure Representative
Trustee

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HURLEY

MEDICAL CENTER



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