

*In the opinion of Bond Counsel, under existing law as presently interpreted (i) interest on the Bonds is excluded from gross income for federal income tax purposes, (ii) interest on the Bonds is not an item of tax preference for purposes of the alternative minimum tax, and (iii) the Bonds and the interest thereon are exempt from all state, city, county and other taxation provided by the laws of the State of Michigan, except estate, inheritance and gift taxes and taxes on transfers, in each case to the extent and subject to the conditions described under "TAX MATTERS" herein.*

**\$32,880,000**

**COUNTY OF GRAND TRAVERSE HOSPITAL FINANCE AUTHORITY**  
**\$18,360,000 Revenue Bonds (Munson Healthcare Obligated Group), Series 2019A**  
**\$14,520,000 Revenue Bonds (Munson Healthcare Obligated Group), Series 2019B**

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

The County of Grand Traverse Hospital Finance Authority's Revenue Bonds (Munson Healthcare Obligated Group), Series 2019A and 2019B (the "Bonds") are issuable only as fully registered bonds and, when issued, will be registered in the name of and held by Cede & Co., as nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds, and individual purchases of the Bonds will be made in book-entry only form, as described herein. Principal of and interest on the Bonds will be payable by the Bond Trustee to DTC. Subsequent disbursements of such principal and interest will be made to the individual purchasers of beneficial interests in the Bonds pursuant to DTC policies, as described herein. So long as Cede & Co. is the registered owner of the Bonds, references herein to the holders or registered owners of the Bonds shall mean Cede & Co. and shall not mean the beneficial owners of the Bonds. See "THE BONDS - Book-Entry Only System."

The Bonds will be issued in denominations of \$5,000 or integral multiples of \$5,000 and will bear interest payable on each January 1 and July 1, commencing July 1, 2019. The Bonds are subject to optional, mandatory and extraordinary redemption prior to their respective maturities, as described in this Official Statement.

The Bonds are being issued to provide funds which will be loaned by the County of Grand Traverse Hospital Finance Authority (the "Authority") to certain Members of the Obligated Group (as defined herein) to be used, together with other available funds, to (i) refinance a taxable obligation of Munson Healthcare issued for the benefit of Munson Healthcare Manistee Hospital, a portion of which will be treated as an acquisition financing for federal tax purposes; (ii) finance the acquisition, construction, renovation, and equipping of hospital facilities located in Manistee, Michigan; (iii) refinance a taxable obligation of Munson Healthcare Otsego Memorial Hospital, the proceeds of which were used to acquire a facility located in Gaylord, Michigan that is used for physical and occupational therapy; (iv) finance the renovation, construction, expansion, and equipping of hospital facilities located in Gaylord, Michigan; and (v) pay the costs of issuing the Bonds.

The principal of and interest on the Series 2019A Bonds are payable from payments to be made on Note No. 29, an obligation of

**MUNSON HEALTHCARE OBLIGATED GROUP**  
**Traverse City, Michigan**

issued to the Authority under the Master Indenture dated as of August 1, 1992, as supplemented, (the "Master Indenture") among The Bank of New York Mellon Trust Company, N.A. (successor to NBD Bank, N.A.), as Master Trustee, and Munson Medical Center, Munson Healthcare, North Flight, Inc., Munson Mobile Imaging and Munson Home Services.

The principal of and interest on the Series 2019B Bonds are payable from payments to be made on Note No. 30, an obligation of the Obligated Group issued to the Authority under the Master Indenture by the Munson Healthcare Obligated Group.

**The Authority has no taxing power. The Bonds will be limited obligations of the Authority and will not constitute general obligations of the Authority or debt of the County of Grand Traverse, the State of Michigan or any political subdivision thereof within the meaning of any constitutional, charter or statutory limitation.**

The Bonds will bear interest at the fixed rates of interest and will mature on the dates and in the amounts set forth on the inside cover page.

The Bonds are offered subject to prior sale, when, as and if issued by the Authority and accepted by the Underwriter, subject to certain conditions, including the approval of legality by Miller, Canfield, Paddock and Stone, P.L.C., Ann Arbor, Michigan, Bond Counsel, and the approval of certain legal matters by Rachael Roe, Vice President and General Counsel for the Obligated Group, by Dykema Gossett PLLC, Lansing, Michigan, counsel for the Underwriter and by Clark Hill PLC, Detroit, Michigan, counsel for the Authority. It is expected that the Bonds in definitive form will be available for delivery to DTC in New York, New York, on or about January 16, 2019.

This cover page contains certain information for quick reference only. It is not intended to be a summary of the security or terms of this bond issue. Investors are instructed to read this entire Official Statement to obtain information essential to making an informed investment decision.

**Barclays**

**\$18,360,000 Revenue Bonds (Munson Healthcare Obligated Group), Series 2019A**

<b>Maturity (July 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Price or Yield</b>	<b>CUSIP<sup>†</sup></b>	<b>Maturity (July 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Price or Yield</b>	<b>CUSIP<sup>†</sup></b>
2020	\$270,000	5.000%	2.110%	386523GE8	2027	\$385,000	5.000%	2.910%	386523GM0
2021	285,000	5.000	2.190	386523GF5	2028	405,000	5.000	2.990	386523GN8
2022	300,000	5.000	2.300	386523GG3	2029	425,000	5.000	3.110 <sup>c</sup>	386523GP3
2023	315,000	5.000	2.440	386523GH1	2030	445,000	5.000	3.200 <sup>c</sup>	386523GQ1
2024	330,000	5.000	2.560	386523GJ7	2031	470,000	5.000	3.280 <sup>c</sup>	386523GR9
2025	345,000	5.000	2.680	386523GK4	2032	495,000	5.000	3.350 <sup>c</sup>	386523GS7
2026	365,000	5.000	2.810	386523GL2	2033	520,000	5.000	3.430 <sup>c</sup>	386523GT5

\$1,720,000 5.000% Term Bonds Due July 1, 2036; Yield 3.620%<sup>c</sup>; CUSIP<sup>†</sup> 386523GU2

\$1,995,000 5.000% Term Bonds Due July 1, 2039; Yield 3.750%<sup>c</sup>; CUSIP<sup>†</sup> 386523GV0

\$4,065,000 5.000% Term Bonds Due July 1, 2044; Yield 3.840%<sup>c</sup>; CUSIP<sup>†</sup> 386523GW8

\$5,225,000 5.000% Term Bonds Due July 1, 2049; Yield 3.930%<sup>c</sup>; CUSIP<sup>†</sup> 386523GX6

**\$14,520,000 Revenue Bonds (Munson Healthcare Obligated Group), Series 2019B**

<b>Maturity (July 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Price or Yield</b>	<b>CUSIP<sup>†</sup></b>	<b>Maturity (July 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Price or Yield</b>	<b>CUSIP<sup>†</sup></b>
2020	\$220,000	5.000%	2.110%	386523GY4	2027	\$310,000	5.000%	2.910%	386523HF4
2021	230,000	5.000	2.190	386523GZ1	2028	330,000	5.000	2.990	386523HG2
2022	245,000	5.000	2.300	386523HA5	2029	345,000	5.000	3.110 <sup>c</sup>	386523HH0
2023	255,000	5.000	2.440	386523HB3	2030	360,000	5.000	3.200 <sup>c</sup>	386523HJ6
2024	270,000	5.000	2.560	386523HC1	2031	380,000	5.000	3.280 <sup>c</sup>	386523HK3
2025	280,000	5.000	2.680	386523HD9	2032	400,000	5.000	3.350 <sup>c</sup>	386523HL1
2026	295,000	5.000	2.810	386523HE7	2033	420,000	5.000	3.430 <sup>c</sup>	386523HM9

\$1,395,000 5.000% Term Bonds Due July 1, 2036; Yield 3.620%<sup>c</sup>; CUSIP<sup>†</sup> 386523HN7

\$1,625,000 5.000% Term Bonds Due July 1, 2039; Yield 3.750%<sup>c</sup>; CUSIP<sup>†</sup> 386523HP2

\$7,160,000 4.000% Term Bonds Due July 1, 2049; Yield 4.160%<sup>c</sup>; CUSIP<sup>†</sup> 386523HQ0

<sup>c</sup> Priced to the first call date of July 1, 2028.

<sup>†</sup> Registered trademark of American Bankers Association. CUSIP data herein is provided by Standard and Poor's CUSIP Service Bureau, a division of the McGraw Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP service. CUSIP numbers are provided for reference only. Neither the Authority, the Trustee nor the Underwriter takes any responsibility for the accuracy of such numbers.

The information contained herein under the heading "The Authority" has been furnished by the Authority. All other information contained herein has been obtained from the Obligated Group (see the caption "Other Matters" herein) and other sources (other than the Authority) which are believed to be reliable. Such other information is not guaranteed as to accuracy or completeness by, and is not to be relied upon as or construed as a promise or representation by, the Authority. None of the information contained in this Official Statement has been supplied or verified by the Master Trustee or the Bond Trustee, and the Master Trustee and the Bond Trustee make no representation, warranty or guarantee as to the accuracy or completeness of any information in this Official Statement.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with and as 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 and nothing contained in this Official Statement is or shall be relied upon as a promise or representation by the Underwriter.

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

**IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF 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.**

No dealer, broker, salesperson or other person has been authorized by the Authority, the Obligated Group, 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 information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Authority or the Obligated Group, since the date hereof.

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

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## **OFFICIAL STATEMENT**

**\$32,880,000**

### **COUNTY OF GRAND TRAVERSE HOSPITAL FINANCE AUTHORITY**

**\$18,360,000 Revenue Bonds (Munson Healthcare Obligated Group), Series 2019A**

**\$14,520,000 Revenue Bonds (Munson Healthcare Obligated Group), Series 2019B**

### **INTRODUCTORY STATEMENT**

The following introductory statement is subject in all respects to more complete information contained in this Official Statement. The entire Official Statement including the Appendices attached hereto should be read by any prospective purchaser of the Bonds. No person is authorized to detach this introductory statement from this Official Statement or to otherwise use it without this entire Official Statement including the Appendices attached hereto. Capitalized terms are defined elsewhere in this Official Statement. Additionally, see “Definitions” in Appendix C SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE, THE SUPPLEMENTAL INDENTURES, THE LOAN AGREEMENTS AND THE BOND INDENTURES AND DEFINITIONS OF CERTAIN TERMS USED THEREIN AND IN THE OFFICIAL STATEMENT (“Appendix C”).

#### **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 by the County of Grand Traverse Hospital Finance Authority (the “Authority”) of its (i) \$18,360,000 Revenue Bonds (Munson Healthcare Obligated Group), Series 2019A (the “Series 2019A Bonds”) and (ii) \$14,520,000 Revenue Bonds (Munson Healthcare Obligated Group), Series 2019B (the “Series 2019B Bonds” and together with the Series 2019A Bonds, the “Bonds”), to be issued pursuant to two separate Bond Indentures (the “Bond Indentures”) each dated as of January 1, 2019 between the Authority and The Bank of New York Mellon Trust Company, N.A., as bond trustee (the “Bond Trustee”), and a resolution authorizing the issuance of the Bonds adopted by the Authority. The proceeds of the Bonds will provide funds to be loaned by the Authority to certain members of the Munson Healthcare Obligated Group pursuant to two separate loan agreements with respect to the Bonds, each dated as of January 1, 2019 (the “Loan Agreements”) between the Authority and Munson Healthcare, for itself and as Obligated Group Agent on behalf of the other Members of the Obligated Group (as defined below).

#### **The Authority**

The Authority is the issuer of the Bonds. The Authority was created by the County of Grand Traverse, Michigan (the “County”) in 1985 to lend money to assist nonpublic, nonprofit hospitals to provide facilities and services for health care delivery. See “THE AUTHORITY” herein.

#### **Munson Healthcare Obligated Group**

The Munson Healthcare Obligated Group consists of Munson Healthcare, a Michigan nonprofit corporation (“Munson Healthcare” or the “Obligated Group Agent”), and the following thirteen nonprofit subsidiaries of Munson Healthcare: Munson Medical Center (the “Hospital”), Paul Oliver Memorial Hospital, Munson Healthcare Cadillac, Munson Healthcare Grayling, Munson Healthcare Otsego Memorial Hospital, Munson Healthcare Manistee Hospital, Munson Healthcare Charlevoix Hospital, Munson Home Health, Munson Home Care, Munson Home Services, North Flight, Inc., Munson

Healthcare Foundations and Munson Healthcare Otsego Memorial Hospital Foundation, which are collectively referred to as the “Members of the Obligated Group.” Each entity which becomes obligated under the Master Indenture is a “Member of the Obligated Group,” and all Members of the Obligated Group collectively constitute the “Obligated Group.” Membership of the Obligated Group may change in accordance with the provisions of the Master Indenture (as defined below).

### **Plan of Financing**

The proceeds from the sale of the Bonds will be loaned to certain Members of the Obligated Group and will be used, together with other available funds, to (i) refinance a taxable obligation of Munson Healthcare issued for the benefit of Munson Healthcare Manistee Hospital, a portion of which will be treated as an acquisition financing for federal tax purposes; (ii) finance the acquisition, construction, renovation, and equipping of hospital facilities located in Manistee, Michigan; (iii) refinance a taxable obligation of Munson Healthcare Otsego Memorial Hospital, the proceeds of which were used to acquire a facility located in Gaylord, Michigan that is used for physical and occupational therapy; (iv) finance the renovation, construction, expansion, and equipping of hospital facilities located in Gaylord, Michigan; and (v) pay the costs of issuing the Bonds.

### **Payment Provisions Relating To The Bonds**

The Bonds are limited obligations of the Authority, secured by and payable solely from the sources described in the Bond Indentures. Pursuant to each Bond Indenture, the Authority will pledge certain of the funds and accounts created under each Bond Indenture and its interest in the related Loan Agreement, under the terms of which the Obligated Group will agree to make loan repayments in amounts and at times which will enable the Authority to pay the principal or redemption price of and interest on each series of the Bonds. The payment obligations of the Obligated Group under the Loan Agreements will be evidenced by two promissory notes issued under the Master Indenture (as defined below) to be executed and delivered by the Obligated Group to the Authority, which are Note No. 29 and Note No. 30 (collectively, the “Notes”) and which will be secured, on a parity with any other Obligations issued under the Master Indenture. The Bonds of each series are payable solely from certain funds and accounts created under the related Bond Indenture (but excluding Authority operating funds), and from payments made on the corresponding Note. Payments by the Obligated Group on each Note will be required to be sufficient to pay the principal of, redemption premium, if any, and interest on the respective series of Bonds related to each Note, together with the fees of the Authority.

The Notes will be issued under a Master Indenture, dated as of August 1, 1992, as previously supplemented, and as supplemented by Supplemental Indentures Number 29 and 30 to the Master Indenture, each dated as of January 1, 2019 (collectively, the “Supplemental Indentures”), among Munson Medical Center, Munson Healthcare, North Flight, Inc., Munson Mobile Imaging and Munson Home Services and The Bank of New York Mellon Trust Company, N.A. (successor to NBD Bank, N.A.) (the “Master Trustee”), (collectively, the “Master Indenture”). The Master Indenture provides for the issuance of additional obligations for any purpose upon compliance with the provisions of the Master Indenture.

The Bonds are limited obligations of the Authority not constituting a general obligation and do not constitute or create any debt or debts, liability or liabilities on behalf of the County or the State of Michigan or any political subdivision thereof, or a loan of the credit of the State or a pledge of the faith and credit of the State of Michigan or of any other political subdivision, but are payable solely from the funds provided under the Master Indenture, the Supplemental Indentures, the Loan Agreements and the Bond Indentures. The issuance of the Bonds under the Bond Indentures will not directly or indirectly or contingently obligate the State of Michigan, the County or any other political subdivision of the State of

Michigan to levy or to pledge any form of taxation whatever therefor, or to make any appropriation for their payment. The Authority has no taxing power.

### **Interest Rate and Redemption**

The Bonds will bear interest at the fixed rates of interest set forth on the inside cover page of this Official Statement and shall be subject to redemption prior to maturity as described below.

### **Rate Covenant**

In the Master Indenture, the Obligated Group has agreed to maintain Total Net Revenue in each Fiscal Year equal to at least 1.10 times the Maximum Total Principal and Interest Requirements. A more detailed description of the rate covenant is included under the subcaption “Debt Service Coverage Ratio” under “THE MASTER INDENTURE - Particular Covenants of Each Member of the Obligated Group” in Appendix C.

### **Additional Indebtedness**

The Master Indenture permits the Members of the Obligated Group to issue Additional Indebtedness upon compliance with the terms and conditions and for the purposes described under “Limitations on Incurrence of Additional Indebtedness” under “THE MASTER INDENTURE - Particular Covenants of Each Member of the Obligated Group” in Appendix C. Such Additional Indebtedness may be issued as an Obligation under the Master Indenture or as other Indebtedness and may be secured or unsecured.

### **Plans for Additional Indebtedness**

The Obligated Group intends to incur Additional Indebtedness in January, 2019 through the issuance of the Authority’s Revenue Refunding Bonds (Munson Healthcare Obligated Group), Series 2019C in the approximate amount of \$22,000,000, the proceeds of which will be used to refund the Authority’s Revenue Refunding Bonds (Munson Healthcare Obligated Group), Series 2011C, which are currently outstanding in the principal amount of \$22,000,000.

### **Bondholders’ Risks**

There are risks associated with the purchase of the Bonds. See the caption “BONDHOLDERS’ RISKS” for a discussion of certain of these risks.

### **Defined Terms**

All capitalized terms used in this Official Statement, unless otherwise defined or the context otherwise indicates, shall have the same meanings as in the Master Indenture, the Supplemental Indentures, the Loan Agreements and the Bond Indentures. Certain of these definitions are summarized in Appendix C.

### **Underlying Documents**

The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document for the complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each such document. Copies of the Master Indenture, the Supplemental Indentures, the Loan Agreements and the Bond Indentures are available in reasonable quantities upon request to the Obligated Group.

## THE AUTHORITY

The Authority was created by the County in 1985 pursuant to the Hospital Finance Authority Act (Act No. 38, Public Acts of Michigan, 1969), as amended (the “Act”), to provide a method to enable nonprofit, private hospitals to provide facilities and services for health care delivery. The Authority is authorized by the Act to issue revenue bonds and revenue notes to provide funds for financing or refinancing costs of construction, acquisition, improvement, alteration, repair, equipping, owning and leasing hospital facilities.

The business of the Authority is conducted by a five-member Board of Commissioners (the “Commissioners”). Pursuant to the Act, each Commission Member is appointed by the governing body of the County. The current members of the Commission, the Commission offices they hold (if any) and the expiration dates of their current terms as members of the Commission are as follows:

<u>Name and Office</u>	<u>Term Expires</u>	<u>Principal Occupation</u>
Heidi Scheppe, Chairperson	June 30, 2019	Grand Traverse County – Treasurer
Cheryl Wolf, Secretary	June 30, 2022	Grand Traverse County – Deputy Finance Director
Dale Sterrett, Treasurer	June 30, 2020	Consultant
Kory Hansen	June 30, 2023	G T Pavilions – Executive Administrator
Vacancy		

## MUNSON HEALTHCARE OBLIGATED GROUP

The Obligated Group consists of Munson Healthcare, and the following thirteen Michigan nonprofit corporations that are subsidiaries of Munson Healthcare: Munson Medical Center, Paul Oliver Memorial Hospital, Munson Healthcare Cadillac, Munson Healthcare Grayling, Munson Healthcare Otsego Memorial Hospital, Munson Healthcare Manistee Hospital, Munson Healthcare Charlevoix Hospital, Munson Home Health, Munson Home Care, Munson Home Services, North Flight, Inc., Munson Healthcare Foundations and Munson Healthcare Otsego Memorial Hospital Foundation. See Appendix A for information about the history, organization, management, facilities and operations of the Hospital and the other Members of the Obligated Group.

Other entities may become Members of the Obligated Group, and any present or future member may withdraw from the Obligated Group, upon terms and conditions provided in the Master Indenture. See Appendix C.

## THE BONDS

### Description of the Bonds

The Bonds will be dated their date of issuance and will bear interest at the rates and on the dates and shall mature in the amounts and on the dates set forth on the inside cover page of this Official Statement. The Bonds shall be subject to redemption prior to maturity as described below.

Subject to the provisions described below under “Book-Entry Only System,” the Bonds will be issued as fully registered Bonds in denominations of \$5,000 or integral multiples thereof, the principal of and any redemption premium, if any, on the Bonds will be payable upon surrender thereof at the corporate trust office of the Bond Trustee, and interest will be payable by check or draft mailed by the Bond Trustee to the registered owners of the Bonds as shown on the registration books of the Authority maintained at the office of the Bond Trustee as of the close of business on the 15th day of the calendar month preceding the calendar month in which the interest payment is due. The Bond Trustee also may



pay interest and the redemption price on the Bonds by wire transfer or such other method as is acceptable to the Bond Trustee and any Bondholder of Bonds in an aggregate principal amount of \$1,000,000 or more.

## **Redemption**

**Optional Redemption.** Except as set forth under “Extraordinary Redemption” below, the Bonds maturing on or prior to July 1, 2028 are not subject to redemption prior to their respective maturities. The Bonds maturing on July 1, 2029 and thereafter are redeemable prior to their respective maturities, at the option of the Authority, at the written direction of the Obligated Group Agent, either in whole or in part and in any manner (in such manner so that following the redemption only Bonds in Authorized Denominations remain outstanding in accordance with the applicable Bond Indenture) at any time on July 1, 2028 and thereafter, from any moneys that may be available for such purpose, at the redemption price equal to the principal amount to be redeemed plus accrued interest thereon to the date of redemption.

**Purchase in Lieu of Redemption.** Each owner and Beneficial Owner, by purchase and acceptance of any of the Bonds, irrevocably grants to the Obligated Group the option to purchase any such Bond pursuant to a mandatory tender for purchase by the Obligated Group (a “Purchase In Lieu Of Redemption”), on any date that such Bond is subject to optional redemption, at a purchase price equal to the then applicable redemption price of such Bond. In the event the Obligated Group determines to exercise such option, the Obligated Group Agent shall deliver to the Bond Trustee a Favorable Opinion of Bond Counsel to the effect that such purchase, in and of itself, will not cause the interest on any Outstanding Bonds which was not includable in gross income for purposes of federal income taxation prior to such purchase to become so includable as a result of the undertaking and accomplishing of such purchase, and shall direct the Bond Trustee to provide notice of Purchase In Lieu Of Redemption, such notice to be provided and to select Bonds subject to Purchase In Lieu Of Redemption in the same manner as provided for the redemption of Bonds pursuant to the respective Bond Indenture. On the date fixed for Purchase In Lieu Of Redemption of any Bond, the Obligated Group shall pay the purchase price of such Bond to the Bond Trustee in immediately available funds, and the Bond Trustee shall pay the same to the owners of the Bonds being purchased against delivery thereof. No Purchase In Lieu Of Redemption of any Bond pursuant to the provisions of the respective Bond Indenture shall operate to extinguish such Bond or the indebtedness of the Authority evidenced by such Bond. No owner or Beneficial Owner may elect to retain a Bond subject to mandatory tender for Purchase In Lieu Of Redemption.

**Series 2019A Bonds Mandatory Redemption.** The Series 2019A Bonds maturing on July 1, 2036, July 1, 2039, July 1, 2044 and July 1, 2049 (the “Series 2019A Term Bonds”) are subject to mandatory redemption on each July 1 at a price of par plus accrued interest without premium in the years and amounts set forth below at a price equal to 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption:

Series 2019A Term Bonds Due July 1, 2036

<u>July 1</u>	<u>Amount</u>
2034	\$545,000
2035	575,000
2036 (maturity)	600,000

Series 2019A Term Bonds Due July 1, 2039

<u>July 1</u>	<u>Amount</u>
2037	\$630,000
2038	665,000
2039 (maturity)	700,000

Series 2019A Term Bonds Due July 1, 2044

<u>July 1</u>	<u>Amount</u>
2040	\$735,000
2041	770,000
2042	810,000
2043	855,000
2044 (maturity)	895,000

Series 2019A Term Bonds Due July 1, 2049

<u>July 1</u>	<u>Amount</u>
2045	\$945,000
2046	990,000
2047	1,045,000
2048	1,095,000
2049 (maturity)	1,150,000

The principal amount of Series 2019A Term Bonds to be redeemed on each such date shall be reduced, in the manner provided in the Bond Indenture, by the principal amount of Series 2019A Term Bonds of the same maturity that have been previously surrendered for cancellation or purchased or redeemed (otherwise than as a result of a previous mandatory redemption requirement) and that have not previously been made the basis for such a reduction.

**Series 2019B Bonds Mandatory Redemption.** The Series 2019B Bonds maturing on July 1, 2036, July 1, 2039 and July 1, 2049 (the “Series 2019B Term Bonds”) are subject to mandatory redemption on each July 1 at a price of par plus accrued interest without premium in the years and amounts set forth below at a price equal to 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption:

Series 2019B Term Bonds Due July 1, 2036

<u>July 1</u>	<u>Amount</u>
2034	\$440,000
2035	465,000
2036 (maturity)	490,000

Series 2019B Term Bonds Due July 1, 2039

<u>July 1</u>	<u>Amount</u>
2037	\$515,000
2038	540,000
2039 (maturity)	570,000

Series 2019B Term Bonds Due July 1, 2049

<u>July 1</u>	<u>Amount</u>
2040	\$595,000
2041	620,000
2042	645,000
2043	670,000
2044	695,000
2045	725,000
2046	755,000
2047	785,000
2048	820,000
2049 (maturity)	850,000

The principal amount of Series 2019B Term Bonds to be redeemed on each such date shall be reduced, in the manner provided in the Bond Indenture, by the principal amount of Series 2019B Term Bonds of the same maturity that have been previously surrendered for cancellation or purchased or redeemed (otherwise than as a result of a previous mandatory redemption requirement) and that have not previously been made the basis for such a reduction.

**Extraordinary Redemption.** Pursuant to each Bond Indenture, the Bonds are also subject to extraordinary optional redemption in whole or in part in multiples of \$5,000 (provided all Bonds Outstanding after the redemption shall remain in Authorized Denominations) at the option of the Authority, upon written direction of the Obligated Group Agent, prior to maturity on any date in order of maturity or a pro rata portion of all maturities and by lot within a maturity, at 100% of the principal amount thereof plus accrued interest to the redemption date, in an amount equal to any insurance or condemnation proceeds deposited with the Trustee in the Bond Fund in the event of damage by fire or other casualty or the taking by eminent domain of all or a portion of Property of the Obligated Group (as defined in the Master Indenture) exceeding in value 10% of the Book Value of Property of the Obligated Group as provided in the Loan Agreement.

**Selection of Bonds to be Redeemed.** If less than all Bonds of a series are to be redeemed upon any redemption of Bonds under the related Bond Indenture, Bonds shall be redeemed (in such manner so that following the redemption only Bonds in Authorized Denominations remain outstanding in accordance with the applicable Bond Indenture) by lot or in such other manner as the Bond Trustee may determine. In making such selection, the Bond Trustee shall treat each Bond as representing that number of Bonds of the lowest Authorized Denomination as is obtained by dividing the principal amount of such Bond by such minimum Authorized Denomination.

**Notice of Redemption.** Notice of redemption shall be given by the Bond Trustee by mail not less than 30 days prior to the date set for redemption, to each registered holder of a Bond to be so redeemed at the address shown on the registration books of the Authority kept by the Bond Trustee. If less than all the Bonds are to be redeemed, the notice shall identify the Bonds to be redeemed by reference to the serial numbers or other identifying designation of each such Bond. Failure to mail any such notice, or any defect in such notice, as to any Bond shall not affect the validity of the proceedings for the redemption of any other Bond.

With respect to any notice of optional redemption of the Bonds, unless, upon giving such notice, such Bonds shall be deemed to have been paid within the meaning of respective Bond Indenture, such notice may state (i) that it is conditioned upon the deposit of moneys, in an amount equal to the amount necessary to effect the redemption, with the Bond Trustee no later than the redemption date, or (ii) that the Obligated Group retains the right to rescind such notice at any time on or before the fifth Business Day prior to the redemption date (in either case, a “Conditional Redemption”), and such notice and optional redemption shall be of no effect if such moneys are not so deposited or if the notice is rescinded as described below. Any Conditional Redemption may be rescinded in whole or in part at any time on or prior to the fifth Business Day prior to the redemption date at the direction of the Obligated Group Agent delivered to the Bond Trustee instructing the Bond Trustee to rescind the redemption notice. The Bond Trustee shall give prompt notice of such rescission to the affected Bondholders. Any Bonds subject to Conditional Redemption where redemption has been rescinded shall remain Outstanding Bonds under the related Bond Indenture, and the rescission shall not constitute an event of default under the related Bond Indenture. Further, in the case of a Conditional Redemption, the failure of the Authority or the Obligated Group to make funds available in part or in whole on or before the redemption date shall not constitute an event of default under the related Bond Indenture, and the Bond Trustee shall give notice transmitted by electronic means, in writing, by telecopier or other electronic means or by telephone (promptly confirmed in writing), to DTC (or a successor securities depository) or the affected Bondholders that the redemption did not occur and that the Bonds called for redemption and not so paid remain Outstanding Bonds under the related Bond Indenture.

So long as the book-entry only system described below remains in effect, the Bond Trustee will give notice of redemption of the Bonds to Cede & Co., as nominee of DTC, only, and only Cede & Co. will be deemed to be a holder of the Bonds. In the event of any partial redemption, DTC is expected to reduce the credit balances of the applicable DTC Participants in respect of the Bonds, and such DTC Participants are expected in turn to select those Beneficial Owners whose ownership interests are to be extinguished by such partial redemption, each by such method as DTC or such DTC Participant, as the case may be, deems fair and appropriate in its sole discretion.

Interest on the Bonds or portions of Bonds so called for redemption shall cease to accrue after the redemption date specified in said notice whether presented for redemption or not, provided funds are on deposit with the Bond Trustee to redeem such Bonds.

## **Book-Entry Only System**

THE INFORMATION IN THIS SECTION HAS BEEN OBTAINED FROM DTC. NO REPRESENTATION IS MADE BY THE AUTHORITY, THE OBLIGATED GROUP, THE BOND TRUSTEE, OR THE UNDERWRITER AS TO THE COMPLETENESS OR ACCURACY OF SUCH INFORMATION OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF. NO ATTEMPT HAS BEEN MADE BY THE AUTHORITY, THE OBLIGATED GROUP, THE BOND TRUSTEE, OR THE UNDERWRITER TO DETERMINE WHETHER DTC IS OR WILL BE FINANCIALLY OR OTHERWISE CAPABLE OF FULFILLING ITS OBLIGATIONS. NEITHER THE AUTHORITY, NOR THE OBLIGATED GROUP NOR THE BOND TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR THE PERSONS FOR WHICH THEY ACT AS NOMINEES WITH RESPECT TO THE BONDS, OR FOR ANY PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST PAYMENT THEREON.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each 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 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on

behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all 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 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

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

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

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

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

So long as Cede & Co. is the registered owner of the Bonds, as nominee for DTC, references herein and in the Bond Indenture to the Bondholders, registered owners or owners (or similar terms) of the Bonds shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Bonds.

### **Transfers and Exchanges**

The Bonds may be transferred or exchanged for one or more Bonds in authorized denominations upon surrender thereof (together with an assignment duly executed by the registered owner or his attorney or legal representative in form satisfactory to the Bond Trustee) to the Bond Trustee by the registered owners or their duly authorized attorneys. Upon surrender of any Bonds to be transferred or exchanged, the Bond Trustee shall record the transfer or exchange in the registration books and shall authenticate and deliver new Bonds appropriately registered and in appropriate authorized denominations. The registered owner requesting any such transfer or exchange may be charged a sum sufficient to cover any tax, fee or other governmental charge which may be imposed with respect thereto. Neither the Authority nor the Bond Trustee is required to make any such transfer or exchange of Bonds (i) during the fifteen (15) days next preceding the date on which a notice of redemption is given or (ii) after such Bonds (or portions of such Bonds) have been selected for redemption. No transfer or exchange made other than as described above and in the respective Bond Indenture shall be valid or effective for any purposes under the respective Bond Indenture.

### Principal and Interest Requirements

<b>Fiscal Year Ending June 30</b>	<b>Principal Requirements on the Series 2019A/B Bonds</b>	<b>Interest Requirements on the Series 2019A/B Bonds</b>	<b>Total Principal and Interest Requirements on the Series 2019C Bonds<sup>1</sup></b>	<b>Total Principal and Interest Requirements on Other Long Term Indebtedness and Guaranteed Debt<sup>2</sup></b>	<b>Aggregate Principal and Interest Requirements on the Bonds and Other Long Term Indebtedness and Guaranteed Debt</b>
2019	-	-	\$294,101	\$11,735,008	\$12,029,109
2020	-	\$1,506,883	779,302	11,719,983	14,006,168
2021	\$490,000	1,560,150	776,448	11,715,358	14,541,957
2022	515,000	1,535,025	777,875	11,707,683	14,535,583
2023	545,000	1,508,525	777,875	11,701,633	14,533,033
2024	570,000	1,480,650	779,302	11,333,609	14,163,560
2025	600,000	1,451,400	776,448	11,690,738	14,518,587
2026	625,000	1,420,775	777,875	11,672,059	14,495,709
2027	660,000	1,388,650	777,875	11,663,478	14,490,003
2028	695,000	1,354,775	779,302	11,658,942	14,488,019
2029	735,000	1,319,025	776,448	11,655,677	14,486,151
2030	770,000	1,281,400	777,875	11,643,385	14,472,660
2031	805,000	1,242,025	777,875	11,629,590	14,454,490
2032	850,000	1,200,650	779,302	11,622,577	14,452,528
2033	895,000	1,157,025	776,448	11,619,416	14,447,889
2034	940,000	1,111,150	777,875	11,606,508	14,435,533
2035	985,000	1,063,025	777,875	11,592,956	14,418,856
2036	1,040,000	1,012,400	3,097,213	9,180,090	14,329,703
2037	1,090,000	959,150	3,572,378	8,682,192	14,303,720
2038	1,145,000	903,275	3,590,343	8,632,025	14,270,643
2039	1,205,000	844,525	3,607,667	8,585,191	14,242,382
2040	1,270,000	782,650	3,630,579	8,526,586	14,209,815
2041	1,330,000	720,625	3,642,571	8,480,623	14,173,819
2042	1,390,000	658,700	3,660,500	8,436,953	14,146,153
2043	1,455,000	593,900	-	7,458,536	9,507,436
2044	1,525,000	525,975	-	7,457,415	9,508,390
2045	1,590,000	454,925	-	6,647,755	8,692,680
2046	1,670,000	380,525	-	6,635,780	8,686,305
2047	1,745,000	302,550	-	6,386,620	8,434,170
2048	1,830,000	220,875	-	6,319,125	8,370,000
2049	1,915,000	135,275	-	-	2,050,275
2050	2,000,000	45,750	-	-	2,045,750

<sup>1</sup> Preliminary, subject to change. The Authority's Revenue Refunding Bonds (Munson Healthcare Obligated Group), Series 2019C are expected to be issued in January, 2019, in a variable rate mode, in the principal amount of \$22,000,000 (the "Series 2019C Bonds"). The variable interest rate on the Series 2019C Bonds is calculated at an assumed rate of 3.50%.

<sup>2</sup> The debt service in this column does not include the debt service on the Authority's Revenue Refunding Bonds (Munson Healthcare Obligated Group), Series 2011C, which are expected to be refunded with the proceeds of the Series 2019C Bonds. The variable interest rate on the outstanding Series 2011B Bonds is calculated at an assumed rate of 4.20%, based on an interest rate swap transaction that has a maturity date of July 1, 2028 and costs related thereto. (See "INTEREST RATE SWAPS" in Appendix A.)



## SECURITY FOR THE BONDS

Neither the description of the Bond Indentures, the Loan Agreements, the Notes and the Master Indenture set forth below nor the summaries of certain provisions of such documents in Appendix C purport to be complete, and reference is made to each document for all of its terms and conditions. Copies of each document are available for inspection at the principal corporation trust office of the Bond Trustee.

### General

The Bonds are limited obligations of the Authority, payable from the loan repayments required to be paid under the Loan Agreements and from other funds held under the respective Bond Indentures. The payment obligations of the Obligated Group under each Loan Agreement will be evidenced by the corresponding Note issued under the Master Indenture to be executed and delivered by the Obligated Group to the Authority and which will be secured, on a parity basis with any other Obligations issued under the Master Indenture, by a security interest in accounts and general intangibles of the Members of the Obligated Group and proceeds thereof. Payments by the Obligated Group on each Note will be required to be sufficient to pay the principal of, redemption premium, if any, and interest on the series of Bonds related to each Note, together with the fees of the Authority. The Bonds of each series are payable solely from certain funds and accounts created under the Bond Indenture related to each series of Bonds and from payments made by the Obligated Group under the Note related to each series of Bonds.

### The Bond Indentures

The Bonds of each series are to be issued under and equally and ratably secured by the corresponding Bond Indenture. Each Bond Indenture provides that the corresponding series of Bonds issued pursuant to the Bond Indenture are limited obligations of the Authority, payable solely from the sources therein described. **The Bonds and the interest obligation thereon shall never constitute a debt or obligation of the County or any agency thereof or a general obligation of the Authority within the meaning of the provisions of the Constitution or statutes of the State of Michigan, and shall never constitute nor give rise to a charge against the general credit or taxing powers of the County or any agency thereof or general funds of the Authority, but shall be a limited obligation of the Authority payable solely and only from the security described in the respective Bond Indenture. The Authority has no taxing power.**

As security for its obligations under each Bond Indenture, the Authority will pledge to the Bond Trustee for the benefit of the holders from time to time of the corresponding series of the Bonds issued pursuant to such Bond Indenture (i) all Loan Repayments which the Obligated Group is obligated to make under the corresponding Loan Agreement and Note; (ii) all moneys in the Bond Fund established under the corresponding Bond Indenture and the security interest granted by the Obligated Group therein; (iii) all of the Authority's rights and interest in the corresponding Loan Agreement and Note subject to the Reserved Rights; and (iv) all of the proceeds of the foregoing, including Investment Income.

### The Loan Agreements and the Notes

Pursuant to the Loan Agreements, the Authority will lend the proceeds of each series of the Bonds to the Obligated Group to be used by Munson Healthcare Otsego Memorial Hospital and Munson Healthcare Manistee Hospital, together with other available funds, for the purposes described herein. In the Loan Agreements, each Member of the Obligated Group agrees to pay the principal or redemption price of and interest on each series of the Bonds, to pay any rebate due on each series of the Bonds, to pay the administrative expenses of the Bond Trustee and the Authority with respect to each series of the

Bonds and to indemnify the Authority and Bond Trustee for losses and liabilities relating to each series of the Bonds.

To evidence the payment obligation of the Obligated Group under the Loan Agreements, the Obligated Group will issue the Notes pursuant to the Master Indenture, as supplemented by each Supplemental Indenture. Each Note provides for payments of principal and interest which, in the aggregate, shall be sufficient to enable the Authority to pay in full, when due, the principal or redemption price of and interest on the corresponding series of the Bonds.

Each Note is an obligation of the Obligated Group secured by a security interest in accounts and general intangibles of the Members of the Obligated Group and the proceeds thereof, subject to certain exceptions (the “Collateral”). See “Additional Covenants” under “THE SUPPLEMENTAL INDENTURES AND THE NOTES” in Appendix C.

The security interest in the Collateral has been granted by the Obligated Group to the Master Trustee for the benefit of the holders of the Obligations, including the Authority as a Holder of the Notes to secure the payment of all Obligations. It is not likely that such security interest will be enforceable as to certain items of the Collateral. Thus, in the event of default by the Obligated Group under the Loan Agreements or the Master Indenture, it is doubtful that the Master Trustee would be able to require Medicare and Medicaid to make payments under their programs directly to it. In addition, such security interest is subject to (i) certain exceptions under the Michigan Uniform Commercial Code (the “UCC”); (ii) statutory liens; (iii) rights arising in favor of the United States of America or any agency thereof; (iv) present or future prohibitions against assignment contained in any state or federal statutes or regulations; (v) constructive trusts, equitable liens or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction; (vi) federal bankruptcy laws affecting assignments of revenues earned within a period commencing 90 days prior to any institution of bankruptcy proceedings by or against any Member of the Obligated Group; and (vii) the filing of appropriate continuation statements pursuant to the UCC as from time to time in effect.

### **Substitution of Notes**

Pursuant to each Bond Indenture, the Obligated Group retains the right to provide a Substitute Note (as defined in each Bond Indenture) for the applicable Note previously issued under such Bond Indenture, by providing the following items to the Bond Trustee:

(1) an original executed counterpart of a Replacement Master Indenture (as defined in the respective Bond Indenture);

(2) an original replacement note or notes or similar obligations issued by or on behalf of the New Group (as defined in the respective Bond Indenture) (the “Substitute Note”), under and pursuant to and secured by the Replacement Master Indenture, which Substitute Note is to be in the same principal amount, the same amortization, maturity, interest rate and loan repayment terms as the respective Note being replaced, and which Substitute Note has been duly authenticated by the Replacement Trustee (as defined in the Bond Indenture);

(3) an Opinion of Counsel addressed to the Bond Trustee and the Authority (in form and substance acceptable to the Authority and not unacceptable to the Bond Trustee) to the effect that: (a) the Replacement Master Indenture has been duly authorized, executed and delivered by or on behalf of the New Group, the Substitute Note has been duly authorized, executed and delivered by or on behalf of the New Group and the Replacement Master Indenture and the Substitute Note are each a legal, valid and binding obligation of each member of the New Group, subject in each case to customary exceptions for bankruptcy, insolvency and other laws generally affecting enforcement of creditor’s rights and application

of general principles of equity; (b) all requirements and conditions to the issuance of the Substitute Note set forth in the Replacement Master Indenture have been complied with and satisfied; and (c) registration of the Substitute Note under the Securities Act of 1933, as amended, is not required or, if registration is required, the Substitute Note has been so registered;

(4) an Opinion of Bond Counsel addressed to the Bond Trustee and the Authority to the effect that (a) the surrender of respective Note and the acceptance by the Bond Trustee of the Substitute Note will not adversely affect the validity of the Bonds to be secured by the Substitute Note or any exemption for the purposes of federal income taxation to which interest on such Bonds would otherwise be entitled and (b) that such Substitute Note will be *pari passu* with any other notes or securities issued under the Replacement Master Indenture; and

(5) written evidence from each of Moody's, S&P and Fitch, if then maintaining a rating on the Bonds to be secured by the Substitute Note, that it will not lower the rating of such Bonds in connection with the issuance of the Substitute Note under the Replacement Master Indenture.

By purchasing the Bonds, the Bondholders will be deemed to have consented to amending and replacing the Master Indenture for the express purpose of applying the substitution provisions provided above to the Notes.

## **Master Indenture**

Pursuant to the Master Indenture, each Member of the Obligated Group, jointly and severally, has covenanted (subject to the right of such Member to withdraw from the Obligated Group under certain circumstances) promptly to make any and all payments on all Obligations theretofore or thereafter issued under the Master Indenture, including the Notes, according to the terms thereof. The Master Indenture permits other entities, under certain conditions, to become Members of the Obligated Group under the Master Indenture and to issue Obligations thereunder. See "Membership in the Obligated Group" and "Withdrawal From the Obligated Group" under "THE MASTER INDENTURE" in Appendix C.

In the Master Indenture, the Members of the Obligated Group have agreed, among other things, (a) not to create or suffer to be created or exist any Lien, other than Permitted Liens, upon the Property of the Obligated Group, (b) not to withdraw from or permit another entity to join the Obligated Group except as permitted under the Master Indenture and (c) not to merge or consolidate with a corporation which is not a Member of the Obligated Group unless it is the surviving corporation or the successor entity assumes all obligations of the Obligated Group under the Master Indenture and certain other conditions are met. See "Membership in the Obligated Group," "Withdrawal From the Obligated Group" and "Particular Covenants of Each Member of the Obligated Group" under "THE MASTER INDENTURE" in Appendix C.

The rights and remedies of the Master Trustee under the Master Indenture and the Supplemental Indentures, of the Authority under the Loan Agreements and the Notes and of the Bondholders under the Bond Indentures and the Bonds are subject to and may be limited by the application of general principles of equity and by the laws of the State of Michigan and the United States with respect to bankruptcy, insolvency and creditors' rights generally, now existing or hereafter enacted.

## **PLAN OF FINANCE**

The Bonds are being issued to provide funds which will be loaned by the Authority to certain Members of the Obligated Group to be used to (i) refinance a taxable obligation of Munson Healthcare issued for the benefit of Munson Healthcare Manistee Hospital, a portion of which will be treated as an acquisition financing for federal tax purposes; (ii) finance the acquisition, construction, renovation, and

equipping of hospital facilities located in Manistee, Michigan; (iii) refinance a taxable obligation of Munson Healthcare Otsego Memorial Hospital, the proceeds of which were used to acquire a facility located in Gaylord, Michigan that is used for physical and occupational therapy; (iv) finance the renovation, construction, expansion, and equipping of hospital facilities located in Gaylord, Michigan; and (v) pay the costs of issuing the Bonds.

## **ESTIMATED SOURCES AND USES OF FUNDS**

Summarized below are the estimated sources and uses of funds for the Bonds.

### Sources of Funds:

Principal Amount of the Bonds	\$32,880,000.00
Plus Original Issue Premium (net of Original Issue Discount)	<u>2,552,001.35</u>
 Total Sources of Funds	 <u>\$35,432,001.35</u>

### Use of Funds:

Deposits to the Bond Proceeds Funds	\$35,000,000.00
Costs of Issuance of the Bonds (including Underwriter's discount) <sup>1/</sup>	<u>432,001.35</u>
 Total Uses of Funds	 <u>\$35,432,001.35</u>

<sup>1/</sup> Includes estimated costs for legal, accounting, trustee, printing and other expenses relating to the issuance of the Bonds.

## **BONDHOLDERS' RISKS**

### **General**

The Bonds are limited obligations of the Authority payable solely from payments to be made by the Obligated Group pursuant to the Loan Agreements and the Notes and from certain funds held from time to time by the Bond Trustee pursuant to the Bond Indentures. No representation or assurance can be given that the Members of the Obligated Group will generate sufficient revenues to meet their joint and several payment obligations under the Loan Agreements and the Notes.

The Obligated Group's ability to generate such revenues is subject to, among other factors, current and future federal and state laws, regulations, policies and guidance affecting the health care industry, increased competition from other health care providers, changes in the demand for health care services, changes in the methods by which employers purchase health care for employees, capability of management, ability to recruit and retain physicians and other health care professionals, ability to manage costs, changes in the economy, demographic changes and malpractice claims and other litigation, all of which are not possible to predict.

In addition, the future financial condition of the Obligated Group and any future Members of the Obligated Group and their ability to generate revenues in an amount sufficient to satisfy principal and interest requirements on the Bonds could be affected adversely by changes in the policies and practices or in the method and amount of payments to Members of the Obligated Group by governmental and non-governmental third-party payors and the financial viability of third-party payors. A significant percentage of services provided by the Obligated Group are to patients participating in various health insurance

programs. Such programs generally provide for payments for services rendered to their beneficiaries that are less than the actual patient charges. Contractual allowances result from participation in these third-party payor programs, and revenues received under provider agreements are subject to audit and adjustment by such third-party payors. The principal third-party payors are Medicare, Medicaid, Blue Cross and Blue Shield of Michigan (“BCBSM”) and a number of health maintenance organizations and preferred provider organizations. See “SOURCES OF REVENUE” in Appendix A.

Because Members of the Obligated Group are exempt from federal income tax under Section 501(a) of the Internal Revenue Code (the “Code”), they are subject to tax laws and regulations that regulate and may adversely impact their operations, including placing restrictions on joint ventures and other arrangements with physicians and for profit entities, executive compensation, and the provision of charitable care at no charge or for discounted payment.

It should be noted that the operations and financial condition of future Members of the Obligated Group may be affected by factors other than those described above. No assurance can be given as to the nature of such factors or the potential effects thereof upon future Members of the Obligated Group or the Obligated Group as a whole. The Underwriter and the Authority have made no independent investigation of the extent to which any of such factors may have an adverse impact on the revenues of the Obligated Group.

### **Federal and State Legislation and Other Actions**

The Members of the Obligated Group are subject to federal and state regulatory actions and legislative and policy changes by those governmental and private agencies that administer Medicare, Medicaid, BCBSM programs and other third-party payors, and actions by, among others, the National Labor Relations Board, the Joint Commission and other federal, state and local government agencies.

The United States Congress and the United States Department of Health and Human Services (“HHS”) continuously consider various proposals which could result in major changes in both public and private financing for health care services. Among other things, the proposals contained in such legislation aim to reduce the rate of growth in health care costs by reducing projected payments to hospitals and other health care providers. Such reductions in Medicare and Medicaid reimbursement include but may not be limited to: additional global percentage reductions, reductions in capital reimbursement, bundled payments, changes in payment methodology focusing on quality and performance incentives, penalties for readmissions and hospital acquired conditions, and reductions in payments for home health care. Modifications in State law to accommodate or to implement federal legislation are also possible. There can be no assurance that the relevant federal laws will not be changed in a manner which might materially and adversely affect the operations and revenues of the Obligated Group.

The Obligated Group’s long-range plan considers the potential reduction of Medicare and Medicaid reimbursement which may result from changes in federal law. There is no assurance, however, that the Obligated Group’s long-range plan will overcome the adverse effects of the reduction, if or when the reduction occurs.

### **Patient Protection and Affordable Care Act**

On March 23, 2010, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 was enacted (collectively, referred to herein as the “Affordable Care Act”). The Affordable Care Act made widespread reforms to the health care system, including substantial revision to the Medicare and Medicaid programs, establishment of individual mandates for healthcare coverage, incentives for employer-based insurance, formation of health insurance exchanges, changes in mandatory health benefit coverage, expansion of eligibility for the Medicaid

program, increased enforcement of fraud and abuse laws, and imposition of additional requirements on tax-exempt hospitals. Certain provisions of the Affordable Care Act took effect immediately while others will take effect or be phased in over time up to ten years after enactment. The Affordable Care Act required the promulgation of substantial regulations by HHS, the Department of Labor and the Internal Revenue Service (“IRS”). Thus, health care providers and insurers, including the Obligated Group, are subject and will continue to be subjected to new regulatory requirements, some of which may require structural or operational changes and expenditure of resources.

Management of the Obligated Group has analyzed the applicable provisions of the Affordable Care Act and the regulations promulgated to date to evaluate the effects on the Obligated Group, its operations and its financial performance. However, management cannot predict with any degree of certainty or reliability any interim or long term effects of the legislation.

The Affordable Care Act has been subject to opposition in Congress and challenged in the courts. Further, since the election of President Trump, certain provisions of the Affordable Care Act and regulations promulgated pursuant to it have been rolled back by legislative and regulatory changes. Management cannot predict to what extent these changes will impact the Obligated Group or whether additional modifications to, or repeal of all or part of, the Affordable Care Act will affect the Obligated Group.

The provisions of the Affordable Care Act that may have a significant impact on the Obligated Group are described below. This summary is not, is not intended to be, and should not be considered by the reader as, comprehensive. The Affordable Care Act is complex, broad in scope, and relies heavily on regulations to be promulgated in the future.

**Expansion of Access to Health Insurance.** The Affordable Care Act was intended to expand access to health insurance by reforming the options available to individuals and small employers to obtain insurance coverage. The Affordable Care Act (i) creates federal and state health insurance marketplaces through which individuals and small employers can purchase health care insurance, (ii) provides subsidies to assist individuals and families with premium costs based on income levels, (iii) mandates that individuals purchase insurance coverage and penalizes those individuals who do not (the “Individual Mandate”), (iv) requires employers to provide a required level of insurance for their employees or pay a penalty, (v) changes the minimum levels of coverage and eliminating certain restrictions on coverage, such as annual and lifetime caps, waiting periods and preexisting conditions limitations, and (vi) in certain states, including Michigan, expands Medicaid to a broader population with incomes up to 133% of the federal poverty level. The Individual Mandate was repealed, effective January 1, 2019, by the Tax Cuts and Jobs Act of 2017. Management cannot predict what impact the repeal of the Individual Mandate will have on the Obligated Group.

**Medicare and Medicaid.** The Affordable Care Act created a Center for Medicare & Medicaid Innovation to test innovative payment and service delivery models and demonstration projects, including bundled payments under Medicare and Medicaid, comparative effectiveness research programs and the implementation of clinically integrated health care delivery programs.

Effective with enactment of the Affordable Care Act and continuing through September 30, 2019, the annual market basket updates for hospital was reduced. In 2011 the market basket updates became subject to productivity adjustments. Effective in 2012, the Centers for Medicare & Medicaid Services of HHS (“CMS”) established a value-based purchasing program to provide incentive payments to hospitals under the Medicare program based on quality and performance measures. The incentive payments are funded through a pool of money collected from all hospital providers. Beginning in 2012, Medicare payments to hospitals were reduced by specific percentages to account for excess and “preventable” hospital readmissions. Beginning October 1, 2014, Medicare payments to hospitals in the top quartile

nationally for frequency of certain hospital-acquired conditions were reduced by 1%. On June 1, 2011, the Michigan Department of Community Health issued a bulletin implementing a policy relating to non-payment for provider preventable conditions effective July 1, 2011. The Affordable Care Act expands the services covered by Medicaid and revises payment levels for other providers, including home health agencies and hospices.

**Additional Tax Exemption Requirements.** The Affordable Care Act added Section 501(r) to the Code requiring hospitals to (i) adopt and publicize a financial assistance policy, (ii) conduct a community needs assessment and adopt an implementation strategy to address identified needs, (iii) limit charges to patients who qualify for financial assistance to the lowest amount charged to insured patients, and (iv) implement controls on billing and collection processes.

**Fraud and Abuse Enforcement.** A significant part of the Affordable Care Act was devoted to the reduction of waste, fraud and abuse in the health care system, particularly the Medicare and Medicaid programs. These provisions include provider enrollment screening, provider enrollment moratoria for high risk providers (including home health and skilled nursing facilities), mandatory compliance plans, and establishment of a database to permit sharing of provider information across federal and state agencies.

**New Delivery Systems.** The Affordable Care Act provides for the implementation of Medicare Shared Savings Programs, effective January 1, 2012, under which providers organized as “Accountable Care Organizations” (“ACOs”) that meet certain quality and efficiency thresholds share in the cost savings achieved for the Medicare program. If the ACO achieves savings in Medicare expenditures above an expenditure threshold established by CMS for the ACO and meets or exceeds certain quality thresholds, the ACO will receive a share of the Medicare savings. ACOs must achieve both the cost savings and the quality performance thresholds to receive a share of the Medicare savings. Effective January 1, 2019, Munson Medical Group, a subsidiary of the Hospital, will participate in an ACO.

The impact of these changes and the effect on the Obligated Group cannot be predicted.

## **Medicare**

**General.** For the fiscal year ended June 30, 2018, Medicare payments represented approximately 54.3% of the MHC System (as defined in Appendix A) gross patient service revenues. See “SOURCES OF REVENUE” in Appendix A of this Official Statement. Title XVIII of the Social Security Act authorizes Medicare Part A, the hospital insurance program that pays for inpatient hospital care for covered persons (generally, those aged 65 and over, those with end stage renal disease, and the long-term disabled), home health and hospice services and certain skilled nursing services, and Medicare Part B, a voluntary supplemental medical insurance program that pays for outpatient physician services, diagnostic tests, outpatient therapy and certain supplies. Medicare is administered by the CMS. The Part A program is primarily financed by payroll taxes held in the Federal Hospital Insurance Trust Fund (the “Trust Fund”), from which expenditures to participating hospitals and other health care providers are paid.

Health care providers, including hospitals, may participate in Medicare provided that they meet certain conditions of participation and upon acceptance of a provider agreement by the HHS Secretary. By statute, participating providers are required, among other things, to limit charges to Medicare beneficiaries, comply with “anti-dumping” rules prohibiting inappropriate patient transfers (applicable to all patients in active labor or with emergency medical conditions), and comply with certain civil rights provisions. Medicare providers also are subject to regulation by state health agencies, which award operating licenses and perform certain delegated administrative functions, including facility surveys. Failure to remain in compliance with any program requirements may subject the Medicare provider to

finer or to suspension or expulsion from the program. Only enumerated services are eligible for Medicare payment.

For dates of service beginning April 1, 2013 and continuing to present, Medicare payments to providers were reduced by 2% as part of a broader “sequestration” of federal funds mandated by statute. This reduction has been extended through federal fiscal year 2027, and there are no assurances that Congress will not enact additional such payment reductions in the future.

**Inpatient Prospective Payment System.** Reimbursement is made under Medicare Part A for inpatient hospital services provided to Medicare beneficiaries. Under its prospective payment system of reimbursement (“PPS”), Medicare pays a predetermined base rate for each covered hospitalization, plus certain payment adjustments described below. Each such hospitalization is classified into one of several hundred diagnosis-related groups (“MS-DRGs”) which determines the PPS base payment rate for the hospitalization. The PPS payment rate is not related to the actual cost incurred by a specific hospital in treating a patient. It is a fixed sum, generally based on national DRG rates and a Hospital Wage Index intended to reflect geographic differences in the costs of labor. Several hospital characteristics are reflected in payment adjustments. Payment adjustments include an indirect medical education adjustment (a formula intended to recognize additional costs incurred by teaching hospitals in treating Medicare patients), the disproportionate share adjustment (to pay certain hospitals for a portion of the higher costs of treating a large proportion of poor patients and for indirect costs of operating in areas accessible to poor patients), and outlier case adjustments (an additional payment for selected cases unusually long stays or high costs). PPS payment rates are adjusted on an annual basis by CMS and/or Congress and thus are subject to deficit reduction measures affecting the federal budget generally and/or the Medicare program specifically. There is no guarantee that such Medicare reimbursement rates, as they change from time to time, will cover the Obligated Group’s actual costs of providing services and supplies to Medicare patients.

In recent years, CMS has implemented a number of initiatives that may adversely affect Medicare payment to the Members of the Obligated Group, including reduced payment for certain cases in which a beneficiary acquires a complication or condition while in the hospital; an overall reduction in payment to fund bonus payments to some hospital who satisfy CMS’ “value-based purchasing” criteria; and reduced payments to hospitals whose readmission rate for patients with specified diagnoses exceeds the anticipated readmission rate.

Inpatient rehabilitation facilities and units (IRFs) have been excluded from the DRG-based PPS established for general inpatient acute care facilities. IRFs are paid by Medicare under a separate generally higher-paying inpatient prospective payment system that is distinct from general inpatient PPS. The Social Security Act authorizes the Secretary of HHS to determine which facilities are classified as IRFs. Hospitals/units are required to draw at least 60% of their inpatients from 13 specific rehabilitation diagnoses identified by CMS, in order to qualify for payment as an IRF. Effective October 1, 2014, CMS reduced the number of diagnoses presumed to “count” toward meeting the 60% rule. There is no guarantee that the IRF payment will be adequate to cover the Obligated Group’s cost of furnishing care, or that a given IRF will continue to satisfy the 60% rule.

**Outpatient and Other Services.** Effective August 1, 2000, CMS implemented a prospective system for outpatient hospital services (“OPPS”) furnished to Medicare beneficiaries. Under OPPS most hospital outpatient services are paid on the basis of “ambulatory payment classifications” (“APCs”). Under the APC system, a hospital is paid a predetermined amount, based on the particular APC group(s) into which the services rendered fall. The APC rates are supplemented and/or adjusted by variations in local labor costs, “transitional pass-through payments” for certain drugs, services and therapies that are not otherwise adequately reimbursed under the new payment method, and for certain unusually high cost



cases. There is no guarantee that the APC payment rates will be adequate to cover the Obligated Group's actual cost of providing outpatient services to Medicare patients.

**Resource Based Relative Value Scale Fee Schedule.** Medicare now pays for the services of physicians (and certain other professional and ancillary providers) under Part B of the Medicare program based on fee schedules that are subject to annual adjustment. Medicare's physician fee schedule previously was subject to the Sustainable Growth Rate ("SGR"), which limited growth of Medicare payments for physician services. The SGR was replaced by the Medicare Access and CHIP Reauthorization Act of 2015 ("MACRA"), which provides for annual calendar year increases of 0.5% for physician payments through 2019, with no increases for the period 2020 through 2025. Thereafter, payments would be increased annually, with the amount determined by whether a physician participates in an alternative payment model approved by CMS ("APM"). MACRA also provides incentives to physicians who participate in an APM or in a Merit-based Incentive Payment System approved by CMS ("MIPS"). Adjustment of payments pursuant to MIPS may be positive or negative depending upon performance. It is unknown at this time what impact, if any, these changes will have on the Obligated Group or reimbursement received by the Obligated Group.

## **Medicaid**

**General.** For the fiscal year ended June 30, 2018, Medicaid charges (including Medicaid HMO charges) represented approximately 13.5% of the gross patient service revenues of the MHC System. See "SOURCES OF REVENUE" in Appendix A of this Official Statement. Medicaid is a joint federal-state program created under Title XIX of the Social Security Act to provide medical assistance to certain low-income persons through reimbursement to health care providers for services rendered to those persons. In April 2014, Michigan implemented a new Section 1115 demonstration project to expand its Medicaid program under the Affordable Care Act to include adults with incomes up to 133% of the federal poverty level. Michigan has submitted an application to extend the demonstration waiver for a period of five years.

**Medicaid Reimbursement.** The State of Michigan provides the majority of its benefits to the Medicaid 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 substances abuse services are provided to Medicaid beneficiaries through the Managed Specialty Supports and Services program. There is no assurance that the Members of the Obligated Group will receive adequate payment rates from the Medicaid programs or that payment will be timely.

Michigan is currently implementing a "dual eligible" demonstration project called MI Health Link. Counties served by the Obligated Group are presently not included within this project which is intended to manage all health care for individuals eligible for both Medicare and Medicaid. There is no assurance that the program will be extended to those counties served by Members of the Obligated Group, or that the Members of the Obligated Group will receive adequate reimbursement for services provided to "dual eligibles."

Public Act 303 of 2002 amended the Michigan Public Health Code to establish the Quality Assurance Assessment Program ("QAAP") pursuant to which most hospitals, nursing homes and hospital long term care units are assessed a QAAP fee that is paid to the State. The assessment is based on the total number of patient days of care provided by the facilities to non-Medicare patients in the previous calendar year. The State distributes the revenues generated by the QAAP fees as supplements to Medicaid reimbursement rates. The Program originally expired on October 1, 2011 but the sunset date was extended to October 1, 2019. The QAAP program and the calculation method and amount of the fee

was modified by Public Act 245 of 2018. There is no assurance that any increased reimbursement received by a facility will equal or exceed the QAAP fee paid by the facility.

Michigan and other states have come to rely on these provider assessments as a source of State Medicaid funding, which generates significant federal matching funds. Use of provider assessments has been criticized in Congress and by various federal agencies and may be restricted or eliminated in the future.

**Medicaid Funding.** Since a portion of the Medicaid program's costs in Michigan are paid by the State, the absolute level of Medicaid revenues paid to the Obligated Group, as well as the timeliness of their receipt, may be affected by the financial condition of and budgetary factors facing the State. The actions the State could take with regard to reducing Medicaid expenditures to accommodate any budgetary shortfalls include a change in the method or amount of payment to hospitals, a change in eligibility requirements for Medicaid recipients and a delay in actual payments due to hospitals. Any such action taken by the State could adversely affect the Obligated Group's financial condition. In addition, federal legislation or regulations may be promulgated or modified to limit the means by which a State may raise the necessary revenues to match federal funds, in which case Medicaid funding in the State could be significantly and adversely impacted.

**Disproportionate Share Hospital Payments.** The federal Medicare and Medicaid programs each provide additional payment to hospitals that serve a greater amount or disproportionate share of low-income patients. Commencing in federal fiscal year 2014, Medicare disproportionate share hospital payments were to be reduced to 25% of the amount the hospital would have otherwise received plus a percentage of the remaining 75% determined by multiplying the reduced percentage of uninsured individuals compared to the number of uninsured in 2013 by the hospital's uncompensated care as a percentage of uncompensated care provided by all disproportionate share hospitals. However, those reductions have been delayed until federal fiscal year 2020. Management cannot predict if or when these reductions will go into effect or whether disproportionate share payments will be eliminated entirely.

**Children's Health Insurance Program ("CHIP").** In 1997, Congress amended the Social Security Act to implement the Children's Health Insurance Program ("CHIP") (formerly called the State Children's Health Insurance Program) with the purpose of providing increased access to health coverage for children in families with income too high to qualify for Medicaid but too low to afford private coverage. On February 4, 2009, Congress approved the CHIP reauthorization bill, also known as the Children's Health Insurance Program Reauthorization Act of 2009 ("CHIPRA"), effective April 1, 2009. Under CHIPRA, states may elect to provide premium-assistance subsidies to low-income employees who want to change their single coverage to family coverage in order to cover a CHIP or Medicaid-eligible dependent. CHIP is presently authorized and funded through federal fiscal year 2023.

Michigan must periodically submit its CHIP plan for review to determine if it meets the 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 Obligated Group.

## **Private Health Plans and Insurers**

Certain private insurance companies contract with hospitals on an "exclusive" or a "preferred" provider basis, and some insurers have introduced 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 non-selected 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, 2018, charges to HMOs and PPOs together represented approximately 12.8% of the gross patient service revenues for the MHC System. See “SOURCES OF REVENUE” in Appendix A of this Official Statement. Such programs individually negotiate payment terms with the Obligated Group, 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 Obligated Group shares in the risk associated with the cost of providing health care services. There is no assurance that the Obligated Group will maintain such contracts or obtain other similar contracts in the future. Failure to execute and maintain such PPO and HMO contracts could have the effect of reducing the hospital patient base or gross revenues. Increased participation may maintain or increase the patient base, but the discounts offered to HMOs and PPOs may result in reduced payment and lower net income to the Obligated Group.

Some HMOs now offer or mandate a “capitation” payment method under which hospitals are paid a predetermined periodic rate for each enrollee in the HMO who is “assigned” to, or otherwise directed to receive care at, a particular hospital. In a capitated payment system, the hospital assumes an insurance type risk for the cost and scope of care given to such HMO’s enrollees. If payment under an HMO or PPO contract is insufficient to meet the hospital’s costs of care, the financial condition of the hospital 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 of specific HMOs or PPOs, or to predict what impact the state of the financial health of such organizations might have on the Obligated Group.

Health insurers and health plans may offer products on the Health Insurance Exchanges established by the Affordable Care Act and providers will contract with these insurers and plans to provide services to individuals enrolled on the Exchanges. Insurers and plans may offer a narrow network of providers and offer only discounted rates. There is no guarantee that the Hospital or other Members of the Obligated Group will be part of that network or that the payment rates for Exchange products will be adequate.

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

For the fiscal year ended June 30, 2018, BCBSM charges represented approximately 14.9% of the gross patient service revenues for the MHC System. See “SOURCES OF REVENUE” in Appendix A of this Official Statement. Various members of the Obligated Group are each a party to a Participating Hospital Agreement with BCBSM, pursuant to which such member is reimbursed on a DRG basis for most inpatient services. This Agreement establishes DRGs for all inpatient care other than that provided in a rehabilitation or psychiatric unit which is reimbursed on a per diem basis. BCBSM pays for outpatient services based on a combination of fee schedules and a formula tied to such member’s outpatient costs. BCBSM may terminate a Participating Hospital Agreement without cause on 120 days’ notice, and with shorter notice for various causes.

BCBSM has in recent years started reimbursing hospitals for various outpatient services based on predetermined fee schedules, which may or may not be adequate to cover the Obligated Group’s cost of providing the services in question. The Participating Hospital Agreement also provides for a hospital performance incentive/disincentive program; top performing hospitals participating in the Pay for Performance program are eligible to earn up to an additional 5% of their inpatient and outpatient

operating payments if they meet certain quality, efficiency and reporting requirements. BCBSM is permitted, under the Participating Hospital Agreement and under applicable BCBSM policies, to conduct retrospective audits and reviews of payments to providers and to collect any discovered overpayment by offsetting it against amounts otherwise payable to the provider. Such recoupment could have a substantial adverse effect on the provider's cash flow.

## **Regulations Affecting Medicare and Medicaid Providers**

**General.** Health care providers, including hospitals, are subject to the general Medicare requirements described above. In addition, Medicare and Medicaid providers are subject to periodic audits of claims submitted for payment and annual reconciliations of hospital cost reports, which could result in recoupment of overpayments previously made to the provider through withholding of payments due to the provider. Such recoupment may be substantial and could have a substantial adverse effect on the provider's cash flow.

Applicable laws, regulations, rules and policies also permit Medicare and Medicaid to withhold payments in certain circumstances, and such withheld payments could have a substantial adverse effect on the ability of the Obligated Group to make payments with respect to the loan repayments or on its overall financial condition. The management of the Obligated Group is not aware of any situation where a Medicare payment is being withheld in an amount material to the Obligated Group. There is no assurance that a significant payment may not be withheld in the future.

**Fraud and Abuse Laws and Regulations.** The federal Medicare/Medicaid Anti-Fraud and Abuse Amendments to the Social Security Act (the "Anti-Kickback Law") impose criminal penalties for a variety of practices relating to the Medicare and Medicaid programs, including the knowing and willful filing of false claims. The Anti-Kickback Law also makes it a felony knowingly and willfully to offer, pay, solicit or receive remuneration to induce the referral, purchasing, arranging for, or recommending of items or services for which payment may be made under the Medicare or Medicaid program. Violations of the Anti-Kickback Law are punishable by criminal fine and/or imprisonment and can also lead to civil monetary penalties and exclusion from Medicare, Medicaid and certain other state and federal health care programs. The scope of prohibited remuneration in the Anti-Kickback Law is broad and can include economic arrangements involving hospitals, physicians and other health care providers, including joint ventures, space and equipment rentals, purchases of physician practices, and management and personal services contracts. Federal regulations describe certain arrangements that will not be deemed to constitute violations of the Anti-Kickback Law. The safe harbors described in these regulations are narrow and do not cover a wide range of economic relationships that many health care providers consider to be legitimate business arrangements not prohibited by the Anti-Kickback Law. Although arrangements that do not strictly comply with all of the provisions of a particular safe harbor are not necessarily illegal, they face the risk of prosecution due to the broad language of the statute itself.

The Affordable Care Act amended the Anti-Kickback Law by relaxing the specific intent requirement to provide that a person need not have actual knowledge of the Anti-Kickback Law or specific intent to violate the Anti-Kickback Law, to be found in violation. This change decreases the burden on the Federal Government to prove that a healthcare provider has violated the Anti-Kickback Law.

The Members of the Obligated Group believe that their business arrangements are in material compliance with the Anti-Kickback Law. However, because of the narrowness of the safe harbor regulations and the scarcity of case law interpreting the Anti-Kickback Law, and the relaxation of the specific intent standard under the law, there can be no assurance that a Member of the Obligated Group will not be found to have violated the Anti-Kickback Law, and if so, whether any sanction imposed would have a material adverse effect upon the operations and financial condition of the Obligated Group.

**State Anti-Fraud Laws.** In addition to the federal Anti-Kickback Law, Michigan statutes 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 Michigan Medicaid program and by a variety of non-governmental payers.

**False Claims Act and Civil Monetary Penalties Law.** Medicare and Medicaid require that certain provider categories (such as hospitals) periodically report extensive financial information in documents known as “cost reports” that require a provider to characterize costs according to certain rules that may affect the level of Medicare and Medicaid reimbursement. These rules are numerous, technical and complex, and failure to abide by them may result in onerous penalties under the federal Civil False Claims Act (the “False Claims Act”) as described herein.

In addition, certain billing practices related to Medicare and Medicaid claim submissions may violate the False Claims Act. The False Claims Act prohibits presenting to the United States a false or fraudulent claim for payment, knowing that it is false or with “reckless disregard” for its truth or falsity. Actions under the False Claims Act may be brought by the Attorney General or as a *qui tam* action brought by a private individual in the name of the government. Violations of the False Claims Act can result in very significant monetary penalties of \$11,181 to \$22,363 (adjusted for inflation annually) per claim plus treble damages. The federal government is using the False Claims Act, and the threat of significant liability, in its investigations of providers throughout the country for a wide variety of Medicare and Medicaid billing practices and has obtained several settlements with providers in excess of \$100 million. Given the significant size of the actual and potential settlements, it is expected that the government will continue to devote substantial resources to investigating health care providers for their billing practices. Actions giving rise to civil liability under the False Claims Act could also be the basis for criminal prosecution under the Federal Criminal False Claims Act, if the person presenting the claim knows such claim to be false or fraudulent. Some courts have held that a person can act “knowingly” under the Federal Criminal False Claims Act if he or she consciously avoids familiarizing himself or herself with Medicare rules. A criminal prosecution for the Obligated Group’s health-care related activities or an action under the False Claims Act could have a material adverse effect on the Obligated Group. Violations of the False Claims Act and the Criminal False Claims Act may require the individual/entity violating the law to be excluded from the Medicare and Medicaid programs or allow the government to exclude such individual/entity, at the government’s discretion. The periods of these suspensions could range from a very short period of time to a permanent exclusion, depending on the conduct giving rise to the exclusion. Exclusion from the Medicare and Medicaid programs for any period of time would have a significant adverse effect on the Obligated Group.

The Affordable Care Act expanded the False Claims Act to require that any Medicare or Medicaid overpayment must be reported and returned to CMS, the state, intermediary or carrier within sixty (60) days of the date the overpayment was identified or the due date of the cost report, whichever is later. Any overpayment retained after that deadline will give rise to liability under the False Claims Act. On February 12, 2016, CMS issued the final Medicare overpayment rule and imposed a new “reasonable diligence” standard for identifying and reporting overpayments. CMS also lessened the look back period for identifying overpayments from 10 years to 6 years. The Affordable Care Act extends False Claims Act liability to provide that any claim for items or services resulting from a violation of the Anti-Kickback Law constitutes a false or fraudulent claim under the False Claims Act. In addition, the Affordable Care Act broadened the potential liability under the False Claims Act for overpayments discovered by a provider and not promptly reported even if the provider submitted the claims did not have knowledge that the claims were false.

Federal statutes, including the Civil Monetary Penalties Act (“CMP Law”), also outlaw certain types of manipulative health care practices. These include improperly coding services rendered to a claim a higher level of payment, billing for services or items that are not medically necessary, offering

inducements to beneficiaries to influence their choice of provider, remuneration from hospitals to physicians to reduce or limit services to beneficiaries, embezzling and/or “misapplying” funds, making false statements in connection with the delivery or payment of health care benefits, obstructing a health care investigation, and engaging in certain health care related money-laundering schemes. These statutory provisions increase the legal and financial risk of erroneous or improper coding and improper claims submission and may compound liabilities imposed on a party attempting to conceal wrongdoing, with penalties under the CMP Law including up to \$100,000 for each item or service claimed, plus treble damages.

**Restrictions on Referrals.** The federal physician self-referral and payment prohibitions (the “Stark Law”) generally forbid, with certain exceptions, a physician from making referrals for the furnishing of any “designated health services” (which include all hospital inpatient and outpatient services) for which payment may be made under the Medicare or Medicaid programs, to any entity with which the physician (or an immediate family member) has a “financial relationship.” The Stark Law also prohibits the entity receiving the referral from filing a claim or billing for those services arising out of the prohibited referral. The prohibition applies regardless of the reason for the financial relationship and the referral (i.e., no finding of intent is necessary to find a violation of the Stark Law).

Penalties for violating the Stark Law include denial of payment for any services billed by an entity in violation of the Stark Law, civil monetary penalties of up to \$15,000 for each claim filed in violation of the Stark Law plus treble damages, a fine of up to \$100,000 for each offense consisting of an arrangement to circumvent the law, and exclusion from the Medicare and Medicaid programs. Knowing violations of the Stark Law also may serve as the basis for liability under the False Claims Act.

**Emergency Medical Treatment and Active Labor Act.** The Emergency Medical Treatment and Active Labor Act (“EMTALA”) was enacted to address allegations that hospitals were inappropriately transferring underinsured or uninsured patients. The requirements for complying with EMTALA include providing a medical screening exam and, if an emergency medical condition is present, to stabilize such condition. These requirements must be met regardless of a patient’s ability to pay, and they may not be delayed pending a determination of the patient’s financial condition or insurance status. EMTALA has been expanded to apply beyond a hospital’s emergency department to any location on a hospital’s campus and off-site hospital departments. EMTALA imposes significant costs on hospitals, including those associated with providing uncompensated care and providing the resources and training to meet EMTALA requirements. Violations of EMTALA can result in monetary penalties and possible exclusion from Medicare and Medicaid. As enforcement has increased in recent years, no assurance can be provided that a Member of the Obligated Group will not have been found to have violated EMTALA, or that such violation would not have a material impact on the Obligated Group.

**Federal and State Health Care Criminal and Civil Law Enforcement.** The Affordable Care Act broadly expanded the scope of federal fraud and abuse laws, enforcement jurisdiction and funding. Health care investigations have increased substantially. The Department of Justice is actively prosecuting a number of cases, including civil and criminal False Claims Act cases, against health care providers, including some against exempt organizations. A number of prominent health care organizations have paid large settlements. The OIG has received substantial new enforcement funding through statutory revisions and has significantly increased the size of its investigation force.

The governmental enforcement initiatives are increasingly supplemented by *qui tam* False Claim Act lawsuits brought by private citizens against health care organizations. The number of *qui tam* cases appears to continue to increase.

Although the Members of the Obligated Group believe that they are presently in compliance with the Medicare and Medicaid laws and regulations, failure to comply with the complex Medicare and Medicaid billing laws and other requirements can result in exclusion of a Member of the Obligated Group from the Medicare and Medicaid programs as well as civil and criminal penalties. A substantial failure of a Member of the Obligated Group to meet its responsibilities under the law could materially adversely affect the financial condition of the Obligated Group.

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

**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, and others could adversely impact the Obligated Group, 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.

### **The Health Insurance Portability and Accountability Act of 1996**

The Health Insurance Portability and Accountability Act of 1996 (“HIPAA”) and its implementing regulations at 45 CFR Parts 160 and 164 establish, among other things, national minimum standards for the privacy and security of personal health and financial information. HIPAA was amended in 2010 as part of the American Recovery and Reinvestment Act to strengthen the privacy and security provisions of HIPAA and increase potential penalties for non-compliance. These amendments are known as the Health Information Technology for Economic and Clinical Health Act (“HITECH”). Effective dates of the HITECH amendments ranged from 2011 to 2014. (“HIPAA” and “HITECH” and the regulations promulgated thereunder are collectively referred to as “HIPAA.”)

Generally the HITECH Act (i) extends the reach of HIPAA to Business Associates (a person or entity that performs certain functions or activities that involve the use or disclosure of protected health information on behalf of, or provides services to, a covered entity), (ii) broadens the definition of breach, (iii) restricts marketing communications by health care providers and (iv) strengthens enforcement of HIPAA.

**Privacy Rule.** HIPAA generally prohibits the use and disclosure of broadly defined individually identifiable information, including clinical and financial information (“PHI”) except with patient authorization, as required by law, or as specifically permitted by HIPAA or other law. HIPAA affects most health care providers, including the Members of the Obligated Group. The Privacy Rule also imposes certain requirements on health care providers relating to individual patient rights, including, providing a notice of privacy practices to all patients, granting patients access to their medical records, a right to amend their information, a right to restrict communications relating to their information and a right to receive an accounting of the disclosure of such information in certain circumstances.

**Security Rule.** The HIPAA Security Rule requires health care providers to maintain reasonable and appropriate administrative, physical and technical safeguards to protect the confidentiality, integrity and availability of electronic PHI that they receive, create, maintain or transmit. Administrative safeguards include measures such as workforce training and management, security personnel and information access management. Physical safeguards include facility access and control, and workstation and device security. Technical safeguards include access control, audit controls, and transmission security. HIPAA identifies a series of action steps that all health providers adopt to secure electronic PHI, including without limitation, conducting a security risk assessment, implementing specific security measures to address identified risks, implementing a security awareness and training program for all workforce members, including management, implementing policies and procedures to address security

incidents, and establishing (and implement as needed) a contingency plan to assure the integrity, confidentiality, and availability of electronic PHI in emergency or aberrational situations that damage systems containing electronic PHI.

HIPAA also prescribes a process for notification in the event of a breach of electronic PHI, including, under certain circumstances, notice to the media and HHS.

**EDI.** The regulations relating to electronic transactions and code set standards (“EDI Rules”) require any health plan, health care clearinghouse or health care provider that transmits any health information in electronic form to use designated transactions and code set standards.

Violations of HIPAA can result in civil monetary penalties and criminal penalties for certain types of knowing and willful violations. The HITECH Act defined penalties in four tiers, depending on the level of intent and the scope of the violation, with amounts ranging from \$50,000 per violation up to \$1,500,000. The HITECH Act also grants state Attorneys General the right to enforce HIPAA. While there is no private right of action under these rules, individuals who believe that their privacy rights have been violated may file a complaint directly with the HHS Office of Civil Rights.

HIPAA has affected and will continue to impact the Obligated Group at several levels. The Hospital was required to assume significant expense to maintain compliance with existing regulations and achieve compliance with HIPAA and is subject to another area of potential enforcement. The benefit of these regulations, however, is that e-commerce in the health care industry is likely to experience significant growth due to standardization of claims processing, and at least in some respects, clarity in the application of privacy and security standards. While this development should create the opportunity to more efficiently manage key tasks in health care, it will also result in increased competition as discussed elsewhere in this section.

Each Member of the Obligated Group maintains formal plans for compliance with all applicable HIPAA requirements, has trained its staff and employees in these requirements and maintains specified HIPAA Compliance Officers for Privacy and Security who have been provided the authority to supervise, update and enforce policies and procedures designed to assure HIPAA compliance. To date, all HIPAA investigations of the Hospital or other Members of the Obligated Group have resulted in either minimal corrective action plans or determinations that the policies and procedures of the respective Member of the Obligated Group complied with HIPAA Standards. No fine or penalty has been imposed on the Hospital for any HIPAA-related matter. While the Members of the Obligated Group believe they have taken reasonable and appropriate steps in the design of policies and procedures and in its supervision so as to maintain HIPAA compliance, it cannot be predicted when or to what extent complaints may be filed or investigations undertaken, which could involve the expenditure of possibly substantial sums to defend and the possibility of fines or other penalties should HHS determine that any covered component of a Member of the Obligated Group is not in compliance with HIPAA requirements.

### **Michigan Certificate of Need Program**

The Michigan CON program was enacted in 1972 pursuant to Part 222 of the Michigan Public Health Code and review standards promulgated by the Michigan CON Commission. The CON program is administered by the Michigan Department of Health and Human Services (formerly the Michigan Department of Community Health) (“MDHHS”). Part 222, as amended, provides, in part, that a person shall not acquire an existing or 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 CON from MDHHS, which documents a demonstrated need and grants permission for the proposed project. Depending on the type of project, MDHHS may



conduct a nonsubstantive, substantive or comparative review. As of January 1, 2018, the capital expenditure threshold above which a CON is required for any expenditure project is \$3,252,500 for covered capital expenditures for health care facilities. This threshold amount is adjusted each year to account for cost of living increases. Projects involving non-clinical service areas generally 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 and 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. Obligated Group management is not aware of any proceeding or investigation in which a violation of the CON laws by the Obligated Group is alleged by any governmental agency.

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

On a regular basis, health facilities, such as the facilities of the Members of the Obligated Group, 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 a Member of the Obligated Group. 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 scope of licensure, certification or accreditation of a Member of the Obligated Group, or could reduce the payment received or require repayment of amounts previously remitted.

Management of the Obligated Group 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 operations or financial condition of the Obligated Group. Nevertheless, actions in any of these areas could result in the loss of utilization or revenues or the Obligated Group's ability to operate all or a portion of its facilities, and, consequently, could adversely affect the Obligated Group's ability to make payments of principal, interest and premium, if any, on the Bonds.

### **Antitrust**

Enforcement of the 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, 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.

From time to time, the Members of the Obligated Group are 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, Members of the Obligated Group 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 Members of the Obligated Group, 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.

### **Affiliation, Merger, Acquisition and Divestiture**

Significant numbers of affiliations, mergers, acquisitions and divestitures have occurred in the health care industry recently. As part of its on-going planning process, the Obligated Group has considered and will continue to consider the potential acquisition of operations or properties which may become affiliated with or become part of the Obligated Group in the future, as well as the potential disposition of certain existing Obligated Group operations or properties. As a result, it is possible that the organizations and assets which currently make up the Obligated Group may change from time to time, subject to the provisions in the Master Indenture and other financing documents which apply to merger, sale, disposition or purchase of assets, or with respect to joining or withdrawing from the Obligated Group.

### **Tax Exemption for Nonprofit Hospitals**

**Background.** In recent years, the tax-exempt status of nonprofit corporations and the exclusion of income earned by them from taxation has been the subject of scrutiny by the IRS and various other federal, state and local governmental agencies. In some instances exempt organizations have been subject to challenges by the IRS, state Attorneys General and other agencies to their continued exempt status. Congress has considered proposals to, among other things, establish minimum levels of charity care for hospitals, increase audits of hospitals for compliance with tax exempt operational requirements, increase penalties for excess benefit transactions, improve reporting of community benefit activities, strengthen existing law with respect to unrelated business income. In addition, the IRS and Congress have indicated an interest in continued scrutiny of executive compensation practices by exempt organizations and efforts by those organizations to fairly compensate “insiders.” This focus on exempt organizations includes the following.

**Section 501(r).** The Affordable Care Act added Section 501(r) to the Code imposing additional requirements on tax exempt hospitals. Hospitals are required to (i) conduct a community needs assessment every three years and adopt an implementation strategy to address any needs identified in the assessment, (ii) adopt written financial assistance and emergency medical care policies and ensure that patients are notified of the policies, (iii) limit charges for emergency or other medically necessary care for patients eligible for financial assistance and (iv) meet billing and collection requirements, including a prohibition on “extraordinary collection efforts” unless and until the hospital has made a “reasonable effort” to determine whether the patient is eligible for financial assistance.

**Bond Audits and Examinations.** The IRS has dedicated additional resources to audit and examine post-issuance compliance of organizations with outstanding tax exempt bonds. Effective for the 2009 tax year, exempt organizations with outstanding tax exempt bonds are required to complete Schedule K to the Form 990 tax return. Schedule K requires the exempt organization to report on the investment and use of bond proceeds and the private use of bond financed facilities.

**Limitations on Contractual and Other Arrangements.** As tax-exempt organizations, the Members of the Obligated Group are also limited with respect to contractual and other arrangements it may have with for profit individuals and organizations. This can impact the ability of the Hospital and other members of the Obligation to recruit and retain physicians, outsource activities or lines of business enter into joint ventures and lease space within owned facilities. The IRS has issued a detailed audit guide suggesting that field agents scrutinize numerous activities of tax-exempt hospitals in an effort to determine whether any action should be taken with respect to limitations on, or reassessment of additional tax.

Any suspension, limitation, or revocation of an Obligated Group Member's tax-exempt status or assessment of significant tax liability would have a materially adverse effect on the Obligated Group and might lead to loss of tax exemption of interest on the Bonds.

**State Proposals.** In addition to proposals with respect to income earned by nonprofit corporations, various state and local governmental bodies have challenged the tax-exempt status of such institutions and have sought to remove the exemption from real and personal property taxes of part or all of the property of various nonprofit institutions on the grounds that a portion of such property was not being used to further the charitable purposes of the institution or that the institution did not provide sufficient care to indigent persons so as to warrant exemption from taxation as a charitable institution. Several of these disputes have been determined in favor of the taxing authorities or have resulted in settlements.

## **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 often filed against hospitals. For a discussion of the Obligated Group's malpractice and general liability insurance coverage, see "INSURANCE" and "LITIGATION/CLAIMS" in Appendix A.

## **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 health care provider 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. Management of the Obligated Group believes that these schedules and procedures, to date, have not had an adverse material effect on the Obligated Group.

## **Environmental Laws and Regulations**

Hospitals 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 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 hospital; 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 may be subject to liability for investigating and remedying 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 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 affect the ability to renovate or otherwise modify property; 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 Obligated Group will not encounter such risks in the future, and such risks may result in material adverse consequences to the operations or financial condition of the Obligated Group.

At the present time, the Obligated Group's management is not aware of any pending or threatened claim, investigation or enforcement action regarding such environmental issues which, if determined adversely to the Obligated Group, would have material adverse consequences.

### **Risks Related to Master Indenture Financings**

The Master Indenture permits the Obligated Group to sell, lease or otherwise dispose of all or part of the assets of the Obligated Group under the conditions described therein. In connection with any transfer of all or substantially all of the assets of the Obligated Group, counsel will be required to render an opinion that the Master Indenture is an enforceable obligation against the transferee in accordance with its terms, but such opinion may be qualified as to enforceability by limitations imposed by bankruptcy, insolvency, fraudulent conveyance, reorganization or other laws affecting the enforceability of creditor's rights generally and by the application of equitable remedies, regardless of whether the action is brought in equity or at law.

Under the United States Bankruptcy Code and state fraudulent conveyance statutes, an obligation may be declared void if (a) the obligation has been incurred (within one year of the filing of a petition under the Bankruptcy Code) without receipt of fair consideration or of reasonably equivalent value by the obligor, and (b) the obligor was insolvent at the time the obligation was incurred or the incurrence of such obligation renders the obligor insolvent, as defined in the Bankruptcy Code or in the applicable state fraudulent conveyance statute. It is possible that the joint and several obligations of any Member of the Obligated Group to make payments on obligations of another Member may be avoided in bankruptcy of a Member of the Obligated Group from which payment is requested or in an action brought pursuant to the applicable state fraudulent conveyance statutes. Interpretation by the courts of the tests of "insolvency," "reasonably equivalent value" and "fair consideration" has resulted in a conflicting body of case law.

In addition, the assets of a nonprofit Member of the Obligated Group may be deemed to be subject to a charitable trust which prohibits payments on obligations issued by others. Among other reasons, such a determination may be made if, as a result of the payments, the Member making the payments has insufficient assets to carry out its own charitable functions or, under certain circumstances, if the obligations paid by such Member were issued for purposes inconsistent with or beyond the scope of the charitable purposes for which the Member was organized, or if payment is required to be made from property which is donor restricted or subject to a direct or express trust which does not permit such payment. Due to the absence of clear legal precedent in this area, the extent to which the assets of any

Member of the Obligated Group can be used to pay obligations issued by others cannot be determined at this time.

The various legal opinions to be delivered concurrently with the delivery of the 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 general principles of equity.

### **Other Risk Factors**

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

- (1) Adoption of legislation which would establish a national health program.
- (2) Employee strikes and other adverse labor actions that could result in a substantial reduction in revenues without corresponding decreases in costs.
- (3) Reduced need for hospitalization or other services arising from future medical and scientific advances.
- (4) Reduced demand for the services of a Member of the Obligated Group that might result from decreases in population.
- (5) Increased unemployment or other economic conditions in the service area of the Obligated Group 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 Traverse City metropolitan area or the State by the closing of operations of one or more major employers in the Traverse City metropolitan area may result in a loss of BCBSM or other health insurance benefits for a portion of the Obligated Group's patients.
- (6) Any substantial increase in the quantity of indigent care provided which is mandated in order to, for example, maintain the tax-exempt status of any Member of the Obligated Group.
- (7) 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.
- (8) Developments adversely affecting the federal or state tax-exempt status of nonprofit organizations.
- (9) 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.
- (10) The occurrence of natural disasters, which could damage the facilities of the Obligated Group, interrupt utility service to the facilities or otherwise impair the operation of the Obligated Group and the generation of revenues from the facilities. The facilities of the Members of the Obligated Group are covered by general property insurance in an amount which management considers to be generally sufficient to provide for the replacement of such facilities in the event of most natural disasters.

(11) Developments which adversely affect the federal or state tax-exempt status of municipal bonds could make tax-exempt financing unavailable for future Obligated Group projects.

(12) Adoption of a so-called “flat tax” federal income tax or replacement of the federal income tax with another form of taxation which might adversely affect the market value of the Bonds.

### **NEGOTIABILITY**

The Act provides that, whether or not the Bonds are of such form or character as to be negotiable instruments under the Uniform Commercial Code of Michigan (the “UCC”), the Bonds issued under the Act will be negotiable instruments within the meaning of and for all the purposes of the UCC, subject only to the provisions of the Bonds for registration.

### **BONDS NOT A DEBT OF THE COUNTY OR THE STATE**

The Bonds will be limited obligations of the Authority not constituting a general obligation and will not constitute or create any debt or debts, liability or liabilities on behalf of the County or the State of Michigan or any political subdivision thereof, or a loan of the credit of the County or the State or a pledge of the faith and credit of the County or the State or any political subdivision, but will be payable solely from the funds provided therefor. The issuance of the Bonds under each Bond Indenture will not directly or indirectly or contingently obligate the County or the State or any political subdivision thereof to levy or pledge any form of taxation whatever therefor or to make any appropriation for their payment. The Authority has no taxing power.

### **ABSENCE OF MATERIAL LITIGATION**

There is no controversy or litigation of any nature now pending or threatened restraining or enjoining the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds or any proceedings of the Authority taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the Bonds or the existence or powers of the Authority.

### **LEGAL MATTERS**

The legality of the authorization, issuance, sale and delivery of the Bonds is subject to the approval of Miller, Canfield, Paddock and Stone, P.L.C. of Ann Arbor, Michigan, Bond Counsel, whose approving opinions will be delivered upon the issuance of the Bonds in substantially the form attached to this Official Statement as Appendix D.

Certain legal matters will be passed on for the Underwriter by its counsel Dykema Gossett PLLC of Lansing, Michigan, for the Obligated Group by its Vice President and General Counsel, Rachael Roe, and for the Authority by its counsel, Clark Hill PLC of Detroit, Michigan, none of which will be passing upon the legality of the Bonds.

Miller, Canfield, Paddock and Stone, P.L.C., has represented the Underwriter on various matters unrelated to the Bonds. Miller, Canfield, Paddock and Stone, P.L.C. has not represented the Underwriter with respect to any matters relating to the Bonds. Dykema Gossett PLLC has represented Munson Healthcare and the Hospital on various matters unrelated to the Bonds. Dykema Gossett PLLC has not represented Munson Healthcare or the Hospital with respect to any matters relating to the Bonds.

## **TAX MATTERS**

### **General**

In the opinion of Miller, Canfield, Paddock and Stone, P.L.C., as Bond Counsel, based upon its examination of the documents described in its opinion, under existing law, the interest on the Bonds (a) is excluded from gross income for federal income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum tax. The opinion set forth in clause (a) above is subject to the condition that the Authority and the Obligated Group comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), in order that interest thereon be (or continue to be) excluded from gross income for federal income tax purposes. These requirements include rebating certain earnings to the United States. Failure to comply with certain of such requirements could cause the interest on the Bonds to be included in gross income retroactive to the date of issuance of the Bonds. The Authority has covenanted in the Bond Indentures and the Obligated Group has covenanted in the Loan Agreements to comply with all such requirements. Bond Counsel will express no opinion regarding other federal tax consequences arising with respect to the Bonds and the interest thereon.

In addition, in the opinion of Bond Counsel, based on its examination of the documents described in its opinion, under existing law as presently interpreted, the Bonds and the interest thereon are free and exempt from all state, city, county or other taxation provided by the laws of the State of Michigan, except for estate, inheritance and gift taxes and taxes on transfers.

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

There are additional federal tax consequences relative to the Bonds and the interest thereon. The following is a general description of some of these consequences, but is not intended to be complete or exhaustive, and investors should consult their tax advisors with respect to these matters. For federal income tax purposes: (a) tax-exempt interest, including interest on the Bonds, is included in the calculation of modified adjusted gross income required to determine the taxability of social security or railroad retirement benefits; (b) the receipt of tax-exempt interest, including interest on the Bonds, by life insurance companies may affect the federal income tax liabilities of such companies; (c) the amount of certain loss deductions otherwise allowable to property and casualty insurance companies will be reduced (in certain instances below zero) by 15% of, among other things, tax-exempt interest, including interest on the Bonds; (d) interest incurred or continued to purchase or carry the Bonds may not be deducted in determining federal income tax; (e) commercial banks, thrift institutions and other financial institutions may not deduct their costs of carrying certain obligations such as the Bonds; (f) interest on the Bonds will be included in effectively connected earnings and profits for purposes of computing the branch profits tax on certain foreign corporations doing business in the United States; (g) passive investment income, including interest on the Bonds, may be subject to federal income taxation for S Corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such S Corporation is passive investment income; (h) holders acquiring the Bonds subsequent to initial issuance will generally be required to treat market discount recognized under Section 1276 of the Code as ordinary income; and (i) the receipt or accrual of interest on the Bonds may cause disallowance of the earned income credit under Section 32 of the Code.

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

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

The Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Discount Bonds who purchase such bonds after the initial offering of a substantial amount thereof. Owners who do not purchase such Discount Bonds in the initial offering at the initial offering prices should consult their own tax advisors with respect to the tax consequences of ownership of such bonds. All holders of the Discount Bonds should consult their own tax advisors with respect to the allowance of a deduction or any loss on a sale or other disposition to the extent that such loss is attributable to accrued original issue discount.

## **Amortizable Bond Premium**

For federal income tax purposes, if the initial offering price of a Bond as shown on the cover of this Official Statement is greater than the stated redemption price at maturity (such Bonds are hereafter referred to as “Premium Bonds”), then the difference between a purchaser’s cost basis of the Premium Bonds and the amounts payable on the Premium Bonds (other than the payment of the stated interest thereon) constitutes an amortizable bond premium. Such amortizable bond premium is not deductible from gross income, but is treated for federal income tax purposes as an offset to the amount of stated tax-exempt interest paid on the Premium Bonds and is taken into account by certain corporations in determining adjusted current earnings for the purpose of computing the alternative minimum tax, which may also affect liability for the branch profits tax imposed by Section 884 of the Code.

In general, the amount of amortizable bond premium allocated to each “accrual period” is the excess of the stated interest on a Premium Bond allocable to such accrual period over the product of the bond purchaser’s adjusted acquisition price at the beginning of the accrual period multiplied by the discount rate that, when used in computing the present value of all remaining payments to be made on such Premium Bond (including stated interest) produces an amount equal to the holder’s basis in the Premium Bonds. For purposes of this calculation, the adjusted acquisition price at the beginning of any accrual period is equal to the purchaser’s original basis in the Premium Bond decreased by (i) the amount of bond premium amortized in prior accrual periods and (ii) the amount of any payments previously made on the Premium Bond other than payments of stated interest on such Premium Bond.

The amount of amortizable bond premium allocable to each taxable year is deducted from the bond purchaser’s adjusted basis on such Premium Bonds to determine taxable gain upon disposition (including sale, redemption or payment at maturity) of such bonds.

INVESTORS SHOULD CONSULT WITH THEIR TAX ADVISORS AS TO THE TAX CONSEQUENCES OF THEIR ACQUISITION, HOLDING OR DISPOSITION OF THE BONDS. FURTHER, NO ASSURANCE CAN BE GIVEN THAT ANY SUCH FUTURE LEGISLATION, OR ANY ACTIONS OF THE INTERNAL REVENUE SERVICE, INCLUDING, BUT NOT LIMITED TO, SELECTION OF THE BONDS FOR AUDIT EXAMINATION, OR THE COURSE OF ANY



EXAMINATION OF THE BONDS, OR OTHER BONDS WHICH PRESENT SIMILAR TAX ISSUES, WILL NOT AFFECT THE MARKET PRICE OF THE BONDS.

### **UNDERWRITING**

The Bonds are being purchased by Barclays Capital Inc. (the “Underwriter”). The Underwriter has agreed to purchase the Bonds at an aggregate discount of \$147,960.00 from the public offering prices set forth on the inside cover page hereof. The Underwriter may offer, and sell, the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the public offering prices stated on the inside cover page hereof, which may be changed after the initial offering by the Underwriter. The Underwriter will purchase all the Bonds, if any are purchased, and the Obligated Group will deliver to the Underwriter and the Authority on the date the Bonds are sold, its letters of representations constituting the agreement of the Obligated Group, in accordance with their terms, to indemnify the Underwriter and the Authority against losses, claims, damages and liabilities arising out of any statement or information contained in this Official Statement pertaining to the Obligated Group that is incorrect in any material respect.

### **MUNICIPAL ADVISOR**

Ponder & Co. is acting as a registered municipal advisor to the Obligated Group in connection with the issuance of the Bonds. Ponder & Co. is not obligated to undertake, and has not undertaken, an independent verification of, nor has it assumed responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. Ponder & Co. is an independent financial advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

### **INDEPENDENT AUDITORS**

The consolidated financial statements of Munson Healthcare and Subsidiaries for the years ended June 30, 2017 and 2018 included in Appendix B to this Official Statement, have been audited by Plante & Moran, PLLC, independent auditors, as stated in their report appearing in Appendix B hereto.

### **RATINGS**

Fitch Rating, Inc. (“Fitch”) and Moody’s Investors Service, Inc. (“Moody’s”) have assigned the Bonds their municipal bond ratings of “AA-” with a positive outlook and “A1” with a stable outlook, respectively. An explanation of the significance of such ratings should be obtained only from the rating agency furnishing the same. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by Fitch or Moody’s, if, in the judgment of Moody’s or Fitch, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

### **CONTINUING DISCLOSURE UNDERTAKING**

On or before the date of delivery of the Bonds, the Obligated Group Agent, on behalf of the Members of the Obligated Group (as such Obligated Group may be comprised from time to time as provided in the Master Indenture), will execute and deliver for the benefit of the holders and beneficial owners of the Bonds, a Continuing Disclosure Undertaking pursuant to the requirements of Rule 15c2-12 (the “Rule”) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, in substantially the form set forth in Appendix E. Except as may be otherwise

required by applicable federal securities law, the Obligated Group is not obligated to provide any additional disclosure beyond that specified in Appendix E. Neither the Underwriter nor the Bond Trustee shall have any responsibilities with respect to the Continuing Disclosure Undertaking.

The Obligated Group has not, in the previous five years, failed to comply in any material respect with any disclosure undertaking entered into by the Obligated Group Agent pursuant to the Rule.

## **OTHER MATTERS**

Only the information set forth under the caption “THE AUTHORITY” and the information concerning the Authority under the captions “INTRODUCTORY STATEMENT” and “ABSENCE OF MATERIAL LITIGATION” was furnished by the Authority. While such information is believed to be reliable, the Obligated Group and the Underwriter make no representations or warranties with respect to such information.

The Obligated Group furnished the information relating to the Members of the Obligated Group under the captions “INTRODUCTORY STATEMENT,” “MUNSON HEALTHCARE OBLIGATED GROUP” and “BONDHOLDERS’ RISKS,” the information under the caption “ESTIMATED SOURCES AND USES OF FUNDS” and the information in APPENDIX A. The information related to DTC and the book-entry only system under “THE BONDS” and elsewhere herein is based on information furnished by DTC. Such information provided by the Obligated Group and DTC is believed to be reliable, but neither the Authority nor the Underwriter makes any representations or warranties whatsoever with respect to such information.

Any statements in this Official Statement involving matters of opinion, whether or not expressly stated as such, are so intended and are not representations of fact.

The summaries or descriptions of provisions of the Act, the Bonds, the Master Indenture, the Notes, the Supplemental Indentures, the Loan Agreements, the Continuing Disclosure Undertaking and the Bond Indentures, and all references to other materials not purported 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. Section and table headings and captions are included for convenience only and should not be construed as modifying the text of this Official Statement.

## **COUNTY OF GRAND TRAVERSE HOSPITAL FINANCE AUTHORITY**

By: /s/ Heidi Scheppe  
Its: Chairman

APPROVED:

**MUNSON HEALTHCARE**, for itself and as  
Obligated Group Agent on behalf of the other  
Members of the Obligated Group

By: /s/ Mark A. Hepler  
Its: Chief Financial Officer

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Appendix A

Information Concerning the  
Munson Healthcare Obligated Group

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The information in this Appendix  
has been obtained from the members of the  
Munson Healthcare Obligated Group

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## INTRODUCTION

### General

Munson Healthcare (“**MHC**” or “**Munson Healthcare**”) is a Michigan nonprofit corporation organized to direct and oversee the delivery of a broad array of health care and related services through MHC’s various subsidiaries and affiliates in the northern portion of Michigan’s Lower Peninsula and the eastern part of Michigan’s Upper Peninsula (the “**MHC System**”). In 2012, MHC adopted a strategic plan to develop a comprehensive health care system throughout the region to provide patient-centric care. Through strategic acquisitions and affiliations, MHC has achieved that goal. The MHC System now employs over 8,400 people, and is the largest healthcare system north of U.S. 10 in Michigan. On a consolidated basis, since 2016 MHC has seen operating revenues increase from \$844.3 million to \$1,039.2 million.

MHC’s largest subsidiary is Munson Medical Center (“**MMC**”), a Michigan nonprofit corporation that operates a hospital in Traverse City, Michigan. MMC, the largest hospital in the northern Lower Peninsula and a certified Level II trauma center, serves as a rural regional referral center for the surrounding 23-county area.

In addition to MMC, the MHC System also includes eight (8) other rural-based hospitals, six (6) of which are wholly-owned subsidiaries of MHC and two (2) of which (Kalkaska Memorial Health Center and Mackinac Straits Health System) are contractual affiliates of MHC. The MHC System also provides the communities it serves with outpatient treatment, rehabilitation facilities, ambulance transportation, long-term care facilities and home-based medical services.

The MHC System is recognized for delivering high quality care with the patient at the center of all that MHC does. This is illustrated by MHC’s “True North” approach:



True North is the compass that guides MHC to make the right decisions, aligns its operations with its goals, and inspires MHC to keep patients at the center of what MHC does. Consistent with that patient-centric view, and as a 501(c)(3) organization, Munson Healthcare has provided more than \$150 million in

community benefit from 2015 through 2017 fiscal years to the communities it serves through subsidized programs and services, health professions education, research and contributions to community groups.

While providing a broad range of quality health services throughout its primary service area, the MHC System also provides specific clinical services that draw patients from its secondary referral service area, such as advanced cardiac procedures, bariatric surgery, robotic surgery and stereotactic radiosurgery. Munson Healthcare's focus, however, is on optimizing the whole system, which is evident by its commitment to advanced information linkages and comprehensive, multi-site care management.

MHC, in furtherance of implementing its strategy as discussed more fully in the section "Munson Healthcare System Strategy", is focused on continuing to meet the needs of the patients through the delivery of high quality health care services through: (a) increased connectivity of its hospitals and physicians through continued expansion of an electronic health record ("EHR") network, making care both more accessible and responsive; (b) ongoing integration of its various hospitals to develop economies of scale and remain a good steward of the resources of the MHC System; (c) development of systems to navigate the transition of health care reimbursement from fee-for-service to fee-for-value; and (d) recognizing the shift away from inpatient care, continued expansion of its outpatient clinics and home care services to deliver convenient care and reduce hospital re-admissions. By accomplishing the foregoing, the MHC System will continue to meet the health needs of the communities it serves.

### **MUNSON HEALTHCARE SYSTEM STRATEGY**

Munson Healthcare fulfills its mission to provide superior quality care and promote community health by maintaining a low cost structure, delivering medical services nationally recognized for quality; and building strong, collaborative relationships with patients, physicians, affiliate health care organizations and the communities MHC serves.

MHC has established four (4) key driving strategies in furtherance of its mission:

1. Fully engage and integrate with physicians and other providers in northern Michigan
2. Develop relationships with other health care organizations
3. Ensure financial viability and sustainability of the MHC System and its members, including focusing on fee-for-service alternatives and increased delivery of care in outpatient clinics and in patients' homes
4. Develop enhanced capabilities in information management and intelligence

Physician integration is a key strategic objective to ensure the long-term viability of MHC and care delivery in northern Michigan. MHC has deployed several strategies over the last three years to build an integrated network that is prepared for changes in healthcare delivery and payment:

- To ensure access to subspecialty care for northern Michigan residents, MHC has attracted and employed several hard-to-recruit sub-specialties, including psychiatry, neurosurgery, nephrology, endocrinology and infectious disease.
- To improve financial and operational performance, MHC is pursuing shared governance models and goal-based performance incentives with physicians. One example of this is the MMC-led Joint Cardiology Committee (JCC). Staffed by cardiologists and hospital administration, this group has overall accountability for the performance of the cardiology service line. A similar structure has been put in place for the MMC's regional oncology initiative and MMC's general surgery program.

- To integrate medical records, MHC is working to ensure continued integration and interoperability of its EHR with physician office EHRs in the primary service area. This electronic integration proactively positions Munson Healthcare to re-engineer care delivery in a way that manages patient care across providers while reducing system waste and redundancy.
- To preserve the primary care infrastructure that is essential for care delivery in the region, and given the number of physicians approaching retirement age, MHC works with local practices to support efforts to add physicians to their practice to preserve access to care in northern Michigan.
- To adapt to the fee-for-value reimbursement model and to promote population health management, Munson Healthcare is engaged in the development and implementation of clinically integrated networks across northern Michigan.

## **STRATEGIC INVESTMENTS**

As part of implementing its strategy, MHC has made significant investments both in its employees and its facilities. MHC remains focused on attracting and retaining the best talent and keeping departments fully staffed which allows MHC to continue to provide safe, high-quality care to the communities it serves. To that end, MHC continually invests in its people, whether it be increasing wages to remain competitive in the health care industry or providing ongoing training and education programs, leadership development opportunities and tuition reimbursement.

The MHC System has seen rapid growth in the most recent four years, acquiring five of the seven wholly-owned hospitals since 2015. Most recently, Munson Healthcare Otsego Memorial Hospital was acquired in June 2018. Additionally, MHC continues to invest in its master facility plans, routine capital needs and information technology. In FY 2018, MHC capital expenditures exceeded \$78 million.

Looking to the future, MHC recently announced the next expansion of services at MMC. The project, with an estimated cost of \$80 million, will include (a) the construction of a new Family Birth and Children's Center consisting of a neonatal intensive care unit as well as maternity and pediatrics units; (b) expansion of surgical services and cardiovascular services through new outpatient clinics, new diagnostic equipment, catheter lab updates, and information technology enhancements; and (c) expansion of MHC's regional cancer care through the deployment of new technologies and enhanced cancer research.

MHC expects to fund future capital expenditures from a variety of sources including cash flows from operations; grants and contributions; proceeds of new issuances of bonds and other indebtedness, if determined appropriate by MHC; and other available funds.

## **AWARDS AND RECOGNITIONS**

Munson Healthcare and its hospitals have been recognized repeatedly on the national level for quality of care and financial performance. Some highlights from the last 10 years include:

- Top 10 Hospital in Michigan: MMC is ranked the #7 hospital in Michigan in 2018 by *U.S. News & World Report*.
- Top 100 Hospital. IBM Watson Health, formerly Truven Health Analytics, has recognized MMC 14 times for being among the best in the nation, making it one of only a few hospitals honored so often for superior clinical and operational performance. MMC was named among the nation's top hospitals for performance in 2011, 2010, 2009, 2008, 2007, 2006, 2005, 2004, 2001, 2000, 1999, 1998, 1997, and 1993.

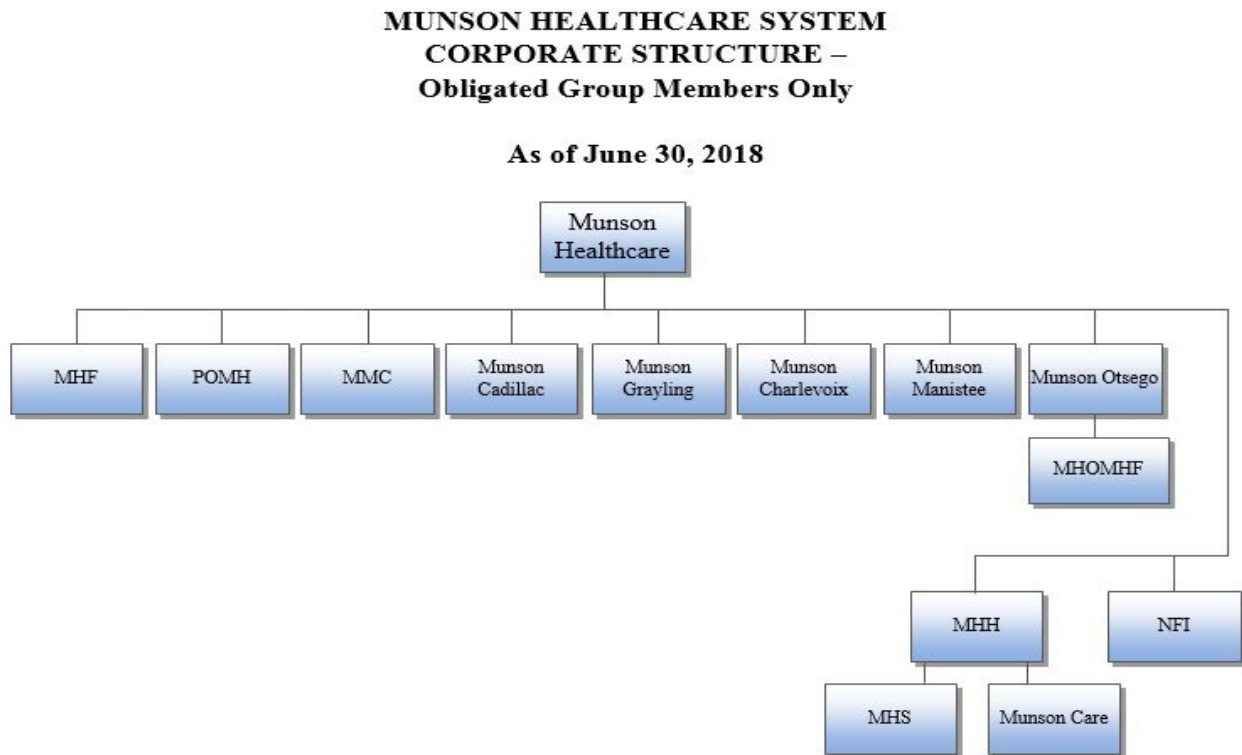
- 100 Top Cardiovascular Hospitals: MMC has been selected seven (7) times by Thomson Reuters as a top hospital for outstanding heart care, based on superior clinical and operational performance in 2010, 2009, 2008, 2006, 2001, 2000, and 1999. It was listed among the 50 Top Cardiovascular Hospitals, 2011 when Thomson narrowed the list to 50 to highlight providers that are truly leading the way.
- Technology Awards. Seven Munson Healthcare system hospitals were recognized by the American Hospital Association's journal Hospitals and Health Networks as "Most Wired" hospitals for 2014. Munson Medical Center was named a Most Wired hospital by H&HN in seven out of the last eight years.
- Top 50 Hospital. Becker's Review named MMC one of America's 50 Best Hospitals in 2011.
- Magnet Award for Nursing Excellence: In 2016, MMC was re-designated as a Magnet hospital for the third consecutive time by the American Nurses Credentialing Center. Magnet designation recognizes excellence in patient care standards, respect of cultural and ethnic diversity, and leadership of the nurse administrator in supporting professional nursing practice, and the management and philosophy of nursing services. Only one other hospital in Michigan has been re-designated three consecutive times.
- Award-Winning Stroke Care. MMC has been regularly recognized by American Heart Association and American Stroke Association, being recognized with both the Gold Plus Achievement and Elite Honor Roll recognition in the national association's Get with the Guidelines® quality improvement program. In addition, the Joint Commission has certified MMC as a Primary Stroke Center.
- CMS Recognition. MMC has been rated four stars by the Centers for Medicare and Medicaid Services, which rating summarizes up to 64 quality measures and compares MMC's results to other hospitals in the U.S.
- Top 100 Critical Access Hospitals. Munson Healthcare Charlevoix Hospital, one of the MHC System's hospitals, was named one of iVantage Health Analytics' Top 100 Critical Access Hospitals (CAHs) in the United States in 2016.
- Blue Distinction Centers. MMC has been recognized by Blue Cross Blue Shield of Michigan for patient satisfaction and care for cardiac care, maternity care and orthopedic services.

#### **MUNSON HEALTHCARE: OBLIGATED GROUP MEMBERS**

The Munson Healthcare Obligated Group (the "**Obligated Group**") consists of MHC, MMC, Paul Oliver Memorial Hospital in Frankfort, Michigan ("**POMH**"), Munson Healthcare Cadillac in Cadillac, Michigan ("**Munson Cadillac**"), Munson Healthcare Grayling in Grayling, Michigan ("**Munson Grayling**"), Munson Healthcare Otsego Memorial Hospital in Gaylord, Michigan ("**Munson Otsego**"), Munson Healthcare Manistee Hospital in Manistee, Michigan ("**Munson Manistee**"), Munson Healthcare Charlevoix Hospital in Charlevoix, Michigan ("**Munson Charlevoix**"), Munson Home Health ("**MHH**"), Munson Home Care ("**Munson Care**"), Munson Home Services ("**MHS**"), North Flight, Inc. ("**NFI**"), Munson Healthcare Foundations ("**MHF**") and Munson Healthcare Otsego Memorial Hospital Foundation ("**MHOMHF**"). As explained in Management's Discussion of the Results of Operations, the Obligated Group comprised 99% and 97.32% of the consolidated total assets and net patient service revenues, respectively, of Munson Healthcare at June 30, 2018. Members of the Obligated Group are described below.



The following is the corporate structure of the Obligated Group as of June 30, 2018:



*Munson Healthcare.* MHC is the parent entity that supports and coordinates the operations of the MHC System and ensures the delivery of healthcare within the communities served by the MHC System. The other members of the Obligated Group are either direct or indirect wholly-owned subsidiaries of MHC. MHC's governing body is discussed more fully below. MHC employees approximately 468 people.

*Munson Medical Center.* The flagship hospital of MHC, MMC provides a broad array of clinical care, serving as the referral center for Northern Michigan. MMC has 413 licensed acute care beds. MHC is the sole member of MMC. MMC is governed by an 18-person board of trustees and currently employs approximately 4,060 people.

*Paul Oliver Memorial Hospital.* POMH became a subsidiary of MHC in 1986. POMH is a rural hospital, approved for Critical Access Hospital status by the Medicare program. POMH provides long-term nursing care, acute inpatient and outpatient service and emergency care to people in western Benzie County and the surrounding area. POMH is approximately 40 miles west of MMC and has 8 licensed acute care beds and 39 licensed long-term care beds. MHC is the sole member of POMH. POMH is governed by a 17-person board of trustees and currently employs approximately 200 people.

*Munson Healthcare Grayling.* Munson Grayling was established in February 2015 following MHC's acquisition of the assets of Mercy Hospital Grayling from Trinity Health. It is a rural hospital that provides acute inpatient and outpatient services, long-term nursing care and emergency care to people in Crawford County and the surrounding area. Munson Grayling is approximately 53 miles east of MMC, has 71 licensed acute care beds and 39 licensed long-term care beds. Munson Grayling is governed by a 15-person board of trustees and currently employs approximately 685 people.

*Munson Healthcare Cadillac.* Munson Cadillac was established in February 2015 following MHC's acquisition of the assets of Mercy Hospital Cadillac from Trinity Health. It is a rural hospital that provides acute inpatient and outpatient services and emergency care to people in Wexford County and the surrounding area. Munson Cadillac is approximately 51 miles south of MMC and has 49 licensed acute care beds. Munson Cadillac is governed by a 14-person board of trustees and currently employs approximately 730 people.

*Munson Healthcare Manistee Hospital.* Munson Manistee became a subsidiary of MHC in April 2017. Munson Manistee provides acute inpatient and outpatient service and emergency care to people in Manistee County and the surrounding area. Munson Manistee is approximately 61 miles southwest of MMC and has 45 licensed acute care beds. Munson Manistee is governed by a 13-person board of trustees and currently employs approximately 390 people.

*Munson Healthcare Otsego Memorial Hospital.* Munson Otsego became a subsidiary of MHC in June 2018. Munson Otsego provides acute inpatient and outpatient services, emergency care, long-term nursing care, and availability to rural health clinics to people in Otsego and surrounding counties. Munson Otsego is approximately 64 miles northeast of MMC and has 46 licensed acute care beds and 34 long-term care beds. MHC is the sole member of Munson Otsego. Munson Otsego is governed by a 12-person board of trustees and currently employs approximately 800 people.

*Munson Healthcare Charlevoix Hospital.* Munson Charlevoix became a subsidiary of MHC in December 2015. Munson Charlevoix is a rural hospital, approved for Critical Access Hospital status by the Medicare program. Munson Charlevoix provides acute inpatient and outpatient service and emergency care to people in Charlevoix County and the surrounding area. Munson Charlevoix is approximately 50 miles north of MMC and has 25 licensed acute care beds. Munson Charlevoix is governed by a 13-person board of trustees and currently employs approximately 420 people.

*Munson Home Health.* MHH governs and oversees the management of the MHC System's home services division. MHH is governed by a 3-member board of directors.

*Munson Home Services.* MHS, a wholly-owned subsidiary of MHH, was established in 1984 to provide home oxygen services, durable medical equipment, and private-duty in-home assistance with activities of daily living. MHS is governed by a 7-member board of directors appointed by MHH and currently employs approximately 100 people.

*Munson Home Care.* Munson Home Care, a wholly-owned subsidiary of MHH, was established in 1997. Munson Care provides Medicare-certified skilled nursing, physical therapy and social work services to home-bound patients in all of the MHC System's service areas. Munson Care also operates a Medicare-certified hospice program servicing the entire MHC System. Governed by a 7-member board of directors appointed by MHH, Munson Care currently employs approximately 300 people.

*Munson Healthcare Foundations.* MHF, formed in 1994, carries out the philanthropic activities of Munson Healthcare within its service areas. Through its volunteers and staff, MHF raises, manages, and returns funds for the improvement of the health of the people in the communities served by Munson Healthcare. Since its inception, funds raised by MHF to support the MHC System total more than \$123.9 million. MHF is governed by a 13-member board of trustees, who are members of the various communities within the region.

*Munson Healthcare Otsego Memorial Hospital Foundation.* MHOMHF remains a subsidiary of Munson Otsego, which became a subsidiary of MHC in 2018. Through its volunteers and staff, MHOMHF raises, manages, and returns funds for the improvement of the health of the people in the communities served by Munson Otsego. MHOMHF is governed by a 16-member board of trustees, who are members of the local communities served by Munson Otsego.

*North Flight, Inc.* NFI was formed in 1986 and provides ground and air medical transportation services in the MHC System's service areas. NFI's EMS Air Division partners with Spectrum Health (Aero Med) to provide air medical transportation services in northern Michigan and transported 619 patients in fiscal year 2018. NFI's Ground Division provides advanced life support emergency and inter-facility ground transportation for all counties in the MHC System's service areas and transported 12,253 patients in fiscal year 2018. NFI is governed by an 8-member board of trustees appointed by Munson Healthcare and currently employs approximately 80 people.

## **MUNSON HEALTHCARE: NON-OBLIGATED GROUP MEMBERS, AFFILIATES AND MATERIAL STRATEGIC RELATIONSHIPS**

### **Affiliations**

*Kalkaska Memorial Health Center ("KMHC")*. KMHC, a contractual affiliate located in Kalkaska County, Michigan and established as a government Hospital Authority, is a rural hospital approved for Critical Access Hospital status by the Medicare program. KMHC provides acute inpatient and outpatient services, emergency care and long-term nursing care to people in Kalkaska County and the surrounding area. KMHC is approximately 30 miles east of MMC and has 8 licensed acute care beds and 104 long-term care beds. KMHC is governed by a board composed of appointees and community representatives from the local villages and townships. KMHC has been managed by Munson Healthcare since 1977.

*Mackinac Straits Health System ("MSHS")*. MSHS, a contractual affiliate located in Mackinac County, Michigan, is a rural hospital approved for Critical Access Hospital status by the Medicare program. MSHS provides acute inpatient and outpatient services, emergency care and long-term nursing care to people in Mackinac County and the surrounding area. MSHS is approximately 90 miles northeast of MMC and has 15 licensed acute care beds and 48 long-term care beds. MSHS has been affiliated with Munson Healthcare since 2015.

### **Subsidiaries**

*Munson Dialysis Center ("MDC")*. MDC, a wholly-owned subsidiary of MHC established in 1992, provides dialysis services at two (2) locations. MDC also manages the KMHC Dialysis Center located adjacent to KMHC. A board of trustees elected by MHC governs MDC. MDC employs approximately 33 people.

*Munson Medical Group ("MMG")*. MMG, a wholly-owned subsidiary of MMC, was formed in January 2011 to employ and integrate cardiology physicians and their practice into MMC. MMG also employs the non-physician staff of other MMC-owned medical practices. MMG is organized as a nonprofit subsidiary of MMC. MMG operates as a regional cardiology practice under the name of Traverse Heart and Vascular and employs approximately 199 people.

*Munson Services, Inc. ("MSI")*. Formed in 1994, MSI is a taxable subsidiary of MHC that provides retail pharmacy services to the community. MHC is the sole shareholder of MSI. MSI presently has three (3) retail locations: one adjacent to MMC, one inside Munson Community Health Center in Traverse City, and one in Suttons Bay, Michigan. MSI is governed by a 5-member board of trustees, and employs approximately 40 people.

*Munson Support Services ("MSS")*. Formed in 1989, MSS is a taxable subsidiary of MMC. It provides complete linen processing and internal distribution within the MHC System and to the Northwest Michigan Surgery Center. MSS also services approximately 8 additional health care facilities, clinics, and physician offices, as well as non-healthcare clients. MSS is governed by a 4-member board of directors and employs approximately 38 people.

## Material Joint Ventures

*Northwest Michigan Surgery Center, LLC* (“**NMSC**”). NMSC is a licensed ambulatory surgery center located in Traverse City, Michigan. NMSC is a limited liability company organized and owned by MMC and ASC Partners LLC, a limited liability company owned by certain physicians on MMC’s medical staff. NMSC operates 8 surgical suites and 4 minor procedure rooms and performed 21,125 cases or 34,829 procedures in 2017. NMSC employs approximately 150 people.

*Northern Michigan Supply Alliance* (“**NMSA**”). NMSA is a limited liability company with MHC and Trinity Health as its members. Formed in 2000, NMSA provides the supply chain, distribution, purchasing and warehousing services for the MHC System. NMSA employs approximately 92 people.

*Munson CIN, LLC* (“**Munson CIN**”) is a Michigan limited liability company formed in 2017 whose sole member is Munson Healthcare. However, the operating agreement for Munson CIN specifies that the board of managers is composed of 17 persons, nine of whom are clinically practicing physicians and the remainder are representatives appointed by Munson Healthcare. The purpose of Munson CIN is to develop a clinically-integrated network which provides for structured collaboration among providers and hospitals, with the goal of improving value to patient populations through improved quality and better coordination of health care.

## MUNSON HEALTHCARE GOVERNANCE AND MANAGEMENT

### Munson Healthcare Board of Directors

MHC is a Michigan nonprofit membership corporation. The membership meets annually to elect the MHC Board of Directors from nominees presented by the MHC Board of Directors. As of December 31, 2018, the MHC Board of Directors will consist of 14 Elected Directors and nine Ex-Officio Directors with voting rights. Effective January 1, 2019, the number of Elected Directors will be increased to 16,<sup>1</sup> while the number of Ex-Officio Directors will decline to eight. Effective February 1, 2019, the number of Ex Officio Directors will be reduced to seven. The current members of the Board of Directors of Munson Healthcare and their principal occupation and term expirations are listed below:

#### Elected Directors

Name of Director	Principal Occupation	Term Expires
Robert Sprunk M.D., Chairman	Retired Physician, Grand Traverse Children's Clinic	2019
Constance Deneweth, Vice Chair	Commercial Lender, Independent Bank	2019
Daniel McDavid, Secretary	Retired Vice President - Purchasing, Chrysler Corporation	2021
Elaine Wood, Treasurer	Retired CEO, Northwest Michigan Council of Governments	2019
Theodore N. Batzer, M.D.	Internist, Office of Theodore Batzer, M.D.	2021
Barbara Benson	Retired Vice President, Schmuckal Oil Co.	2019
Casey Cowell	Retired CEO, US Robotics Corporation	2020
Marlene K. Hulteen	Retired Association Executive, Michigan Health & Hospital Association	2020
Emory D. Johnson <sup>2</sup>	Pastor, Kalkaska Church of Christ	2018
David McCurdy	Attorney, McCurdy, Wotila & Porteous	2021
Deborah J. Ochs, M.D.	Retired Pulmonologist, Pulmonary and Critical Care of Northwest Michigan, P.C.	2021
John Pelizzari	COO, Burnette Foods	2019
Roger Perry	Retired Chancellor, Champlain College	2019
Mary Sanders	Supervisor/Assessor, Hayes Township, Otsego County, Michigan	2021

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<sup>1</sup> Kenneth Bloem and Kathy Dixon have been elected as directors, with the term of each to commence January 1, 2019.

<sup>2</sup> Bruce Zenner has been elected to replace Emory D. Johnson, with his term to commence January 1, 2019.

### **Ex-Officio Directors**

<b>Name of Director</b>	<b>Principal Occupation</b>
Edwin A Ness, MHC President	President & CEO, Munson Healthcare
Patrick Heintz, MMC Chair <sup>3</sup>	Attorney, Bishop and Heintz, PC
Ruth Hoppe, M.D., MHC Charlevoix Rep	Retired Physician
David Hunter, MHC Foundations Chair <sup>4</sup>	Retired Business Leader
Brian Kiessling, M.D. Past-President, MMC Medical Staff	Physician, Traverse Anesthesia Associates
Paul Lerg, Trinity Community Rep	Retired Superintendent, Grayling Public Schools
Kellie Parkes, MHC Manistee Rep	Owner, Kellie's Hallmark
Alfred E. Pilog, Jr., MMC President <sup>5</sup>	President, Munson Medical Center
Roger W. Spoelman, Trinity Health- Michigan <sup>6</sup>	Regional President & CEO, Trinity Health West Michigan Region

### **Munson Healthcare Board Committees**

*Audit Committee.* This committee is responsible for the selection of external auditors and assisting the Board of Directors for the audit function and the system of internal control over operations and financial reporting of Munson Healthcare.

*Community Health Committee.* This committee reviews information on community health needs, prioritizes programs and services to be funded, reviews performance information regarding the impact and cost effectiveness of programs targeted to improve the health of the community in general or a targeted population including the underserved and underinsured; and reviews Munson Healthcare's community benefit documentation and pertinent changes in requirements surrounding the tax-exempt status of hospitals.

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<sup>3</sup> To be replaced by Jay Hook, who was appointed the Chair of MMC's Board of Directors. Mr. Hook's term commences January 1, 2019.

<sup>4</sup> To be replaced by Hallie Christian, who was appointed the Chair of MHF's Board of Directors. Ms. Christian's term commences January 1, 2019.

<sup>5</sup> Due to amendments in MMC's Bylaws, the President of MMC will no longer be an Ex-Officio Director of MHC's Board of Directors.

<sup>6</sup> Pursuant to the terms of the Purchase and Transfer Agreement between Trinity Health-Michigan ("THM") and MHC dated as of October 17, 2014, THM had the right to designate one member of the MHC Board. Such right has expired, and Mr. Spoelman's term expires on January 31, 2019. The vacancy will not be filled.

*Compensation and Executive Leadership Development Committee.* This committee is responsible for developing, reviewing and modifying Munson Healthcare's executive compensation practices.

*Conflict/Valuation/Compliance Committee.* This committee renders decisions on financial transactions to the extent necessary to comply with the Munson Healthcare's conflict of interest policy and/or to secure the rebuttable presumption of reasonableness recognized under federal tax law.

*Executive Committee.* This committee, when necessary and advisable between meetings of the Board of Directors of MHC, may exercise all powers and authority of the Board in the management of MHC.

*Finance Committee.* This committee reviews all aspects of the financial activities of MHC, including monitoring cash flow, reviewing and recommending the annual operating and capital budgets, reviewing and recommending an investment policy, overseeing investment management, reviewing and recommending long-term debt and, in general, seeking to ensure MHC's financial health.

*Governance Committee.* This committee provides recommendations to MHC's Board of Directors regarding officers and directors of MHC and trustees or directors of entities within the MHC System, and has oversight responsibility for the system of governance the entities within the MHC System.

### **Munson Healthcare Executive Officers**

The following are the executives of Munson Healthcare responsible for its day-to-day operations:

Edwin A. Ness (54), President and Chief Executive Officer of Munson Healthcare, has overseen the operations of Munson Healthcare since 2010. Prior to his current role, he was President and Chief Executive Officer of MMC. Mr. Ness joined MMC as Executive Vice President and Chief Operating Officer in 1999 and was appointed President in 2004. Mr. Ness has a Bachelor's degree in Health Care Finance from Concordia College in Moorhead, Minnesota and a Master's in Business Administration and Hospital and Health Care Administration from the University of Minnesota in Minneapolis, Minnesota. Before joining MMC in 1999, Mr. Ness served as the Assistant to the President, Assistant Vice President and Vice President of the Hospitals and Clinics Division of Evanston Northwestern Healthcare in Evanston, Illinois between 1990 and 1999. He is also a member of the American College of Health Care Executives.

Mark A. Hepler, CPA (age 62), Chief Financial Officer of Munson Healthcare, holds a Bachelor of Science degree in Business Administration with an Accounting Major from Northern Michigan University, Marquette, Michigan. Mr. Hepler is the strategic financial leader and is responsible for the accounting and finance functions of the health care system including financial reporting, budgeting, contracting, reimbursement and revenue cycle. Before becoming the Chief Financial Officer in April, 2009, Mr. Hepler was the Vice President of Finance for Munson Healthcare and MMC. Mr. Hepler also serves as the Treasurer of North Flight, Inc., Munson Home Health and the Conservation Resource Alliance. He serves on the Venture North Board, an economic development division of the Chamber of Commerce. He is a member of HFMA, AICPA and MACPA.

John E. Cox (age 54), Executive Director of Surgical Services of Munson Healthcare, is responsible for aligning system physicians, practices and hospital strategies to develop and implement initiatives that provide high quality care while supporting local and system strategic goals. He has been a healthcare administration professional for over 30 years, with particular emphasis in strategic system operations, physician revenue cycle and physician practice acquisitions. Prior to joining MHC, Mr. Cox served as President/Chief Executive Officer of Millennium Health Care, Vice President of Hospital and Consulting Services for MTBC, President/Chief Executive Officer of GlobalNet Solutions, and Chief Executive Officer of Mid-Ohio Heart Clinic. Mr. Cox holds a master's degree from Central Michigan University, is an affiliate of the American College of HealthCare Executives and serves as a missionary in Guatemala organizing health clinics, new hospitals and clean water projects.

Mark Deponio (age 62), Vice President-System Services at Munson Healthcare, oversees the MHC System supply chain, air and ground EMS services and outpatient and home-based dialysis services, while also leading the integration of MHC Laboratory, Pharmacy, and Radiology departments across the MHC System. Prior to joining MHC in 1991, Mr. Deponio worked as a Senior Auditor for the Santa Monica office of Deloitte and then as the Director of Business Development and Strategic Planning for Memorial Health System in South Bend Indiana. He holds a master's degree from Michigan State University-Broad School of Business, a master's degree from the University of Notre Dame-Mendoza College of Business, and a bachelor's degree from California State University. Mr. Deponio is a Fellow of the American College of Healthcare Executives and a retired (reserve) Lieutenant Commander, Medical Service Corps, United States Navy.

Laura Glenn (age 36), Vice President-Physician Network at Munson Healthcare, is responsible for integration of the employed and aligned physician practices across the MHC System as well as the advancement of population health strategies including the Munson Clinical Integration Network and other value based payment models. Prior to joining MHC in 2017, Ms. Glenn served as the Senior Vice President & Executive Director of Beaumont Health Physician Partners. In this role, she had responsibility for the integrated Beaumont Medical Group which was comprised of approximately 1,000 employed physicians and 200 advanced practice providers across the 8 Beaumont Health Hospitals and over 180 ambulatory sites. Ms. Glenn received her master's degree in Health Services Administration from the University of Michigan and her bachelor's degree in Health Fitness in Preventative & Rehabilitative Programs from Central Michigan University. Ms. Glenn was named to Crain's Detroit Business's "40 Under 40" Class of 2012 and the Oakland County Executive's Elite 40 Under 40 in 2015.

Kathleen M. LaRaia (age 58), Executive Director- Oncology Services at Munson Healthcare, is responsible for building an integrated network of cancer care within the Munson Healthcare organization. Ms. LaRaia has been a healthcare professional for over 30 years, with expertise in strategic planning, operations management, physician contracting, service line development, financial analysis and budgeting. Prior to joining MHC, Ms. LaRaia served as VP-Oncology & Weight Management Centers of Excellence and Director of Physician Practice Network with St. John Providence Health System in Warren, Michigan as well as Administrative Director of Rehabilitation Services and Director of Occupational Therapy at St. John Hospital and Medical Center in Detroit, Michigan. Ms. LaRaia holds a master's degree from Central Michigan University, and is a member of the American Society of Clinical Oncology, American College of Healthcare Executives and the American Occupational Therapy Association.

Dianne M. Michalek (age 46), Vice President-Marketing and Corporate Communications of Munson Healthcare, joined Munson Healthcare in 2016 as Director, Public Relations and Corporate Communications. In 2017, she was appointed to Vice President, Marketing and Corporate Communications. Working with both external and internal stakeholders, Ms. Michalek is responsible for leading a team accountable for a broad range of internal and external marketing and communications activities, including brand positioning and identity; public relations and reputation management; marketing strategy; advertising; digital and social; employee communications and engagement; physician/clinician communications; advocacy/community outreach; and donor communications related to major funding priorities. Prior to joining Munson Healthcare, Ms. Michalek worked in the global enterprise software and publishing industries headquartered in southeastern Michigan where she held a variety of leadership positions

Christine Nefcy, MD (age 50), Chief Medical Officer of Munson Healthcare, leads both employed and affiliated physicians and advanced practice providers across the MHC System. Dr. Nefcy is responsible for physician and APP credentialing and privileging, as well as safety, clinical quality and metrics; provider recruitment and continuing medical education. She works with service line directors and the MHC System leadership to implement clinical strategy across the MHC system. Prior to joining Munson Healthcare in 2016, Dr. Nefcy was the Regional Chief Medical Officer-North Region for Intermountain Healthcare from 2011 until 2016. Dr. Nefcy was also a Lt. Colonel with the U.S. Air Force, serving as a Flight Surgeon until retiring in 2018 after almost 25 years of service. Dr. Nefcy is a Diplomate-American Board of Pediatrics, a



Fellow – American Academy of Pediatrics, and a Clinical Assistant Professor-Michigan State University College of Human Medicine.

Mary Beth Morrison (age 60), Vice President-Continuous Operational Improvement & Project Management of Munson Healthcare, has responsibility for the continuous improvement department and knowledge management services Ms. Morrison joined MHC in 1982 after working at Harper-Grace Hospitals in the Detroit, Michigan area. Ms. Morrison holds three degrees from the University of Michigan in Ann Arbor, Michigan – bachelor's and master's degrees in Industrial Engineering and Operations Engineering and a master's degree in Health Services Administration. She is a member of the American College of Healthcare Executives and has been active in many community service organizations.

Suzanne K. Peters (age 63), Vice President-Human Resources of Munson Healthcare, oversees the human resources functions of the MHC System. She holds a Master's degree in Business Administration from Michigan State University and a Bachelor's degree in Industrial Administration from General Motors Institute (now Kettering University). Ms. Peter's entire career, including the past 30 years with MHC, has been devoted to the human resources profession. Ms. Peter has served on several community boards, and is currently serving on the board of directors for each of Networks Northwest, Crystal Mountain and Chemical Bank.

Thomas H. Peterson, MD, FAAP (age 62), Vice President-Quality and Patient Safety of Munson Healthcare, oversees quality, safety, infection prevention, patient experience, patient relations, risk management and accreditation for the MHC System. Prior to joining MHC in 2017, Dr. Peterson served as the Vice President-Chief Safety Officer for SCL Health in Denver, Colorado, a system of nine (9) hospitals and over 15,000 employees which saw a significant decrease in serious patient safety events and serious injuries to employees during Dr. Peterson's tenure there. He also led the development and implementation of the national award-winning Patient Safety Culture Transformation and High Reliability program at Helen DeVos Children's Hospital in Grand Rapids, Michigan from 2007-2012, where serious patient safety events decreased by over ninety percent (90%). A member of many professional organizations, Dr. Peterson is a regular speaker at national conferences, has been published extensively, and serves as a Clinical Associate Professor at Michigan State University College of Human Medicine.

Alfred E. Pilon, Jr. (age 56), Chief Operating Officer of Munson Healthcare and President of MMC, provides operational oversight and works with the leaders of MHC-owned hospitals and affiliates, specifically ensuring high quality continuity of care and a strong culture of safety. Prior to joining Munson Healthcare in 2013, he served as president of the 445-bed Winchester Medical Center in Winchester, Virginia, where he also served as senior vice president of the multi-hospital Valley Health System. Mr. Pilon has a bachelor's degree in Pharmacy from Rutgers University in New Brunswick, New Jersey and worked as a pharmacist and later a professor of pharmacy before moving into hospital administration. He has a master's degree in Divinity from Alliance Theological Seminary in Nyack, New York, and a master's degree in Business Administration from St. Joseph's University in Philadelphia, Pennsylvania. He is a fellow of the American College of Healthcare Executives and board certified in Healthcare Management by the American College of Health Care Executives (ACHE).

Chris J. Podges (age 59), Vice President and Chief Information Officer of Munson Healthcare, is responsible for IT Strategic Planning, Applications, Networking/Infrastructure, Data Center Operations, Help Desk, and Telecommunications for Munson Healthcare's seven hospitals and affiliated organizations. He is also the President of Great Lakes Mobile Pet and the President of Munson Services Inc. Mr. Podges has been a health care IT professional for over 30 years, with particular emphasis in planning, implementation and process improvement. Mr. Podges is a member of several health care IT professional organizations and has been a speaker and panelist at national conferences. Prior to joining MHC, Mr. Podges served as Vice President of the Michigan Region for Mercy Information Services, a subsidiary of Mercy Health Services in Farmington Hills, Michigan. He holds a Bachelor's degree from Michigan State University.

Rachel Roe (49), Vice President and General Counsel of Munson Healthcare, is responsible for planning and leading all legal activities for the MHC System and ensures organizational activities and strategic matters meet legal and regulatory requirements. Prior to her appointment in 2017, she served as Assistant General Counsel for Munson Healthcare for six (6) years. Before joining MHC, Ms. Roe was a partner in the law firm Smith Haughey Rice & Roegge, the Assistant Prosecuting Attorney for Grand Traverse County, and law clerk to Judge Maura Corrigan of the Michigan Court of Appeals and Justice Patricia Boyle of the Michigan Supreme Court. She holds bachelor's degrees in English and French from the University of Notre Dame, and received her law degree from Wayne State University. Ms. Roe is a member of the American Health Lawyers Association and the State Bar of Michigan Health Law Section, as well as various professional associations and community service organizations.

Mary Schubert (age 56), Executive Director-Women's and Children's Services of Munson Healthcare, is responsible for strategic planning and implementation of programming for inpatient and outpatient services provided to women and newborns, including the development of new programs and physician recruitment to provide those services. Prior to joining the MHC System in 2016, she was Clinical Services and Operations Director-Women's and Newborn Services at Mercy Health Saint Mary's in Grand Rapids, Michigan. Holding both bachelor's and master's degrees in nursing from Saginaw Valley State University, Ms. Schubert is currently pursuing a doctorate degree. Ms. Schubert has presented on various healthcare topics, is a member of numerous professional organizations, serves on the MHA Pediatric Health Advisory Board, is the past chair of the Association of Women's Health Obstetric and Neonatal Nursing, and extensively participates in numerous community service organizations.

Stephen D. Tongue (age 57), Vice President-Facilities of Munson Healthcare, oversees plant and biomedical engineering, construction, design, safety, security and grounds for the MHC System, particularly as to MMC (including its ambulatory services and clinics) and MHC's corporate office, which in total comprise over 1.8 million square feet. Since joining Munson Healthcare in 2007, Mr. Tongue has spearheaded the following projects: power plant construction, cardiac catheter lab renovation, surgical services expansion, remote data center construction, stroke unit construction, cardiac diagnostics center construction, stereotactic radiosurgery expansion, corporate office complex construction, historic renovation of certain buildings on the MMC campus, construction of the Cowell Family Cancer Center, and the Kid's Creek restoration project. Mr. Tongue was awarded Northern Michigan Environmental Action Council "Environmentalist of the Year" (Business Category) for efforts at creek restoration and storm water and recycling best management practices.

Cheryl Wieber (age 49), Executive Director-Heart and Vascular Service Line of Munson Healthcare, oversees the operations for the delivery of heart and vascular care throughout the MHC System. Prior to joining MHC in 2017, Ms. Wieber served in similar executive roles at Martin Health Systems and McLaren Healthcare. She has presented national on various healthcare topics, and is a member of numerous professional and community organizations.

Shari L. Wilson (age 53), Vice President-Care Coordination of Munson Healthcare and President and Chief Executive Officer of MHH, oversees the operations of MHH and is responsible for coordinating transition of care for patients across the MHC System. Prior to joining MHC in 2009, Ms. Wilson served as the Chief Operating Officer and Chief Nursing Officer at VitalCare, owned by McLaren North. She graduated with honors from Madonna University with a Bachelor's degree in Nursing in 2004, a Master's degree in Nursing in 2007, and a Master's degree in Business Administration in 2010. Ms. Wilson is the past-president of the Michigan Home Health Association, and served on its Board of Directors for eight (8) years.

Desiree Worthington (age 52), President of MHF, has been leading philanthropy efforts of non-profit organizations since 1991, raising more than \$100 million to support health, human services, youth and conservation. Ms. Worthington is credentialed as a Certified Fund Raising Executive (CFRE) and holds a Bachelor's degree from Northern Illinois University.

## MUNSON HEALTHCARE SERVICE AREAS, COMPETITION, SERVICES AND UTILIZATION

### Market Area

The Obligated Group provides services across 23 counties in northern Lower Michigan and the eastern portion of the Upper Peninsula. The 23 county-area is predominately rural and, according to the U.S. Census Bureau, has an estimated population base of 536,000 as of 2017. The following table shows the number of licensed acute care and long term care beds in the MHC System as of June 30, 2018, as well as admissions for the fiscal year ending June 30, 2018:

Munson Healthcare System Hospitals Owned & Affiliated							
Hospital	County	IP Acute Beds	IP Psych Beds	IP NICU Beds	Long Term Care Beds	Total Licensed Beds	IP Acute Admissions
Munson Medical Center	Grand Traverse	413	17	12	0	442	21,444
Munson Healthcare Manistee Hospital	Manistee	45	0	0	0	45	1,306
Munson Healthcare Otsego Memorial Hospital	Otsego	46	0	0	34	80	2,122
Munson Healthcare Cadillac Hospital	Wexford	49	0	0	0	49	3,151
Munson Healthcare Grayling Hospital	Crawford	71	0	0	39	110	2,784
Munson Healthcare Charlevoix Hospital	Charlevoix	25	0	0	0	25	1,143
Paul Oliver Memorial Hospital	Benzie	8	0	0	39	47	1
Kalkaska Memorial Health Center	Kalkaska	8	0	0	104	112	97
Mackinac Straits Hospital	Mackinac	15	0	0	48	63	260
<b>Total Munson Healthcare</b>		<b>680</b>	<b>17</b>	<b>12</b>	<b>264</b>	<b>973</b>	<b>32,308</b>

*Fiscal Year 2018 Admissions*




Munson Healthcare has eight service areas based on northern Michigan hospital locations and patient origin. The table below summarizes the population distribution for the service areas.

Munson Healthcare Regions		
Regions (Service Areas)	Counties (Majority of County in Region)	Population
Grand Traverse	Grand Traverse, Leelanau, Benzie, Antrim, Kalkaska	169,436
Manistee	Manistee	26,715
Cadillac	Wexford, Mason, Lake	64,083
Grayling	Crawford, Oscoda, Roscommon	43,311
Otsego	Otsego, Montmorency, Cheboygan	58,946
Charlevoix	Emmet, Charlevoix	66,606
Alpena	Alpena, Alcona, Presque Isle	52,781
Eastern UP	Luce, Mackinac, Chippewa	54,043
<b>Total Northern Michigan</b>		<b>535,921</b>

*Source: MHA Database 2018*

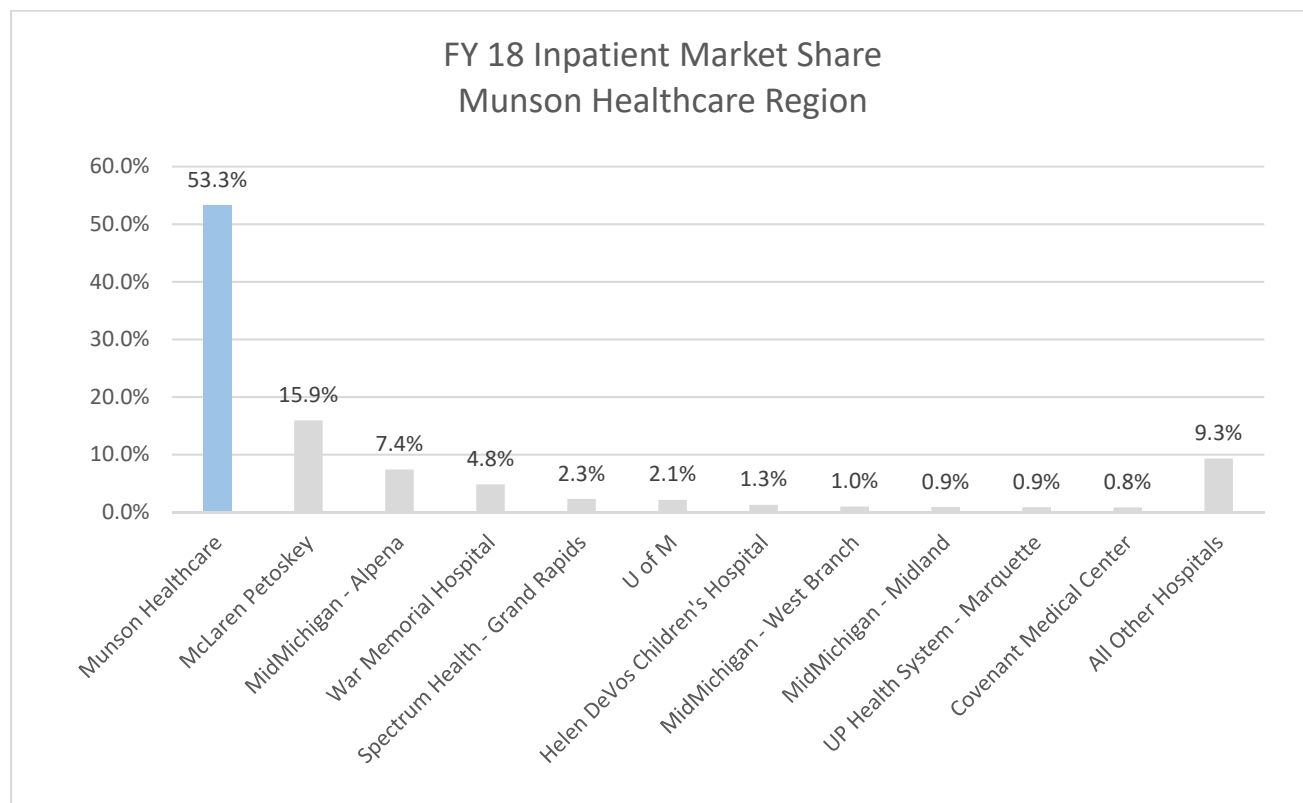
The map below illustrates the MHC System's service areas and hospital locations, as well as non-affiliated hospitals.



-  Affiliated Hospitals
-  Fully Integrated Hospitals
-  Non-Munson Hospitals

## Market Position

Munson Healthcare is the largest health system in northern Michigan serving a 24-county region with a population of 536,000. Munson Healthcare leads the region with 53.3% market share, which has been relatively constant over the last three fiscal years. The chart below summarizes inpatient market share by hospital in the 23-county region for the fiscal year ending June 30, 2018:



Source: Michigan Health & Hospital Association

The MHC System's primary competitor within the 23 counties for advanced cardiology and neurosurgery market share is McLaren Northern Michigan in Petoskey, Michigan ("**McLaren Northern**"). McLaren Northern maintains the only other cardiology, cardiac surgery and neurosurgery program in northern Michigan. The hospital is 70 miles north of MMC.

The following charts display, as of June 30, 2018, in-patient market share by hospital for the respective service areas for each MHC hospital that is a Member of the Obligated Group. Each such hospital is either first or second in terms of market share compared to other providers within that area. MMC, which is the tertiary referral center for MHC, ranks within the top three for market share in each region.

## Market Share Data by Hospital



Source: Michigan Health & Hospital Association

## Patient Services

The MHC System provides primary, secondary and tertiary levels of care. With more than 40 different specialties represented on staff and a variety of visiting, tertiary subspecialists, the MHC System

offers a comprehensive array of inpatient and outpatient services. MMC is a verified Level II Trauma Center and is the only recognized trauma center north of Grand Rapids, Michigan. Emergency services are supported by NFI, and include patient transportation by ground, helicopter, and fixed wing airplane.

Viewing it at the hospital level, the following chart summarizes the services offered at each MHC hospital that is a Member of the Obligated Group:

<b>Munson Healthcare Owned Hospitals</b>							
	<b>Medical Center</b>	<b>Manistee</b>	<b>Cadillac</b>	<b>Grayling</b>	<b>Otsego Memorial</b>	<b>Charlevoix</b>	<b>Paul Oliver</b>
Cancer Center	✓	✓	✓	✓	✓		
Cardiac Catheterization	✓						
Cardiac Rehabilitation	✓	✓	✓	✓	✓	✓	✓
Chemo/Intravenous Therapy	✓	✓	✓	✓	✓	✓	✓
Chronic Disease Management Clinic	✓			✓			
CT Scan	✓	✓	✓	✓	✓	✓	✓
Diabetes Education	✓	✓	✓	✓	✓	✓	✓
Electrophysiology	✓					✓	
Emergency Department	✓	✓	✓	✓	✓	✓	✓
Endoscopy	✓	✓	✓	✓	✓	✓	✓
Health & Fitness Center	✓	✓					✓
Home Health Services	✓	✓	✓	✓			
Hospice	✓		✓	✓			
Intensive Care Unit	✓		✓	✓	✓		
Maternity	✓	✓	✓	✓	✓	✓	
Medical/Surgical Units	✓	✓	✓	✓	✓	✓	✓
Mammography	✓	✓	✓	✓	✓	✓	✓
MRI	✓	✓	✓	✓	✓	✓	✓
Neonatal Intensive Care	✓						
Nuclear Medicine	✓	✓	✓	✓	✓	✓	
Occupational Health	✓	✓	✓	✓	✓	✓	✓
Open Heart Surgery	✓						
Orthopedics	✓	✓	✓	✓	✓	✓	
Outpatient Surgery Center	✓						
Pain Clinic	✓						
PET Scan	✓	✓	✓		✓		
Pharmacy	✓	✓	✓	✓	✓	✓	✓
Physical Therapy	✓	✓	✓	✓	✓	✓	✓
Psychiatric Care	✓		✓			✓	
Radiation Oncology	✓						
Radiology	✓	✓	✓	✓	✓	✓	✓
Respiratory Care	✓	✓	✓	✓	✓	✓	✓
Robotic Surgery	✓				✓		
Sleep Disorders Program	✓	✓	✓			✓	
Stereotactic Surgery	✓					✓	
Swing Beds	✓					✓	✓
Telemedicine	✓	✓	✓	✓			
Trauma Center	ACS Level II	ACS Level IV		ACS Level	ACS Level IV		ACS Level IV
Urgent Care Clinic	✓		✓	✓	✓	✓	
Women's Health	✓	ACS Level IV	✓	✓	✓	✓	✓
Wound Care	✓	ACS Level IV		✓	✓		✓

## Information Technology

Munson Healthcare places a high priority on providing the highest quality patient care using the most advanced technology available today. In the inpatient setting, the MHC System has been investing in a state-of-the-art EHR developed by Cerner Corporation. This regional approach to healthcare connects the MHC System and numerous physicians together by using highly advanced clinical information systems, including Radiology and Cardiology PACS systems, Clinical Physician Order Entry (CPOE), Drug Formulary-based decision support, and electronic medical records across most functions, including the use of those information systems in ambulatory practices.



## **Medical Education**

The MHC System has taken a leadership role in bringing medical education to the region in order to promote and sustain the practice of rural medicine and to develop a path for the recruitment and retention of physicians in the MHC System's service areas. The Michigan State Medical Society projects a shortage of 4,500 doctors in Michigan by 2020, especially in lower paying areas such as family practice, general medicine, internal medicine and pediatrics. Recognizing national trends indicating that physicians tend to practice close where they train, MMC has invested in a strategy around graduate medical education. Fifty-eight percent (58%) of the family physicians trained through MMC's Family Practice Residency program now practice in the region.

- Since 1994, MMC has served as a base hospital in the Michigan State University College of Osteopathic Medicine Statewide Campus System.
- Michigan State University College of Human Medicine Traverse City Campus is MSU's seventh CHM community campus and its only campus in northern Lower Michigan.
- The Munson Family Practice Residency Program integrates osteopathic and allopathic medicine together, with the resources of MMC in a dually accredited 6/6/6 program accepting both DO and MD trainees. The program is affiliated with the Michigan State University College of Osteopathic Medicine and with the Michigan State University College of Human Medicine.
- MMC also hosts approximately 50 visiting resident/medical students from other medical schools, as well as 15 mid-level physician assistant students, that complete clinical rotations in Traverse City.

MHC has invested in educational programs and partnerships to ensure access to highly-skilled nursing and clinical staff. It also works with college and university partners to provide access to clinical training for students and developing internal programs to prepare students to step into roles in high-need areas.

## **Accreditations**

All facilities of the Obligated Group are appropriately licensed and both Medicare and Medicaid certified. In addition, one or more of the Obligated Group members has been accredited by the following organizations:

- Accreditation Council for Graduate Medical Education: Munson Family Practice Residency Program
- American Academy of Sleep Medicine: Sleep Disorders Center
- American College of Surgeons, Commission on Cancer: Community Cancer Program
- American College of Surgeons: Level II Trauma Center
- American Osteopathic Association: MSUCOM and MFPRP
- American Society for Metabolic and Bariatric Surgery: Bariatric Surgery Center of Excellence
- Blue Cross Blue Shield of Michigan
- Blue Cross Blue Shield of Michigan: Bariatric Blue Distinction Program
- Center for Medicare and Medicaid Services
- Center for Excellence for Bariatrics
- Federal Drug Administration
- Joint Commission on Accreditation of Healthcare Organizations
- Metabolic and Bariatric Surgery Accreditation and Quality Improvement Program
- Michigan Department of Community Health
- Priority Health: Spine Center of Excellence



## Medical Staff

Each of the hospitals within the MHC System has a medical staff organized under an elected President and a Medical Executive Committee. Of the aggregate active staff physicians of the Obligated Group, approximately twenty-six percent (25%) of the active staff physicians are employed by a member of the Obligated Group, with the remaining physicians in an independent practice. Below is a listing of the active staff physicians by specialty for the Obligated Group as of September 30, 2018:

Munson Healthcare Owned Hospitals							
Medical Staff Department/Specialty	Munson Medical Center	Manistee Hospital	Cadillac Hospital	Grayling Hospital	Otsego Memorial Hospital	Charlevoix Hospital	Paul Oliver Memorial Hospital
	Number of Physicians						
Allergy	3		1				
Cardiac/Thoracic Surgery	4						
Cardiology	22		1		2		
Department of Anesthesiology	29	1	6	9	4		
Department of Psychiatry	18		1			1	
Dept of Emergency Medicine	24	21	13	14	4		
Dept of Family Practice	60	6	19	15	16	13	13
Dept of Geriatric	1				1		
Dept of Hospitalists	50	8	9			2	
Dept of Laboratory & Radiology	22	2	1		8	3	
Dept of Neonatology	2						
Dept of Obstetrics	16	3	8	3	3	3	
Dept of Pathology	14						
Dept of Pediatrics	24	2	19	3	3	2	1
Dept of Preoperative Assessment	2						
Dept of Urgent Care	7		1				
Dermatology	1	1					
Endocrinology	3						
Gastroenterology	10						
General Surgery	15	3	5	2	3	5	
Hand Surgery	4						
Infectious Disease	4						
Internal Medicine	31	3	6	33	3	2	3
Neonatology	2		2				
Nephrology	6						
Neurology	9	1					
Neurosurgery	4			1		1	
Occupational Medicine	4		1				
Oncology/Hematology	8		2		1		
Ophthalmology	18	2	2	5		1	
Oral Surgery	7				4	1	
Orthopedic Surgery	16	2	3		4	9	
Otolaryngology	6	2	3		2	1	
Physical Medicine	10						
Plastic Surgery	5						
Podiatry	8		4	2	2		1
Pulmonary Medicine	6						
Rheumatology	2						
Sleep Medicine	3	1				1	
Urology	4	1	1	2		2	
Vascular Surgery	3						
Vitreoretinal Surgery	3						
Walk-In Clinic		1			2		
<b>GRAND TOTAL</b>	<b>490</b>	<b>60</b>	<b>108</b>	<b>89</b>	<b>62</b>	<b>47</b>	<b>18</b>

## HISTORICAL UTILIZATION OF SERVICES

The following tables provide information about the historical utilization of inpatient, outpatient and other services of the Obligated Group for the years ended June 30, 2016, 2017, and 2018 and for the three months ended September 30, 2018 and 2017:

	Ended June 30			Ended September 30	
	2016	2017	2018	2017	2018
Acute Inpatient:					
Admissions	28,935	29,481	30,366	7,992	8,464
Average Length of Stay	4.23	4.15	4.07	3.98	3.96
Patient Days	122,294	122,343	123,653	31,827	33,539
Outpatient Extended Stays	12,955	14,436	16,950	4,164	4,276
Emergency Room Visits	110,236	117,865	127,607	35,534	38,354
Surgical Procedures:					
Inpatient	8,871	9,641	9,950	2,571	2,665
Outpatient	15,124	17,845	21,664	5,048	6,912
Radiology Procedures	339,167	363,811	398,307	103,535	110,415
Laboratory Tests	4,865,591	5,060,819	5,302,413	1,353,863	1,417,845
Newborn Deliveries (births)	2,737	2,694	2,946	824	858

## SUMMARY OF REVENUES AND EXPENSES

The following table sets forth the condensed summary of combined revenues and expenses of the Obligated Group as of June 30, 2016, 2017 and 2018:

	Fiscal Year Ended June 30		
	(in thousands)		
	2016	2017	2018
Gross Patient Revenue	\$2,052,819	\$2,285,319	\$2,625,204
Revenue Deductions	1,267,887	1,407,831	1,660,610
Net Patient Service Revenue	784,932	877,488	964,594
Other Operating Revenue	29,753	33,144	46,723
Total Operating Revenue	814,685	910,632	1,011,317
Operating Expenses*	775,794	860,184	967,910
Income from Operations before Gain on Termination of Postretirement Benefits	38,891	50,448	43,407
Gain on Termination of Postretirement Benefits	20,316	-	-
Income from Operations	59,207	50,448	43,407
Other (Loss) Income	4,545	21,384	20,926
Swap Market Value Changes	(1,980)	1,723	1,219
Inherent Contribution	23,302	33,963	44,577
Other Components of Net Periodic Pension Cost	(4,067)	(5,879)	(1,221)
Excess of Revenue over Expenses	\$ 81,007	\$ 101,639	\$ 108,908

\*Amounts for years ended June 30, 2017 and 2016 have been restated due to the adoption of Accounting Standards Update (ASU) No. 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost during the year ended June 30, 2018. The effect of this change was an increase to operating income of \$5,879 and \$4,067 for the years ended June 30, 2017 and 2016, respectively. In addition, total other income decreased by the same amounts.

The following condensed summary of combined revenues and expenses of the Obligated Group for the three-month period ended September 30, 2018 and 2017 are derived from unaudited financial statements. The unaudited financial statements include all adjustments, consisting of normal recurring accruals, which

management considers necessary for a fair presentation of the summary of the combined revenues and expenses for these periods. Operating results for the three months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the entire fiscal year ending June 30, 2019.

	<b>Three Months Ended September 30</b> (in thousands)	
	<b>2017</b>	<b>2018</b>
Gross Patient Revenue	\$ 652,856	\$ 775,306
Revenue Deductions	410,893	491,350
Net Patient Service Revenue	241,963	283,956
Other Operating Revenue	8,607	14,044
Total Operating Revenue	250,570	298,000
Operating Expenses	235,587	278,746
Income from Operations	14,983	19,254
Other (Loss) Income	7,150	10,052
Swap Market Value Changes	92	270
Other Components of Net Periodic Pension Cost	(305)	181
Excess (Deficit) of Revenues over Expenses	<u>\$ 21,920</u>	<u>\$ 29,757</u>

## INVESTMENTS AND INVESTMENT POLICY

The Finance Committee of MHC includes in its duties the responsibility to review and recommend an investment policy and to oversee investment management. The allocation of portfolio investments among asset classes is governed by guidelines recommend by the Finance Committee and approved by the MHC Board of Directors. Additionally, the guidelines instruct on investment grade, maturity, limits on the concentration of any specific investment, benchmarks and rebalancing procedures. MHC employs an investment advisor and professional investment management companies to assist with the execution of the policy.

## DAYS CASH ON HAND

The following tables set forth the Days Cash on Hand of the Obligated Group as of June 30, 2016, 2017 and 2018 and for the rolling twelve months ended September 30, 2018. The calculations have been made in accordance with the requirements of the Master Indenture, dated as of August 1, 1992, as supplemented, between the Obligated Group and The Bank of New York Mellon Trust Company, N.A.

	<b>Fiscal Year Ended June 30</b> (in thousands)			<b>Rolling Twelve Months Ended September 30</b> (in thousands)
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2018</b>
Unrestricted Cash and Investments	\$ 456,669	\$ 519,894	\$ 587,821	\$ 592,019
Less all borrowed moneys payable in one year or less	(3,040)	(3,777)	(4,760)	(4,849)
Total	<u>\$ 453,629</u>	<u>\$ 516,117</u>	<u>\$ 583,061</u>	<u>\$ 587,170</u>
Expenses excluding depreciation and amortization	\$ 738,980	\$ 819,422	\$ 922,243	\$ 964,006
Days Cash on Hand	<b>225</b>	<b>230</b>	<b>231</b>	<b>222</b>

## VARIABLE RATE DEBT

As of June 30, 2018, the Obligated Group had outstanding \$24,825,000 of Series 2011B Variable Rate Demand Bonds (“VRDBs”). The VRDBs bear interest at variable rates and are subject to optional tender for purchase. The VRDBs are supported by a Direct Pay Letter of Credit provided by JP Morgan Chase with an expiration date of August 10, 2019.

As of June 30, 2018, Munson Healthcare had outstanding \$22,000,000 of Series 2011C bonds that were purchased directly by a commercial bank. The bonds bear interest at a variable rate through August 2023 at which time the bonds can be tendered by the bank. The Obligated Group intends to refund the Series 2011C Bonds in January of 2019 with the proceeds from Variable Rate Revenue Refunding Bonds (Munson Healthcare Obligated Group), Series 2019C issued by the County of Grand Traverse Hospital Finance Authority, supported by a Direct Pay Letter of Credit with an expiration date in January 2023.

## CAPITALIZATION

The following table sets forth the capitalization of the Obligated Group as of June 30, 2016, 2017 and 2018 and September 30, 2018:

	June 30 (in thousands)		September 30 (in thousands)	
	2016	2017	2018	2018
County of Grand Traverse Hospital Finance Authority Bonds				
Series 2011A	73,485	71,135	68,665	66,070
Series 2011B	24,825	24,825	24,825	24,825
Series 2011C	22,000	22,000	22,000	22,000
Series 2014A	27,620	27,620	27,620	27,620
Series 2014B	13,580	13,325	13,060	12,785
Series 2014C	15,590	15,280	14,960	14,630
Series 2016A	7,000	7,000	6,533	6,417
Other	274	2,986	20,844	20,585
Lines of Credit	-	5,206	11,900	11,900
2011A Bond Premium	305	289	273	269
2014 Bond Premium	3,367	3,306	3,241	3,224
Unamortized debt issuance costs	(2,208)	(2,107)	(2,006)	(1,981)
<b>TOTAL</b>	<b>185,838</b>	<b>190,865</b>	<b>211,915</b>	<b>208,344</b>
Less current portion	3,040	3,777	4,760	4,849
<b>Total non-current portion</b>	<b>182,798</b>	<b>187,088</b>	<b>207,155</b>	<b>203,495</b>
<b>Total unrestricted net assets</b>	<b>530,745</b>	<b>685,239</b>	<b>825,892</b>	<b>863,649</b>
<b>Total capitalization</b>	<b>713,543</b>	<b>872,327</b>	<b>1,033,047</b>	<b>1,067,144</b>
<b>Total Debt to Capitalization</b>	<b>25.62%</b>	<b>21.45%</b>	<b>20.05%</b>	<b>19.07%</b>

## INTEREST RATE SWAPS

The Obligated Group periodically utilizes various financial instruments to hedge or alter interest rate and other exposures within its investment and liability portfolios. As of June 30, 2018, Munson is a party to interest rate swap transactions with JPMorgan Chase (“JPM”). MHC records its derivative financial instrument at fair market value on its balance sheet and records the changes in fair market value for these derivatives in the changes in non-operating gains in the statement of operations and changes in net assets. As of June 30, 2018, MHC did not have any collateral posted. See Note 8 in Appendix B for additional information concerning derivative financial instruments of MHC.

Outstanding Notional	Maturity Date	Counterparty	Receipt	Payment	Threshold to post collateral
\$24,525,000	7/1/2028	JPM	67% of 1 month LIBOR	3.41%	\$20,000,000

## PRO FORMA DEBT SERVICE COVERAGE

The following table sets forth the Obligated Group’s coverage of the maximum annual debt service on long-term indebtedness as of June 30, 2016, 2017 and 2018. The calculations below include the maximum annual debt service on the County of Grand Traverse Hospital Finance Authority Revenue Bonds (Munson Healthcare Obligated Group), Series 2019A; County of Grand Traverse Hospital Finance Authority Revenue Bonds (Munson Healthcare Obligated Group), Series 2019B; the anticipated \$22,000,000 County of Grand Traverse Hospital Finance Authority Revenue Bonds (Munson Healthcare Obligated Group) Series 2019C; and the maximum annual debt service on other long-term indebtedness (including but not limited to the Series 2016, Series 2014A, Series 2014B, Series 2014C, Series 2011A, and Series 2011B Bonds). The calculations have been made in accordance with the requirements of the Master Indenture, dated as of August 1, 1992, between the Obligated Group and The Bank of New York Mellon Trust Company, N.A., as supplemented, except that (i) the interest rate on the Series 2011B Bonds has been calculated using an assumed rate of 4.20%, based on an interest rate swap transaction that has a maturity date of July 1, 2028 and costs related thereto (see “INTEREST RATE SWAPS”), and (ii) the interest rate on the anticipated Series 2019C Bonds has been calculated using an assumed interest rate of 3.50%.

	Fiscal Year Ended June 30 (in thousands)		
	2016	2017	2018
Excess (Deficit) of Revenue Over Expenses	\$ 81,007	\$ 101,639	\$ 108,908
Net unrealized (gains) loss on investments held	1,186	(11,647)	(2,620)
Decrease (increase) in fair value of SWAP instruments	1,980	(1,723)	(1,219)
(Gain) on Termination of Postretirement Benefit	(20,316)	-	-
Inherent (Contribution) from Acquisition	(23,302)	(33,963)	(44,577)
Plus Depreciation, Amortization and Interest	43,174	48,134	53,256
Income Available for Debt Service	\$ 83,729	\$ 102,440	\$ 113,748
Maximum Annual Debt Service	14,542	14,542	14,542
Maximum Annual Debt Service Coverage Ratio	5.76	7.04	7.82

## **MANAGEMENT'S DISCUSSION OF RESULTS OF OPERATIONS FOR MUNSON HEALTHCARE AND ITS SUBSIDIARIES**

### **Years Ended June 30, 2018, 2017 and 2016**

The consolidated audited financial statements for Munson Healthcare for the years ended June 30, 2018 and 2017 are included as Appendix B to this Official Statement. The Obligated Group comprised 99% and 97.32% of the consolidated total assets and net patient service revenues, respectively, of Munson Healthcare at June 30, 2018.

Over the three fiscal years ended June 30, 2018, total assets of Munson Healthcare increased 30%, rising from \$1,044 million to \$1,354 million. A significant contributing factor to the increase was the execution of MHC's strategic plan to transition three contractually affiliated hospitals to owned members of the MHC System during that time period. For FY 2018, revenues exceeded expenses by \$109.9 million, which consisted of an operating margin of \$44.9 million or 4.29%, an inherent contribution from acquisition of \$44.6 million, total investment return of \$20.7 million, a swap market value increase of \$1.2 million, and a decrease of components of the net periodic pension cost of \$1.2 million.

For FY 2017, revenues exceeded expenses by \$102.8 million, which consisted of an operating margin of \$52.1 million or 5.54%, an inherent contribution from acquisition of \$34.0 million, total investment return of \$20.6 million, a swap market value increase of \$1.7 million, and a decrease of components of net periodic pension cost of \$5.9 million.

For FY 2016, revenues exceeded expenses by \$82.4 million, which consisted of an operating margin of \$61.0 million or 7.27%, an inherent contribution from acquisition of \$23.3 million, total investment return of \$4.0 million, a swap market value decrease of \$2.0 million, and a decrease of components of net periodic pension cost of \$4.1 million. The operating margin included a gain from the termination of postretirement benefits of \$20.3 million.

Over this same three year period, unrestricted revenues increased by 23.1%. Both inpatient and outpatient volumes increased, due mainly to the acquisition of additional hospitals to the Munson Healthcare System. For the same period, expenses increased by 23.7%, due to the growth of the MHC System. Salaries and wages contributed most significantly to the increase.

### **Three Month Period Ended September 30, 2018**

Total revenues for Munson Healthcare and Subsidiaries for the three month period ended September 30, 2018 were \$304.6 million, which was an increase of \$46.7 million or 18.1% from the same period in the prior year. Inpatient admissions increased by 5.91% over the same period in the prior year; while observation stays increased by 2.69%. Additionally, outpatient surgical procedures increased 36.9% for the same three month period comparison. Total operating expenses of \$285.5 million increased 17.6%, also compared to the same period in the prior fiscal year.

Income from operations for the three month period ended September 30, 2018 was \$19.1 million compared with the \$15.3 million recorded for the same period in the previous fiscal year. This represents a 6.3% operating margin. During the three months ended September 30, 2018, Munson Healthcare experienced an increase of \$10 million in other income predominately attributable to investment returns. The same period in the prior year resulted in other income of \$7.1 million also comprised mainly investment income and gains. The addition of Munson Otsego to the Munson Healthcare System in late fiscal 2018 contributed significantly to the increases in operations.

## Budgeting and Cost Control

Budgets are developed for the Munson Healthcare system based on overall corporate assumptions related to patient volumes, inflation, and reimbursement rates from third-party payors. Budgets are prepared to achieve the strategic objectives previously approved by the governing body of each member of the MHC system. After the approval of the budget by the governing body of each Obligated Group member, all individual member budgets are consolidated and submitted to the Board of Directors of MHC for approval.

Actual financial performance of each member of the Obligated Group relative to approved budget is reviewed each month by MHC's Board of Directors and by the Obligated Group member's governing body at its regularly scheduled monthly or quarterly meetings. Historical adherence to budgeted targets has been successful with minimal deviations from the originally approved budgets.

## SOURCES OF REVENUE

The primary sources for payment of services provided by the MHC System are: (a) the federal government under the Medicaid and Medicare Programs; (b) the State of Michigan under the Medicaid program; (c) commercial payors, with the largest commercial payor being Blue Cross; and (d) patients. Some programs (such as Medicare) pay for services on a basis other than published charges, while commercial insurance carriers and self-pay patients pay based on published charges.

The following table is a breakdown of gross revenue by payor for the Obligated Group for each of the fiscal years for the three-year period ended June 30, 2018:

Source of Revenue	Fiscal Year Ended June 30		
	2016	2017	2018
Medicare	53.99%	53.76%	54.32%
Blue Cross	15.89%	14.70%	14.92%
Commercial Insurance	12.77%	13.74%	12.83%
Medicaid	13.47%	13.37%	13.45%
Self-Pay	1.24%	1.22%	1.32%
Other	2.64%	3.21%	3.16%
Total	100.00%	100.00%	100.00%

Note: Data are based on patient's classification at time of admission which may differ from the actual source of payment.

## Medicare and Medicaid Programs

See "Medicare Reimbursement" and "Medicaid Reimbursement" under "BONDHOLDERS' RISKS" in the forepart of this Official Statement for information about such third-party payor programs.

## Commercial Insurance

Most commercial insurance plans reimburse their subscribers or make direct payments to hospitals for charges at established rates. Patients carrying such coverage are responsible to the MHC System hospital delivering such care for any deficiency between the insurance proceeds and the charges incurred.

Within MHC's service area, there are several employers whose commercial group hospitalization insurance provides various benefits to employees and their dependents while hospitalized. These plans usually pay the prevailing area room rates plus ancillary service charges, subject to various limitations and deductibles.

## **HMOs and PPOs**

As of June 30, 2018, the members of the MHC System had contracts with various HMOs or PPOs that paid it for services at rates other than its published charges.

## **EMPLOYEES**

As of June 30, 2018, the Obligated Group has 8,173 employees which equates to 6,507.24 on a full time equivalent basis. Nurses at Munson Cadillac are unionized. Nurses and certain technical and technical professional personnel employed by Munson Manistee are unionized, as well as certain food and maintenance personnel who are employed by Munson Manistee's outside vendors. Nurses at MMC have voted to unionize, and MMC continues to negotiate in good faith the terms of a collective bargaining agreement. The Obligated Group considers its employee relations to be good.

## **RETIREMENT PLANS**

Munson Healthcare maintains a defined benefit pension plan and two separate defined contribution retirement savings plans covering substantially all of its employees. The pension plan is a noncontributory, defined-benefit pension plan. Effective December 31, 2005, participation in the pension plan was closed to new participants. All active participants at December 31, 2005 were offered a choice of retirement programs. Active participants could either (a) elect to continue accruing benefits under the pension plan or (b) have their accrued benefit frozen as of December 31, 2005 and receive enhanced benefits within defined-contribution plans sponsored by Munson Healthcare. At June 30, 2018, the funded ratio of the fair value of plan assets to the accumulated benefit obligation was 86.4%. Munson Healthcare remains committed to funding the plan to meet the required obligation.

## **INSURANCE**

Munson Healthcare is insured against medical malpractice claims under a claims-made policy, whereby only the claims reported to the insurance carrier during the policy period are covered regardless of when the incident giving rise to the claim occurred. Policy terms require MHC to be responsible for a deductible. MHC also bears the risk of the ultimate costs of any individual claims exceeding the policy limits for claims asserted in the policy year. In addition to the primary layer of medical malpractice coverage, MHC maintains a secondary layer of coverage through a segregated portfolio in an offshore captive insurance company. An umbrella policy provides additional coverage in addition to the primary and secondary layers. MHC's general liability and other insurance coverage are provided through policies issued by commercial insurance companies, subject to certain deductibles. Management believes that all such coverages are adequate.

## **LITIGATION/CLAIMS**

Members of the Obligated Group are routinely involved in litigation matters and regulatory investigations arising in the normal course of its business. The Obligated Group maintains self-insurance and insurance policies with coverages that management believes are appropriate in light of the Obligated Group's business. It is the opinion of management that unfavorable resolution of the claims pending against the Obligated Group will not materially adversely affect the financial condition of the Obligated Group, taken as a whole, although MHC is unable to predict the outcome of such claims.



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Appendix B

Audited Consolidated Financial Statements of Munson  
Healthcare and Subsidiaries for the Years Ended June 30, 2017 and 2018

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# Munson Healthcare and Subsidiaries

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**Consolidated Financial Report  
with Supplemental Information  
June 30, 2018**

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## **Independent Auditor's Report**

To the Board of Directors  
Munson Healthcare and Subsidiaries

We have audited the accompanying consolidated financial statements of Munson Healthcare and Subsidiaries (the "Organization"), which comprise the consolidated balance sheet as of June 30, 2018 and 2017 and the related consolidated statement of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidated 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 Organization'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Munson Healthcare and Subsidiaries as of June 30, 2018 and 2017 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors  
Munson Healthcare and Subsidiaries

***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Munson Healthcare and Subsidiaries' consolidated financial statements. The consolidating balance sheet and consolidating statement of operations and changes in net assets are presented for the purpose of additional analysis and are not a required part of the consolidated financial statements. The consolidating balance sheet and consolidating statement of operations and changes in net assets are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating balance sheet and consolidating statement of operations and changes in net assets are fairly stated in all material respects in relation to the consolidated financial statements as a whole.

***Emphasis of Matter***

As described in Note 2 to the financial statements, the Organization adopted new accounting guidance in 2018 related to the presentation of net periodic pension costs. Other components of net periodic pension costs are reported in other net gain (loss) in the consolidated statement of operations and changes in net assets. Our opinion is not modified with respect to this matter.

*Plante & Moran, PLLC*

October 3, 2018

## Munson Healthcare and Subsidiaries

### Consolidated Balance Sheet

June 30, 2018 and 2017

(In Thousands)

	2018	2017
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 106,900	\$ 116,437
Short-term investments	130,361	123,387
Accounts receivable - Net	153,184	143,545
Third-party settlements	12,451	9,877
Inventory	30,374	29,207
Other current assets	13,801	12,028
Total current assets	447,071	434,481
<b>Investments</b>	405,101	336,894
<b>Property and Equipment - Net</b>	446,264	381,334
<b>Other Assets</b>	55,743	37,141
Total assets	<u><u>\$ 1,354,179</u></u>	<u><u>\$ 1,189,850</u></u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Trade accounts payable	\$ 49,538	\$ 45,104
Current maturities of long-term debt	4,760	3,777
Third-party settlements and reserves	26,829	29,244
Accrued compensation and other liabilities	70,752	63,388
Total current liabilities	151,879	141,513
<b>Long-term Debt - Net of current maturities</b>	207,155	187,088
<b>Accrued Defined Benefit Pension Cost</b>	76,582	102,108
<b>Other Liabilities</b>	25,641	8,854
Total liabilities	461,257	439,563
<b>Net Assets</b>		
Unrestricted	835,713	695,836
Temporarily restricted	54,065	51,281
Permanently restricted	3,144	3,170
Total net assets	892,922	750,287
Total liabilities and net assets	<u><u>\$ 1,354,179</u></u>	<u><u>\$ 1,189,850</u></u>

## Munson Healthcare and Subsidiaries

# Consolidated Statement of Operations and Changes in Net Assets

Years Ended June 30, 2018 and 2017

(In Thousands)

	2018	2017
<b>Unrestricted Revenue</b>		
Patient service revenue - Net of contractuals and discounts	\$ 1,018,706	\$ 927,843
Less provision for uncollectible accounts	(27,596)	(20,162)
Net patient service revenue	991,110	907,681
Other operating revenue	48,066	33,160
Total unrestricted revenue	1,039,176	940,841
<b>Operating Expenses</b>		
Salaries and wages	428,471	373,127
Fringe benefits	103,401	98,663
Contract labor	15,009	14,361
Physician fees	55,198	50,573
Purchased services	42,870	34,801
Supplies	236,648	217,665
Occupancy	17,799	15,937
Equipment, software, and maintenance	33,059	28,205
Depreciation and amortization	46,239	41,399
Interest	7,589	7,372
Insurance	4,089	3,299
Other	10,586	10,409
Less shared services revenue	(6,690)	(7,115)
Total operating expenses	994,268	888,696
<b>Operating Income</b>	44,908	52,145
<b>Other Gain (Loss) - Net</b>		
Inherent contribution from acquisition	44,577	33,963
Other gain - Net	20,387	20,894
Change in interest swap agreements	1,219	1,723
Other components of net periodic pension cost	(1,221)	(5,879)
Total other gain - Net	64,962	50,701
<b>Excess of Revenue Over Expenses</b>	<b>\$ 109,870</b>	<b>\$ 102,846</b>



**Munson Healthcare and Subsidiaries****Consolidated Statement of Operations and  
Changes in Net Assets (Continued)****Years Ended June 30, 2018 and 2017****(In Thousands)**

	2018	2017
<b>Unrestricted Net Assets</b>		
Excess of revenue over expenses	\$ 109,870	\$ 102,846
Distributions	(26)	(270)
Other adjustments	(1,029)	(689)
Pension and other postretirement benefit-related changes other than net periodic pension costs	24,255	45,678
Net assets released from restriction	6,807	6,532
Increase in unrestricted net assets	139,877	154,097
<b>Temporarily Restricted Net Assets</b>		
Contributions	6,981	11,218
Investment income	1,868	1,881
Inherent contribution from acquisition	1,952	1,278
Change in interest of net assets held by others	1,000	1,336
Pledge discounts, allowances, and other adjustments	226	(417)
Net assets released from restriction	(9,243)	(8,422)
Increase in temporarily restricted net assets	2,784	6,874
<b>Permanently Restricted Net Assets</b>		
Investment income	17	14
Other adjustments	(43)	-
(Decrease) increase in permanently restricted net assets	(26)	14
<b>Increase in Net Assets</b>	142,635	160,985
<b>Net Assets - Beginning of year</b>	750,287	589,302
<b>Net Assets - End of year</b>	<b>\$ 892,922</b>	<b>\$ 750,287</b>

## Munson Healthcare and Subsidiaries

# Consolidated Statement of Cash Flows

Years Ended June 30, 2018 and 2017

(In Thousands)

	2018	2017
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 142,635	\$ 160,985
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation and amortization	46,239	41,399
Amortization of bond issue costs	20	101
Provision for uncollectible accounts	27,596	20,162
Distributions to noncontrolling interest	26	270
Net (gain) loss on sale of property and equipment	(1,974)	107
Change in unrealized investment gains	(2,505)	(16,570)
Realized net gain on investments	(10,552)	(4,479)
Undistributed gain on equity investment	(2,406)	(1,360)
Change in pension and other postretirement benefits other than net periodic pension costs	(24,255)	(45,678)
Change in restricted net assets	(6,594)	(10,308)
Inherent contribution from acquisition	(46,529)	(35,241)
Change in interest swap agreements	(1,219)	(1,723)
Other components of net periodic pension cost	1,221	5,879
Change in interest of net assets held by others	(1,000)	(1,336)
Change in operating assets and liabilities:		
Accounts receivable, inventory, third-party settlements, and other assets	(41,735)	(39,923)
Accounts payable, third-party settlements, employee compensation, and other liabilities	(764)	13,154
Net cash provided by operating activities	78,204	85,439
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	(78,230)	(56,577)
Proceeds from sale of property and equipment	3,209	380
Purchases of investments	(298,750)	(229,147)
Proceeds from sales and maturities of investments	273,441	198,011
Business acquisition - Net of cash acquired	2,547	2,574
Distributions from (to) joint ventures	335	(2,585)
Net cash used in investing activities	(97,448)	(87,344)
<b>Cash Flows from Financing Activities</b>		
Proceeds from issuance of debt obligations	6,676	8,145
Principal payment on debt obligations	(3,944)	(9,149)
Change in restricted net assets	7,001	11,833
Distributions to noncontrolling interest	(26)	(270)
Net cash provided by financing activities	9,707	10,559
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(9,537)	8,654
<b>Cash and Cash Equivalents - Beginning of year</b>	116,437	107,783
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 106,900</b>	<b>\$ 116,437</b>
<b>Supplemental Cash Flow Information - Cash paid for interest</b>	\$ 7,527	\$ 7,404

Significant noncash investing and financing activity includes the acquisition of Munson Healthcare Otsego Memorial Hospital as of June 1, 2018 and Munson Healthcare Manistee Hospital as of April 1, 2017 (see Note 13).

## Munson Healthcare and Subsidiaries

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# Notes to Consolidated Financial Statements

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June 30, 2018 and 2017

(In Thousands)

### Note 1 - Nature of Business

Munson Healthcare is a nonprofit parent company and is responsible for the governance and management of its subsidiaries, which provide primary, secondary, and tertiary care to residents of the northern portion of Michigan's Lower Peninsula. The overall mission of Munson Healthcare is to work with its partners to provide superior quality care and promote community health.

### Note 2 - Significant Accounting Policies

#### *Principles of Consolidation*

The accompanying consolidated financial statements include the accounts of the parent and its subsidiaries (collectively, the "Organization"): Munson Healthcare; Munson Medical Center and its wholly owned subsidiaries, Munson Support Services and Munson Medical Group; Munson Healthcare Otsego Memorial Hospital and its wholly owned subsidiary, Munson Healthcare Otsego Memorial Hospital Foundation; Munson Healthcare Cadillac Hospital and its wholly owned subsidiary, Munson Healthcare Cadillac Hospital Foundation; Munson Healthcare Grayling Hospital; Munson Healthcare Manistee Hospital and its wholly owned subsidiary, Munson Healthcare Manistee Hospital Foundation; Munson Healthcare Charlevoix Hospital and its wholly owned subsidiary, Munson Healthcare Charlevoix Hospital Foundation; Paul Oliver Memorial Hospital; Munson Home Health and its wholly owned subsidiaries, Munson Home Care and Munson Home Services; Munson Services, Inc. and its wholly owned subsidiary, Sixth Street Drugs; North Flight, Inc.; Munson Healthcare Foundations; Munson Dialysis Center; and Munson Mobile Imaging, Inc. Also included are majority-owned joint ventures: Munson Medical Building Partnership and Northern Michigan Supply Alliance, L.L.C.

As of June 30, 2018 and 2017, noncontrolling interest in consolidated subsidiaries amounted to \$424 and \$1,044, respectively. The Organization attributed excess of revenue over expenses of \$49 and \$97 for the years ended June 30, 2018 and 2017, respectively, to the noncontrolling interest based on the ownership percentage of the noncontrolling interest in Munson Medical Building Partnership and Northern Michigan Supply Alliance, LLC. These amounts are recognized in unrestricted net assets in the consolidated balance sheet.

On June 1, 2018, the Organization acquired Otsego Memorial Hospital (now Munson Healthcare Otsego Memorial Hospital). On April 1, 2017, the Organization acquired West Shore Medical Center (now Munson Healthcare Manistee Hospital) (see Note 13). In October 2017, the assets of Munson Mobile Imaging, Inc. were sold, and operations ceased. The disposal does not represent discontinued operation as it is not a strategic shift in the Organization's service line, and the gain on sale was recorded within operating income.

Investments whereby the Organization holds less than 20 percent of ownership interest are accounted for using the cost method. All other investments that are not controlled by the Organization are accounted for using the equity method of accounting and include Copper Ridge Surgery Center, Great Lakes Mobile PET, North Flight Aero Med, and Boulder Park Nursing Home. The Organization has included its equity share of income or losses from investments in unconsolidated affiliates in other operating revenue in the consolidated statement of operations and changes in net assets. All material intercompany balances and transactions have been eliminated.

The following entities are collectively referred to as the Obligated Group: Munson Healthcare; Munson Medical Center; Paul Oliver Memorial Hospital; Munson Healthcare Cadillac Hospital; Munson Healthcare Grayling Hospital; Munson Healthcare Charlevoix Hospital; Munson Healthcare Manistee Hospital; Munson Healthcare Otsego Memorial Hospital; Munson Home Health and its wholly owned subsidiaries, Munson Home Care and Munson Home Services; North Flight, Inc.; and Munson Healthcare Foundations.

## Notes to Consolidated Financial Statements

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**June 30, 2018 and 2017**

**(In Thousands)**

### **Note 2 - Significant Accounting Policies (Continued)**

#### ***Use of Estimates***

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although actual results could differ from those estimates, management believes estimated amounts recorded are reasonable and appropriate.

#### ***Cash and Cash Equivalents***

Cash and cash equivalents include cash and investments in highly liquid investments purchased with an original maturity of three months or less. Cash balances held in the bank exceed the federal depository insurance limit. The Organization's cash is only insured up to the federal depository insurance limit.

#### ***Net Patient Service Revenue***

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services provided and includes estimated retroactive revenue adjustments due to future audits and reviews. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known. The Organization considers revenue and expenses from the quality assurance assessment program as net reimbursement and, therefore, records the expenses as a reduction to net patient service revenue.

#### ***Inventories***

Inventories, which consist of medical and pharmaceutical products, are stated at the lower of cost or net realizable value.

#### ***Investments***

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheet. For the purpose of recognizing investment returns as a component of excess of revenue over expenses, substantially all of the Organization's investments are considered to be trading securities. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) are included in excess of revenue over expenses, unless a donor or law restricts the income or loss. Gains or losses with respect to disposition of marketable securities are based on the specific-identification method.

Equity securities expose the Organization to market risk, performance risk, and liquidity risk. Market risk is the risk associated with major movements of the equity markets, both foreign and domestic. Performance risk is the risk associated with a company's operating performance. Liquidity risk tends to be higher for foreign equities and equities related to small capitalization companies.

#### ***Property and Equipment***

Property and equipment are stated at cost if purchased or at fair market value at the date of donation. Depreciation on property and equipment, excluding construction in progress and assets held for sale, is computed using the straight-line method over the estimated useful lives of the assets. The general range of estimated useful lives of the assets is 20 to 40 years for buildings, 10 to 20 years for land improvements, and 3 to 10 years for equipment. Outlays for construction in progress are capitalized as incurred.

## **Notes to Consolidated Financial Statements**

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**June 30, 2018 and 2017**

**(In Thousands)**

### **Note 2 - Significant Accounting Policies (Continued)**

#### ***Asset Impairment***

The Organization considers whether indicators of impairment are present and performs the necessary test to determine if the carrying value of an asset is appropriate. Impairment write-downs, except for those related to investments, are recognized in operating income at the time the impairment is identified. Based on an analysis using discounted cash flows and comparative transaction methods, it has been determined there were no impairments to intangible assets, including goodwill, as of June 30, 2018 and 2017.

#### ***Intangible Assets***

In connection with business combinations, the Organization has recorded goodwill in other assets on the accompanying consolidated balance sheet. Goodwill was \$3,786 as of June 30, 2018 and 2017.

Based on an analysis using discounted cash flows and comparative transaction methods, it has been determined that there was no impairment to intangible assets, including goodwill, as of June 30, 2018 and 2017.

#### ***Derivative Financial Instruments***

The Organization maintains an interest rate swap agreement with a bank to manage its investments and capitalization, including risks associated with changes in interest rates. The Organization records its derivative instruments as either assets or liabilities in the accompanying consolidated balance sheet at fair value. The cash flows associated with the swap agreements flow through other operating expenses on the accompanying consolidated statement of operations and changes in net assets. The unrealized derivative gain or loss related to the change in fair value is included in swap market value changes on the consolidated statement of operations and changes in net assets as part of excess of revenue over expenses.

#### ***Net Assets***

Net assets of the Organization are classified as unrestricted, temporarily restricted, or permanently restricted depending on the presence and characteristics of donor-imposed restrictions limiting the Organization's ability to use or dispose of contributed assets or the economic benefits embodied in those assets. Donor-imposed restrictions that expire with the passage of time or that can be removed by meeting certain requirements result in temporarily restricted net assets. Permanently restricted net assets are endowment funds to be held in perpetuity by the Organization. Earnings, gains, and losses on restricted net assets are classified as unrestricted, unless restricted by the donor or by applicable state law.

Unconditional promises to give cash and other assets to the Organization are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets.

#### ***Operating Indicator***

The Organization's operating indicator (operating income) includes all net patient service revenue and other revenue and expenses from the Organization's operations for the reporting period. The operating indicator excludes other net gains (losses), change in interest swap agreements, certain components of net periodic pension cost, and the inherent contribution from acquisition.

## Notes to Consolidated Financial Statements

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**June 30, 2018 and 2017**

**(In Thousands)**

### **Note 2 - Significant Accounting Policies (Continued)**

#### ***Performance Indicator***

The Organization's performance indicator (excess of revenue over expenses) includes all changes in unrestricted net assets other than distributions, net assets released from restrictions, other adjustments, and pension and other postretirement benefit-related changes other than net periodic pension costs.

#### ***Amount Received for Shared Services***

Total operating expenses are reduced by the amount reported as shared services revenue, which represents revenue received from affiliates and other healthcare providers for the purchase of goods and services. The expenses related to this revenue are included in the operating expense line items.

#### ***Charity Care***

The Organization provides care to patients who meet certain financial or economic criteria without charge or at amounts substantially less than the Organization's established rates. Because the Organization does not pursue collection of amounts determined to qualify as charity care, they are not reported in net revenue or in accounts receivable - net. The Organization provided charity care based on charges at established rates, amounting to \$5,594 and \$6,003 during the years ended June 30, 2018 and 2017, respectively. The estimated costs of providing charity care were approximately \$2,100 and \$2,300 during the years ended June 30, 2018 and 2017, respectively. The estimated costs were based on a calculation that multiplied the percentage of operating expenses to gross patient charges by the above-mentioned charity care. A future increase in the level of uninsured patients to the Organization and adverse trends in the provision for doubtful accounts and charity care provided could have a material unfavorable impact on future operating results.

#### ***Tax Status***

All entities are tax-exempt under various provisions under the Internal Revenue Code, except for Munson Support Services; Munson Services, Inc.; Sixth Street Drugs, Inc.; Munson Medical Building Partnership; Northern Michigan Supply Alliance, L.L.C.; and Munson Mobile Imaging, Inc. Any tax provision for these entities is not material to the overall consolidated financial statements.

#### ***Subsequent Events***

The consolidated financial statements and related disclosures include evaluation of events up through and including October 3, 2018, which is the date the consolidated financial statements were available to be issued.

#### ***Change in Accounting Principle***

In March 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This standard requires service cost to be included within operating expenses, the other components of net benefit cost to be presented separately outside of income from operations, and capitalization of only the service cost component, when applicable.

The Organization adopted this guidance for the year ended June 30, 2018 with retroactive application to the consolidated balance sheet and consolidated statement of operations and changes in net assets for 2017. The effect of this change within the consolidated statement of operations and changes in net assets was to increase operating income by \$5,879 and decrease total other gain - net by \$5,879 for the fiscal year ended June 30, 2017. There was no impact to the June 30, 2017 consolidated balance sheet.

# Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In Thousands)

## Note 2 - Significant Accounting Policies (Continued)

### Upcoming Accounting Changes

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Organization's year ending June 30, 2019 and for interim periods in the year ending June 30, 2019. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Organization plans to apply the standard using the full retrospective method. The Organization's main revenue streams are not expected to be significantly impacted by the standard, but a complete review of all revenue streams and customer agreements is in the process of being completed. In addition, management is currently analyzing the disclosures that will be required with this pronouncement.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Organization's year ending June 30, 2020. The ASU permits application of the new lease guidance to be applied using one of two retrospective application methods. The Organization has not yet determined which application method it will use. The effect of applying the new lease guidance on the financial statements is not expected to be material.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Organization, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Organization's year ending June 30, 2019 and thereafter and must be applied on a retrospective basis. The Organization is considering the impact of the ASU on the financial statements.

## Note 3 - Net Patient Service Revenue

Patient service revenue, net of contractual allowances and discounts and before the provision for bad debt, recognized in the year from major payor sources is as follows:

	2018	2017
Patient service revenue (net of contractual allowances and discounts):		
Third-party payors	\$ 998,223	\$ 912,679
Self-pay	20,483	15,164
Total	<u>\$ 1,018,706</u>	<u>\$ 927,843</u>



**Notes to Consolidated Financial Statements****June 30, 2018 and 2017****(In Thousands)****Note 3 - Net Patient Service Revenue (Continued)**

A significant portion of the Organization's services is provided to patients under Medicare, Medicaid, Blue Cross/Blue Shield of Michigan, and other agreements with third-party contractual agencies. Such contracts provide for payment or reimbursement to the Organization at other-than-standard charges. For the years ended June 30, 2018 and 2017, approximately 79.12 percent and 78.14 percent, respectively, of the Organization's net patient service revenue is received from Medicare, Medicaid, and Blue Cross/Blue Shield of Michigan programs. Estimated settlements have been reflected in the accompanying consolidated balance sheet for differences between interim payments and the total payments to be received under the contracts.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Net patient service revenue is composed of the following for the years ended June 30:

	2018	2017
Inpatient services	\$ 960,279	\$ 893,933
Outpatient services	1,517,268	1,292,979
Professional services	188,417	142,850
Total patient revenue	2,665,964	2,329,762
Contractual allowances and discounts	(1,647,258)	(1,401,919)
Patient service revenue (net of contractual allowances and discounts)	1,018,706	927,843
Less provision for uncollectible accounts	(27,596)	(20,162)
Net patient service revenue	\$ 991,110	\$ 907,681

**Note 4 - Accounts Receivable - Net**

The Organization provides healthcare services through inpatient, outpatient, and ambulatory care facilities and grants credit to patients, substantially all of whom are local residents in the communities served by the Organization. The Organization generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies, including, but not limited to, Medicare, Medicaid, health maintenance organizations, and commercial insurance policies.

The allowance for uncollectible accounts is based upon management's assessment of historical and expected net collections considering business and general economic conditions in its service area, trends in healthcare coverage, and other collection indicators. Throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon accounts receivable payor composition and aging and historical write-off experience by payor category and other factors. The results of these reviews are then used to make any modifications to the provision for uncollectible accounts to establish an appropriate allowance for uncollectible accounts. After amounts due from third-party payors are satisfied and reasonable efforts to collect from the patient have been exhausted, the Organization follows established guidelines for placing certain past-due patient balances with collection agencies.



## Munson Healthcare and Subsidiaries

### Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In Thousands)

#### Note 4 - Accounts Receivable - Net (Continued)

The details of accounts receivable are set forth below:

	2018	2017
Patient account receivable:	\$ 381,083	\$ 344,744
Allowance for uncollectible accounts	(22,820)	(20,153)
Allowance for contractual adjustments	(219,943)	(192,605)
Allowance for charity care	(3,785)	(4,004)
Patient accounts receivable - Net	134,535	127,982
Other	18,649	15,563
Total accounts receivable - Net	<u>\$ 153,184</u>	<u>\$ 143,545</u>

The composition of receivables from patients and third-party payors is as follows:

	2018	2017
Medicare	47.35 %	47.46 %
Blue Cross/Blue Shield of Michigan	10.35	10.34
Medicaid	15.19	13.40
Commercial insurance and HMOs	20.09	21.91
Self-pay	7.02	6.89
Total	<u>100.00 %</u>	<u>100.00 %</u>

#### Note 5 - Pledges Receivable

Pledges receivable consists of unconditional promises to give. The current portion of pledges receivable is included in the other portion of accounts receivable - net, and the long-term portion of pledges receivable is included in other assets. The Organization calculated the present value of the pledges under \$500,000 based on expected collections over the expected pledge term at an imputed interest rate of 7.60 percent and 7.33 percent for the years ended June 30, 2018 and 2017, respectively. The present value of pledges over \$500,000 is based on an imputed interest rate at the time of the pledge. The interest rate is based on U.S. Treasury bill rates adjusted for various risk factors. The total discount for net present value was \$2,328 and \$2,590 at June 30, 2018 and 2017, respectively. The allowance for uncollectible pledges was \$268 and \$62 at June 30, 2018 and 2017, respectively, and is a general valuation based on the percentage of prior year pledge write-offs. Specific pledges deemed uncollectible are charged against the allowance for uncollectible pledges in the period in which the determination is made. Adjustments to the fair value of pledges receivable and the allowance for uncollectible pledges are reported as increases (decreases) in temporarily restricted net assets.

Pledges outstanding at June 30, 2018 are expected to be collected as follows:

2019	\$ 3,514
2020	2,033
2021	1,339
2022	1,183
2023	835
2024 and thereafter	<u>5,032</u>
Total	<u>\$ 13,936</u>

## Munson Healthcare and Subsidiaries

### Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In Thousands)

#### Note 6 - Property and Equipment - Net

Cost of property and equipment are summarized as follows:

	2018	2017
Land	\$ 24,361	\$ 22,401
Land improvements	8,964	8,090
Buildings	456,919	430,821
Equipment	332,680	305,929
Assets held for sale	-	1,351
Construction in progress	63,043	33,448
Total cost	885,967	802,040
Less accumulated depreciation	439,703	420,706
Property and equipment - Net	\$ 446,264	\$ 381,334

Construction in progress at June 30, 2018 consists of a new parking structure, building renovations, ambulatory software implementation, and various other information technology and facility projects, which will be paid through the use of financing, philanthropy, and cash and investments.

The Organization has entered into construction commitments of approximately \$43,700 for current projects, of which approximately \$17,000 remained as of June 30, 2018.

#### Note 7 - Long-term Debt

Long-term debt is as follows:

	2018	2017
Revenue bonds payable to Charlevoix Township Hospital Finance Authority - Series 2016. The bonds, issued for \$7,000, are the joint and several obligations of the obligated group. The bonds are payable from the revenue of the obligated group and are collateralized by its accounts and general intangibles		
- Series 2016A: \$6,533 and \$7,000, 2.13 and 1.76 percent fixed interest, at June 30, 2018 and 2017, respectively	\$ 6,533	\$ 7,000
Revenue bonds payable to City of Gaylord Hospital Finance Authority - Series 2015. The bonds, issued for \$1,886, are the joint and several obligations of the obligated group. The bonds are payable from the revenue of the obligated group and are collateralized by its accounts and general intangibles. The bonds were assumed as liabilities of the Organization as a result of the acquisition of Otsego as described in Note 13		
- Series 2015C: \$1,656, 2.27 percent fixed interest, at June 30, 2018	1,656	-

## Munson Healthcare and Subsidiaries

# Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In Thousands)

### Note 7 - Long-term Debt (Continued)

	2018	2017
Revenue bonds payable to the County of Grand Traverse Hospital Finance Authority - Series 2014. The bonds, issued for \$60,767, are the joint and several obligations of the obligated group. The bonds are payable from the revenue of the obligated group and are collateralized by its accounts and general intangibles		
- Series 2014A: \$27,620 and \$27,620, 5.0 percent fixed interest, at June 30, 2018 and 2017, respectively		
- Series 2014B: \$13,060 and \$13,325, 4.0 percent fixed interest, at June 30, 2018 and 2017, respectively		
- Series 2014C: \$14,960 and \$15,280, 3.0 percent fixed interest, at June 30, 2018 and 2017, respectively, with future rates ranging up to 5.0 percent	\$ 55,640	\$ 56,225
Revenue bonds payable to the City of Gaylord Hospital Finance Authority - Series 2014. The bonds, issued for \$6,095, are the joint and several obligations of the obligated group. The bonds are payable from the revenue of the obligated group and are collateralized by its accounts and general intangibles. The bonds were assumed as liabilities of the Organization as a result of the acquisition of Otsego, as described in Note 13		
- Series 2014B: \$5,481, 2.87 percent fixed interest, at June 30, 2018	5,481	-
Revenue bonds payable to the County of Otsego Hospital Finance Authority - Series 2013. The bonds, issued for \$10,000, are the joint and several obligations of the obligated group. The bonds are payable from the revenue of the obligated group and are collateralized by its accounts and general intangibles. The bonds were assumed as liabilities of the Organization as a result of the acquisition of Otsego, as described in Note 13		
- Series 2013A: \$8,969, 2.87 percent fixed interest, at June 30, 2018	8,969	-
Revenue bonds payable to the County of Grand Traverse Hospital Finance Authority - Series 2011. The bonds, issued for \$128,018, are the joint and several obligations of the obligated group. The bonds are payable from the revenue of the obligated group and are collateralized by its accounts and general intangibles		
- Series 2011A: \$68,665 and \$71,135, 5.0 percent fixed interest, at June 30, 2018 and 2017, respectively		
- Series 2011B: \$24,825 and \$24,825, 4.83 percent and 4.23 percent variable interest, at June 30, 2018 and 2017, respectively		
- Series 2011C: \$22,000, 2.48 percent variable interest and 2.63 percent fixed interest, at June 30, 2018 and 2017, respectively.	115,490	117,960
Other	16,638	8,192
Unamortized premium or discount	3,514	3,595
Unamortized debt issuance costs	(2,006)	(2,107)
Total	211,915	190,865
Less current portion	4,760	3,777
Long-term portion	<u>\$ 207,155</u>	<u>\$ 187,088</u>

# Notes to Consolidated Financial Statements

**June 30, 2018 and 2017**

**(In Thousands)**

## Note 7 - Long-term Debt (Continued)

The obligated group variable rate revenue bonds are secured by a letter of credit agreement in the amount of \$25,063, scheduled to terminate on August 10, 2019. Variable rate bonds are remarketed weekly, with the option to convert to an adjustable or fixed rate. In connection with the outstanding bond issues, the Organization has agreed to various covenants. These covenants include restrictions on transfer of assets, additional indebtedness, and maintenance of certain financial ratios.

The Organization has line of credit agreements with various banks. The Organization has available borrowings on the lines of credit of \$17,000. The outstanding borrowings on the lines of credit were \$11,900 and \$5,206 at June 30, 2018 and 2017, respectively, and are included in other debt in the table above. Interest rates on the lines of credit ranged from 2.54 to 3.03 percent at June 30, 2018. The interest rate on the line of credit was 1.76 percent at June 30, 2017. The line of credit agreements are payable from the revenue of the obligated group and are collateralized by its accounts and general intangibles. The lines of credit mature in fiscal year 2020.

Minimum principal payments on long-term debt to maturity as of June 30, 2018 are as follows:

Years Ending	Amount
2019	\$ 4,760
2020	17,224
2021	4,979
2022	5,171
2023	5,374
2024 and thereafter	172,899
Unamortized bond premium or discount	3,514
Unamortized debt issuance costs	(2,006)
Net long-term debt	<u>\$ 211,915</u>

## Note 8 - Interest Rate Swap

The Organization maintains a fixed payor interest rate swap agreement to manage interest rate risk exposure, as follows:

	Notional Amount as of June 30, 2018	Termination Date	Receives	Pays	Liability 2018	Liability 2017
Fixed payor swap	\$24,100	July 2028	67% of 30-day LIBOR	3.42%	\$ (2,483)	\$ (3,702)

The interest rate swap is recorded in other liabilities in the accompanying consolidated balance sheet.

The interest rate swap agreement used by the Organization effectively modifies the Organization's exposure to interest rate risk by converting the Organization's floating rate debt to a fixed rate basis, thus reducing the effect of interest rate changes on future interest expense. These agreements involve the receipt of floating rate amounts in exchange for fixed rate interest payments over the life of the agreement without an exchange of the underlying principal amount.

The Organization's interest rate swap derivative instrument contains collateralization requirements if certain conditions exist. At June 30, 2018 and 2017, no collateral was required to be posted. Under the interest rate swap transaction, various early termination events may occur, triggering an early termination payment. An early termination event occurs upon the event of the Organization's rating downgrade and nonperformance or the rating downgrade of the swap insurer, as specified in the swap agreement.

## Notes to Consolidated Financial Statements

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**June 30, 2018 and 2017**

**(In Thousands)**

### **Note 8 - Interest Rate Swap (Continued)**

The cash flows associated with the swap agreement are reported in other operating expenses in the accompanying consolidated statement of operations and changes in net assets in the amount of \$574 and \$570 for the years ended June 30, 2018 and 2017, respectively.

The changes in fair value are reported in the consolidated statement of operations and changes in net assets as part of excess of revenue over expenses. The change in interest swap agreements was \$1,219 and \$1,723 for the years ended June 30, 2018 and 2017, respectively.

### **Note 9 - Fair Value Measurements**

Accounting Standards Codification (ASC) 820, *Fair Value Measurement and Disclosures*, provides a framework for measuring fair value of certain assets and liabilities and expands disclosure about fair value measurements. As defined in ASC 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

Certain of the Organization's financial assets are measured at fair value on a recurring basis, including money market and fixed-income and equity instruments. The three levels of the fair value hierarchy and a description of the valuation methodologies used for instruments, measured at fair value, are as follows:

#### **Level 1**

Quoted prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date. Level 1 primarily consists of cash and financial instruments, such as money market securities and listed equities.

#### **Level 2**

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 and liabilities in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

#### **Level 3**

Pricing inputs include those that are significant to the fair value of the financial asset or financial liability and are not observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

The following tables present information about the Organization's assets and liabilities measured at fair value on a recurring basis at June 30, 2018 and 2017. Assets include cash, investments and assets held for deferred compensation plans, as disclosed in Note 11. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The assessment of significance of a particular input to the fair value measurement requires judgment, could be subject to change or variation, and may affect the valuation of fair value assets and liabilities and their classification within the fair value hierarchy levels.

## Munson Healthcare and Subsidiaries

# Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In Thousands)

### Note 9 - Fair Value Measurements (Continued)

The fair value of financial assets and liabilities measured on a recurring basis was determined using the following inputs at June 30, 2018 and 2017:

Assets and Liabilities 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)	Fair Market Value
<b>Assets</b>				
Cash and cash equivalents	\$ 106,900	\$ -	\$ -	\$ 106,900
Money market fund and depository funds held by a bank trust department	38,593	-	-	38,593
Debt securities:				
U.S. government and government agency obligations	-	147,951	-	147,951
Corporate obligations	-	153,780	-	153,780
Equity securities:				
U.S. equities	169,121	-	-	169,121
Foreign equities	26,405	-	-	26,405
Mutual funds	13,498	-	-	13,498
Other	302	3,378	-	3,680
Total assets	<u>\$ 354,819</u>	<u>\$ 305,109</u>	<u>\$ -</u>	<u>\$ 659,928</u>
<b>Liabilities - Interest rate swap</b>	<u>\$ -</u>	<u>\$ 2,483</u>	<u>\$ -</u>	<u>\$ 2,483</u>

Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2017				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Market Value
<b>Assets</b>				
Cash and cash equivalents	\$ 116,437	\$ -	\$ -	\$ 116,437
Money market fund and depository funds held by a bank trust department	19,835	-	-	19,835
Debt securities:				
U.S. government and government agency obligations	-	149,485	-	149,485
Corporate obligations	-	144,042	-	144,042
Equity securities:				
U.S. equities	121,927	-	-	121,927
Foreign equities	23,637	-	-	23,637
Other	180	2,245	-	2,425
Total assets	<u>\$ 282,016</u>	<u>\$ 295,772</u>	<u>\$ -</u>	<u>\$ 577,788</u>
<b>Liabilities - Interest rate swap</b>	<u>\$ -</u>	<u>\$ 3,702</u>	<u>\$ -</u>	<u>\$ 3,702</u>

**Notes to Consolidated Financial Statements****June 30, 2018 and 2017****(In Thousands)****Note 9 - Fair Value Measurements (Continued)**

The fair value of cash and cash equivalents and money market funds is based on quoted market prices and classified as Level 1. The fair value of Level 1 trading securities is based on quoted market prices for an active exchange. The fair value of Level 2 trading securities is based on third-party market quotes for similar securities and other observable inputs. The fair value of interest rate swaps is based upon forward interest rate curves, as adjusted for a credit valuation allowance.

The Organization's policy is to recognize transfers in to and transfers out of Level 1, 2, and 3 fair value classifications as of the end of the reporting period. There were no significant transfers into or out of Levels 1, 2, or 3.

The methods previously described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following schedule summarizes the investment return and its classification in the consolidated statement of operations and changes in net assets for the years ended June 30, 2018 and 2017:

	2018	2017
Return from:		
Investment income	\$ 10,316	\$ 7,203
Realized gains on sale of investments - Net	11,274	4,941
Change in unrealized gains on investments - Net	2,916	12,671
Total	<u>\$ 24,506</u>	<u>\$ 24,815</u>
	2018	2017
Classified as:		
Other operating revenue	\$ 1,960	\$ 2,323
Other gain - Net	20,661	20,597
Investment income on restricted net assets	1,885	1,895
Total	<u>\$ 24,506</u>	<u>\$ 24,815</u>

**Notes to Consolidated Financial Statements**

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**June 30, 2018 and 2017**

**(In Thousands)**

**Note 10 - Medical Malpractice Claims**

Based on the nature of its operations, the Organization is at times subject to pending or threatened legal actions that arise in the normal course of its activities.

The Organization is insured against medical malpractice claims under a claims-made policy, whereby only the claims reported to the insurance carrier during the policy period are covered, regardless of when the incident giving rise to the claim occurred. Terms of the policy require the Organization to be responsible for a deductible. Effective April 1, 2017, the deductibles were increased to equal the policy limits, effectively self-insuring the Organization for this layer of coverage. The Organization also bears the risk of the ultimate costs of any individual claims exceeding the policy limits for claims asserted in the policy year. In addition to the primary layer of medical malpractice coverage, the Organization maintains a secondary layer of coverage through a segregated portfolio in an offshore captive insurance company. An umbrella policy provides additional coverage in addition to the primary and secondary layers. At June 30, 2018 and 2017, the Organization has made a provision for the estimated loss in connection with medical malpractice claims for which an amount can be reasonably estimated, including a provision for claims incurred but not reported at year end. Estimates are based upon projections by an independent actuary and the evaluation of claims of substance by professional liability legal counsel. The reserve for estimated malpractice claims, recorded as other liabilities on the consolidated balance sheet, was approximately \$6,123 and \$2,956 at June 30, 2018 and 2017, respectively. In addition, there were expected insurance recoveries of \$1,075 and \$128 recorded as a receivable, within accounts receivable - net in the consolidated balance sheet, as of June 30, 2018 and 2017, respectively.

If the claims-made policy was not renewed or replaced with equivalent insurance, claims based on the occurrences during the claims-made term, but reported subsequently, would be uninsured.

The Organization is not aware of any medical malpractice claims, either asserted or unasserted, that would exceed the policy limits. No claims have been settled during the past three years that have exceeded policy coverage limits. The cost of the Organization's insurance policy and any deductibles paid represent the Organization's cost for such claims for the year and have been charged to operations as a current expense.



# Notes to Consolidated Financial Statements

**June 30, 2018 and 2017**
**(In Thousands)**
**Note 11 - Retirement Plans**

The Organization maintains a defined benefit pension plan that was frozen to new participants in 2005, and two separate retirement savings plans covering substantially all of its employees.

The following table sets forth the funded status of the defined benefit pension plan and amounts recognized in the consolidated financial statements as of and for the years ended June 30, 2018 and 2017:

	2018	2017
Change in benefit obligation of the plan:		
Benefit obligation at beginning of the year	\$ 421,076	\$ 443,743
Service cost	7,508	9,197
Interest cost	14,620	13,345
Actuarial gain	(14,443)	(28,130)
Benefits paid	(13,903)	(16,841)
Administrative expenses	(333)	(238)
Benefit obligation at end of year	414,525	421,076
Change in assets of the plan:		
Fair value of assets at beginning of year	318,968	296,033
Actual return on assets	23,211	25,014
Employer contributions	10,000	15,000
Benefits paid	(13,903)	(16,841)
Administrative expenses	(333)	(238)
Fair value of assets at end of year	337,943	318,968
Funded deficit at end of year	<u>\$ (76,582)</u>	<u>\$ (102,108)</u>
Amounts recognized in consolidated balance sheet - Accrued pension obligation	\$ (76,582)	\$ (102,108)
Accumulated adjustments to unrestricted net assets - Net actuarial loss	97,591	121,846
Net amount recognized	<u>\$ 21,009</u>	<u>\$ 19,738</u>
Components of net pension benefit cost:		
Service cost	\$ 7,508	\$ 9,197
Interest cost	14,620	13,345
Expected return on assets	(22,484)	(21,271)
Amortization of net loss	9,085	13,805
Net periodic pension cost	<u>\$ 8,729</u>	<u>\$ 15,076</u>

Weighted-average actuarial assumptions to determine benefit cost were as follows:

	Pension Benefits	
	2018	2017
Discount rate for benefit obligation at year end	4.21 %	3.83 %
Discount rate for periodic pension costs	3.83 %	3.62 %
Expected rate of return on plan assets	7.00 %	7.00 %
Rate of compensation increase	3.13 %	3.15 %

## Notes to Consolidated Financial Statements

**June 30, 2018 and 2017**

**(In Thousands)**

### **Note 11 - Retirement Plans (Continued)**

At June 30, 2018 and 2017, the discount rate for determining the benefit obligation and periodic pension costs was changed from 3.83 percent to 4.21 percent and from 3.62 percent to 3.83 percent, respectively, decreasing the projected benefit obligation by \$19,766 in fiscal year 2018 and decreasing the projected benefit obligation by \$16,610 in fiscal year 2017. At June 30, 2018 and 2017, the accumulated benefit obligation was \$391,096 and \$395,726, respectively. The estimated net loss and prior service cost for the defined benefit pension plan that will be recognized into net periodic benefit cost over the next fiscal year is \$6,513.

The Organization expects to contribute \$10,000 to its pension plan in 2019. The benefit payments, which reflect expected future services, as appropriate, are expected to be paid as follows:

2019	\$	18,003
2020		18,530
2021		20,100
2022		21,684
2023		23,117
2024-2028		131,685

The Organization's pension plan asset allocation at June 30, 2018 and 2017, by asset category as a percentage, is as follows:

	2018	2017
Equity securities	49.09 %	46.27 %
Debt securities	47.99	50.49
Cash equivalents	2.92	3.24
Total	100.00 %	100.00 %

The goals of the investment program are to fully fund the obligation to pay retirement benefits in accordance with the plan documents and to provide returns which, along with appropriate funding from the Organization, maintain an asset/liability ratio that is in compliance with all applicable laws and regulations and assures timely payment of retirement benefits. The target allocation for each major category of plan assets is as follows:

Equity securities	50.00 %
Fixed income	50.00

The expected long-term rate of return assumption is based on the mix of assets in the plan, the long-term earnings expected to be associated with each asset class, and the additional return expected through active management.

## Munson Healthcare and Subsidiaries

# Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In Thousands)

### Note 11 - Retirement Plans (Continued)

The following table presents the plan's financial instruments as of June 30, 2018 measured on a recurring basis within the fair value hierarchy, as disclosed in Note 9:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Market Value
<b>Asset Classes</b>				
Money market funds - Short-term investments	\$ 9,725	\$ -	\$ -	\$ 9,725
Common stock:				
U.S. equities	139,873	-	-	139,873
Foreign equities	25,510	-	-	25,510
Debt securities:				
U.S. government and government agency obligations	-	61,184	-	61,184
Corporate obligations	-	100,613	-	100,613
Other	183	855	-	1,038
Total assets	<u>\$ 175,291</u>	<u>\$ 162,652</u>	<u>\$ -</u>	<u>\$ 337,943</u>

The following table presents the plan's financial instruments as of June 30, 2017, measured on a recurring basis within the fair value hierarchy, as disclosed in Note 9:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Market Value
<b>Asset Classes</b>				
Money market funds - Short-term investments	\$ 10,444	\$ -	\$ -	\$ 10,444
Common stock:				
U.S. equities	121,561	-	-	121,561
Foreign equities	25,658	-	-	25,658
Debt securities:				
U.S. government and government agency obligations	-	59,113	-	59,113
Corporate obligations	-	101,222	-	101,222
Other	174	796	-	970
Total assets	<u>\$ 157,837</u>	<u>\$ 161,131</u>	<u>\$ -</u>	<u>\$ 318,968</u>

The Organization's policy is to recognize transfers in to and transfers out of Level 1, 2, and 3 fair value classifications as of the end of the reporting period. There were no significant transfers into or out of Levels 1, 2, or 3.

**Notes to Consolidated Financial Statements****June 30, 2018 and 2017****(In Thousands)****Note 11 - Retirement Plans (Continued)**

The Organization maintains two separate retirement savings plans that provide for employer matching contributions on eligible participants' deferrals and an employer discretionary contribution for eligible employees. Accrued retirement benefits include \$5,507 and \$5,187 at June 30, 2018 and 2017, respectively, for these plans. Expenses charged to operations under these plans were \$13,208 and \$11,726 for the years ended June 30, 2018 and 2017, respectively.

The Organization sponsors nonqualified deferred compensation plans for certain eligible participants. The Organization makes contributions into one plan based on a percentage of compensation of the participants. The other plans are noncontributory, and participants may elect to defer a portion of their compensation into the plan. Deferred compensation liabilities, included in other liabilities, were \$18,502 and \$2,007 at June 30, 2018 and 2017, respectively. Assets held in trust to fund the plans, included in other assets, were \$17,566 and \$1,070 at June 30, 2018 and 2017, respectively.

**Note 12 - Functional Expenses**

The Organization provides inpatient, outpatient, and long-term healthcare services to patients in northwest Michigan. Expenses related to providing services are as follows:

	2018	2017
Healthcare services	\$ 863,187	\$ 782,103
General and administrative	129,451	105,454
Fundraising	1,630	1,139
Total	<u>\$ 994,268</u>	<u>\$ 888,696</u>

**Note 13 - Acquisitions*****Otsego Memorial Hospital***

On June 1, 2018, the Organization acquired Otsego Memorial Hospital (Otsego) and its wholly owned subsidiary, Otsego Memorial Hospital Foundation. At the time of the acquisition, the names were changed to Munson Healthcare Otsego Memorial Hospital and Munson Healthcare Otsego Memorial Hospital Foundation, respectively. The Organization's board of directors provides governance oversight of Otsego's assets and operations. The accompanying consolidated financial statements represent the results of operations for the one-month period as of the acquisition date of June 1, 2018 and ending on June 30, 2018, which is the Organization's fiscal year end.

The transaction has been accounted for as an acquisition in accordance with FASB ASC Topic 958-805, *Not-for-Profit Entities: Mergers and Acquisitions*. The assets and liabilities of Otsego were adjusted to fair value as of June 1, 2018. The fair value of assets on June 1, 2018 acquired was approximately \$46,529, which is reflected as inherent contribution from acquisition in the consolidated statement of operations and changes in net assets at June 1, 2018 as a result of a lack of financial contributions in the acquisition.

The amount of Otsego's excess of revenue over expenses for the one-month period ended June 30, 2018 that is included in the Organization's financial statements is \$497, excluding the inherent contribution recognized. The amount of Otsego's operating revenue, excess of revenue over expenses, and changes in unrestricted and temporarily restricted net assets for the 12-month period ended June 30, 2018 was \$103,604, \$5,295, \$6,197, and \$(388), respectively (unaudited).

## Munson Healthcare and Subsidiaries

# Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In Thousands)

### Note 13 - Acquisitions (Continued)

The Organization acquired the following unrestricted and temporarily restricted assets and liabilities at June 1, 2018:

Cash and cash equivalents	\$	2,547
Other current assets		13,367
Property and equipment		34,288
Investments		24,001
Other assets		3,466
Current maturities of long-term debt		(618)
Other current liabilities		(10,132)
Deferred liabilities		(2,710)
Long-term debt		(17,680)
Total	\$	<u>46,529</u>

The Organization is required to disclose the unaudited pro forma financial information that presents the combined results of operations of the Organization and the entities for the year ended June 30, 2017 as though the business combination had occurred on July 1, 2016. The unaudited pro forma financial information for the year ended June 30, 2017 for operating revenue, excess of revenue over expense, and the change in unrestricted and temporarily restricted net assets was approximately \$99,655, \$7,678, \$8,306, and \$638, respectively. This pro forma financial information is not necessarily indicative of the results of the operations that would have occurred had the Organization and the entity constituted a single entity during those periods, nor is it necessarily indicative of future operating results.

#### **West Shore Medical Center**

On April 1, 2017, the Organization acquired West Shore Medical Center (Manistee) and its wholly owned subsidiary, West Shore Medical Center Foundation. At the time of the acquisition, the names were changed to Munson Healthcare Manistee Hospital and Munson Healthcare Manistee Hospital Foundation, respectively. The Organization's board of directors provides governance oversight of Manistee's assets and operations. For the fiscal year ended June 30, 2017, the accompanying consolidated financial statements represent the results of operations for the three-month period as of the acquisition date of April 1, 2017 and ending on June 30, 2017.

The transaction has been accounted for as an acquisition in accordance with FASB ASC Topic 958-805, *Not-for-Profit Entities: Mergers and Acquisitions*. The assets and liabilities of Manistee were adjusted to fair value as of April 1, 2017. The fair value of assets on April 1, 2017 acquired was approximately \$35,241, which is reflected as inherent contribution due to the acquisition in the consolidated statement of operations and changes in net assets at April 1, 2017 as a result of a lack of financial contributions in the acquisition.

The amount of Manistee's excess of revenue over expenses for the three-month period ended June 30, 2017 that is included in the Organization's financial statements is \$2,092, excluding the inherent contribution recognized. The amount of Manistee's operating revenue, excess of revenue over expenses, and changes in unrestricted and temporarily restricted net assets for the 12-month period ended June 30, 2017 was \$68,575, \$(2,210), \$(502), and \$196, respectively (unaudited).

## Munson Healthcare and Subsidiaries

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### Notes to Consolidated Financial Statements

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June 30, 2018 and 2017

(In Thousands)

#### Note 13 - Acquisitions (Continued)

The Organization acquired the following unrestricted and temporarily restricted assets and liabilities at April 1, 2017:

Cash and cash equivalents	\$	2,574
Other current assets		12,482
Property and equipment		20,352
Investments		15,346
Other assets		73
Current maturities of long-term debt		(986)
Other current liabilities		(9,300)
Deferred liabilities		(354)
Long-term debt		(4,946)
Total	\$	<u>35,241</u>

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## Supplemental Information

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## Munson Healthcare and Subsidiaries

## Consolidating Balance Sheet

June 30, 2018

(In Thousands)

	Hospitals	Other Entities	Eliminations	Total Obligated Group	Nonobligated Group Entities	Eliminations	Total
<b>Assets</b>							
<b>Current Assets</b>							
Cash and cash equivalents	\$ 94,870	\$ 6,603	\$ -	\$ 101,473	\$ 5,427	\$ -	\$ 106,900
Short-term investments	130,361	-	-	130,361	-	-	130,361
Accounts receivable - Net	133,854	14,397	-	148,251	4,933	-	153,184
Due from affiliates	9	1,573	(1,528)	54	51	(105)	-
Third-party settlements	12,451	-	-	12,451	-	-	12,451
Inventory	25,600	1,292	-	26,892	3,482	-	30,374
Other current assets	4,929	8,727	-	13,656	145	-	13,801
Total current assets	402,074	32,592	(1,528)	433,138	14,038	(105)	447,071
<b>Investments</b>	359,836	66,506	(21,241)	405,101	-	-	405,101
<b>Property and Equipment - Net</b>	407,280	36,350	-	443,630	2,634	-	446,264
<b>Other Assets</b>	44,887	23,198	(10,000)	58,085	957	(3,299)	55,743
Total assets	<u>\$ 1,214,077</u>	<u>\$ 158,646</u>	<u>\$ (32,769)</u>	<u>\$ 1,339,954</u>	<u>\$ 17,629</u>	<u>\$ (3,404)</u>	<u>\$ 1,354,179</u>



## Munson Healthcare and Subsidiaries

### Consolidating Balance Sheet (Continued)

June 30, 2018

(In Thousands)

	Hospitals	Other Entities	Eliminations	Total Obligated Group	Nonobligated Group Entities	Eliminations	Total
<b>Liabilities and Net Assets</b>							
<b>Current Liabilities</b>							
Trade accounts payable	\$ 39,562	\$ 6,326	\$ -	\$ 45,888	\$ 3,650	\$ -	\$ 49,538
Current maturities of long-term debt	4,760	-	-	4,760	-	-	4,760
Third-party settlements and reserves	26,751	-	-	26,751	78	-	26,829
Due to affiliates	1,547	38	(1,528)	57	48	(105)	-
Accrued compensation and other liabilities	56,521	13,498	-	70,019	733	-	70,752
Total current liabilities	129,141	19,862	(1,528)	147,475	4,509	(105)	151,879
<b>Long-term Debt - Less current maturities</b>	207,155	10,000	(10,000)	207,155	-	-	207,155
<b>Accrued Defined Benefit Pension Cost</b>	76,582	-	-	76,582	-	-	76,582
<b>Other Liabilities</b>	8,167	17,474	-	25,641	-	-	25,641
Total liabilities	421,045	47,336	(11,528)	456,853	4,509	(105)	461,257
<b>Net Assets</b>							
Unrestricted	752,411	73,481	-	825,892	13,120	(3,299)	835,713
Temporarily restricted	40,621	34,685	(21,241)	54,065	-	-	54,065
Permanently restricted	-	3,144	-	3,144	-	-	3,144
Total net assets	793,032	111,310	(21,241)	883,101	13,120	(3,299)	892,922
Total liabilities and net assets	<u>\$ 1,214,077</u>	<u>\$ 158,646</u>	<u>\$ (32,769)</u>	<u>\$ 1,339,954</u>	<u>\$ 17,629</u>	<u>\$ (3,404)</u>	<u>\$ 1,354,179</u>

## Munson Healthcare and Subsidiaries

# Consolidating Statement of Operations and Changes in Net Assets

Year Ended June 30, 2018

(In Thousands)

	Hospitals	Other Entities	Eliminations	Total Obligated Group	Nonobligated Group Entities	Eliminations	Total
<b>Unrestricted Revenue</b>							
Patient service revenue - Net of contractuals and discounts	\$ 950,173	\$ 41,757	\$ -	\$ 991,930	\$ 26,776	\$ -	\$ 1,018,706
Less provision for uncollectible accounts	(26,285)	(1,051)	-	(27,336)	(260)	-	(27,596)
Net patient service revenue	923,888	40,706	-	964,594	26,516	-	991,110
Other operating revenue	41,840	5,081	(198)	46,723	2,977	(1,634)	48,066
Total unrestricted revenue	965,728	45,787	(198)	1,011,317	29,493	(1,634)	1,039,176
<b>Operating Expenses</b>							
Salaries and wages	359,869	60,139	-	420,008	8,463	-	428,471
Fringe benefits	89,957	11,221	-	101,178	2,223	-	103,401
Contract labor	15,569	24	(9)	15,584	494	(1,069)	15,009
Physician fees	55,113	85	-	55,198	61	(61)	55,198
Purchased services	108,046	10,114	(71,248)	46,912	2,066	(6,108)	42,870
Supplies	212,143	6,069	-	218,212	18,436	-	236,648
Occupancy	15,559	3,001	(175)	18,385	890	(1,476)	17,799
Equipment, software, and maintenance	17,404	15,312	-	32,716	343	-	33,059
Depreciation and amortization	35,108	10,559	-	45,667	572	-	46,239
Interest	7,589	-	-	7,589	-	-	7,589
Insurance	4,423	(375)	-	4,048	41	-	4,089
Other	7,268	2,745	-	10,013	573	-	10,586
Less shared services revenue	(3,930)	(74,904)	71,234	(7,600)	(6,170)	7,080	(6,690)
Total operating expenses	924,118	43,990	(198)	967,910	27,992	(1,634)	994,268
<b>Operating Income</b>	41,610	1,797	-	43,407	1,501	-	44,908
<b>Other Gain (Loss) - Net</b>							
Inherent contribution from acquisition	44,577	-	-	44,577	-	-	44,577
Other gain - Net	19,969	957	-	20,926	11	(550)	20,387
Change in interest swap agreements	1,219	-	-	1,219	-	-	1,219
Other components of net periodic pension cost	-	(1,221)	-	(1,221)	-	-	(1,221)
Total other gain (loss) - Net	65,765	(264)	-	65,501	11	(550)	64,962
<b>Consolidated Excess of Revenue Over Expenses</b>	<b>\$ 107,375</b>	<b>\$ 1,533</b>	<b>\$ -</b>	<b>\$ 108,908</b>	<b>\$ 1,512</b>	<b>\$ (550)</b>	<b>\$ 109,870</b>

## Munson Healthcare and Subsidiaries

### Consolidating Statement of Operations and Changes in Net Assets (Continued)

Year Ended June 30, 2018

(In Thousands)

	Hospitals	Other Entities	Eliminations	Total Obligated Group	Nonobligated Group Entities	Eliminations	Total
<b>Unrestricted Net Assets</b>							
Excess of revenue over expenses	\$ 107,375	\$ 1,533	\$ -	\$ 108,908	\$ 1,512	\$ (550)	\$ 109,870
Distributions	-	-	-	-	(1,000)	974	(26)
Other adjustments	(14,518)	7,473	7,728	683	(700)	(1,012)	(1,029)
Pension and other postretirement benefit-related changes other than net periodic pension costs	24,255	-	-	24,255	-	-	24,255
Net assets released from restriction	6,807	7,728	(7,728)	6,807	-	-	6,807
Increase (decrease) in unrestricted net assets	123,919	16,734	-	140,653	(188)	(588)	139,877
<b>Temporarily Restricted Net Assets</b>							
Contributions	1,159	5,822	-	6,981	-	-	6,981
Investment income	186	1,682	-	1,868	-	-	1,868
Inherent contribution from acquisition	1,952	-	-	1,952	-	-	1,952
Change in interest of net assets held by others	5,494	-	(4,494)	1,000	-	-	1,000
Pledge discounts, allowances, and other adjustments	38	188	-	226	-	-	226
Net assets released from restriction	(7,367)	(7,758)	5,882	(9,243)	-	-	(9,243)
Increase (decrease) in temporarily restricted net assets	1,462	(66)	1,388	2,784	-	-	2,784
<b>Permanently Restricted Net Assets</b>							
Investment income	-	17	-	17	-	-	17
Other adjustments	-	(43)	-	(43)	-	-	(43)
Decrease in permanently restricted net assets	-	(26)	-	(26)	-	-	(26)
<b>Increase (Decrease) in Net Assets</b>	125,381	16,642	1,388	143,411	(188)	(588)	142,635
<b>Net Assets - Beginning of year</b>	667,651	94,668	(22,629)	739,690	13,308	(2,711)	750,287
<b>Net Assets - End of year</b>	<u>\$ 793,032</u>	<u>\$ 111,310</u>	<u>\$ (21,241)</u>	<u>\$ 883,101</u>	<u>\$ 13,120</u>	<u>\$ (3,299)</u>	<u>\$ 892,922</u>

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## Appendix C

Summary of Certain Provisions of the Master Indenture,  
the Supplemental Indentures, the Loan Agreements  
and the Bond Indentures and Definitions of Certain  
Terms used therein and in the Official Statement

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## SUMMARY OF PRINCIPAL DOCUMENTS

The following are summaries of certain provisions of the Master Indenture, the Supplemental Indentures, the Loan Agreements and the Bond Indentures. These summaries do not purport to be complete or definitive and are qualified in their entirety by reference to the full terms of such documents. Unless specifically noted otherwise, all references in this Appendix to the Bond Indentures, the Notes, the Supplemental Indentures, and the Loan Agreements, refer to the respective documents executed in connection with or relating to the Bonds.

## DEFINITIONS

The following are summaries of definitions of certain terms used in this Official Statement, including this APPENDIX C. All capitalized terms not so defined have the meanings given in the Master Indenture or the Bond Indenture.

“Act” means Hospital Finance Authority Act, Act 38, Public Acts of Michigan, 1969, as now or hereafter amended.

“Additional Indebtedness” means any Indebtedness (including all Indebtedness evidenced by Obligations issued under the Master Indenture) incurred by any Member of the Obligated Group, subsequent to it becoming a Member of the Obligated Group.

“Adjusted Annual Operating Revenues” means the aggregate of operating revenues of all Members of the Obligated Group for the Most Recent Fiscal Year, less contractual allowances, free care and allowances for bad debts, determined in accordance with generally accepted accounting principles and in such a manner that no portion of operating revenues, contractual allowances, free care or allowances for bad debts is included more than once.

“Authority” means the County of Grand Traverse Hospital Finance Authority and its successors.

“Balloon Indebtedness” means (i) an issue of Long-Term Indebtedness, 25% or more of which has its due date (not including any potential due date by reason of the optional right of the holder to demand payment prior to the stated maturity) in the same 12-month period, or (ii) any portion of an issue of Long-Term Indebtedness which, if treated as a separate issue of Indebtedness, would meet the test set forth in clause (i) of this definition and which is so designated in an Officer’s Certificate stating that such portion shall be deemed to constitute a separate issue of Balloon Indebtedness.

“Beneficial Owner” means, with respect to Bonds registered in book-entry form, the owner of a beneficial interest in such Bonds.

“Bond” or “Bonds” means the (i) Series 2019A Bonds and (ii) Series 2019B Bonds.

“Bond Fund (2019A)” means the fund established pursuant to Bond Indenture (2019A) entitled “County of Grand Traverse Hospital Finance Authority (Munson Healthcare Obligated Group), Series 2019A Bond Fund.”

“Bond Fund (2019B)” means the fund established pursuant to Bond Indenture (2019B) entitled “County of Grand Traverse Hospital Finance Authority (Munson Healthcare Obligated Group), Series 2019B Bond Fund.”

“Bond Funds” means, collectively, Bond Fund (2019A) and Bond Fund (2019B).

“Bond Indenture (2019A)” means the Bond Indenture dated as of January 1, 2019 between the Authority and the Bond Trustee for the Series 2019A Bonds.

“Bond Indenture (2019B)” means the Bond Indenture dated as of January 1, 2019 between the Authority and the Bond Trustee for the Series 2019B Bonds.

“Bond Indentures” means, collectively, and “Bond Indenture” means individually, the Bond Indenture (2019A) and Bond Indenture (2019B).

“Bond Proceeds Fund (2019A)” means the fund established with the Bond Trustee pursuant to Bond Indenture (2019A) entitled “County of Grand Traverse Hospital Finance Authority (Munson Healthcare Obligated Group), Series 2019A Bond Proceeds Fund.”

“Bond Proceeds Fund (2019B)” means the fund established with the Bond Trustee pursuant to Bond Indenture (2019B) entitled “County of Grand Traverse Hospital Finance Authority (Munson Healthcare Obligated Group), Series 2019B Bond Proceeds Fund.”

“Bond Proceeds Funds” means, collectively, Bond Proceeds Fund (Series 2019A) and Bond Proceeds Fund (Series 2019B).

“Bond Trustee” means The Bank of New York Mellon Trust Company, N.A., or any successor trustee appointed in accordance with the Bond Indenture.

“Book Value” means, when used in connection with Property of any Member of the Obligated Group, the cost of such Property, net of accumulated depreciation, calculated in conformity with generally accepted accounting principles, and when used in connection with Property of the Obligated Group, means the aggregate of the values so determined with respect to such Property of all Members of the Obligated Group determined in such a manner that no portion of such value of Property of any Member is included more than once.

“Business Day” means any day other than (i) a Saturday, (ii) a Sunday, (iii) a day on which banking institutions in the city in which the designated corporate trust office of the Trustee (or its bond registrar or paying agent offices) is located is required or authorized by law or executive order to be closed, (iv) a day on which the New York Stock Exchange is closed or (v) a day on which the payment system of the Federal Reserve System is not operational.

“Capitalization Ratio” means, as of any date of calculation, the ratio determined by dividing the principal amount of Long Term Indebtedness (less current portion) by the sum obtained by adding the principal amount of Long-Term Indebtedness (less current portion) and the amount of Unrestricted Fund Balance. In the case of Long Term Indebtedness issued or incurred at a discount, such Long Term Indebtedness shall be valued at the accredited value thereof.

“Capitalized Lease” means a lease required to be capitalized under generally accepted accounting principles.

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



“Completion Indebtedness” means any Long-Term Indebtedness incurred by any Member of the Obligated Group for the purpose of financing the completion of acquiring, constructing or equipping facilities for which Long-Term Indebtedness has theretofore been incurred, to the extent necessary to provide a completed and equipped facility of the type and scope contemplated at the time such Long-Term Indebtedness was originally incurred; provided, however, that there is delivered to the Master Trustee (a) a certificate of an independent architect not unacceptable to the Master Trustee to the effect that additional funds are necessary for the completion of the project for which the Long-Term Indebtedness was originally incurred and (b) an Officer’s Certificate stating that at the time the Long-Term Indebtedness was originally incurred it was projected to be sufficient, together with other funds available or projected to be available therefor, to complete the project for which such Long-Term Indebtedness was incurred without the need for incurring additional Indebtedness.

“Consultant” as used in the Master Indenture, means a Person which is a nationally recognized professional management or financial feasibility consultant, selected by the Obligated Group Agent, not unacceptable to the Master Trustee and having the skill and experience necessary to render the particular report required by the provision of the Master Indenture in which such requirement appears and which is neither an employee nor an officer of any Member of the Obligated Group.

“Current Value” means, when used in connection with Property of any Member of the Obligated Group, the price at which such Property would be bought and sold on the date of determination in an arm’s length transaction between a willing buyer and a willing seller as set forth in an Officer’s Certificate and in no event less than the proceeds received upon the disposition of such Property. When used in connection with Property of the Obligated Group, “Current Value” means the aggregate of values so determined with respect to such Property of all Members of the Obligated Group determined in a manner such that no portion of the value of Property of any Member is included more than once.

“Discount Indebtedness” means Indebtedness which is originally sold by the issuer at a price (excluding accrued interest, but without deduction of any underwriters’ discount) of less than 75% of the maturity amount including the amount of principal and interest to accrete at maturity of such Indebtedness.

“Event of Default” means any one of those events described in “THE MASTER INDENTURE -- Defaults and Remedies -- Events of Default.”

“Favorable Opinion of Bond Counsel” means an opinion of Bond Counsel to the effect that the proposed action is not prohibited by the Act or the applicable Bond Indenture and will not, in and of itself, have an adverse effect on the exclusion of interest on the Bonds from gross income for federal income tax purposes.

“Fee Payments” means fees or similar charges not constituting interest nor part of the specified principal amount of any Obligation, but which are nevertheless payable pursuant to an Obligation or contracts pursuant to which an Obligation is issued.

“Fiscal Year” means the fiscal year of the Obligated Group Agent.

“Fitch” means Fitch, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation shall for any reason no longer perform the functions of a securities rating agency, “Fitch” shall be deemed to refer to any other nationally recognized rating agency designated by the Obligated Group Agent by notice to the Authority and the Bond Trustee.

“Force Majeure” as used in the Master Indenture, the Supplemental Indentures and the Loan Agreements includes the following: acts of God, strikes, lockouts or other employee disturbances, acts of public enemies, validly issued orders of any kind of the government of the United States of America, the state or states in which a Member of the Obligated Group is doing business, or any of their departments, agencies, political subdivisions or officials, or any civil or military authority, imposed due to factors not within the control of such Member, and having a material effect on its ability to carry out its agreements under the Master Indenture, Supplemental Indentures or Loan Agreements, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, hurricanes, storms, floods, washouts, droughts, civil disturbances, explosions, breakage or accident to machinery, transmission pipes or canals, partial or entire failure of utilities; or similar acts or events, other than financial inability, not within the control of such Member.

“Governing Body” means, when used with respect to any Member of the Obligated Group, its board of directors, board of trustees, or other board or group of individuals in which the powers usual to a board of directors or a board of trustees are vested, and when used with respect to the authorization of particular action by or on behalf of any Member of the Obligated Group, means any executive or other committee established by the Governing Body thereof and having authority to exercise the powers of the Governing Body with respect to the authorization of such action.

“Government Obligations” means, when used with respect to the Bond Indenture, noncallable direct general obligations of the United States of America or obligations the payment of principal of and interest on which is unconditionally guaranteed by the United States of America.

“Government Obligations” means, when used with respect to the Master Indenture, (i) direct obligations of the United States of America (including obligations issued or held in book-entry form); (ii) obligations the timely payment of the principal of and interest on which are fully guaranteed by the United States of America; (iii) certificates which evidence ownership of the right to the payment of the principal of and interest on obligations described in clauses (i) and (ii) provided that such obligations are held in the custody of a bank or trust company not unacceptable to the Master Trustee in a special account separate from the general assets of such custodian; and (iv) obligations the timely payment of the principal and interest on which is fully provided for by the deposit in trust or escrow of cash or obligations described in clauses (i), (ii), or (iii) and (v) obligations which are rated by both Moody’s Investors Service and Standard & Poor’s Corporation in their highest rating category.

“Governmental Issuer” means any federal, state or municipal corporation or political subdivision thereof or any instrumentality of any of the foregoing empowered to issue obligations on behalf thereof.

“Guaranty” or “Guaranties” means all obligations of any Member of the Obligated Group guaranteeing in any manner whether directly or indirectly any obligation of any other Person which would, if such other Person were a Member of the Obligated Group, constitute Indebtedness under the Master Indenture.

“Historical Debt Service Coverage Ratio” means, for any period of time, the ratio determined by dividing Total Net Revenue for that period by the Total Principal and Interest Requirements for such period.

“Holder” or “Obligation Holder” means the registered owner of any Obligation in registered form or the bearer of any Obligation in bearer form which is not registered or is registered to bearer.

“Hospital (2019A)” means Munson Healthcare Manistee Hospital, a Michigan nonprofit corporation, and its successors and assigns.

“Hospital (2019B)” means Munson Healthcare Otsego Memorial Hospital, a Michigan nonprofit corporation, and its successors and assigns.

“Hospital” or “Hospitals” means, collectively, Hospital (2019A) and Hospital (2019B).

“Indebtedness” means all obligations for money borrowed and obligations for the payment of money in respect of Purchase Money Contracts or Capitalized Leases (but not including trade accounts payable and accrued expenses incurred in the ordinary course of business), and any other obligation for payment of principal and interest with respect to money borrowed, including Guaranties of obligations which, were such to be an obligation of a Member of the Obligated Group, would be Indebtedness of such Member (other than any Guaranty by any Member of the Obligated Group of the Indebtedness of any other Member of the Obligated Group), incurred or assumed by any Member of the Obligated Group, except obligations of a Member of the Obligated Group to another Member of the Obligated Group; provided, however, if more than one Member of the Obligated Group shall have incurred or assumed a Guaranty of a Person other than a Member of the Obligated Group, for purposes of any computations or calculations under the Master Indenture, such Guaranty shall be included only one time.

“Interest Rate Agreement” means an interest rate exchange, hedge or similar agreement, 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) and which agreement does not constitute an obligation to repay money borrowed, credit extended or the equivalent thereof.

“Interim Indebtedness” means Indebtedness having a term of less than five years incurred in anticipation of permanent financing as established in an Officer’s Certificate.

“Irrevocable Deposit” means the irrevocable deposit in trust or in escrow of cash in an amount (or Government Obligations the principal of and interest on which will be in an amount) and under terms sufficient, without reinvestment, to pay all or a portion of the principal of and interest on, as the same shall become due, any Indebtedness which would otherwise be considered Outstanding. The trustee of such deposit may be the Master Trustee, a Related Bond Trustee, or any other Person authorized to act in such capacity.

“Lien” means any mortgage or pledge of, security interest in or lien or encumbrance on any Property of any Member of the Obligated Group, excluding liens applicable to Property in which a Member of the Obligated Group has only a leasehold interest unless the lien secures Indebtedness of any Member of the Obligated Group.

“Loan (2019A)” means the loan to be made by the Authority to Hospital (2019A) pursuant to Loan Agreement (2019A).

“Loan (2019B)” means the loan to be made by the Authority to Hospital (2019B) pursuant to Loan Agreement (2019B).

“Loan” or “Loans” means, collectively, Loan (2019A) and Loan (2019B).

“Loan Agreement (2019A)” means the loan agreement with respect to the Series 2019A Bonds dated as of January 1, 2019 between the Authority and Munson Healthcare for itself and as Obligated Group Agent on behalf of the other Members of the Obligated Group.

“Loan Agreement (2019B)” means the loan agreement with respect to the Series 2019B Bonds dated as of January 1, 2019 between the Authority and Munson Healthcare for itself and as Obligated Group Agent on behalf of the other Members of the Obligated Group.

“Loan Agreements” means, collectively, Loan Agreement (2019A) and Loan Agreement (2019B).

“Loan Repayments” means the payments of principal, premium, if any, and interest due on the Bonds as specified in the Loan Agreements and payable by the Obligated Group in repayment of the Loans.

“Long-Term Indebtedness” means any Indebtedness that is not Non-Recourse Indebtedness, Short-Term Indebtedness or Subordinated Indebtedness.

“Master Indenture” means the Master Indenture dated as of August 1, 1992, among Munson Healthcare, Munson Medical Center, North Flight, Inc., Munson Mobile Imaging and Munson Home Services, each a Michigan nonprofit corporation, individually and on behalf of future Members of the Obligated Group and the Master Trustee, including any supplements or amendments thereto.

“Master Trustee” means The Bank of New York Mellon Trust Company, N.A. (successor to NBD Bank, N.A.), a national banking association, as trustee under the Master Indenture, and its successors as trustee thereunder.

“Maximum Total Principal and Interest Requirements” means, as of any time, the highest Total Principal and Interest Requirements for the then current or any succeeding Fiscal Year with respect to Outstanding Long-Term Indebtedness or, if utilized in determining the Projected Debt Service Coverage Ratio, expected to be Outstanding in such Fiscal Year.

“Member of the Obligated Group” or “Member” means Munson Healthcare, Munson Medical Center, Paul Oliver Memorial Hospital, Munson Healthcare Cadillac, Munson Healthcare Grayling, Munson Healthcare Otsego Memorial Hospital, Munson Healthcare Manistee Hospital, Munson Healthcare Charlevoix Hospital, Munson Home Health, Munson Home Care, Munson Home Services, North Flight, Inc., Munson Healthcare Foundations and Munson Healthcare Otsego Memorial Hospital Foundation, and any Person which has become a Member of the Obligated Group, in accordance with the provisions of the Master Indenture and has not withdrawn from the Obligated Group pursuant to the Master Indenture.

“Moody’s” means Moody’s Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation shall for any reason no longer perform the functions of a securities rating agency, “Moody’s” shall be deemed to refer to any other nationally recognized rating agency designated by the Obligated Group Agent by notice to the Authority, and the Bond Trustee.

“Most Recent Fiscal Year” as of any date means, with respect to each Member of the Obligated Group, the most recently ended fiscal year for which audited financial statements of such Member are available for inclusion in the combined or consolidated statements of the Obligated Group; and with respect to a Person not a Member of the Obligated Group (whether or not for purposes of any calculation such Person will be treated as being a Member), the most recently ended fiscal year of such Person for which audited financial statements are available, or if no such audited financial statements are available

for a fiscal year ended within 18 months of such date, the most recently ended fiscal year of such Person for which unaudited financial statements are available.

“Net Revenue” means, with respect to each Member of the Obligated Group, as to any period of time, the excess of revenue (including non-operating revenue but excluding restricted income from Irrevocable Deposits) over expenses, plus depreciation, amortization, interest expense (including the interest component of Capitalized Lease rentals) and other non-cash expenses, as determined in accordance with generally accepted accounting principles, provided, that no determination thereof shall take into account any revenue or expense of a Person which is not a Member of the Obligated Group, extraordinary items, the cumulative effect of a change in accounting principles or any gain or loss resulting from either the extinguishment of indebtedness or the sale, exchange or other disposition of capital assets not made in the ordinary course of business or any unrealized gain or loss.

“Non-Recourse Indebtedness” means any Indebtedness secured by a Lien, liability for which is not a general obligation of a Member but which is effectively limited to the Property subjected to such Lien, with no recourse, directly or indirectly, to any other Property.

“Note No. 29” means the note payable to the Authority issued under the Master Indenture, Loan Agreement (2019A) and Supplemental Indenture Number 29.

“Note No. 30” means the note payable to the Authority issued under the Master Indenture, Loan Agreement (2019B) and Supplemental Indenture Number 30.

“Notes” refers collectively to Note No. 29 and Note No. 30.

“Obligated Group” means, collectively, all Members of the Obligated Group.

“Obligated Group Agent” means Munson Healthcare, or such other Member as the then incumbent Obligated Group Agent shall designate as a successor by an Officer’s Certificate delivered to the Master Trustee.

“Obligation” means (i) a bond, debenture, note or other instrument, including coupons appertaining thereto, if any, evidencing or securing the repayment of Indebtedness and (ii) a Guaranty, provided such instrument or Guaranty has been issued, executed and authenticated by the Master Trustee as provided in the Master Indenture.

“Officer’s Certificate” means a certificate, a certified copy of which shall be sent to the Master Trustee, signed by the president or a vice president of the Obligated Group Agent, or such other person designated in writing by such president or by resolution of the Governing Body of the Obligated Group Agent as the case may be.

“Opinion of Bond Counsel” means an opinion in writing signed by an attorney or firm of attorneys not unacceptable to the Master Trustee or the Bond Trustee, as the case may be, and experienced in the field of municipal bonds whose opinions are generally accepted by purchasers of municipal bonds.

“Opinion of Counsel” means an opinion in writing signed by an attorney or firm of attorneys, not unacceptable to the Master Trustee, who may be counsel for any Member of the Obligated Group.

“Optional Tender Indebtedness” means any portion of indebtedness, a feature of which is an option on the part of the holders of such indebtedness to tender all or a part of such indebtedness to a Member of the Obligated Group, or a trustee or other fiduciary for such holders, or other party whom a Member of the Obligated Group is obligated to reimburse for payment prior to its stated due date.

“Outstanding” means, for purposes of the Master Indenture, when referring to Obligations or to Indebtedness which comprises Obligations, as of any date of determination, all Obligations theretofore authenticated and delivered under the Master Indenture except:

- (1) Obligations theretofore canceled by the Master Trustee or delivered to the Master Trustee for cancellation;
- (2) Obligations which have been paid, or Obligations for which payment has been provided in accordance with the Master Indenture; and
- (3) Obligations and any coupons appurtenant thereto in lieu of which other Obligations have been authenticated and delivered pursuant to the provisions of any Related Supplement regarding mutilated, destroyed, lost or stolen Obligations, unless proof satisfactory to the Master Trustee has been received that any such Obligation is held by a bona fide purchaser, or which have been paid pursuant to the provisions of such Related Supplement;

or when referring to Indebtedness other than Obligations means, as of any date of determination, all Indebtedness which has been incurred except:

- (1) Indebtedness which has been paid;
- (2) Indebtedness for which an Opinion of Counsel is delivered to the Master Trustee stating that upon the occurrence of such proposed Long-Term Indebtedness and application of the proceeds thereof with any other funds to be provided therefor, the Outstanding Long-Term Indebtedness to be refunded thereby will have been paid or provision will have been made for the payment of Long-Term Indebtedness to be refunded so that the Long-Term Indebtedness to be refunded will no longer be outstanding under the instruments pursuant to which it was incurred and the lenders of the Long-Term Indebtedness to be refunded will not have a claim against a Member of the Obligated Group for all or part of the Long-Term Indebtedness to be refunded, and the transaction to which such opinion relates has been consummated; and
- (3) any evidence of Indebtedness held by any Member of the Obligated Group;

provided that, Obligations or evidences of Indebtedness held by any Member of the Obligated Group may be deemed by the Obligated Group Agent to be continuously Outstanding Obligations of Indebtedness, as the case may be, if such Obligations or evidences of Indebtedness were acquired with an intent that they only be held temporarily in connection with an effort to remarket them to Persons other than Members of the Obligated Group.

“Outstanding” means, for purposes of the Bond Indenture, all Bonds which have been authenticated and delivered under the Bond Indenture, except:

- (1) Bonds canceled by the Bond Trustee or delivered to the Bond Trustee for cancellation;

- (2) Bonds in substitution for which other Bonds have been authenticated and delivered pursuant to the Bond Indenture;
- (3) Bonds paid or deemed paid pursuant to the Bond Indenture; and
- (4) Undelivered Bonds;

provided, however, that for the purpose of determining whether there has been notice to or action by the holders of the requisite principal amount of Bonds, Bonds owned by the Obligated Group shall be disregarded and not deemed to be Outstanding.

“Permitted Investments” means such of the following as shall mature, or shall be subject to redemption by the holder thereof at the option of such holder, not later than the respective dates when the moneys will be required for the purposes intended: (i) Government Obligations or obligations of State, if the State has ratings from Moody’s and S&P equal to or higher than the rating of “A,” (ii) certificates of deposit issued by any bank or trust company (including the Bond Trustee and its affiliates) which is insured by the Federal Deposit Insurance Corporation, and which, so long as required by the Act, is a member of the Federal Reserve System, and in which the excess of the principal amount of such certificates of deposit over the amount guaranteed by the Federal Deposit Insurance Corporation shall be continuously secured for the benefit of the Authority and the holders of the Outstanding Bonds by Government Obligations, provided that: (a) the obligations which secure such excess shall be held in the possession of the Bond Trustee or a third party acting solely as agent for the Bond Trustee; (b) the Bond Trustee (or third party acting solely as agent for the Bond Trustee) must have a perfected security interest in such obligations; and (c) such obligations must be free and clear of all claims, liens or encumbrances in favor of any party other than the Bond Trustee (or third party acting solely as agent for the Bond Trustee), (iii) certificates of deposit issued by any bank or trust company (including the Bond Trustee and its affiliates) whose long term debt has ratings from Moody’s and S&P, equal to or higher than the rating of “A,” and which, so long as required by the Act, is a member of the Federal Reserve System, (iv) to the extent hereafter authorized by law as legal investments of Authority funds, bonds, debentures or notes issued by any of the following federal agencies: Federal National Mortgage Association, Federal Home Loan Banks, the Federal Financing Bank, Federal Home Loan Mortgage Corporation, Governmental National Mortgage Association, Federal Housing Administration, and Farmers Home Administration and all other obligations issued or in the opinion of the Attorney General of the United States unconditionally guaranteed as to principal and interest by any agency or person controlled or supervised by and acting as an instrumentality of the United States of America pursuant to authority granted by the Congress; and (v) any other investment permitted by the Act. The Bond Trustee shall have no responsibility to monitor the ratings of Permitted Investments after the initial purchase thereof.

“Permitted Liens” means:

- (1) Any judgment lien or notice of pending action so long as such judgment or pending action is being contested and execution thereon is stayed or while the period for responsive pleadings has not lapsed;
- (2) (A) Rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any Property, to (1) terminate such right, power, franchise, grant, license or permit, provided that, except as otherwise permitted under the Master Indenture, any such termination is contested by the Member whose property is affected and has been stayed pending the outcome of such contest, or (2) purchase, condemn, appropriate or recapture, or designate

a purchaser of, such Property; (B) any liens on any Property for taxes, assessments, levies, fees, water and sewer charges, and other governmental and similar charges and any construction liens or vendors' liens for work or services performed or materials furnished in connection with such Property, which are not due and payable or which are not delinquent, or the amount or validity of which is being contested and execution thereon is stayed or, with respect to construction liens, have been due for less than 60 days; (C) easements, rights-of-way, servitudes, restrictions and other minor defects, encumbrances and irregularities in the title to any Property or the use of such Property in any manner, which rights do not materially impair the use of such Property or materially and adversely affect the value thereof; and (D) to the extent that it affects title to any Property, the Master Indenture;

- (3) Any operating lease;
- (4) Statutory rights of the United States of America by reason of federal funds made available under 42 U.S.C. Section 291 *et seq.* and similar rights under other federal and state statutes;
- (5) Liens on Property received by any Member through gifts, grants or bequests, such Liens being due to restrictions on such gifts, grants or bequests of Property or the income thereon;
- (6) Any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable any Member of the Obligated Group to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with workers' compensation, unemployment insurance, pension or profit-sharing plans or other similar arrangements, or to share in the privileges or benefits required for companies participating in such arrangements;
- (7) Any Lien in favor of the Master Trustee securing all Obligations on a parity basis;
- (8) Any Lien specifically described in the Master Indenture which is existing on the date of authentication and delivery of the first Obligation issued thereunder; provided, however, that no such Lien (or the amount of Indebtedness secured thereby) may be increased, extended, renewed or modified unless such Lien as so increased, extended, renewed or modified otherwise qualifies as a Permitted Lien under the Master Indenture;
- (9) Any Lien existing on Property prior to the time of its acquisition through purchase, merger, consolidation or otherwise; provided, however, that the aggregate principal amounts secured by any such Lien shall not exceed at the time of such acquisition the lesser of the Book Value or the Current Value of such Property; provided further that no such Lien (or the amount of Indebtedness secured thereby) may be increased, extended, renewed or modified unless such Lien as so increased, extended, renewed or modified otherwise qualifies as a Permitted Lien under the Master Indenture;



- (10) Liens arising by reason of good faith deposits with any Member of the Obligated Group in connection with leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by any Member of the Obligated Group to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges;
- (11) Any Lien in favor of a trustee on the proceeds of Indebtedness prior to the application of such proceeds;
- (12) Liens on moneys deposited by patients or others with any Member as security for or as prepayment for the cost of patient care;
- (13) Any Lien due to rights of third-party payors for recoupment of amounts paid to any Member;
- (14) Rights of setoff and banker's lien with respect to funds on deposit in a financial institution in the ordinary course of business;
- (15) Any Lien on the property, plant and equipment of any Member of the Obligated Group securing Indebtedness of the Obligated Group, provided that at the time of incurrence of the Lien, after giving effect to the Indebtedness secured by such Lien, such Indebtedness does not exceed 20% of the Current Value of the property, plant and equipment of the Obligated Group as shown on the audited financial statements of the Obligated Group for the Most Recent Fiscal Year;
- (16) Any Lien arising by reason of an Irrevocable Deposit or Purchase Money Contracts;
- (17) Any Lien arising by reason of deposits to a debt service reserve fund securing any Related Bonds or a Special Redemption Fund in respect of any Indebtedness;
- (18) Any Lien on Property of a Person existing on the date on which such Person becomes a Member; provided, however, that no such Lien, or the amount of Indebtedness secured thereby, may be increased, extended, renewed or modified to apply to any Property or Indebtedness of any Member not subject to such Lien on such date, unless such Lien as so increased, extended, renewed or modified otherwise qualifies as a Permitted Lien under the Master Indenture;
- (19) Any Liens on certain Property specifically described in Exhibit B to the Master Indenture;
- (20) Any Liens securing Capitalized Leases permitted by the Master Indenture;
- (21) Any Liens on accounts receivable securing Short-Term Indebtedness permitted by the Master Indenture, including any such Lien arising from the sale of accounts receivable by a Member with recourse for any deficiency in the proceeds collected from such accounts, provided that the Member's liability for such deficiency is properly incurred as Short-Term Indebtedness under the Master Indenture; and
- (22) Any Lien on Property securing Subordinate Indebtedness, provided that a superior Lien on the same Property is granted to secure all Obligations.

(23) Any Lien on Property to secure an Interest Rate Agreement.

“Person” means an individual, association, unincorporated organization, a corporation, partnership, joint venture, or a government or an agency or a political subdivision thereof.

“Principal and Interest Requirements” means, for any period of time, the aggregate of the payments to be made in respect of principal and interest on Outstanding Long-Term Indebtedness of each Member of the Obligated Group during such period, taking into account (i) that any Indebtedness represented by a Guaranty, Balloon Indebtedness, Interim Indebtedness, Optional Tender Indebtedness or Discount Indebtedness shall be deemed payable on the dates and in the amounts contemplated in the Master Indenture and not necessarily on the due date or dates of such Indebtedness, (ii) with respect to Variable Rate Indebtedness, the amount of interest to be taken into account for each year in which such Indebtedness is outstanding and for which the actual interest rate cannot be determined shall be computed in accordance with the Master Indenture, and (iii) with respect to Indebtedness refunded or refinanced during such period, the amount of principal taken into account during such period shall be assumed to equal only the principal not paid or payable from the proceeds of the refunding or refinancing Indebtedness; provided, however, that in reference to Long-Term Indebtedness incurred to finance the construction of capital improvements, interest shall be excluded from the determination of Principal and Interest Requirements to the extent that escrowed or trustee funds derived from the proceeds of such Indebtedness are available to pay such interest; and provided further, that principal and interest shall be excluded from the determination of the Principal and Interest Requirements to the extent that escrowed or trustee funds are available to pay such principal and interest and until so paid are invested in Government Obligations; and provided further, payments made or received, or to be made or received, pursuant to an Interest Rate Agreement that is economically hedged by the Obligated Group against Indebtedness in any period, other than payments made in connection with the termination of such Interest Rate Agreement, shall be treated as an increase or decrease, as the case may be, of the amount of interest paid or to be paid on Indebtedness of a Person or a group of Persons during such period; provided, further, any payment made or received, or to be made or received, pursuant to an Interest Rate Agreement in any period in connection with the termination of such Interest Rate Agreement shall be treated as an increase or decrease, as the case may be, of the amount of interest paid or to be paid on Indebtedness of a Person or a group of Persons, allocated in equal installments beginning in the Fiscal Year in which such payment is made or to be made, over the number of years equal to the average weighted maturity of Indebtedness of a Person or a group of Persons at the time such payment is made or to be made.

“Pro Forma Statement” means separate, combined or consolidated, as appropriate, pro forma balance sheets, statements of income or of revenue and expenses and statements of changes in financial position for such period or periods together with a statement of the relevant assumptions upon which such pro forma statements are based.

“Project (2019A)” means the acquisition, construction, renovation, and equipping of hospital facilities located in Manistee, Michigan with the proceeds of the Series 2019A Bonds according to the project list provided by the Hospital (2019A).

“Project (2019B)” means the renovation, construction, expansion, and equipping of hospital facilities located in Gaylord, Michigan with the proceeds of the Series 2019B Bonds according to the project list provided by the Hospital (2019B).

“Projects” means, collectively, and “Project” means, individually, Project (2019A) and Project (2019B).

“Projected Debt Service Coverage Ratio” means, for any future period of time, the ratio determined by dividing projected Total Net Revenue by projected Maximum Total Principal and Interest Requirements.

“Property” means any and all rights, titles and interests in and to any and all property of any Member of the Obligated Group whether real or personal, tangible or intangible and wherever situated.

“Purchase Money Contracts” means purchase contracts and borrowings (which may include Obligations) secured by purchase money mortgages or purchase money security interests but excludes Capitalized Leases.

“Related Bonds” means the revenue bonds, notes, other evidences of indebtedness or any other obligations issued by a Governmental Issuer pursuant to a Related Bond Indenture, the proceeds of which are loaned or otherwise made available to or for the benefit of (i) a Member of the Obligated Group directly or indirectly in consideration, in whole or in part, of the execution, authentication and delivery of an Obligation or series of Obligations to or to the order of such Governmental Issuer, or (ii) any Person other than a Member of the Obligated Group in consideration of issuance to such Governmental Issuer (a) by such Person of any indebtedness or other obligation of such Person and (b) by a Member of the Obligated Group of a Guaranty issued under the Master Indenture in respect of such indebtedness or other obligation.

“Related Bond Indenture” means any indenture, bond resolution or other comparable instrument pursuant to which Related Bonds are issued.

“Related Bond Issuer” means the Governmental Issuer of any issue of Related Bonds.

“Related Bond Trustee” means the trustee and its successors in the trust under any Related Bond Indenture, and if there is no such trustee, the Related Bond Issuer.

“Related Supplement” means a Supplemental Indenture authorized and executed pursuant to the terms of the Master Indenture for the purpose of creating Obligations.

“S&P” means S&P Global Ratings, a Standard & Poor’s Financial Services LLC business, an entity organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation shall for any reason no longer perform the functions of a securities rating agency, “S&P” shall be deemed to refer to any other nationally recognized rating agency designated by the Obligated Group Agent by notice to the Authority, and the Bond Trustee.

“Security” means the security described in “THE BOND INDENTURE-- Pledge and Security.”

“Series 2019A Bonds” means the \$18,360,000 Revenue Bonds (Munson Healthcare Obligated Group), Series 2019A issued pursuant to the Bond Indenture (2019A).

“Series 2019B Bonds” means the \$14,520,000 Revenue Bonds (Munson Healthcare Obligated Group), Series 2019B issued pursuant to the Bond Indenture (2019B).

“Short-Term Indebtedness” means Indebtedness (other than Interim Indebtedness) having an original maturity less than or equal to one year and not renewable at the sole option of the debtor for a term greater than one year beyond the date of original issuance. “Short-Term Indebtedness” also shall include any liability incurred by a Member of the Obligated Group upon a sale of accounts receivable

with recourse as described in the Master Indenture. Original maturity shall be determined without regard to any optional right of the holder to demand payment prior to the stated maturity. “Short-Term Indebtedness” shall not include “Interim Indebtedness.”

“Special Redemption Fund” has the meaning ascribed to it herein under “THE MASTER INDENTURE -- Particular Covenants of Each Member of the Obligated Group -- Debt Service Calculation on Balloon Indebtedness, Optional Tender Indebtedness and Interim Indebtedness.”

“State” means the State of Michigan.

“Subordinate Indebtedness” means Long-Term Indebtedness which is subject to the following limitations for so long as any Obligations remain Outstanding: (a) the payments due from any Member under the terms of any such Subordinate Indebtedness shall not be subject to acceleration; (b) no Member shall make any payment due under the terms of any such Subordinate Indebtedness if, at the time of such payment, any sums then due (including sums due by reason of acceleration) under the terms of the Master Indenture or of any Long Term Indebtedness other than Subordinate Indebtedness remain unpaid; and (c) any such Subordinate Indebtedness shall be unsecured or secured solely as permitted under the Master Indenture and described herein under paragraph 22 of the definition of “Permitted Indebtedness” above.

“Supplement” means an indenture supplemental to the Master Indenture, including a Related Supplement and including Supplemental Indenture Number 29 and Supplemental Indenture Number 30, authorized and executed pursuant to the Master Indenture.

“Supplemental Indenture” or “Supplemental Indentures” means Supplemental Indenture Number 29 and Supplemental Indenture Number 30.

“Supplemental Indenture Number 29” means Supplemental Indenture Number 29 dated as of January 1, 2019, between the Obligated Group and the Master Trustee, pursuant to which Note No. 29 is to be issued.

“Supplemental Indenture Number 30” means Supplemental Indenture Number 30 dated as of January 1, 2019, between the Obligated Group and the Master Trustee, pursuant to which Note No. 30 is to be issued.

“Tax-Exempt Organization” means a Person organized under the laws of the United States of America or any state thereof which is an organization described in Section 501(c)(3) of the Code and exempt from federal income taxes under Section 501(a) of the Code, or corresponding provisions of federal income tax laws from time to time in effect.

“Total Net Revenue” means, as to any period, the aggregate of Net Revenue of all Members of the Obligated Group for such period or, if utilized in determining the Projected Debt Service Coverage Ratio, expected for such period, determined in such a manner that no portion of Net Revenue of any such Member is included more than once.

“Total Principal and Interest Requirements” means, as to any period, the aggregate of the Principal and Interest Requirements of all Members of the Obligated Group for such period, determined in such a manner that no portion of the Principal and Interest Requirements of any Member is included more than once.

“Unrestricted Fund Balance” means the unrestricted fund balance, capital and surplus, or other equivalent accounting classification representing net worth of an entity.

“Variable Rate Indebtedness” means any Indebtedness which provides for interest to be payable thereon at a rate per annum that may vary from time to time over the term of the Indebtedness in accordance with a Variable Rate Provision.

“Variable Rate Obligation” means any Obligation which provides for interest to be payable thereon at a rate per annum that may vary from time to time over the term of the Obligation in accordance with a Variable Rate Provision.

“Variable Rate Provision” means a formula or provision providing for the determination and periodic adjustment of the interest rate per annum borne by a Variable Rate Obligation or by a Variable Rate Indebtedness.

## **THE MASTER INDENTURE**

### **General**

Obligations issued under the Master Indenture are the joint and several obligation of all Members of the Obligated Group. See, however, “THE MASTER INDENTURE -- Withdrawal From the Obligated Group.”

The following are summaries of certain provisions of the Master Indenture. These summaries do not purport to be complete or definitive and are qualified in their entirety by reference to the full terms of the Master Indenture. Certain provisions of the Master Indenture are modified by the provisions of the Supplemental Indenture during such time as any Bonds are Outstanding. See “THE SUPPLEMENTAL INDENTURE AND THE NOTE” below.

### **Authorization, Issuance and Terms of Obligations**

Amount of Obligations. There is no limit on the aggregate principal amount of Obligations that may be issued under the Master Indenture, but no Obligations may be issued except as permitted by the Master Indenture, including provisions restricting the incurrence of Additional Indebtedness. See “THE MASTER INDENTURE -- Particular Covenants of Each Member of the Obligated Group -- Limitations on Incurrence of Additional Indebtedness.”

Security for Obligations. Note No. 29 will be the obligation of Hospital (2019A) and the other Members of the Obligated Group. Note No. 30 will be the obligation of Hospital (2019B) and the other Members of the Obligated Group. The Notes will be secured by a security interest in accounts and general intangibles of the Members of the Obligated Group and proceeds thereof, subject to certain exceptions. Obligations of any series may be entitled to the benefit of covenants and rights in addition to or separate and distinct from those which secure or benefit any other series of Obligations. A Related Supplement may grant such additional rights to the Holders of a particular series of Obligations as do not in any manner impair the rights of Holders of any other series of Outstanding Obligations. A Related Supplement also may provide, with respect to the Obligations of the series created by such Related Supplement, for events which will constitute “Events of Default” under the Master Indenture in addition to the events described herein under “THE MASTER INDENTURE -- Defaults and Remedies -- Events of Default.”

## **Membership in the Obligated Group**

The Master Indenture provides that a Person may become a Member of the Obligated Group upon the following conditions:

- (1) Such Person shall execute and deliver to the Master Trustee an appropriate instrument containing the agreement of such Person to become a Member of the Obligated Group under the Master Indenture and thereby to become jointly and severally obligated for the payment of all Obligations Outstanding under the Master Indenture and to comply with all provisions of the Master Indenture pertaining to a Member of the Obligated Group, including the performance and observance of all covenants and obligations of a Member of the Obligated Group under the Master Indenture;
- (2) The Master Trustee shall have received an Officer's Certificate to the effect that the Obligated Group Agent consents to such Person becoming a Member of the Obligated Group;
- (3) The Master Trustee shall have received an Opinion of Counsel to the effect that (i) the conditions contained in the Master Indenture relating to membership in the Obligated Group have been satisfied, (ii) under then existing law such Person becoming a Member of the Obligated Group will not subject any Outstanding Obligation to the registration provisions of the Securities Act of 1933, as amended, (or that such Obligation has been so registered if registration is required,) (iii) the Master Indenture is exempt from qualification as an indenture pursuant to the Trust Indenture Act of 1939, as amended, or has so qualified if not exempt, (iv) the Master Indenture and the instrument executed and delivered by such Person as described in subparagraph (1) are each valid and binding obligations of such Person, enforceable against such Person in accordance with their terms, provided that such opinion as to enforceability may be qualified to the extent that enforcement of the rights and remedies created by the Master Indenture or such instrument are subject to general principles of equity or to bankruptcy, insolvency, moratorium or other similar laws affecting the enforcement of creditors' rights in general; and provided further that such opinion may be qualified to the extent that the making of such instrument or any payment required to be made by such Person pursuant to the Master Indenture or such instrument, with respect to Obligations other than those for which such Person has been identified pursuant to the Master Indenture, might constitute a fraudulent conveyance under applicable bankruptcy and insolvency laws;
- (4) If there remains unpaid any Related Bond which bears interest that is not includable in gross income under the Code, the Master Trustee and the Authority shall have received an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee and the Authority, to the effect that under then existing law such Person becoming a Member of the Obligated Group will not cause the interest payable on such Related Bond to become includable in gross income under the Code; and
- (5) The Master Trustee shall have received an Officer's Certificate to the effect that, immediately after the addition of such Person to the Obligated Group, the Obligated Group will not be in default in the performance or observance of any financial covenant or condition to be performed or observed by it under the Master Indenture and the Obligated Group could meet the conditions set forth in the Master Indenture for the incurrence of one dollar of Additional Indebtedness permitted under certain sections of

the Master Indenture (described herein in subparagraphs (1)(i), (1)(ii), (1)(iii) and (1)(v) under “THE MASTER INDENTURE -- Particular Covenants of Each Member of the Obligated Group -- Limitations on the Incurrence of Additional Indebtedness”).

### **Withdrawal From the Obligated Group**

No Member of the Obligated Group may withdraw from the Obligated Group unless:

- (1) the Obligated Group Agent consents to such withdrawal;
- (2) such Member is not a party to an agreement with a Related Bond Issuer with respect to Related Bonds then outstanding and is not a Member for whose use proceeds of an issue of Outstanding Obligations were provided as set forth in a Related Supplement pursuant to the Master Indenture;
- (3) if there remains unpaid any Related Bond which bears interest that is not includable in gross income under the Code, the Master Trustee shall have received an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that, under then existing law, such Member’s withdrawal from the Obligated Group would not cause the interest payable on such Related Bond to become includable in gross income under the Code; and
- (4) the Master Trustee shall have received an Officer’s Certificate to the effect that, immediately after the withdrawal of such Person from the Obligated Group, the Obligated Group will not be in default in the performance or observance of any financial covenant or condition to be performed or observed by it under the Master Indenture and the Obligated Group could meet the conditions set forth in the Master Indenture for the incurrence of one dollar of Additional Indebtedness permitted under certain sections of the Master Indenture (described herein in subparagraphs (1)(i), (1)(ii), (1)(iii) and (1)(v) under “THE MASTER INDENTURE -- Particular Covenants of Each Member of the Obligated Group -- Limitations on the Incurrence of Additional Indebtedness”).

Upon compliance with such conditions, the Master Trustee shall execute any documents reasonably requested by the withdrawing Member to evidence the termination of such Member’s obligations under the Master Indenture and under any Supplemental Indenture.

### **Particular Covenants of Each Member of the Obligated Group**

Payment of Principal and Interest. Each Member of the Obligated Group jointly and severally covenants promptly to pay or cause to be paid the principal of, premium, if any, and interest on all Obligations at the place, on the dates and in the manner provided in the Master Indenture, in the Related Supplements and in the Obligations according to the terms thereof, whether at maturity, upon proceedings for redemption, by acceleration or otherwise.

Limitations on Creation of Liens. Each Member of the Obligated Group agrees that it will not create or suffer to be created or exist any Lien upon the Property other than Permitted Liens.

Limitations on Incurrence of Additional Indebtedness. Except for the first Obligation issued pursuant to the Master Indenture, each Member of the Obligated Group agrees that it will not incur any Additional Indebtedness other than Additional Indebtedness consisting of one or more of the following:

- (1) Long-Term Indebtedness, including Indebtedness evidenced by Obligations, if prior to incurrence of the Long-Term Indebtedness, there is delivered to the Master Trustee:
- (i) an Officer's Certificate accompanied by a Pro Forma Statement certifying that the ratio determined by dividing Total Net Revenue for the Most Recent Fiscal Year by Maximum Total Principal and Interest Requirements as of the proposed date of incurring the proposed Long-Term Indebtedness and including the proposed Long-Term Indebtedness is not less than 1.20; or
  - (ii) an Officer's Certificate accompanied by a Pro Forma Statement certifying that the Projected Debt Service Coverage Ratio, taking the proposed Long-Term Indebtedness into account, (1) in the case of Long-Term Indebtedness to finance capital improvements, for each of the two consecutive Fiscal Years after the date on which such capital improvements are expected to be in operation, or (2) in the case of Long-Term Indebtedness other than to finance capital improvements, for each of the two Fiscal Years succeeding the date on which the Indebtedness is incurred, is not less than 1.35; or
  - (iii) a report by an Accountant that (A) the Historical Debt Service Coverage Ratio for the Most Recent Fiscal Year, not including the proposed Additional Indebtedness, is not less than 1.10, and a report by a Consultant that (B) the Projected Debt Service Coverage Ratio, taking the proposed Long-Term Indebtedness into account, (1) in the case of Long-Term Indebtedness to finance capital improvements, for each of the two consecutive Fiscal Years after the date on which such capital improvements are expected to be in operation, or (2) in the case of Long-Term Indebtedness other than to finance capital improvements for each of the two Fiscal Years succeeding the date on which the Indebtedness is incurred, is not less than 1.10; or
  - (iv) an Officer's Certificate certifying that the sum of the aggregate principal amount of Long-Term Indebtedness incurred pursuant to the provision described in this clause (iv) which is Outstanding and the proposed Additional Indebtedness does not exceed 20% of Adjusted Annual Operating Revenues for the Most Recent Fiscal Year. Any Indebtedness or portion thereof incurred under the provision described in this clause (iv) which is Outstanding at any time shall be deemed to have been incurred under another provision of the Master Indenture if at such time there shall be filed with the Master Trustee an Officer's Certificate to the effect that such Outstanding Indebtedness or portion thereof would satisfy such other provision, specifying such other provision, and thereupon the amount deemed to have been incurred and to be Outstanding under the provision described in this clause (iv) shall be deemed to have been reduced by such amount and to have been incurred under such other provision; or
  - (v) a report by an Accountant (which report may rely on interim financial statements prepared by the Obligated Group with respect to transactions which have occurred since the date of last audited financial statements of the Obligated Group) that after giving effect to the proposed Long-Term Indebtedness, the Capitalization Ratio is no greater than 0.65 for all Members of the Obligated Group.

The requirements described in the foregoing clauses (i), (ii) and (iii) shall be deemed satisfied if a Consultant's report and opinion is filed with the Master Trustee to the effect that (1) applicable laws or



regulations or modifications to public or private third-party reimbursement programs have prevented or will prevent the achievement of any of the debt service coverage ratios described in the foregoing clauses (i), (ii) and (iii), (2) the Members of the Obligated Group have generated an amount of Total Net Revenue which in the opinion of such Consultant was not unreasonable given such laws and regulations and programs during the period affected thereby, (3) the Historical Debt Service Coverage Ratio for the Fiscal Year determined in accordance with the provisions described in the foregoing clause (iii)(A) is at least 1.00, and (4) the Projected Debt Service Coverage Ratio for each of the two Fiscal Years determined in accordance with the provisions described in the foregoing clause (iii)(B) is not less than 1.00.

- (2) Without limitation, Completion Indebtedness.
- (3) Without limitation, Long-Term Indebtedness incurred for the purpose of refunding any Long-Term Indebtedness.
- (4) Short-Term Indebtedness, Purchase Money Contracts and Capitalized Leases if immediately after the incurrence of such Short-Term Indebtedness or the entering into the Capitalized Leases, the principal amount of all Outstanding Short-Term Indebtedness combined with the portion of all payments required by Capitalized Leases and Purchase Money Contracts attributable to principal do not exceed 20% of the Adjusted Annual Operating Revenues. Short-Term Indebtedness, Purchase Money Contracts and Capitalized Leases may also be incurred if such Short-Term Indebtedness, Purchase Money Contracts and Capitalized Leases could be incurred under the provisions described in the foregoing clause (1), assuming they were Long-Term Indebtedness.
- (5) Without limitation, Non-Recourse Indebtedness.
- (6) Liabilities incurred pursuant to reimbursement agreements relating to letters or lines of credit or similar credit facilities used to secure Indebtedness.
- (7) Liabilities incurred pursuant to reimbursement agreements relating to letters or lines of credit or similar credit facilities (other than those liabilities incurred pursuant to the provisions described in clause (6)) in a total amount which does not exceed 25% of Adjusted Annual Operating Revenues.
- (8) Interim Indebtedness, without limitation, if (i) there is delivered to the Master Trustee an Officer's Certificate stating that permanent financing of such Interim Indebtedness is expected to be completed within five years of the date of incurrence of such Interim Indebtedness and (ii) the conditions described in the foregoing clause (1) are met with respect to such Interim Indebtedness.
- (9) Without limitation, Subordinate Indebtedness.

Debt Service and Principal Calculation on Guaranties. When calculating the principal of and the Principal and Interest Requirements on indebtedness or obligations which are guaranteed by any Member of the Obligated Group:

- (1) So long as no Member of the Obligated Group has been called upon to make a payment or is making payments under the Guaranty, the principal of and the Principal and Interest Requirements on the guaranteed indebtedness or obligations will be deemed to be those of the Obligated Group to the extent of 20% thereof;

- (2) If a Member of the Obligated Group has been called upon to make a payment or is making payments under the Guaranty, (i) when calculating the Historical Debt Service Coverage Ratio, the amount actually paid by any Member of the Obligated Group on the guaranteed indebtedness or obligations or 20% of the principal of and Principal and Interest Requirements on the guaranteed indebtedness or obligations, whichever is greater, will be deemed to be those of the Obligated Group, (ii) when calculating the Projected Debt Service Coverage Ratio, the amount actually paid by any Member of the Obligated Group in the Most Recent Fiscal Year on the guaranteed indebtedness or obligations or 20% of the principal of and Principal and Interest Requirements on the guaranteed indebtedness or obligations, whichever is greater, will be deemed to be those of the Obligated Group, and (iii) for all other purposes the principal of and Principal and Interest Requirements on the guaranteed indebtedness or obligations will be deemed to be those of the Obligated Group.

Debt Service Calculation on Balloon Indebtedness, Optional Tender Indebtedness and Interim Indebtedness. The principal of Balloon Indebtedness or Interim Indebtedness shall be deemed due and payable at its stated due date; provided, however, that at the election of the Obligated Group Agent for the purpose of any computation of Principal and Interest Requirements, whether historical or projected, the principal and interest deemed payable on Balloon Indebtedness or Interim Indebtedness of a Member shall be deemed to be payable as set forth below:

- (1) If the Member has obtained a binding commitment of a bank or other financial institution whose senior debt obligations, or the senior debt obligations of the holding company of which such bank or financial institution is the principal subsidiary, are then rated “A” or better by Moody’s and S&P to refinance such Balloon Indebtedness (or a portion thereof) or Interim Indebtedness (or a portion thereof), including without limitation, a letter of credit or a line of credit, the Balloon Indebtedness (or portion thereof to be refinanced) or Interim Indebtedness (or portion thereof to be refinanced) may be deemed to be payable in accordance with the terms of the refinancing arrangement; or
- (2) If the Member has entered into a binding agreement providing for the deposit by such Member with a bank or other financial institution whose senior debt obligations, or the senior debt obligations of the holding company of which such bank or financial institution is the principal subsidiary, are then rated “A” or better by Moody’s and S&P in trust (herein called a “Special Redemption Fund”) of amounts, together with interest earnings and gains realized and retained in the Special Redemption Fund, equal in aggregate to the principal amount of such Balloon Indebtedness (or a portion thereof) or Interim Indebtedness (or portion thereof) and for the payment of such principal amount when due from the sums so deposited, interest earned and gains realized, the principal amount of the Balloon Indebtedness (or portion thereof) or Interim Indebtedness (or portion thereof) may be deemed to be payable in accordance with the terms of such agreement; or
- (3) If the Member has entered into arrangements or agreements with respect to the principal amount of such Balloon Indebtedness or Interim Indebtedness other than those referred to in the foregoing clauses (1) and (2) which the Master Trustee determines, taking into account the interests of the Obligation Holders, provide adequate assurance that the Obligated Group will be able to meet the principal and interest requirements due on such indebtedness, the Balloon Indebtedness or Interim Indebtedness may be deemed to be payable in accordance with the terms of such arrangement or agreement; or

- (4) Such Balloon Indebtedness or Interim Indebtedness may be deemed to be Indebtedness which, at the date of its original incurrence, was payable over a 30-year term in equal annual installments of principal and interest at a rate of interest set forth in a certificate of an investment banker selected by the Obligated Group Agent and not unacceptable to the Master Trustee, delivered to the Master Trustee stating that it is reasonable to assume that 30-year installment obligations of the Obligated Group or a Member thereof can be incurred and stating the interest rate then applicable to 30-year obligations of comparable quality.

In determining compliance with the applicable provisions of the Master Indenture in connection with the incurrence of Optional Tender Indebtedness, the Member of the Obligated Group incurring Optional Tender Indebtedness which is also undertaking any contingent repayment obligation to a Person other than a Member of the Obligated Group who has undertaken to provide moneys necessary for payment to holders of such Optional Tender Indebtedness who exercise their option to tender for payment shall not also be deemed to be incurring separate Indebtedness to such Person.

In measuring compliance with the applicable tests under the Master Indenture in connection with incurring Optional Tender Indebtedness and generally for purposes of determining the Principal and Interest Requirements relating thereto, Optional Tender Indebtedness shall be deemed to mature based upon the actual amortization requirements for the Optional Tender Indebtedness.

Debt Service and Principal Calculation on Discount Indebtedness. At the election of the Obligated Group Agent, for the purpose of any computation of Principal and Interest Requirements, whether historical or projected, the principal and interest deemed payable on Discount Indebtedness of a Member shall be deemed to be payable as described below:

- (1) If the Member has obtained a binding commitment of a bank or other financial institution whose senior debt obligations, or the senior debt obligations of the holding company of which such bank or financial institution is the principal subsidiary, are then rated “A” or better by Moody’s and S&P to refinance such Discount Indebtedness (or a portion thereof), including without limitation, a letter of credit or a line of credit, the Discount Indebtedness (or portion thereof to be refinanced) may be deemed to be payable in accordance with the terms of the refinancing arrangement; or
- (2) If the Member has entered into a binding agreement providing for the deposit by such Member with a bank or other financial institution whose senior debt obligations, or the senior debt obligations of the holding company of which such bank or financial institution is the principal subsidiary, are then rated “A” or better by Moody’s and S&P, in trust (herein called a “Special Redemption Fund”) of amounts equal in aggregate to the principal amount of such Discount Indebtedness (or a portion thereof), less interest earned and gains realized and retained in the Special Redemption Fund, and for the payment of such principal amount when due from the sums so deposited, interest earned and gains realized, the principal amount of the Discount Indebtedness (or portion thereof) may be deemed to be payable in accordance with the terms of such agreement; or
- (3) If the Member has entered into arrangements or agreements with respect to the principal amount of such Discount Indebtedness other than those referred to in the foregoing clauses (1) and (2) which the Master Trustee determines, taking into account the interests of the Obligation Holders, provide adequate assurances that the Obligated Group will be able to meet the principal and interest requirements due on such indebtedness, the

Discount Indebtedness may be deemed to be payable in accordance with the terms of such arrangement or agreement; or

- (4) As of any time the maturity amount represented by Discount Indebtedness shall be deemed to be the accreted value of such Indebtedness computed on the basis of a constant yield to maturity.

Interest Calculation on Variable Rate Obligations and Variable Rate Indebtedness. When calculating interest requirements on Variable Rate Indebtedness or Variable Rate Obligations of any Member of the Obligated Group which bear a variable rate of interest for periods as to which the rate of interest has not been determined, the rate of interest on outstanding Variable Rate Indebtedness or Variable Rate Obligations shall be the average annual rate of interest which was payable on such Variable Rate Indebtedness or Variable Rate Obligations during the 12 months immediately preceding the date as of which the calculation is made; and the rate of interest on Variable Rate Indebtedness or Variable Rate Obligations to be incurred (or incurred less than 12 months preceding such date) shall be the average annual rate of interest which would have been payable on such Variable Rate Indebtedness or Variable Rate Obligations had they been outstanding for a period of 12 months immediately preceding the date as of which the calculation is made, all as set forth in a certificate of an investment banker selected by the Obligated Group Agent and not unacceptable to the Master Trustee, delivered to the Master Trustee.

Debt Service Coverage Ratio. The Obligated Group shall maintain Total Net Revenue in each Fiscal Year at least equal to 1.10 times Maximum Total Principal and Interest Requirements during the Fiscal Year reported in the combined or consolidated financial statements filed with the Master Trustee pursuant to the Master Indenture. If Total Net Revenue is below the required amount, as soon as practicable but in any event within six months of the end of such Fiscal Year, the Obligated Group Agent shall retain a Consultant to make recommendations to increase Total Net Revenue for subsequent Fiscal Years to the levels required or, if in the opinion of the Consultant the attainment of such level is impracticable, to the highest practicable level. Each Member of the Obligated Group agrees that it will, to the extent permitted by law, follow the recommendation of the Consultant. So long as (i) a Consultant shall be retained and each Member of the Obligated Group shall follow such Consultant's recommendations to the extent permitted by law and to the extent practicable as determined by the Governing Body of the Obligated Group Agent and (ii) such ratio is not below 1.00, this provision of the Master Indenture shall be deemed to have been complied with.

If in any Fiscal Year the foregoing ratio is below 1.10, retention of a Consultant to make such recommendations will not be required if (i) a Consultant's report filed with the Master Trustee contains an opinion of such Consultant that applicable laws or regulations or modifications to public or private third party reimbursement programs have prevented the maintenance of the required ratio, (ii) the Master Trustee shall have been provided with a statement by the Consultant to the effect that the Members of the Obligated Group have generated an amount of Total Net Revenue for such Fiscal Year which in the opinion of such Consultant was not unreasonable given such laws and regulations and programs and (iii) such ratio was not below 1.00.

Sale, Lease or Other Disposition of Property. Each Member of the Obligated Group agrees that it will not in any Fiscal Year sell, lease or otherwise dispose of any Property, except transfers of Property:

- (1) To any Person if such Property is to be replaced by other Property of comparable utility or if prior to the sale, lease or other disposition there is delivered to the Master Trustee an Officer's Certificate stating that in the judgment of the signer such Property has become, 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 or other disposition thereof will not impair the structural soundness, efficiency or economic value of the remaining Property.

- (2) To another Member of the Obligated Group.
- (3) To any Person provided that prior to the sale, lease or other disposition there is delivered to the Master Trustee an Officer's Certificate to the effect that immediately following such disposition the Obligated Group could meet the conditions set forth in the Master Indenture for the incurrence of one dollar of Additional Indebtedness and described herein in subparagraphs (l)(i), (l)(ii), (l)(iii) and (l)(v) under "THE MASTER INDENTURE -- Particular Covenants of Each Member of the Obligated Group -- Limitations on Incurrence of Additional Indebtedness."
- (4) To any Person provided that Current Value is received and the Obligated Group Agent has determined (as set forth in an Officer's Certificate delivered to the Master Trustee) that the transfer will not result in an Event of Default or impair the ability of the Obligated Group to meet its obligations under the Master Indenture.
- (5) As part of a merger, consolidation, sale or conveyance permitted by the Master Indenture.
- (6) To any Person in connection with a sale and lease back transaction if the lease constitutes a permissible Capitalized Lease under the Master Indenture and both the Indebtedness and the Lien created thereby are permitted under the Master Indenture.
- (7) To any Person in connection with an operating lease of Property to such Person.
- (8) In the case of cash or cash equivalents, as a loan to any Person provided that, in the case of any loan to any Person which results in the aggregate principal amount of all such loans outstanding to such Person exceeding \$100,000, the Master Trustee shall have received an Officer's Certificate certifying that (i) such loan has been evidenced in writing, (ii) such loan bears interest at a reasonable interest rate and (iii) there is a reasonable expectation that such loan will be repaid in accordance with its terms.
- (9) In each Fiscal Year, to any Person or Persons an aggregate amount in reliance on the provisions described in this clause (9) which in any Fiscal Year does not exceed an amount equal to 5% of the Book Value of the total assets of the Obligated Group as shown on the audited financial statements of the Obligated Group for the Most Recent Fiscal Year.
- (10) In the ordinary course of business.
- (11) To any Person certain Property specifically described in the Master Indenture that is not part of the main campus of Munson Medical Center or essential to its operations.

Consolidation, Merger, Sale or Conveyance. Each Member of the Obligated Group, respectively, covenants that it will not merge or consolidate with any other Person not a Member of the Obligated Group or sell or except as otherwise permitted in the Master Indenture convey all or substantially all of its assets to any Person not a Member of the Obligated Group unless:

- (1) Either the Member will be the surviving Person or the successor or transferee Person (if other than a Member of the Obligated Group) shall be a Person organized and existing under the laws of the United States of America or a state thereof and such Person shall expressly assume the due and punctual payment of the principal of and premium, if any, and interest on all Outstanding Obligations according to their tenor, and the due and punctual performance and observance of all of the covenants and conditions of the Master Indenture by a Supplemental Indenture satisfactory to the Master Trustee, and executed and delivered by the Master Trustee and such Person;
- (2) If there remains unpaid any Related Bond which bears interest that is not includable in gross income under the Code, the Master Trustee shall have received an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that under then existing law the consummation of such merger, consolidation, sale or conveyance, whether or not contemplated on any date of the delivery of such Related Bond, would not cause the interest payable on such Related Bond to become includable in gross income under the Code;
- (3) The Master Trustee shall have received an Officer's Certificate which demonstrates that immediately upon such merger, consolidation, sale or conveyance the Obligated Group will not, as a result thereof, be in default in the performance or observance of any financial covenant or condition to be performed or observed by it under the Master Indenture;
- (4) Such successor or transferee shall possess such licenses and accreditation to operate such Property as may be required if it is to operate such Property; and
- (5) The Master Trustee shall have received an Officer's Certificate to the effect that immediately after the merger, consolidation, sale or conveyance the Obligated Group could meet the conditions set forth in the Master Indenture for the incurrence of one dollar of Additional Indebtedness and described herein in subparagraphs (I)(i), (I)(ii), (I)(iii) and (I)(v) under "THE MASTER INDENTURE -- Particular Covenants of Each Member of the Obligated Group -- Limitations on Incurrence of Additional Indebtedness."

In the case of any such merger, consolidation, sale or conveyance and upon any such assumption by the successor or transferee corporation, such successor corporation or transferee shall succeed to and be substituted for its predecessor, with the same effect as if it had been named in the Master Indenture as a Member of the Obligated Group, as the case may be.

In the case of any such merger, consolidation, sale or conveyance, such changes in phraseology and form (but not in substance) may be made in Obligations thereafter to be issued as may be appropriate.

The Master Trustee shall receive an Opinion of Counsel as conclusive evidence that any such merger, consolidation, sale or conveyance, and any such assumption, complies with the provisions of the Master Indenture described in the preceding paragraphs and that it is proper for the Master Trustee to join in the execution of the Supplemental Indenture provided for and described above under the provisions of the Master Indenture governing the execution of supplements and amendments and under the consolidation, merger, sale and conveyance provisions described in the foregoing paragraphs.

## **Insurance and Condemnation Proceeds**

Any Member of the Obligated Group may make agreements and covenants with the holder of secured Indebtedness which is incurred in compliance with the Master Indenture and which is secured by a Permitted Lien under the Master Indenture with respect to the application or use to be made of insurance proceeds or condemnation awards which may be received in connection with Property which is subject to such Permitted Lien.

Subject to the provisions described in the immediately preceding paragraph, amounts receivable by any Member of the Obligated Group as insurance proceeds with respect to any casualty loss or as condemnation awards with respect to any Property and which do not exceed, for the then current Fiscal Year, 10% of the aggregate Book Value of the Property of the Obligated Group, shall be paid to such Member and may be used for any lawful purpose. If amounts received exceed 10% of the aggregate Book Value of the Property of the Obligated Group in any Fiscal year, the aggregate of such amounts shall be paid to the Master Trustee and, as specified in an Officer's Certificate, be applied to either (1) the repair or replacement of the Property of the Obligated Group with respect to which such proceeds were received, or (2) to the purchase, redemption, prepayment or partial prepayment of the principal of Obligations, and ratably among such Obligations which may be prepaid without premium, on the next succeeding date when Obligations may be purchased, redeemed or prepaid, as the case may be, in each case without premium, exclusive of those Obligations which are either to mature on such date or are to be redeemed on such redemption date by reason of any mandatory redemption requirement established for the Obligations. Pending such application, the Master Trustee shall retain such proceeds and shall invest and reinvest the same at the request of and upon instructions from the Obligated Group Agent.

## **Defaults and Remedies**

Events of Default. Event of Default, as used in the Master Indenture, means any of the following events:

- (1) Any payment of the principal of, the premium, if any, and interest on any Obligation issued and Outstanding under the Master Indenture is not made when and as the same shall become due and payable, whether at maturity, by proceedings for redemption, by acceleration or otherwise, in accordance with the terms thereof, of the Master Indenture or the Related Supplement.
- (2) Any Member of the Obligated Group shall fail to duly observe or perform any covenant or agreement on its part under the Master Indenture for a period of 30 days (or such longer period as permitted in writing by the Master Trustee) after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the Obligated Group Agent by the Master Trustee, or the Obligated Group Agent and the Master Trustee by the Holders of at least 25% in aggregate principal amount of Obligations then Outstanding; provided, however, that if the failure shall be such that it cannot be corrected within such period, it shall not constitute an Event of Default if such failure is not the result of financial inability to comply, if such failure can be corrected, and if corrective action is instituted within such period and diligently pursued until the failure is corrected (as to which efforts the Master Trustee shall be advised from time to time) or until 30 days after such default could have been corrected.
- (3) Any Member of the Obligated Group shall default in the payment of any Indebtedness for borrowed moneys (other than Indebtedness evidenced by Obligations issued and

Outstanding under the Master Indenture and any Non-Recourse Indebtedness) in aggregate principal amount in excess of the greater of 0.50% of the Adjusted Annual Operating Revenues for the Most Recent Fiscal Year or \$1 million, whether such Indebtedness now exists or shall hereafter be created, and any period of grace with respect thereto shall have expired, or any event of default as defined in any mortgage, indenture or instrument, under which there may be issued, or by which there may be secured or evidenced, any Indebtedness, whether such Indebtedness now exists or shall hereafter be created, occurs; provided, however, that such default (other than any default in the payment of Indebtedness for borrowed moneys which is not being contested in good faith by any Member of the Obligated Group) shall not constitute an Event of Default if payment of such Indebtedness has not been accelerated under the terms of such Indebtedness or if within 30 days, or within the time allowed for service of a responsive pleading in any proceeding to enforce payment of the Indebtedness, any Member of the Obligated Group in good faith commences proceedings to contest the obligation to pay or the existence or nonpayment of such Indebtedness.

- (4) The commencement of proceedings seeking an order for relief in a court in respect of any Member of the Obligated Group in an involuntary case under the federal bankruptcy laws, as now or hereafter constituted, or under any applicable federal or state bankruptcy, insolvency or similar law, or the commencement of proceedings seeking the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of any Member of the Obligated Group or for any substantial part of its property, or the commencement of proceedings seeking an order winding up or liquidating the affairs of any Member of the Obligated Group and the continuance of any such proceedings for a period of 90 consecutive days.
- (5) The commencement by any Member of the Obligated Group of a voluntary case under the federal bankruptcy laws, as now constituted or hereafter amended, or any other applicable federal or state bankruptcy, insolvency or other similar law, or the consent by it to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or other similar official) of any Member of the Obligated Group or for any substantial part of its property, or the making by it of any assignment for the benefit of creditors, or the failure of any Member of the Obligated Group generally to pay its debts as such debts become due, or the taking of formal action by the Member in furtherance of any of the foregoing.
- (6) An event of default added pursuant to any Supplemental Indenture; provided, however, that any event described in clauses (4) and (5) above shall not be an Event of Default if excluding from the Obligated Group the Members as to which the event described in clause (4) and/or (5) has occurred, there is compliance with the provisions of the Master Indenture and an Officer's Certificate of the Obligated Group Agent as to such compliance is delivered to the Master Trustee within 60 days of receipt of notice of the existence of such an event.

The provisions described in the foregoing clause (2) are subject to the following limitation: If by reason of Force Majeure, any Member is unable in whole or in part to carry out its agreements on its part contained in the Master Indenture, such Member shall not be deemed in default during the continuance of such disability.



See also the events of default summarized under “THE SUPPLEMENTAL INDENTURE AND THE NOTE -- Events of Default and Remedies.”

Acceleration and Annulment of Acceleration. Upon the occurrence and during the continuation of an Event of Default under the Master Indenture, the Master Trustee may and, upon the written request of the Holders of not less than 25% in aggregate principal amount of Obligations Outstanding (other than Obligations which represent Non-Recourse Indebtedness), shall, by notice to the Obligated Group Agent, declare the principal amount (or, if the Obligations are Discount Indebtedness, such portion of the principal as may be specified in such Obligations) of all Obligations Outstanding immediately due and payable, whereupon such principal amount shall become and be immediately due and payable, anything in the Obligations or in the Master Indenture to the contrary notwithstanding; provided, however, if an Event of Default described in subparagraph (l) under “THE MASTER INDENTURE – Defaults and Remedies -- Events of Default” occurs, there shall be no acceleration under the Master Indenture if such Event of Default is cured within ten (10) days of its occurrence.

At any time after the principal of the Outstanding Obligations shall have been so declared to be due and payable and before the entry of final judgment or decree on any suit, action or proceeding instituted on account of such default, if (i) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee moneys sufficient to pay all installments of interest, and interest on installments of interest and principal to the extent permitted by law at the rate prescribed in the Obligations and principal or redemption prices then due (other than the principal and interest then due only because of such declaration) of all Obligations Outstanding; (ii) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee moneys sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Master Trustee and any paying agents; (iii) all other amounts then payable by the Obligated Group under the Master Indenture shall have been paid or a sum sufficient to pay the same shall have been deposited with the Master Trustee; and (iv) every Event of Default (other than a default in payment of the principal of such Obligations then due only because of such declaration) shall have been remedied, then the Master Trustee may annul such declaration and its consequences with respect to any Obligations or portions thereof not then due by their terms. No such annulment shall extend to or affect any subsequent Event of Default or impair any right consequent thereon.

Additional Remedies and Enforcement of Remedies. Upon the occurrence and continuance of any Event of Default, the Master Trustee may, and upon the written request of the Holders of not less than 25% in aggregate principal amount of the Obligations Outstanding, together with indemnification of the Master Trustee to its satisfaction therefor, shall proceed forthwith to protect and enforce its rights and the rights of the Obligation Holders under the Master Indenture by such suits, actions or proceedings as the Master Trustee shall deem expedient, including but not limited to:

- (1) Enforcement of the right of the Obligation Holders to collect and enforce the payment of amounts due or becoming due under the Obligations;
- (2) Suit upon all or any part of the Obligations;
- (3) Civil action to require any Person holding moneys, documents or other property pledged to secure payment of amounts due or to become due on the Obligations to account as if it were the trustee of an express trust for the Obligation Holders;

- (4) Civil action to enjoin any acts or things, which may be unlawful or in violation of the rights of the Obligation Holders or to enforce specifically any covenant, obligation or agreement contained in the Master Indenture; and
- (5) Enforcement of the provisions of the Master Indenture or any other right of the Obligation Holders conferred by law or under the Master Indenture including (to the extent the Master Indenture may lawfully provide) court costs, reasonable attorneys' fees and other costs and expenses incurred in enforcing the provisions of the Master Indenture and the rights of the Obligation Holders.

Application of Revenues and Other Moneys After Default. During the continuance of an Event of Default, all moneys received by the Master Trustee pursuant to any right given or action taken under the provisions of the Master Indenture, after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of amounts due the Master Trustee, shall be applied as follows:

- (1) Unless the principal of all Outstanding Obligations shall have become or have been declared due and payable:

First: To the payment to the Persons entitled thereto of all installments of interest then due on Obligations in the direct order of their due dates, and, if the amount available shall not be sufficient to pay in full any installment or installments due on the same date, then to the payment thereof ratably, according to the amounts due thereon to the Persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the Persons entitled thereto of the unpaid principal installments of any Obligations which shall have become due, whether at maturity or by call for redemption, in the direct order of their due dates, and if the amounts available shall not be sufficient to pay in full all Obligations due on any date, then to the payment thereof ratably, according to the amounts of principal installments due on such date, to the Person entitled thereto, without any discrimination or preference.

- (2) If the principal of all Outstanding Obligations shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon Obligations without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Obligations over any other Obligations, ratably, according to the amounts due respectively for principal and interest, to the Persons entitled thereto without any discrimination or preference.
- (3) If the principal of all Outstanding Obligations shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provisions of the Master Indenture described herein under "THE MASTER INDENTURE -- Defaults and Remedies," then, subject to the provisions described in the foregoing clause (1), in the event that the principal of all Outstanding Obligations shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions described in the foregoing clause (2).

Whenever moneys are to be applied by the Master Trustee pursuant to the provisions described in the foregoing clauses (1), (2) and/or (3), such moneys shall be applied by it at such times, and from time to

time, as the Master Trustee shall determine, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Master Trustee shall apply such moneys, it shall fix the date upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such dates shall cease to accrue. The Master Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and shall not be required to make payment to the Holder of an Obligation unless such Obligation and unmatured coupons, if any, appertaining to such Obligation shall be presented to the Master Trustee for appropriate endorsement of any partial payment or for cancellation if fully paid.

Whenever the principal of all Obligations and interest thereon has been paid under the foregoing provisions and all fees, expenses and charges of the Master Trustee have been paid, any balance remaining shall be paid to the Person entitled to receive the same, if no other Person shall be entitled thereto, then the balance shall be paid to the Members of the Obligated Group, their successors or as a court of competent jurisdiction may direct.

### **Supplements and Amendments**

Supplements Not Requiring Consent of Obligation Holders. The Master Indenture may be supplemented or amended without the consent of or notice to any of the Obligation Holders: (1) to cure any ambiguity or formal defect or omission; (2) to correct or supplement any provision which may be inconsistent with any other provision, or to make any other provisions with respect to matters or questions arising under the Master Indenture and which shall not materially and adversely affect the interests of the Holders; (3) to grant or confer ratably upon all of such Holders any additional rights, remedies, powers or authority that may lawfully be granted or conferred upon them, subject to the provisions described in the next paragraph hereof; (4) to qualify the Master Indenture under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect; (5) to create and provide for the issuance of Obligations as permitted under the Master Indenture; (6) to obligate a successor of a Member of the Obligated Group or any other Member of the Obligated Group; or (7) to set forth the terms and conditions relating to the granting of a Lien in favor of the Master Trustee securing all Obligations on a parity basis.

Supplements Requiring Consent of Obligation Holders. The Master Indenture may also be amended for other purposes provided that there is first filed with the Master Trustee the written consent of the Holders of a majority in aggregate principal amount of all Outstanding Obligations. No supplement shall be permitted, however, which would (i) extend the stated maturity of or time for paying interest on any Obligation or reduce the principal amount of or the redemption premium or rate of interest payable on or currency of payment of any Obligation without the consent of the Holder of such Obligation; (ii) modify, alter, amend, add to or rescind any of the terms or provisions of the Master Indenture in any manner which would materially and adversely affect the interests of the Obligation Holders or any of them without the consent of the Holders of all Obligations then Outstanding who are adversely affected thereby; or (iii) reduce the aggregate principal amount of Obligations then Outstanding the consent of such Holders of which is required to authorize such Supplement without the consent of such Holders of all Obligations then Outstanding.

### **Miscellaneous Provisions**

Satisfaction and Discharge of Master Indenture. If (i) all Members of the Obligated Group shall deliver to the Master Trustee for cancellation all Obligations theretofore authenticated (other than any Obligations which shall have been mutilated, destroyed, lost or stolen and which shall have been replaced

or paid as provided in the Related Supplement) and not theretofore cancelled, or (ii) all Obligations not theretofore cancelled or delivered to the Master Trustee for cancellation shall have become due and payable and shall have been paid, or (iii) the Members of the Obligated Group or any Member thereof shall deposit or cause to be deposited with the Master Trustee (or with a bank or trust company acceptable to the Master Trustee pursuant to an agreement on behalf of the Obligated Group with such bank or trust company in form acceptable to the Master Trustee) as trust funds the entire amount of moneys or Government Obligations, or both, the principal and interest on the Government Obligations together with such moneys will be sufficient, without reinvestment, to pay at maturity or upon redemption all Obligations not theretofore cancelled or delivered to the Master Trustee for cancellation, including principal, premium, if any, and interest due or to become due to such date of maturity or redemption, as the case may be, and if the Members of the Obligated Group or any Member thereof shall also pay or cause to be paid all other sums payable under the Master Indenture by the Members of the Obligated Group or any Member thereof, including the Master Trustee's fees and expenses, and any Member of the Obligated Group gives written notice to the Master Trustee that the Master Indenture is to be terminated, then the Master Indenture shall cease to be of further effect, and the Master Trustee, on demand of the Members of the Obligated Group, and at the cost and expense of the Members of the Obligated Group or any Member thereof, shall execute proper instruments acknowledging satisfaction of and discharging the Master Indenture. Each Member of the Obligated Group, respectively, agrees to reimburse the Master Trustee for any costs of expenses theretofore and thereafter reasonably and properly incurred by the Master Trustee in connection with the Master Indenture or such Obligations.

Evidence of Satisfaction of Final Covenants; Certificates of No Default and Other Information.

In general, evidence of satisfaction of the financial covenants and conditions contained in the Master Indenture and summarized herein, including the required certification as to whether or not there is a default under the Master Indenture, must be established by delivery to the Master Trustee of an Officer's Certificate by the Obligated Group Agent verifying satisfaction of such covenants and conditions.

**THE SUPPLEMENTAL INDENTURES AND THE NOTES**

The Obligated Group and the Authority have entered into Loan Agreement (2019A) providing for the loan to Hospital (2019A) (Munson Healthcare Manistee Hospital) of the proceeds of the Series 2019A Bonds to provide funds: (i) to pay costs of Project (2019A); (ii) to repay the prior loan as described in Bond Indenture (2019A); and (iii) to pay the costs of issuing the Series 2019A Bonds and providing for the issuance to the Authority under Loan Agreement (2019A), the Master Indenture and Supplemental Indenture Number 29 of Munson Healthcare Obligated Group Note No. 29 (County of Grand Traverse Hospital Finance Authority), which requires payment of amounts equal to the principal of, premium, if any, and interest on the Series 2019A Bonds and for the payment of certain other amounts, all as specified in Note No. 29.

The Obligated Group and the Authority have entered into Loan Agreement (2019B) providing for the loan to Hospital (2019B) (Munson Healthcare Otsego Memorial Hospital) of the proceeds of the Series 2019B Bonds to provide funds: (i) to pay costs of Project (2019B); (ii) to repay the prior loan as described in Bond Indenture (2019B); and (iii) to pay the costs of issuing the Series 2019B Bonds and providing for the issuance to the Authority under Loan Agreement (2019B), the Master Indenture and Supplemental Indenture Number 30 of Munson Healthcare Obligated Group Note No. 30 (County of Grand Traverse Hospital Finance Authority), which requires payment of amounts equal to the principal of, premium, if any, and interest on the Series 2019B Bonds and for the payment of certain other amounts, all as specified in Note No. 30.

Note No. 29 shall be in the original principal amount of \$18,360,000. Note No. 30 shall be in the original principal amount of \$14,520,000. The Notes shall be initially registered in the name of the County of Grand Traverse Hospital Finance Authority and shall bear interest in the amount set forth in the form of Note No. 29 and Note No. 30. The principal of, premium, if any, and interest on the Notes shall be payable to the Bond Trustee under the applicable Bond Indenture on behalf of the Authority at the times and in the manner provided in the form of applicable Note. Each Note shall also evidence the obligation to make the fee payments and other payments specified therein.

Prior to or simultaneously with the issuance of each Note, all conditions precedent to the issuance of the Bonds set forth in the applicable Bond Indenture must be satisfied.

A summary of certain other provisions of the Supplemental Indentures follows.

### **Prepayment or Redemption of the Notes**

If a portion of a series of the Bonds is to be redeemed prior to maturity in accordance with the provisions of the applicable Bond Indenture, the principal of the applicable Note shall be subject to prepayment, in part, upon payment of a sum, in cash or Government Obligations, or both, sufficient together with any other cash and Government Obligations held by the Bond Trustee under the applicable Bond Indenture and available for such purpose, to cause the Outstanding Bonds which are to be redeemed to be deemed to be Bonds which are not Outstanding under the applicable Bond Indenture and to pay any fee payments or other amounts required to be paid pursuant to such Bond Indenture. Any amounts so paid shall be paid to and deposited with the Bond Trustee under the applicable Bond Indenture for deposit to funds established by the applicable Bond Indenture in the manner and for use as provided in such Bond Indenture. On and after the date fixed for such prepayment of principal (unless the Obligated Group shall default in such prepayment of the principal, together with premium, if any, and accrued interest thereon to the date fixed for redemption), interest on that portion of the principal amount of applicable Note which has been prepaid shall cease to accrue.

In addition, and notwithstanding any provision of the Master Indenture to the contrary, if all of a series of the Bonds are to be redeemed prior to maturity in accordance with the provisions of the applicable Bond Indenture, the applicable Note shall be subject to prepayment or redemption, in whole, upon payment of a sum, in cash or Government Obligations, or both, sufficient together with any other cash and Government Obligations held by the Bond Trustee under the applicable Bond Indenture and available for such purpose, to cause all Outstanding Bonds of such series to be deemed Bonds which are not outstanding within the meaning of the applicable Bond Indenture and to pay all fee payments and other amounts required to be paid pursuant to the applicable Bond Indenture. Any amounts so paid shall be paid to and deposited with the Bond Trustee under the applicable Bond Indenture for deposit to funds established by such Bond Indenture in the manner and for use as provided in such Bond Indenture. On and after the date fixed for prepayment or redemption in whole (unless the Obligated Group shall default in the payment of the applicable Note at the redemption price together with accrued interest thereon to the date fixed for redemption) interest on the applicable Note shall cease to accrue.

### **Events of Default and Remedies**

Each of the Events of Default specified under the caption “THE MASTER INDENTURE -- Defaults and Remedies -- Events of Default”, and, in addition thereto, each of the following events shall constitute an Event of Default (as defined in the Supplemental Indentures) under a Supplemental Indenture and the Master Indenture: (1) an Event of Default (as defined under the Loan Agreements) under the related Loan Agreement; (2) the Bond Trustee declaring all Bonds of the related series due and

payable in accordance with the related Bond Indenture; (3) the Obligated Group or any Member thereof failing to make any payment to be made by it or them under the applicable Supplemental Indenture as and when the same shall become due and payable; (4) subject to the effect of Force Majeure, the Obligated Group or any Member thereof failing to perform, observe or comply with any of the nonmonetary terms, covenants, conditions or provisions contained in the Supplemental Indenture for a period of 30 days after the date upon which written notice of such failure requiring the same to be remedied shall have been given to the Obligated Group Agent by the Master Trustee or the Authority; provided, however, that if such failure shall be such that it cannot be corrected within such period, it shall not constitute an Event of Default under the Supplemental Indenture if such failure is not the result of financial inability to comply, if such failure can be corrected and, if corrective action is instituted within such period and diligently pursued until the failure is corrected or until 30 days after such default could have been corrected.

Upon the occurrence of an Event of Default under a Supplemental Indenture or the Master Indenture, the Master Trustee shall, if requested by the Authority (regardless of whether the Outstanding principal amount of the applicable Note equals at least 25% of the aggregate principal amount of all Obligations then Outstanding and regardless of whether there has been an offer of indemnity from the Authority), give notice pursuant to the Master Indenture to the Obligated Group Agent declaring the principal of the applicable Note then Outstanding to be due and immediately payable, and upon any such declaration the same shall become and shall be immediately due and payable.

The Authority or the Bond Trustee shall also be entitled to institute a suit, action or proceeding in equity or at law upon or under or with respect to the Master Indenture seeking any remedy provided under the Master Indenture after giving the notice mentioned in the preceding paragraph if the Master Trustee shall have neglected or refused to institute any such action, suit or proceeding after receipt from the Authority or the Bond Trustee of the written request (but not the offer of indemnity) otherwise required of holders of not less than 25% in aggregate principal amount of Obligations then Outstanding.

Notwithstanding the foregoing, however, the Master Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Master Indenture at the request or direction of the holders of the related series of Bonds, unless the holders of such Bonds shall have offered to the Master Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.

#### **Amendments to the Master Indenture**

Notwithstanding the provisions of the Master Indenture, neither any Member of the Obligated Group nor the Master Trustee shall, without the prior written approval of the Authority, enter into any Supplement described under the caption "THE MASTER INDENTURE -- Supplements and Amendments -- Supplements Requiring Consent of Obligation Holders" for the purpose of amending any of the provisions contained in the Supplemental Indenture or any of the provisions of the Master Indenture. The Obligated Group shall, promptly after execution, notify the Authority and supply the Authority with a copy of all amendments entered into pursuant to the other provisions of the Master Indenture.

See "THE BOND INDENTURES -- Amendments to the Loan Agreements and Master Indenture."

## **Addition of Obligated Group Members**

At the time any Person shall become a Member of the Obligated Group, such Person shall become subject to compliance with all of the terms and provisions of the Loan Agreement pertaining to the Obligated Group or a Member of the Obligated Group, including the performance and observance of all covenants and obligations of the Obligated Group or a Member of the Obligated Group thereunder.

## **Additional Covenants**

In addition to the covenants in the Master Indenture, each Member of the Obligated Group agrees to the following additional covenants of the Supplemental Indentures for as long as the Notes remain outstanding:

- (a) The Obligated Group grants a security interest in all of their present and future accounts and general intangibles, including, but not limited to (subject to applicable federal law) Medicare and Medicaid and like public or private medical or hospital expense reimbursement programs or agreements (but excluding pledges or agreements for gifts, grants, bequests, donations and contributions to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of Obligations) and all proceeds of the foregoing (the “Collateral”) to the Master Trustee to secure the payment of the Notes and all other Obligations and the performance by the Obligated Group of its obligations under the Master Indenture.
- (b) The Obligated Group shall (i) keep adequate records of the Collateral; and (ii) allow the Master Trustee to examine, inspect and make abstracts from, or copy any of the Obligated Group’s books and records (relating to the Collateral) and to arrange for verification of accounts directly with account debtors or by other methods.
- (c) At the time any Collateral becomes subject to a security interest in favor of the Master Trustee, the Obligated Group shall be deemed to have warranted that (i) an Obligated Group Member is the lawful owner of such Collateral and has the right and authority to subject the same to a security interest in favor of the Master Trustee; (ii) except as permitted by the Master Indenture, none of the Collateral is subject to any security interest other than that in favor of the Master Trustee, for and on behalf of the Holders of Obligations, and there are no financing statements with respect thereto on file other than in favor of the Master Trustee for and on behalf of the Holders of the Obligations; and (iii) the Obligated Group Member acquired its rights in the Collateral in the ordinary course of its business.
- (d) On each occasion when the Obligated Group or an Obligated Group Member provides evidence to the Master Trustee as to the account balances and the nature and the extent of those accounts in which an Obligated Group Member has rights, the Obligated Group Member shall be deemed to have warranted that (i) except as otherwise indicated, all accounts so evidenced are valid and enforceable without performance by the Obligated Group Member of any other act; (ii) the account balances so evidenced are in fact owing; and (iii) other than as specified by the Obligated Group, there are no setoffs or counterclaims or defenses against any of such accounts of which an Obligated Group Member knows or should know in the exercise of due care and diligence.

- (e) If demanded in writing by the Master Trustee upon the occurrence of any Event of Default, the Obligated Group Members will with respect to the Collateral (i) collect and enforce payment of all accounts; (ii) endorse to the Master Trustee and forthwith deliver to it all such payments in the form received by the Members of the Obligated Group without commingling with any funds belonging to the Members; (iii) hold in trust for the Master Trustee all Collateral in which a security interest is granted to the Master Trustee and (iv) forthwith deliver to the Master Trustee all Property in the Obligated Group Member's possession or hereafter coming into its possession through enforcement of any such rights or security interest.
- (f) The Master Trustee shall have no duty as to the collection or protection of Collateral or the proceeds thereof, nor as to the preservation of any rights pertaining thereto, beyond the use of reasonable care in the custody and preservation of Collateral, if any, in the possession of the Master Trustee. The Obligated Group agrees to take all steps necessary to preserve rights against prior parties with respect to instruments and chattel paper of an Obligated Group Member, if any, in the possession of the Master Trustee.
- (g) In the event of acceleration of Obligations upon the occurrence of an Event of Default, the Master Trustee shall have and may exercise any one or more of the rights and remedies provided by the Master Indenture or by law to a secured party, including, without limitation, the right to take possession and sell, lease or otherwise dispose of any or all of the Collateral.
- (h) The Obligated Group shall, upon the occurrence of an Event of Default and if not waived or cured as permitted under the Master Indenture, at the request of the Master Trustee, notify the account debtors or obligors of the security interest of the Master Trustee in the Collateral and direct payment thereof to the Master Trustee. The Master Trustee itself may, during the continuance of such Event of Default, so notify and direct any such account debtor or obligor and may take control of any proceeds to which it may be entitled.

## **THE LOAN AGREEMENTS**

### **Loan Repayments**

The Obligated Group shall pay or cause to be paid, in immediately available funds, to the Bond Trustee, for the account of the Authority, loan repayments equal to the principal, premium, if any, and interest payments due on a series of the Bonds as and when such payments on such Bonds become due and payable in accordance with the provisions of the related Bond Indenture and such Bonds (the "Loan Repayments").

Payments of the principal of, premium, if any, and interest on a series of the Bonds shall be made solely from the Security under the applicable Bond Indenture. The Obligated Group's obligation to make Loan Repayments is and shall remain unconditional regardless of the sufficiency and availability of funds to make such payments.

### **Prepayment**

With written notice to the Bond Trustee, the Obligated Group may prepay in whole or in part amounts due on account of the Loan Repayments or for the redemption of Bonds prior to maturity, but



such prepayment shall not in any way alter or suspend any of the obligations of the Obligated Group under the terms of the applicable Loan Agreement or the applicable Note, and the Obligated Group shall continue to perform and be responsible for the performance of all other terms and provisions. Such notice shall be given at least 15 days (or such lesser amount as may be acceptable to the Bond Trustee) before the Bond Trustee is to give notice of any related redemption pursuant to the applicable Bond Indenture. The Authority agrees that the Bond Trustee may accept such prepayments when the same are tendered by the Obligated Group and that such prepayments may be directed by the Obligated Group Agent to be used for credit on the related Loan Repayments or for the redemption of Bonds of the related series in the manner and to the extent provided in the applicable Loan Agreement and Bond Indentures.

In the event the Obligated Group prepays Loan Repayments in the following manner and in accordance with the provisions of the Bond Indenture: by causing the deposit of moneys in the applicable Bond Fund which shall be sufficient (i) to retire and redeem at the earliest date(s) permitted under the applicable Bond Indenture all of the Bonds of the related series then outstanding and (ii) to pay any interest accruing on such Bonds to maturity or redemption, and shall also make provision satisfactory to the Authority and the Bond Trustee for all fees, costs and expenses specified in the applicable Loan Agreement accruing through the final payment of such Bonds, then the related Loan shall be deemed fully repaid and canceled, and the lien of the applicable Bond Indenture shall be discharged, except for the provisions providing for payment of principal of, premium, if any, and interest to the related Bondholders.

### **Tax Covenant**

The Obligated Group has covenanted that notwithstanding any other provisions of a Loan Agreement or any rights of the Obligated Group thereunder, the Obligated Group shall not take or permit to be taken by its agents, assigns or any Member of the Obligated Group any action which, or fail to take any reasonable action the omission of which, would:

- (a) Impair the exclusion of interest on the Bonds from gross income for Federal income tax purposes; or
- (b) Affect the authority for the issuance of the Bonds under the Act or the validity of the Bonds under the Act.

The Authority and the Bond Trustee, upon notification of action to be taken by the Obligated Group or prior to taking any action requested by the Obligated Group under the Loan Agreement may require, at the expense of the Obligated Group, an opinion of Counsel, Bond Counsel or all, as may be appropriate, in writing with respect to compliance with the foregoing limitations.

### **Reports**

The Obligated Group covenants that within 150 days after the close of each Fiscal Year it will file with the Authority and the Bond Trustee, in such quantity as the Authority or the Bond Trustee reasonably may require, and with any credit agency maintaining a rating on the Bonds, audited financial statements of Munson Healthcare and its subsidiaries for such Fiscal Year complying with the requirements of the Master Indenture and, within 180 days after the close of each Fiscal Year, a computation of the Debt Service Coverage Ratio as computed in accordance with the Master Indenture.

## **Insurance and Condemnation Proceeds**

In the event of damage by fire or other casualty or the taking by eminent domain of all or a portion of Property of the Obligated Group exceeding in value 10% of the book value of Property of the Obligated Group, and the application of the resulting insurance proceeds or condemnation award to the redemption of the Notes under certain conditions set forth in the Master Indenture, and upon the deposit of the funds to the credit of the respective Bond Funds, such proceeds shall be used to redeem Bonds of the applicable series pursuant to applicable terms of the respective Bond Indenture.

## **Events of Default**

Any of the following shall constitute an “Event of Default” under each Loan Agreement:

- (a) Failure by the Obligated Group to pay any Loan Repayments in the amounts and at the times provided in the applicable Loan Agreement and applicable Note.
- (b) Failure by the Obligated Group to observe and perform any other obligations in the applicable Loan Agreement on its part to be observed or performed for a period of 30 days after written notice specifying such failure and requesting that it be remedied, given to the Obligated Group by the Authority or the Bond Trustee; provided, however, that if such default shall be such that it cannot be corrected within such period, it shall not constitute an Event of Default if the default is correctable without material adverse effect on the Bonds and if corrective action is instituted by the Obligated Group within such period and is diligently pursued until the default is corrected.
- (c) Any representation or warranty made by the applicable Hospital, the Obligated Group Agent, or any Member of the Obligated Group in any document delivered to the Bond Trustee or the Authority in connection with the issuance, sale and delivery of the applicable series of Bonds is untrue in any material adverse respect.
- (d) The occurrence of an “Event of Default” under and as defined in the applicable Bond Indenture.
- (e) The occurrence of an “Event of Default” under and as defined in the Master Indenture.

The Events of Default described in subsection (b) above are also subject to the following limitation: If the Obligated Group by reason of Force Majeure is unable to carry out or observe the obligations described in such subsection (b), the Obligated Group shall not be deemed to be in breach or violation of the applicable Loan Agreement or in default during the continuance of such inability. The Obligated Group has agreed, however, insofar as possible to remedy with all reasonable dispatch the causes preventing it from carrying out its agreement; provided, however, that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the exercise of the reasonable discretion of the Obligated Group.

## **Remedies**

Whenever any Event of Default under a Loan Agreement shall have occurred and be continuing, and if acceleration of the principal amount of the related series of Bonds has been declared pursuant to the Bond Indenture:

- (a) The Bond Trustee shall declare all applicable Loan Repayments immediately due and payable whereupon the same shall become immediately due and payable.
- (b) Subject to the reasonable security and safety requirements of the applicable Hospital or other Members of the Obligated Group and excluding donor records, patient records and personnel records, the Authority or the Bond Trustee may have access to and inspect, examine, and make copies of the books and records and any and all accounts, data and other tax returns of the applicable Hospital or other Members of the Obligated Group, only insofar as they relate to the Event of Default and the remedying thereof; and
- (c) The Bond Trustee may pursue all remedies now or hereafter existing at law or in equity to collect all amounts then due and thereafter to become due under the applicable Loan Agreement or applicable Note or to enforce the performance of any other obligation or agreement of the applicable Hospital or other Members of the Obligated Group under such documents.

Any amounts collected pursuant to action taken upon the happening of an Event of Default will be paid into the applicable Bond Fund and applied in accordance with the applicable Bond Indenture.

#### **Amendment of Loan Agreement**

The Loan Agreements may be amended only as provided in the Bond Indentures. See “THE BOND INDENTURES — Amendments to the Loan Agreements and Master Indenture.”

### **THE BOND INDENTURES**

#### **Pledge and Security**

In consideration of the purchase of the Bonds and the obligations of the Bond Trustee under the Bond Indentures, and to provide for the payment of principal, premium, if any, and interest on the Bonds, for the rights of the Bondholders, and for the performance of the Authority’s obligations under the Bonds and the Bond Indentures, the Authority grants, conveys, pledges and assigns, as an absolute and present grant, conveyance, pledge and assignment, unto the Bond Trustee and its successors, all of the right, title and interest of the Authority in and to the Security specified in the paragraph below.

The Bonds of a series and the interest thereon shall be secured by and payable from the following (collectively referred to as the “Security”):

- (i) all related Loan Repayments which the Obligated Group is obligated to make under the applicable Loan Agreement and Note;
- (ii) all moneys in the Bond Fund established in the related Bond Indenture and the security interest granted by the Obligated Group therein;
- (iii) all of the Authority’s rights and interest in the applicable Loan Agreement and Note (other than certain indemnification rights, the right to payment of certain Authority fees and expenses, the right to collection of attorneys’ fees and the right to receive certain notices); and

- (iv) all of the proceeds of the foregoing, including Investment Income.

The interest of the Authority in the Security for a series of the Bonds has been assigned to the Bond Trustee pursuant to and for the purpose set forth in the applicable Bond Indentures.

### **Application of Proceeds of Bonds**

The proceeds of the Series 2019A Bonds in the amount of \$20,157,436.70 (being the aggregate principal amount of the Series 2019A Bonds, plus original issue premium of \$1,880,056.70, less underwriter's discount of \$82,620.00), shall upon their receipt be deposited as follows: \$10,157,436.70 will be deposited to Bond Proceeds Fund (2019A) and used to pay the costs of the Project (2019A) and the costs of issuance of the Series 2019A Bonds and \$10,000,000.00 will be used for the repayment of the prior loan as described in Bond Indenture (2019A), unless otherwise directed by the Obligated Group Agent.

The proceeds of the Series 2019B Bonds in the amount of \$15,126,604.65 (being the aggregate principal amount of the Series 2019B Bonds, plus net original issue premium of \$671,944.65, less underwriter's discount of \$65,340.00), shall upon their receipt be applied as follows: \$11,226,604.65 will be deposited to Bond Proceeds Fund (2019B) and shall be used to pay the costs of the Project (2019B) and the costs of issuance of the Series 2019B Bonds and \$3,900,000.00 will be used for the repayment of the prior loan as described in Bond Indenture (2019B), unless otherwise directed by the Obligated Group Agent.

### **Establishment and Use of Bond Proceeds Funds**

The Bond Proceeds Funds are established with the Bond Trustee under the respective Bond Indentures. There shall be credited to each Bond Proceeds Fund: (a) the amount specified in the applicable Bond Indenture from the proceeds of the Bonds, and (b) all other funds provided by the Obligated Group for credit to such Bond Proceeds Fund. The money in each Bond Proceeds Fund shall be held by the Bond Trustee in trust and, subject to the provisions of the applicable Bond Indenture, shall be applied to the payment of the costs of the Project as described in the applicable Bond Indenture and costs of issuing the Bonds and pending such application shall be subject to a lien and charge in favor of the Bondholders of the related series for the further security of such Bondholders until paid out or transferred as provided in the respective Bond Indenture.

### **Establishment and Use of Bond Funds**

A Bond Fund is established with the Bond Trustee for each respective Series of Bonds. Moneys shall be deposited in the applicable Bond Fund as follows:

- (a) the proceeds of the applicable Bonds representing accrued interest, if any;
- (b) all Loan Repayments made or caused to be made by the Obligated Group to the Bond Trustee pursuant to the applicable Loan Agreement and applicable Note and all proceeds resulting from the enforcement of the Security; and
- (c) all other moneys received by the Bond Trustee under the applicable Loan Agreement and applicable Note or otherwise for deposit in the Bond Fund.

The Bond Trustee will withdraw sufficient funds from the applicable Bond Fund to pay the principal of, premium, if any, and interest on the applicable Bonds as the same become due and payable.

Moneys in a Bond Fund shall be used solely for the payment of the interest on the related series of Bonds and for the payment of principal of and premium, if any, on such Bonds upon maturity or redemption. Moneys held in a Bond Fund for payment of matured or redeemed Bonds of the related series which have not been presented for payment, as described in the applicable Bond Indenture, shall not be invested.

Upon the acceleration of the maturity of a series of Bonds pursuant to the applicable Bond Indenture, all moneys held in the applicable Bond Funds shall be applied as provided in the applicable Bond Indenture.

### **Substitution of Notes**

Pursuant to each of the Bond Indentures, the Obligated Group retains the right to provide a Substitute Note (as defined in the Bond Indentures) for the Note previously issued under the related Bond Indenture, by providing the following items to the Bond Trustee:

(1) an original executed counterpart of a Replacement Master Indenture (defined in the Bond Indentures as a master indenture entered into by the Obligated Group Members as substitution for the Master Indenture);

(2) an original replacement note or notes or similar obligations issued by or on behalf of the New Group (defined in the Bond Indentures as the obligated group or credit group under and as defined in a Replacement Master Indenture), under and pursuant to and secured by the Replacement Master Indenture, which Substitute Note is to be in the same principal amount, the same amortization, maturity, interest rate and loan repayment terms as the Note being replaced, and which Substitute Note has been duly authenticated by the Replacement Trustee (defined in the Bond Indentures as the master trustee under a Replacement Master Indenture);

(3) an Opinion of Counsel addressed to the Bond Trustee and the Authority (in form and substance acceptable to the Authority and not unacceptable to the Bond Trustee) to the effect that: (a) the Replacement Master Indenture has been duly authorized, executed and delivered by or on behalf of the New Group, the Substitute Note has been duly authorized, executed and delivered by or on behalf of the New Group and the Replacement Master Indenture and the Substitute Note are each a legal, valid and binding obligation of each member of the New Group, subject in each case to customary exceptions for bankruptcy, insolvency and other laws generally affecting enforcement of creditor's rights and application of general principles of equity; (b) all requirements and conditions to the issuance of the Substitute Note set forth in the Replacement Master Indenture have been complied with and satisfied; and (c) registration of the Substitute Note under the Securities Act of 1933, as amended, is not required or, if registration is required, the Substitute Note has been so registered;

(4) a Favorable Opinion of Bond Counsel addressed to the Bond Trustee and the Authority to the effect that (a) the surrender of the Note being replaced and the acceptance by the Bond Trustee of the Substitute Note will not adversely affect the validity of the Bonds to be secured by the Substitute Note or any exemption for the purposes of federal income taxation to which interest on such Bonds would otherwise be entitled and (b) that such Substitute Note will be pari passu with any other notes or securities issued under the Replacement Master Indenture; and

(5) written evidence from each of Moody's, S&P and Fitch, if then maintaining a rating on the Bonds to be secured by the Substitute Note, that it will not lower the rating of such Bonds in connection with the issuance of the Substitute Note under the Replacement Master Indenture.

By purchasing the Bonds, the Bondholders will be deemed to have consented to amending and replacing the Master Indenture for the express purpose of applying the substitution provisions provided above to the Notes.

## **Redemption**

The Bond Indentures provide that the Bonds shall be subject to optional redemption prior to maturity, in whole or in part, at the option of the Authority on the terms set forth therein. See the subcaption "Optional Redemption" under the caption "THE BONDS" in the Official Statement. In addition, the Bonds may be subject to extraordinary redemption in circumstances described under the subcaption "Extraordinary Redemption" under the caption "THE BONDS" in this Official Statement. The Bonds may also be subject to conditional redemption in circumstances described under the subcaption "Notice of Redemption" under the caption "THE BONDS" in this Official Statement.

## **Investment of Funds**

Except as otherwise provided in the Bond Indentures, moneys held in each Bond Proceeds Fund and each Bond Fund shall be invested and reinvested by the Bond Trustee upon written direction of the Obligated Group Agent in Permitted Investments, maturing, redeemable or marketable no later than the date on which it is estimated that such moneys will be required to be paid out under the Bond Indentures.

All investment instructions under the Bond Indentures shall be provided in writing to the Bond Trustee no later than one Business Day (or such shorter period of time as shall be acceptable to the Bond Trustee) prior to the making of the investment directed therein. The Bond Trustee may make any and all such investments through its own investment department, or through any of its affiliates or subsidiaries. The Bond Trustee may also make any investments in such investments as are offered or maintained by the Bond Trustee itself or by any of its affiliates or subsidiaries, and may charge its ordinary and customary fees for such trades, including investment maintenance fees. The Bond Trustee shall not be responsible or liable for the performance of any such investments or for keeping the moneys held by it under the Bond Indentures fully invested at all times. The Bond Trustee shall notify the Obligated Group Agent in the event any moneys are being held uninvested pursuant to the Bond Indentures. Any obligations acquired by the Bond Trustee as a result of investment or reinvestment shall be held by or under the control of the Bond Trustee (except for such investments held in book entry form) and shall be deemed to constitute a part of the Fund or Account from which the moneys used for its purchase were taken. Except as otherwise provided, all investment income derived from any Fund or Account held under the Bond Indentures shall be retained or credited to the Fund or Account from which such investment income is derived; provided, however, notwithstanding the foregoing, any interest earned or profit realized on the Bond Funds prior to the completion of the applicable Project shall be deposited in the applicable Bond Proceeds Fund.

The Bond Trustee shall not be liable or responsible for any loss resulting from any such investment so long as such investment was made in accordance with the fiduciary duties imposed on the Bond Trustee pursuant to the Bond Indentures. Although the Authority and the Obligated Group Agent each recognizes that it may obtain a broker confirmation or written statement containing comparable information at no additional cost, confirmations are not required from the Bond Trustee for any investment included in a monthly statement rendered by the Bond Trustee, and no statement for any

month need be rendered by the Bond Trustee for any fund or account if (i) no investment or income accrual activity occurred in such fund or account during such month and (ii) the Bond Trustee has previously delivered a certificate to the Obligated Group stating that there has been no activity in such fund or account for the twelve months preceding the date of such certificate and the Bond Trustee anticipates that there will be no activity in such fund or account during the twelve months following the date of such certificate.

Except as otherwise provided in the Bond Indentures or agreed to in writing by the Obligated Group Agent and the Bond Trustee, the Obligated Group Agent shall retain the authority to institute, participate and join in any plan of reorganization, readjustment, merger or consolidation with respect to the issuer of any investments held under the Bond Indenture, and, in general, to exercise each and every other power or right with respect to each such asset or investment as individuals generally have and enjoy with respect to their own assets and investment, including power to vote upon any securities.

## **Events of Default**

The following are events of default under each Bond Indenture:

- (a) Default in the due and punctual payment of the interest on or principal of, premium on, or redemption of any Bond of the related series, whether at the maturity date, or upon proceedings for redemption thereof, or upon the maturity thereof by acceleration or otherwise;
- (b) Default in the performance or observance of any other obligation or condition on the part of the Authority contained in the Bond Indenture or the related series of Bonds (other than as described in the Bond Indenture), and the continuance thereof for a period of 60 days after written notice given to the Obligated Group Agent and the Authority by the Bond Trustee or by the Holders of not less than 25% in aggregate principal amount of the Bonds then Outstanding, except that if such default cannot be corrected within such period, it shall not constitute an Event of Default if in the judgment of the Bond Trustee in reliance upon an opinion of Counsel, the default is correctable without material adverse effect on the related series of Bonds and if corrective action is instituted by the Obligated Group within such period and diligently pursued until the default is corrected; and
- (c) The occurrence of an “Event of Default” under and as defined in the Loan Agreement or an event of default by the Obligated Group under the Master Indenture.

Upon the occurrence of an Event of Default described in paragraphs (b) or (c) above, the Bond Trustee may, upon the written request of the Holders of not less than 25% in principal amount of the related series of Bonds then Outstanding, declare the principal of and accrued interest on all Outstanding Bonds of such series to be immediately due and payable, whereupon such Bonds shall without further action become and be immediately due and payable. The Bond Trustee shall, upon the occurrence of an Event of Default under paragraph (a) above, declare the principal of and accrued interest on all outstanding Bonds of such series to be immediately due and payable, whereupon such Bonds shall without further action become and be immediately due and payable. Interest on such Bonds shall cease to accrue immediately upon such declaration of acceleration. The Bond Trustee shall simultaneously with any such declaration give written notice of any such declaration to the Authority, the Obligated Group Agent and the Holders of the related series of Bonds.

Upon any declaration of acceleration of maturity of principal and interest on any Bonds under the related Bond Indenture, the Bond Trustee shall promptly exercise such rights as it may have under the applicable Loan Agreement to declare all payments thereunder to be immediately due and payable and shall apply any moneys in the applicable Bond Fund in accordance with the applicable Bond Indenture and, by action or suit, may enforce the remedies provided under the Master Indenture in accordance with the applicable Supplemental Indenture.

### **Application of Moneys**

All moneys received by the Bond Trustee pursuant to any action taken after an Event of Default under a Bond Indenture, except moneys held by the Bond Trustee for the benefit of the related series of Bonds redeemed or the related series of Bonds which have matured, shall be first applied to the payment of the fees and expenses of the Trustee and second to payment of any moneys, other than the applicable Loan Repayments, due and owing the Authority or the Authority's Agents under the applicable Loan Agreement or applicable Note. The balance of such moneys, less such amounts as the Bond Trustee shall determine may be needed for use in paying future fees and expenses, shall be deposited by the Bond Trustee in the applicable Bond Fund. Moneys in a Bond Fund shall be applied as follows:

(a) Unless the principal on all Bonds of the related series shall have become or been declared due and payable, all such moneys shall be applied:

First - To the payment of all installments of interest then due on the Bonds of such series in order of maturity of such installments of interest and, if the amount available shall not be sufficient to pay in full any particular installment, then to the ratable payment of the amounts due on such installment; and

Second - To the payment of the unpaid principal of any of the Bonds of such series which shall have become due (other than Bonds of such series called for redemption for the payment of which moneys are held pursuant to the applicable Bond Indenture), in the order of their due dates, with interest on such Bonds from the respective dates upon which they became due (at the rate borne by such Bonds, to the extent permitted by law) and, if the amount available shall not be sufficient to pay in full Bonds due on any particular date, together with such interest, then to the ratable payment of the amounts due on such date.

(b) If the principal of all the Bonds of a series shall have become or been declared due and payable, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon the Outstanding Bonds of such series, without preference or priority as between (i) principal or interest, (ii) installments of interest or (iii) Bonds, ratably according to the amounts due respectively for principal and interest to the persons entitled thereto.

(c) If the principal on all Bonds of a series shall have been declared due and payable, and if such declaration shall thereafter have been annulled under the related Bond Indenture, then, subject to paragraph (b) above, in the event that the principal of all the Bonds of such series shall later become or be declared due and payable, the moneys shall be applied in accordance with paragraph (a) above.

Whenever moneys are to be applied as described above, such moneys shall be applied at such times, and from time to time, as the Bond Trustee shall determine, having due regard to the amount of such moneys available for application, the likelihood of additional moneys becoming available for such



application in the future, and potential fees, costs and expenses relating to the exercise of any remedy or right conferred on the Bond Trustee by the Bond Indentures. Whenever the Bond Trustee shall apply such moneys, it shall fix the date (which shall be an Interest Payment Date unless it shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Bond Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and shall not be required to make payment to the Holder of any unpaid Bond until such Bond shall be presented to the Bond Trustee for appropriate endorsement or for cancellation if fully paid. When the Bond Trustee incurs expenses or renders services after the occurrence of an Event of Default, such expenses and the compensation for such services are intended to constitute expenses of administration under any federal or state bankruptcy, insolvency, arrangement, moratorium, reorganization or other debtor relief law.

### **Waivers of Events of Default**

To the extent not precluded by a Bond Indenture, the Bond Trustee shall waive any Event of Default, other than an Event of Default described under paragraph (a) under the caption “Events of Default” above, at the direction of at least 51% of the Bondholders of the related series, and annul any declaration of maturity of principal, and in case of any such waiver or rescission, the Authority, the Obligated Group and the Bondholders shall be restored to their former positions and rights under the Bond Indenture respectively, but no such waiver shall extend to or affect any subsequent or other Event of Default, or impair any right consequent thereon. Notwithstanding anything to the contrary in a Bond Indenture, no declaration of maturity of principal made by the Bond Trustee at the direction of the Holders of 25% or more of the aggregate principal amount of the related series of Bonds then Outstanding shall be annulled or the underlying Event of Default waived by the Bond Trustee without the consent of at least 51% of such Bondholders. No waiver or annulment may be made by the Trustee unless, prior to such waiver or annulment, all arrears of interest or all arrears of payment of principal then due, as the case may be, together with interest (to the extent permitted by law) on overdue principal and interest, at the applicable rate of interest borne by the Bonds, and all fees, costs and expenses of the Bond Trustee, shall have been paid or provided for.

No delay or omission to exercise any right or power accruing upon any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default or acquiescence therein; and every such right and power may be exercised from time to time and as often as may be deemed expedient.

### **Amendments to Loan Agreement and Master Indenture**

The Authority and the Bond Trustee, without the consent of or notice to the Bondholders of a series of Bonds but with the prior written consent of the Obligated Group Agent on behalf of the Obligated Group, may consent to any amendment of the Loan Agreement or the Master Indenture as may be required (i) by the provisions of the applicable Loan Agreement, the Master Indenture, the applicable Supplemental Indenture or the applicable Bond Indenture, (ii) for the purpose of curing any ambiguity or formal defect or omission which, in the judgment of the Bond Trustee acting in reliance upon opinion of Counsel, is not materially prejudicial to the rights of the Bondholders of such series, (iii) to grant or pledge to the Bond Trustee for the benefit of such Bondholders any additional security, (iv) to make any change requested by Moody’s or Fitch (or any of such rating agencies as then maintain a rating on the Bonds) necessary to obtain, maintain or improve the rating on the Bonds, (v) to modify or delete any provision of the Master Indenture, other than provisions relating to the amounts and times of payment of the applicable Note and Events of Default under the Master Indenture or to substitute or dilute the

security for the Bonds of the related series, if any, which a Consultant shall determine to be inappropriate or impractical and detrimental to the interests of the Bondholders of such Bonds due to changes in circumstances generally affecting acute care hospitals or health care facilities located in the areas served by the Obligated Group beyond the control of any Member of the Obligated Group or (vi) in connection with any other change therein which, in the judgment of the Bond Trustee acting in reliance upon an opinion of Counsel, is not to the material prejudice of the Bond Trustee or the Holders of the Bonds of such series.

Except for amendments described in the preceding paragraph, neither the Authority nor the Bond Trustee shall consent to any other amendment of a Loan Agreement or the Master Indenture without written notice to the Holders of the Bonds and written approval or consent of the Obligated Group Agent on behalf of the Obligated Group and the Holders of not less than a majority in the aggregate principal amount of the Bonds of the related series at the time Outstanding given and procured as provided in the applicable Bond Indenture. If at any time the Authority and the Obligated Group Agent shall request the consent of the Bond Trustee to any such proposed amendment of the Loan Agreement or the Master Indenture, the Bond Trustee shall, upon being satisfactorily indemnified with respect to fees, costs and expenses, cause notice of such proposed amendment to be given in the same manner as provided in the Bond Indentures with respect to supplemental indentures. Such notice shall briefly set forth the nature of such proposed amendment and shall state that copies of the instrument embodying the same are on file at the designated corporate trust office of the Bond Trustee for inspection by all Bondholders. If within 60 days or such longer period as shall be prescribed by the Bond Trustee following the mailing of such notice, the Holders of not less than a majority in aggregate principal amount of the related Bonds Outstanding at the time of execution of any such amendment of the Loan Agreement or the Master Indenture shall have consented to and approved the execution thereof as provided in the Bond Indentures, no Holder of any Bond of such series 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 Obligated Group or the Authority from executing the same or from taking any action pursuant to the provisions thereof. Upon the execution of any such amendment of a Loan Agreement or the Master Indenture in this Section permitted and provided and which shall have been agreed to in writing by the Obligated Group Agent on behalf of the Obligated Group, the Loan Agreement or the Master Indenture shall be deemed to be amended in accordance therewith. Notwithstanding the foregoing, for the purpose of determining the percentage of registered Holders of a series of Bonds necessary to consent to amendments to a Loan Agreements and the Master Indenture, such percentage shall be based on the aggregate principal amount of all Outstanding Bonds plus the aggregate principal amount of outstanding Related Bonds (as defined in the Master Indenture) subsequently issued by the Authority.

### **Supplemental Indentures**

The Authority and the Bond Trustee may without consent of or notice to any of the Bondholders of a series, but with the consent of the Obligated Group, as applicable, enter into a supplemental indenture as shall not be inconsistent with the terms and provisions of the applicable Bond Indenture for any one or more of the following purposes:

- (a) To cure any ambiguity or formal defect or omission in such Bond Indenture;
- (b) To grant to or confer upon the Bond Trustee, with its consent for the benefit of the Bondholders of such series, any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon such Bondholders or Bond Trustee;

- (c) To grant or pledge any additional security to the Bond Trustee for the benefit of such Bondholders;
- (d) To modify, amend or supplement the Bond Indenture or any indenture supplemental thereto in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939 or any similar federal statute then in effect or to permit the qualification of the applicable Bonds for sale under the securities laws of any of the states of the United States;
- (e) To obtain or maintain ratings on the applicable Bonds from Moody's and/or Fitch, except for changes requiring 100% consent of the holders under the Bond Indenture;
- (f) To make any other change which, in the judgment of the Bond Trustee acting in reliance upon an opinion of Counsel, is not to the material prejudice of the Bond Trustee or Holders of the Bonds of such series.

Before the Authority and the Bond Trustee shall enter into any supplemental indenture as described above, there shall have been delivered to the Authority and the Bond Trustee a Favorable Opinion of Bond Counsel with respect to such supplemental indenture and further stating that such supplemental indenture is authorized or permitted by the Bond Indenture and will, upon the execution and delivery thereof, be valid and binding upon the Authority in accordance with its terms. Neither the Authority nor the Bond Trustee will be obligated to enter into any such supplemental indenture that would materially alter their respective rights, duties or immunities under the respective Bond Indenture, under the respective Loan Agreement or otherwise.

Exclusive of supplemental indentures covered above, the Holders of not less than a majority of the principal amount of Outstanding Bonds of a series shall have the right to consent to and approve the execution by the Authority and the Bond Trustee of other supplemental indentures; *provided, however*, that nothing contained in the a Bond Indenture shall permit (i) an extension of the maturity of the principal of or the interest on any Bond issued under such Bond Indenture, (ii) a reduction in the principal amount of any Bond or the rate of interest thereon, (iii) a privilege or priority of any Bond or Bonds of a series over any other Bond or Bonds of such series, or (iv) amendment of the Bond Indenture provisions regarding amendment or supplements to the Bond Indenture, the applicable Loan Agreement or the Master Indenture, except upon the written consent of the Obligated Group Agent on behalf of the Obligated Group and the Holders of 100% of the principal amount of the related series of Bonds Outstanding.

The Bond Trustee shall give written notice of the proposed execution of a supplemental indenture by mail to the Holders of all Bonds of the applicable series then Outstanding as shown on the Bond Register. Such notice shall briefly set forth the nature of the proposed supplemental indenture and shall state that copies thereof are on file at the designated corporate trust office of the Bond Trustee for inspection by the parties mentioned in the preceding sentence. If, within 60 days or such longer period as shall be prescribed by the Bond Trustee following the mailing of such notice, (i) the Holders of not less than a majority or 100%, if applicable, of the principal amount of the applicable series of Bonds Outstanding by instruments filed with the Bond Trustee shall have consented to the adoption thereof, and (ii) there shall have been delivered to the Authority and the Bond Trustee a Favorable Opinion of Bond Counsel with respect to such supplemental indenture and further stating that such supplemental indenture is authorized or permitted by the Bond Indenture and will, upon the execution and delivery thereof, be valid and binding upon the Authority in accordance with its terms, then such supplemental indenture may

be executed and the applicable Bond Indenture shall be deemed to be modified and amended in accordance therewith.

Anything herein to the contrary notwithstanding, a supplemental indenture shall not become effective unless and until the Obligated Group, so long as an Event of Default under the applicable Bond Indenture has not been caused by the Obligated Group which is continuing, shall have consented to the adoption of such supplemental indenture.

## **Removal or Resignation of the Bond Trustee; Appointment of Successor Bond Trustee**

### **Resignation**

The Bond Trustee may resign by giving not less than 60 days written notice to the Obligated Group and the Authority specifying the date when such resignation shall take effect, and such resignation shall take effect upon the date specified in such notice provided a successor trustee has been appointed and has accepted such appointment, unless previously a successor shall have been appointed and shall have accepted such appointment, as provided in the Bond Indenture, in which event such resignation shall take effect immediately on the appointment and acceptance of such successor, provided further that if a successor trustee shall not have been appointed the Bond Trustee may petition a court of competent jurisdiction to appoint a successor trustee.

### **Removal**

The Bond Trustee shall be removed as trustee for a series of Bonds at any time by an instrument or concurrent instruments in writing, and executed by the Obligated Group Agent (so long as no Event of Default has occurred and is continuing) or signed by the Holders of a majority in principal amount of the Outstanding Bonds of such series filed with the Bond Trustee, the Authority and Obligated Group, and either submitted to Electronic Municipal Market Access system of the Municipal Securities Rulemaking Board ("MSRB"), or such other system, internet web site, or repository hereafter described by the MSRB for submission of electronic filing, or mailed to the Bondholders at their addresses as they appear on the registration books of the Authority, not less than sixty (60) days before the removal is to take effect as stated in said instrument or instruments. If there shall be filed with the Authority prior to the date on which such removal is so stated to take effect an instrument or concurrent instruments in writing, executed by the registered owners of a greater aggregate principal amount of the Outstanding Bonds of such series than the amount of Bonds held by the registered owners signing the removal instrument or instruments, objecting to the removal of the Bond Trustee, then the removal instrument or instruments shall be ineffective and the Bond Trustee shall not be removed. A photocopy of any instrument or instruments filed with the Authority under the provisions of this paragraph, duly certified by an Authorized Officer of the Authority, shall be delivered promptly by the Authority to the Bond Trustee and the Obligated Group.

The Bond Trustee may also be removed at any time for any breach of trust or for acting or proceeding in violation of, or for failing to act or proceed in accordance with, any provisions of the applicable Bond Indenture with respect to the duties and obligations of the Bond Trustee by any court of competent jurisdiction upon the application of the Authority or the Holders of a majority in principal amount of the Outstanding Bonds of a series. Such removal shall take effect immediately on the appointment and acceptance of a successor trustee in accordance with the applicable Bond Indenture.

### Appointment of Successor Bond Trustee

If the Bond Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged bankrupt or insolvent, or if a receiver, liquidator or conservator of the Bond Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Bond Trustee, or of its property or affairs, a successor may be appointed by the Obligated Group so long as no Event of Default has occurred and is continuing under the Bond Indenture, or, upon the occurrence and continuance of an Event of Default or the failure of the Obligated Group to appoint a successor, by the Holders of a majority of aggregate principal amount of Bonds of a series then Outstanding, by an instrument or concurrent instruments in writing of such Holders; provided, however, that in case of such vacancy the Authority shall forthwith appoint a Bond Trustee acceptable to the Obligated Group, provided no Event of Default has occurred and is continuing under the applicable Bond Indenture, to fill such vacancy unless and until a successor Bond Trustee shall be appointed as provided in such Bond Indenture.

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Appendix D

Form of Opinions of Bond Counsel

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\_\_\_\_\_, 2019

County of Grand Traverse Hospital Finance Authority  
Grand Traverse, Michigan

We have acted as bond counsel in connection with the issuance by the County of Grand Traverse Hospital Finance Authority (the "Authority") of its Revenue Bonds (Munson Healthcare Obligated Group), Series 2019A (the "Bonds"), bearing an original issuance date of January \_\_, 2019 and in the aggregate principal amount of \$ \_\_\_\_\_.

We have examined a transcript of proceedings with respect to the Bonds, including a certified copy of the resolution, adopted by the Authority on November 27, 2018 (the "Authorizing Resolution"), an executed counterpart of the Bond Indenture, dated as of January 1, 2019 (the "Bond Indenture"), between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee, an executed counterpart of the Loan Agreement, dated as of January 1, 2019 (the "Loan Agreement"), between the Authority and Munson Healthcare, for itself and as Obligated Group Agent on behalf of the other Members of the Obligated Group, and an executed counterpart of the Obligated Group Non-Arbitrage and Tax Compliance Certificate and the Authority's Non-Arbitrage Certificate, both dated this date. We have also reviewed such other information, records, and documents as, in our judgment, have been necessary or advisable to deliver the opinions set forth herein, and we have examined an executed Bond or specimen thereof. Capitalized terms used herein and not otherwise defined shall have the meanings defined in the Bond Indenture.

In rendering this opinion we have, with your approval, relied upon the opinion dated as of the date hereof of Rachel Roe, Esq., Vice President and General Counsel to the Obligated Group, as to the due authorization, execution and delivery by Munson Healthcare, as Obligated Group Agent, of the Loan Agreement and the other documents to which the Obligated Group is a party, the validity and enforceability of them against the Obligated Group, and as to the status of Munson Healthcare and Munson Healthcare Manistee Hospital (the "Hospital"), as organizations described in Section 501(c)(3) of the Code.

As to questions of fact material to our opinion, we have relied upon representations of the Authority and the Obligated Group contained in the Bond Indenture and the Loan Agreement, and the certified proceedings and other certifications of public officials and others furnished to us.

The Bonds are issued by the Authority under and pursuant to Act No. 38, Michigan Public Acts of 1969, as amended (the "Act"), for the purpose of providing funds to be loaned by the Authority to the Hospital, which, together with other available funds, will be used (i) to finance the Costs of the Project, (ii) refinance the Prior Loan and (iii) to pay certain costs incurred in connection with the issuance of the Bonds.

The Bonds are issuable as fully registered bonds only in the denominations of \$5,000 or any integral multiple of \$5,000.

The Bonds bear interest from January \_\_, 2019 payable on each January 1 and July 1, commencing July 1, 2019.

The Bonds are subject to redemption prior to maturity, at the times, in the manner and at the redemption prices specified in the Bond Indenture.

Based upon such examination, and subject to the exceptions and matters of reliance set forth herein, we are of the opinion that:

1. The Authority, pursuant to the Act, is a public body corporate and politic of the State of Michigan, is legally organized and validly existing under the Constitution and laws of the State of Michigan, including particularly the Act, and is legally authorized and empowered to adopt the Authorizing Resolution, to enter into the Bond Indenture and the Loan Agreement and to issue and deliver the Bonds.

2. The Authorizing Resolution has been duly adopted by the Authority and is a valid and binding action of the Authority.

3. The Bond Indenture and the Loan Agreement, assuming proper authorization and execution by the parties thereto other than the Authority, constitute valid and binding agreements of the Authority, enforceable against the Authority in accordance with their respective terms.

4. The issuance of the Bonds has been duly authorized, all conditions precedent to delivery of the Bonds have been fulfilled, and when duly authenticated, the Bonds will be valid and binding obligations of the Authority, enforceable in accordance with their terms. The Bonds do not constitute obligations or create any debt of the County of Grand Traverse or the State of Michigan, nor do they constitute a general obligation of the Authority; the principal of and the interest and redemption premium, if any, on the Bonds are payable solely from the sources provided therefor in the Bond Indenture.

5. The interest on the Bonds (a) is excluded from gross income for federal income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum tax. The opinion set forth in clause (a) above is subject to the condition that the Authority and the Obligated Group comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest on the Bonds be (or continue to be) excluded from gross income for federal income tax purposes. Failure to comply with such requirements could cause the interest on the Bonds to be included in gross income retroactive to the date of issuance of the Bonds. The Obligated Group has covenanted, for itself and on behalf of the Authority, to comply with all such requirements.

6. The Bonds and the interest thereon are exempt from all state, city, county and other taxation provided by the laws of the State of Michigan, except for estate, inheritance and gift taxes, and taxes on transfers.

Except as stated in paragraphs 5 and 6 above, we express no opinion regarding any other federal or state tax consequences arising with respect to the Bonds and the interest thereon.

The foregoing opinions are qualified to the extent that the enforceability of the rights and remedies set forth in the Bond Indenture, the Loan Agreement, and the Bonds may be limited by bankruptcy, insolvency, fraudulent conveyance or other laws affecting creditors rights generally, now existing or hereafter enacted, and by the application of general principles of equity, including those relating to equitable subordination, and their enforcement may be subject to the exercise of judicial discretion in appropriate cases.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

Very truly yours,

MILLER, CANFIELD, PADDOCK AND STONE, P.L.C.

By\_\_\_\_\_

\_\_\_\_\_, 2019

County of Grand Traverse Hospital Finance Authority  
Grand Traverse, Michigan

We have acted as bond counsel in connection with the issuance by the County of Grand Traverse Hospital Finance Authority (the "Authority") of its Revenue Bonds (Munson Healthcare Obligated Group), Series 2019B (the "Bonds"), bearing an original issuance date of January \_\_, 2019 and in the aggregate principal amount of \$\_\_\_\_\_.

We have examined a transcript of proceedings with respect to the Bonds, including a certified copy of the resolution, adopted by the Authority on November 27, 2018 (the "Authorizing Resolution"), an executed counterpart of the Bond Indenture, dated as of January 1, 2019 (the "Bond Indenture"), between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee, an executed counterpart of the Loan Agreement, dated as of January 1, 2019 (the "Loan Agreement"), between the Authority and Munson Healthcare, for itself and as Obligated Group Agent on behalf of the other Members of the Obligated Group, and an executed counterpart of the Obligated Group Non-Arbitrage and Tax Compliance Certificate and the Authority's Non-Arbitrage Certificate, both dated this date. We have also reviewed such other information, records, and documents as, in our judgment, have been necessary or advisable to deliver the opinions set forth herein, and we have examined an executed Bond or specimen thereof. Capitalized terms used herein and not otherwise defined shall have the meanings defined in the Bond Indenture.

In rendering this opinion we have, with your approval, relied upon the opinion dated as of the date hereof of Rachel Roe, Esq., Vice President and General Counsel to the Obligated Group, as to the due authorization, execution and delivery by Munson Healthcare, as Obligated Group Agent, of the Loan Agreement and the other documents to which the Obligated Group is a party, the validity and enforceability of them against the Obligated Group, and as to the status of Munson Healthcare and Munson Healthcare Otsego Memorial Hospital (the "Hospital"), as organizations described in Section 501(c)(3) of the Code.

As to questions of fact material to our opinion, we have relied upon representations of the Authority and the Obligated Group contained in the Bond Indenture and the Loan Agreement, and the certified proceedings and other certifications of public officials and others furnished to us.

The Bonds are issued by the Authority under and pursuant to Act No. 38, Michigan Public Acts of 1969, as amended (the "Act"), for the purpose of providing funds to be loaned by the Authority to the Hospital, which, together with other available funds, will be used (i) to finance the Costs of the Project, (ii) refinance the Prior Loan and (iii) to pay certain costs incurred in connection with the issuance of the Bonds.

The Bonds are issuable as fully registered bonds only in the denominations of \$5,000 or any integral multiple of \$5,000.

The Bonds bear interest from January \_\_, 2019 payable on each January 1 and July 1, commencing July 1, 2019.

The Bonds are subject to redemption prior to maturity, at the times, in the manner and at the redemption prices specified in the Bond Indenture.

Based upon such examination, and subject to the exceptions and matters of reliance set forth herein, we are of the opinion that:

1. The Authority, pursuant to the Act, is a public body corporate and politic of the State of Michigan, is legally organized and validly existing under the Constitution and laws of the State of Michigan, including particularly the Act, and is legally authorized and empowered to adopt the Authorizing Resolution, to enter into the Bond Indenture and the Loan Agreement and to issue and deliver the Bonds.

2. The Authorizing Resolution has been duly adopted by the Authority and is a valid and binding action of the Authority.

3. The Bond Indenture and the Loan Agreement, assuming proper authorization and execution by the parties thereto other than the Authority, constitute valid and binding agreements of the Authority, enforceable against the Authority in accordance with their respective terms.

4. The issuance of the Bonds has been duly authorized, all conditions precedent to delivery of the Bonds have been fulfilled, and when duly authenticated, the Bonds will be valid and binding obligations of the Authority, enforceable in accordance with their terms. The Bonds do not constitute obligations or create any debt of the County of Grand Traverse or the State of Michigan, nor do they constitute a general obligation of the Authority; the principal of and the interest and redemption premium, if any, on the Bonds are payable solely from the sources provided therefor in the Bond Indenture.

5. The interest on the Bonds (a) is excluded from gross income for federal income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum tax. The opinion set forth in clause (a) above is subject to the condition that the Authority and the Obligated Group comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest on the Bonds be (or continue to be) excluded from gross income for federal income tax purposes. Failure to comply with such requirements could cause the interest on the Bonds to be included in gross income retroactive to the date of issuance of the Bonds. The Obligated Group has covenanted, for itself and on behalf of the Authority, to comply with all such requirements.

6. The Bonds and the interest thereon are exempt from all state, city, county and other taxation provided by the laws of the State of Michigan, except for estate, inheritance and gift taxes, and taxes on transfers.

Except as stated in paragraphs 5 and 6 above, we express no opinion regarding any other federal or state tax consequences arising with respect to the Bonds and the interest thereon.

The foregoing opinions are qualified to the extent that the enforceability of the rights and remedies set forth in the Bond Indenture, the Loan Agreement, and the Bonds may be limited by bankruptcy, insolvency, fraudulent conveyance or other laws affecting creditors rights generally, now existing or hereafter enacted, and by the application of general principles of equity, including those relating to equitable subordination, and their enforcement may be subject to the exercise of judicial discretion in appropriate cases.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

Very truly yours,

MILLER, CANFIELD, PADDOCK AND STONE, P.L.C.

By\_\_\_\_\_

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Appendix E

Form of Continuing  
Disclosure Undertaking

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## **CONTINUING DISCLOSURE UNDERTAKING**

### **County of Grand Traverse Hospital Finance Authority Revenue Bonds (Munson Healthcare Obligated Group), Series 2019A**

**and**

### **County of Grand Traverse Hospital Finance Authority Revenue Bonds (Munson Healthcare Obligated Group), Series 2019B**

This Continuing Disclosure Undertaking (the “Undertaking”) is executed and delivered by Munson Healthcare (“Healthcare”), on its own behalf and as Obligated Group Agent (the “Obligated Group Agent”) on behalf of the Members of the Obligated Group, as hereafter defined, in connection with the issuance by the County of Grand Traverse Hospital Finance Authority of its Revenue Bonds (Munson Healthcare Obligated Group), Series 2019A and Revenue Bonds (Munson Healthcare Obligated Group), Series 2019B (collectively, the “Bonds”). The Bonds are being issued pursuant to their respective Bond Indentures, each dated as of January 1, 2019 (collectively, the “Bond Indentures”) and a resolution authorizing the issuance of the Bonds adopted by the County of Grand Traverse Hospital Finance Authority. On the date hereof, the Members of the Obligated Group are: Healthcare, Munson Medical Center, Paul Oliver Memorial Hospital, Munson Healthcare Cadillac, Munson Healthcare Grayling, Munson Healthcare Otsego Memorial Hospital, Munson Healthcare Manistee Hospital, Munson Healthcare Charlevoix Hospital, Munson Home Health, Munson Home Care, Munson Home Services, North Flight, Inc., Munson Healthcare Foundations and Munson Healthcare Otsego Memorial Hospital Foundation. Healthcare covenants and agrees as follows:

SECTION 1. Purpose of the Undertaking. This Undertaking is being executed and delivered by the Obligated Group Agent, on its own behalf and on behalf of the Members of the Obligated Group, for the benefit of the Bondholders and in order to assist the Underwriter in complying with the Rule (as defined below). The Obligated Group acknowledges that the Authority has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under this Undertaking and has no liability to any Person, including any holder or beneficial owner of the Bonds with respect to the Rule. The Obligated Group acknowledges that this Undertaking does not address the scope of any application of Rule 10b-5 promulgated by the SEC pursuant to the 1934 Act to the notices of the Listed Events provided or required to be provided by the Obligated Group pursuant to this Undertaking.

SECTION 2. Definitions. In addition to the definitions set forth in the Bond Indentures, which apply to any capitalized term used in this Undertaking unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Obligated Group Agent pursuant to, and as described in, this Undertaking.

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

“Dissemination Agent” shall initially mean the Obligated Group Agent or any successor Dissemination Agent designated in writing by the Obligated Group Agent pursuant to Section 8 hereof and which has filed with the Obligated Group Agent a written acceptance of such designation.

“EMMA” means the Electronic Municipal Market Access system of the MSRB, or such other system, Internet Web site, or repository hereafter described by the MSRB for the submission of electronic filings pursuant to the Rule.

“GAAP” means generally accepted accounting principles, as such principles are prescribed, in part, by the Financial Accounting Standards Board and modified by the Government Accounting Standards Board and in effect from time to time.

“Listed Events” shall mean any of the events listed in Section 6(a) of this Undertaking.

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

“1934 Act” shall mean the Securities Exchange Act of 1934.

“Rule” shall mean Rule 15c2-12 promulgated by the SEC pursuant to the 1934 Act, as the same may be amended from time to time.

“SEC” shall mean the Securities and Exchange Commission.

“Underwriter” shall mean the original underwriter of the Bonds required to comply with the Rule in connection with the primary offering of the Bonds.

### SECTION 3. Provision of Annual Reports.

(a) Each year, not later than the date seven months after the close of the Obligated Group Agent’s fiscal year, the Obligated Group Agent shall provide or cause a Dissemination Agent to provide to EMMA an Annual Report for the preceding fiscal year which is consistent with the requirements of this Undertaking. Currently, the Obligated Group Agent’s fiscal year closes on June 30. In each case, 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 this Undertaking; provided, however, that if the audited financial statements are not available by the deadline for filing the Annual Report, they shall be provided when and if available, and unaudited financial statements shall be included in the Annual Report.

(b) The Annual Report shall be submitted to EMMA either through a web-based electronic submission interface or through electronic computer-to-computer data connections with EMMA in accordance with the submission process, document format and configuration requirements established by the MSRB. The Annual Report shall also include all related information required by MSRB to accurately identify: (i) the category of information being provided; (ii) the period covered by the Annual Report; (iii) the issues or specific securities to which the Annual Report is related (including CUSIP number, issuer name, state, issue description/securities name, dated date, maturity date, and/or coupon rate); (iv) the name of any obligated person other than the issuer; (v) the name and date of the document; and (vi) contact information for the Dissemination Agent or the submitter.

(c) If the Obligated Group Agent is unable to provide an Annual Report to EMMA by the date required in subsection (a), the Obligated Group Agent shall send a notice in a timely manner to the MSRB in substantially the form attached as Exhibit A.

(d) If the Obligated Group Agent's fiscal year changes, the Obligated Group Agent shall send a notice of such change to the MSRB in substantially the form attached as Exhibit B. If such change will result in the Obligated Group Agent's fiscal year ending on a date later than the ending date prior to such change, the Obligated Group Agent shall provide notice of such change to EMMA, on or prior to the deadline for filing the Annual Report in effect when the Obligated Group Agent operated under its prior fiscal year. Such notice may be provided to the MSRB along with the Annual Report, provided that it is filed at or prior to the deadline described above.

(e) If a Dissemination Agent has been appointed by the Obligated Group Agent, (i) the Obligated Group Agent shall provide the Annual Report to the Dissemination Agent not later than 10 days prior to the date by which it must be provided to EMMA under subsection (a) above and (ii) the Dissemination Agent shall file a report with the Obligated Group Agent certifying that the Annual Report has been provided pursuant to this Undertaking, stating the date it was provided to EMMA.

SECTION 4. Content of Annual Reports. The Obligated Group's Annual Report shall contain or incorporate by reference the following:

- (a) the Audited Financial Statements of Munson Healthcare and its subsidiaries; and
- (b) Updates of the following tables or sections of financial information and operating data included in the applicable Official Statement related to the Bonds:

<u>Title of Table or Section</u>	<u>Page</u>
Historical Utilization of Services (by Fiscal Year)	A-22
Summary of Revenue and Expenses (by Fiscal Year)	A-22
Days Cash on Hand (by Fiscal Year)	A-23
Capitalization (by Fiscal Year)	A-24
Pro Forma Debt Service Coverage	A-25
Management's Discussions of Results of Operations for Munson Healthcare and its Subsidiaries	A-26

provided, however, that the updated information for the specified tables or sections may be provided in such format as the Obligated Group Agent deems appropriate, and provided further that, if any of the updates referred to above no longer can be provided because the operations to which they relate have been materially changed or discontinued, a statement to that effect, provided by the Obligated Group Agent to the MSRB through EMMA, along with any other annual financial information or audited financial statements required to be provided under this Undertaking, shall satisfy this Undertaking and to the extent available, the Obligated Group Agent shall cause to be filed along with the other annual financial information or audited financial statements operating data similar to that which can no longer be provided.

## SECTION 5. Quarterly Financial Information.

(a) For each fiscal quarter of the Obligated Group Agent's Fiscal Year, not later than 45 days after the close of the Obligated Group Agent's fiscal quarter, the Obligated Group Agent shall provide or cause a Dissemination Agent to provide to EMMA the following quarterly financial information:

Management prepared financial statements of Munson Healthcare and its subsidiaries, which shall include a balance sheet, a statement of cash flows, and a statement of operations and changes in net assets.

(b) The quarterly financial information described above shall be submitted by the Obligated Group Agent to EMMA in the same manner as the Annual Report provided for in this Undertaking.

(c) If a Dissemination Agent has been appointed by the Obligated Group Agent, (i) the Obligated Group Agent shall provide the quarterly financial information to the Dissemination Agent not later than 10 days prior to the date by which it must be provided to EMMA under subsection (a) above and (ii) the Dissemination Agent shall file a report with the Obligated Group Agent certifying that the quarterly financial information has been provided pursuant to this Undertaking, stating the date it was provided to EMMA.

## SECTION 6. Reporting of Significant Events.

(a) The Obligated Group Agent further covenants to provide, or cause to be provided, notice in a timely manner not in excess of ten business day of the occurrence of any of the following events with respect to the Bonds in accordance with the Rule:

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults, if material;
- (3) unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) substitution of credit or liquidity providers, or their failure to perform;
- (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;
- (7) modifications to rights of security holders, if material;
- (8) bond calls, if material, and tender offers;
- (9) defeasances;
- (10) release, substitution, or sale of property securing repayment of the securities, if material;

- (11) rating changes;
- (12) bankruptcy, insolvency, receivership or similar event of the obligated person;
- (13) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (14) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever the Obligated Group Agent obtains knowledge of the occurrence of a Listed Event, the Obligated Group Agent shall as soon as possible determine if such event would constitute material information for the Bondholders, provided, that any event listed under Section 6(a)(1), (3), (4), (5), (9), (11) (only with respect to any change in any rating on the Bonds) or (12) above will always be deemed to be material. Events listed under Section 6(a)(6) and (8) above will always be deemed to be material except with respect to that portion of those events which must be determined to be material.

(c) The Obligated Group Agent shall promptly cause a notice of the occurrence of a Listed Event, determined to be material in accordance with the Rule, to be electronically filed with EMMA together with a significant event notice cover sheet substantially in the form attached as Exhibit C. In connection with providing a notice of the occurrence of a Listed Event described in Section 6(a)(9) above, the Obligated Group Agent shall include in the notice explicit disclosure as to whether the Bonds have been escrowed to maturity or escrowed to call, as well as appropriate disclosure of the timing of maturity or call.

(d) The Obligated Group Agent acknowledges that the “rating changes” referred to above in Section 6(a)(11) of this Agreement may include, without limitation, any change in any rating on the Bonds.

(e) The Obligated Group Agent acknowledges that it is not required to provide a notice of a Listed Event with respect to credit enhancement when the credit enhancement is added after the primary offering of the Bonds, the Obligated Group Agent does not apply for or participate in obtaining such credit enhancement, and such credit enhancement is not described in the Official Statement.

**SECTION 7. Termination of Reporting Obligation.** The Obligated Group Agent’s obligations under this Undertaking shall terminate upon the legal defeasance of the Bonds or upon the payment in full of all of the Bonds. Notwithstanding the foregoing, (i) if the Rule shall be amended, modified or changed so that all or any part of the information currently required to be provided thereunder shall no longer be required to be provided thereunder and the Obligated Group Agent has received an opinion of legal counsel experienced in the area of federal securities law to that effect, then such information shall no longer be required to be provided hereunder, and (ii) if and to the extent the Rule or any provision thereof shall be declared by a court of competent and final jurisdiction to be, in whole or in part, invalid, unconstitutional, null and void, or otherwise inapplicable to the Bonds, then the information required to be provided hereunder, insofar as it was required to be provided by a provision of the Rule so declared, shall no longer be required to be provided hereunder.

SECTION 8. Dissemination Agent. The Obligated Group Agent may appoint or engage a Dissemination Agent or Agents to assist it in carrying out its respective obligations under this Undertaking, and may discharge any such Agent or Agents, with or without appointing a successor Dissemination Agent or Agents.

SECTION 9. Amendment. Notwithstanding any other provision of this Undertaking, this Undertaking may be amended, without the consent of any Bondholder, if the Obligated Group Agent receives an opinion of legal counsel experienced in the area of federal securities law to the effect that:

- (i) such amendment is made in connection with a change in circumstances that arises from a change in legal requirements, a change in law or a change in the identity, nature or status of the Obligated Group or types of activities in which the Obligated Group is engaged;
- (ii) this Undertaking, as so amended, would have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and
- (iii) such amendment does not materially impair the interests of the Bondholders.

If the amendment or waiver results in a change to the annual financial information required to be included in the Annual Report pursuant to Section 4 of this Agreement, the first Annual Report that contains the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of such change in the type of operating data or financial information being provided. If the amendment or waiver involves a change in the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared based on the new accounting principles and those prepared based on the former accounting principles. The comparison shall include a qualitative discussion of such differences and the impact of the changes on the presentation of the financial information. To the extent reasonably feasible, the comparison also shall be quantitative. A notice of the change in the accounting principles should be sent by the Obligated Group to the MSRB. Further, if the annual financial information required to be provided in the Annual Report can no longer be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be included in the first Annual Report that does not include such information.

SECTION 10. Additional Information. Nothing in this Undertaking shall be deemed to prevent the Obligated Group Agent from disseminating any other information, using the means of dissemination set forth in this Undertaking or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Undertaking. If the Obligated Group Agent chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Undertaking, the Obligated Group Agent shall have no obligation under this Undertaking to update such information or include it in any future Annual Report or notice of occurrence or a Listed Event.

SECTION 11. Failure To Comply. In the event of a failure of the Obligated Group Agent to comply with any provision of this Undertaking, any Bondholder may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Obligated Group Agent or the Dissemination Agent to comply with its obligations under this Undertaking. A failure to comply under this Undertaking shall not be deemed a default under the Master Indenture or the Bond Indenture, and the sole remedy under this Undertaking in the event of any failure of the Obligated Group Agent or the Dissemination Agent to comply with this Undertaking shall be an action to compel performance. Notwithstanding the foregoing, if the alleged failure of the Obligated Group Agent or the

Dissemination Agent to comply with this Undertaking is the inadequacy of the information disclosed pursuant to this Undertaking, then the Bondholders of not less than 25% in aggregate principal amount of the then Outstanding Bonds must take the actions described above, before the Obligated Group Agent or the Dissemination Agent shall be compelled to perform with respect to the adequacy of such information disclosed pursuant to this Undertaking.

SECTION 12. Duties of the Dissemination Agent. Any Dissemination Agent shall have only such duties as are specifically set forth in this Undertaking.

SECTION 13. Beneficiaries. This Undertaking shall inure solely to the benefit of the Obligated Group Agent, the Authority, any Dissemination Agent, the Underwriter and the Bondholders and shall create no rights in any other person or entity.

SECTION 14. Governing Law. This Undertaking shall be governed by the law of the State of Michigan.

Dated as of January \_\_\_, 2019

MUNSON HEALTHCARE, on its own behalf  
and as Obligated Group Agent

By:\_\_\_\_\_

Its:\_\_\_\_\_

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Exhibit A

Notice to the MSRB of  
Failure to File Annual Report

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Name of Obligated Group: Munson Healthcare Obligated Group

Name of Bond Issue: County of Grand Traverse Hospital Finance Authority, Revenue Bonds  
(Munson Healthcare Obligated Group), Series 2019A and 2019B

Date of Bonds: January \_\_, 2019

NOTICE IS HEREBY GIVEN that the Obligated Group has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of its Continuing Disclosure Undertaking with respect to the Bonds. The Obligated Group Agent anticipates that the Annual Report will be filed by \_\_\_\_\_.

MUNSON HEALTHCARE, on its own behalf  
and as Obligated Group Agent

By: \_\_\_\_\_

Its: \_\_\_\_\_

Dated: \_\_\_\_\_



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Exhibit B

Notice to the MSRB of Change in  
Obligated Group Agent's Fiscal Year

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Name of Obligated Group: Munson Healthcare Obligated Group

Name of Bond Issue: County of Grand Traverse Hospital Finance Authority, Revenue Bonds  
(Munson Healthcare Obligated Group), Series 2019A and 2019B

Date of Bonds: January \_\_, 2019

NOTICE IS HEREBY GIVEN that the Obligated Group Agent's fiscal year has changed.  
Previously, the Obligated Group Agent's fiscal year ended on \_\_\_\_\_. It now ends on  
\_\_\_\_\_.

MUNSON HEALTHCARE, on its own behalf  
and as Obligated Group Agent

By: \_\_\_\_\_

Its: \_\_\_\_\_

Dated: \_\_\_\_\_

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Exhibit C

Significant Event Notice Cover Sheet

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This cover sheet and significant event notice should be provided in an electronic format to the Municipal Securities Rulemaking Board pursuant to Securities and Exchange Commission Rule 15c2-12(b)(5)(i)(C) and (D).

Issuer's and/or other Obligated Person's name: \_\_\_\_\_

Issuer's Six-Digit CUSIP Number(s): \_\_\_\_\_

or Nine-Digit CUSIP Number(s) to which this significant event notice relates: \_\_\_\_\_

Number of pages of attached significant event notice: \_\_\_\_\_

Description of Significant Events 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, 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 security, or other material events affecting the tax status of the security
7. ☐ Modifications to rights of security holders
8. ☐ Bond calls
9. ☐ Tender offers
10. ☐ Defeasances
11. ☐ Release, substitution, or sale of property securing repayment of the securities
12. ☐ Rating changes
13. ☐ Bankruptcy, insolvency, receivership or similar event of the obligated person
14. ☐ The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms
15. ☐ Appointment of a successor or additional trustee or the change of name of a trustee
16. ☐ Other significant event notice (specify) \_\_\_\_\_

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

Signature: \_\_\_\_\_

Name: \_\_\_\_\_ Title: \_\_\_\_\_

Employer: \_\_\_\_\_

Address: \_\_\_\_\_

City, State, Zip Code: \_\_\_\_\_

Voice Telephone Number: ( \_\_\_\_\_ ) \_\_\_\_\_

The MSRB Gateway is [www.msrb.org](http://www.msrb.org) or through the EMMA portal at [emma.msrb.org/submission/Submission\\_Portal.aspx](http://emma.msrb.org/submission/Submission_Portal.aspx). Contact the MSRB at (703) 797-6600 with questions regarding this form or the dissemination of this notice.





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