NEW ISSUE - BOOK-ENTRY ONLY **RATINGS: Fitch: "BBB+"**
Moody's: "Baa1"
See "RATINGS" herein

In the opinion of Squire Patton Boggs (US) LLP, Bond Counsel, under existing law (i) assuming continuing compliance with certain covenants and the accuracy of certain representations, interest on the Series 2016 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and (ii) interest on the Series 2016 Bonds is exempt from Arizona state income taxes. Interest on the Series 2016 Bonds may be subject to certain federal taxes imposed only on certain corporations, including the corporate alternative minimum tax on a portion of that interest. For a more complete discussion of the tax aspects, see "TAX MATTERS" herein.

$44,585,000
THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE COUNTY OF YAVAPAI
Hospital Revenue Refunding Bonds
(Yavapai Regional Medical Center)
Series 2016

YAVAPAI REGIONAL MEDICAL CENTER
Two Great Hospitals ... One Caring Spirit

Dated: Date of Delivery **Due:** August 1, as shown on the inside front cover

The Series 2016 Bonds are issuable in fully registered form only in denominations of $5,000 or any integral multiple thereof and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("*DTC*"). Beneficial owners of Series 2016 Bonds will not receive physical certificates representing the Series 2016 Bonds purchased but will receive a credit balance on the books of the nominees of such purchasers. So long as Cede & Co. is the registered owner of the Series 2016 Bonds, principal of and premium, if any, and interest on the Series 2016 Bonds will be paid by Wells Fargo Bank, National Association, as trustee (the "*Bond Trustee*"), to DTC, which, in turn, will remit such principal, premium, if any, and interest to its participants for subsequent disbursement to the beneficial owners of the Series 2016 Bonds, as described herein. Interest on the Series 2016 Bonds is payable on February 1 and August 1 of each year, commencing February 1, 2017.

The Series 2016 Bonds are subject to optional and extraordinary optional redemption and mandatory purchase at the option of YRMC (defined below) in lieu of redemption. See "THE SERIES 2016 BONDS—Redemption" and "—Mandatory Purchase in Lieu of Redemption" herein.

The Series 2016 Bonds are issued and secured under the provisions of the Bond Indenture (described herein) between The Industrial Development Authority of the County of Yavapai (the "*Authority*") and the Bond Trustee. The Authority will loan the proceeds of the Series 2016 Bonds to Yavapai Community Hospital Association, doing business as Yavapai Regional Medical Center ("*YRMC*"), pursuant to the Loan Agreement (described herein). The Series 2016 Bonds are special limited obligations of the Authority and are payable primarily from payments made by YRMC under the Loan Agreement. The obligation of YRMC to make payments under the Loan Agreement will be secured by a Mortgage (as defined herein) from YRMC to Wells Fargo Bank, National Association, as beneficiary, on certain property owned by YRMC and by the grant of a security interest in the Gross Receipts (as defined herein) of the members of the obligated group (the "*Obligated Group*"), subject in each case to Permitted Encumbrances (as defined herein), on a parity with YRMC's outstanding Parity Debt (as defined herein). YRMC is the sole member of the Obligated Group.

The Series 2016 Bonds are special limited obligations of the Authority, payable solely from amounts received by the Authority pursuant to the Loan Agreement, amounts paid by the Obligated Group pursuant to the Master Agreement (as defined herein), and amounts realized with respect to the Mortgage. None of the State of Arizona, Yavapai County or any other agency or political subdivision thereof (other than the Authority, to the limited extent provided in the Bond Indenture) shall be obligated to pay the principal of, the premium, if any, or the interest on the Series 2016 Bonds or other costs incident thereto. Neither the faith and credit nor the taxing power of the State of Arizona, Yavapai County or any other agency or political subdivision thereof (including the Authority) is pledged to the payment of the principal of, the premium, if any, or the interest on the Series 2016 Bonds or other costs incident thereto. The Authority has no taxing power.

This cover page contains certain information for quick reference only. It is not intended to be a summary of the security or terms of the Series 2016 Bonds offered hereby. Investors are instructed to read the entire Official Statement to obtain information essential to the making of an informed investment decision.

YRMC has retained Digital Assurance Certification, L.L.C. to act as the initial dissemination agent in connection with the filing of annual and quarterly reports and material event notices as described herein. See "CONTINUING DISCLOSURE UNDERTAKING" herein.

The Series 2016 Bonds are offered when, as and if received by the Underwriter, subject to prior sale, to withdrawal or modification of the offer without notice, and to the receipt of the opinion on certain legal matters relating to the issuance of the Series 2016 Bonds by Squire Patton Boggs (US) LLP, Bond Counsel to YRMC. Certain legal matters will be passed upon for the Obligated Group by its Counsel, Boyle, Pecharich, Cline, Whittington & Stallings, P.L.L.C., Prescott, Arizona. Certain legal matters will be passed upon for the Authority by its Counsel, Boyle, Pecharich, Cline, Whittington & Stallings, P.L.L.C., Prescott, Arizona. Certain legal matters will be passed upon for the Underwriter by its counsel, Chapman and Cutler LLP, Chicago, Illinois. It is expected that the Series 2016 Bonds will be available for delivery to DTC on or about November 3, 2016.

Wells Fargo Securities

The date of this Official Statement is October 19, 2016.

MATURITY SCHEDULE

$44,585,000
THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE COUNTY OF YAVAPAI
Hospital Revenue Refunding Bonds
(Yavapai Regional Medical Center)
Series 2016

Date of Delivery: November 3, 2016

MATURITY (AUGUST 1)	PRINCIPAL AMOUNT	INTEREST RATE	PRICE	YIELD	CUSIP†
2017	$1,095,000	3.000%	101.261	1.290%	985900DK2
2018	710,000	4.000	104.339	1.470	985900DL0
2019	155,000	4.000	106.417	1.600	985900DM8
2020	850,000	4.000	108.156	1.740	985900DN6
2021	660,000	5.000	114.144	1.870	985900DP1
2022	465,000	5.000	116.141	2.010	985900DQ9
2023	580,000	5.000	117.594	2.180	985900DR7
2024	800,000	5.000	118.504	2.370	985900DS5
2025	825,000	5.000	118.660	2.600	985900DT3
2026	955,000	5.000	119.020	2.760	985900DU0
2027	1,095,000	5.000	117.617	2.910 *	985900DV8
2028	1,500,000	5.000	116.510	3.030 *	985900DW6
2029	1,725,000	5.000	115.687	3.120 *	985900DX4
2030	1,810,000	5.000	114.961	3.200 *	985900DY2
2031	1,905,000	5.000	114.331	3.270 *	985900DZ9
2032	2,000,000	3.500	96.465	3.800	985900EA3
2033	2,070,000	3.625	97.117	3.860	985900EB1
2034	5,925,000	5.000	112.994	3.420 *	985900EC9
2035	6,225,000	3.750	97.364	3.950	985900ED7
2036	6,455,000	5.000	112.641	3.460 *	985900EE5
2037	6,780,000	3.750	96.356	4.010	985900EF2

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* Yield to the first call date of August 1, 2026.

† Copyright, American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. CUSIP numbers have been assigned by an independent company not affiliated with the Obligated Group, the Authority or the Underwriter and are included solely for the convenience of the holders of the Series 2016 Bonds. Neither the Obligated Group, the Authority nor the Underwriter is responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Series 2016 Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the execution and delivery of the Series 2016 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of the Series 2016 Bonds.

This Official Statement does not constitute an offer to sell the Series 2016 Bonds or the solicitation of an offer to buy, nor shall there be any sale of the Series 2016 Bonds by any person in any state or other jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale in such state or jurisdiction. No dealer, salesman or any other person has been authorized to give any information or to make any representation other than those contained herein in connection with the offering of the Series 2016 Bonds, and, if given or made, such information or representation must not be relied upon. 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.*

The information set forth herein under the caption "THE AUTHORITY" and the information relating to the Authority under the caption "LITIGATION" has been furnished by the Authority, the information set forth in the prior paragraph and herein under the caption "UNDERWRITING" has been furnished by the Underwriter, and the information set forth herein under the caption "THE SERIES 2016 BONDS—Book-Entry System" and in Appendix F hereto has been furnished by DTC. Such information is believed to be reliable but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriter, except as to the information provided by the Underwriter. All other information set forth herein has been obtained from the Obligated Group and other sources that are believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Authority or the Underwriter. The Bond Trustee assumes no responsibility for this Official Statement and has not verified or undertaken to verify any information contained herein. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale of the Series 2016 Bonds made hereunder shall create under any circumstances any indication that there has been no change in the affairs of the Authority, the Obligated Group or DTC since the date hereof. This Official Statement is submitted in connection with the issuance of securities referred to herein and may not be used, in whole or in part, for any other purpose.

The Series 2016 Bonds have not been registered with the Securities and Exchange Commission under the Securities Act of 1933, as amended. No registration, qualification or exemption of the Series 2016 Bonds in accordance with the applicable securities laws of any jurisdiction should be regarded as a recommendation thereof. No jurisdiction or agency has guaranteed or passed upon the safety of the Series 2016 Bonds as an investment, upon the probability of any earnings thereon or upon the accuracy or adequacy of this Official Statement.

There are risks associated with the purchase of the Series 2016 Bonds. For a discussion of certain of these risks, see "BONDHOLDERS' RISKS" herein.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2016 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE SERIES 2016 BONDS TO CERTAIN DEALERS AT PRICES LOWER THAN THE OFFERING PRICES STATED ON THE INSIDE FRONT COVER PAGE HEREOF, AND SAID OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER WITHOUT NOTICE.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements generally are identifiable by the terminology used, such as "plan," "expect," "estimate," "budget" or other similar words. Such forward-looking statements include but are not limited to certain statements contained in the information under the caption "BONDHOLDERS' RISKS" in the forepart of this Official Statement and the statements contained under the caption "FINANCIAL INFORMATION—Management's Discussion and Analysis of Financial Performance" in Appendix A.

The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The Obligated Group does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur.

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OFFICIAL STATEMENT

$44,585,000
THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE COUNTY OF YAVAPAI
HOSPITAL REVENUE REFUNDING BONDS
(YAVAPAI REGIONAL MEDICAL CENTER)
SERIES 2016

INTRODUCTORY STATEMENT

This Official Statement, including the cover page, inside front cover page, and Appendices, is furnished in connection with the offering by The Industrial Development Authority of the County of Yavapai (the *"Authority"*) of its $44,585,000 Hospital Revenue Refunding Bonds (Yavapai Regional Medical Center), Series 2016 (the *"Series 2016 Bonds"*) authorized to be issued by the Authority. The following introductory statement is subject in all respects to the more complete information set forth in this Official Statement. The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive and are qualified in their entirety by reference to each document. Capitalized terms used herein and not otherwise defined herein have the meanings ascribed to such words and terms in "SUMMARY OF PRINCIPAL DOCUMENTS—Summary of the Master Agreement—Definitions of Certain Terms" in Appendix C hereto.

References to website addresses herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such websites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement.

AUTHORIZATION

The Series 2016 Bonds are being issued and sold by the Authority pursuant to Title 35, Chapter 5, Arizona Revised Statutes, as amended (the *"Act"*), and pursuant to a Bond Indenture, dated as of November 1, 2016 (the *"Bond Indenture"*), between the Authority and Wells Fargo Bank, National Association, as bond trustee (together with any successors as such, the *"Bond Trustee"*). The Authority will loan the proceeds of the Series 2016 Bonds to Yavapai Community Hospital Association, doing business as Yavapai Regional Medical Center (*"YRMC"*), pursuant to a Loan Agreement, dated as of November 1, 2016 (the *"Loan Agreement"*), between the Authority and YRMC.

ESTIMATED USES OF FUNDS

The Series 2016 Bonds are being issued to provide funds that, together with other available funds, will be used to (1) refund all of (i) the Authority's Hospital Revenue Bonds (Yavapai Regional Medical Center), Series 1997B, $12,500,000 of which are currently outstanding (the "*Series 1997B Bonds*"), (ii) the Arizona Health Facilities Authority Hospital Revenue Bonds, Series 2002 (Yavapai Regional Medical Center), $4,915,000 of which are currently outstanding (the "*Series 2002 Bonds*"), and (iii) the Authority's Hospital Revenue Bonds (Yavapai Regional Medical Center), Series 2008B, $30,000,000 of which are currently outstanding (the "*Series 2008B Bonds*" and, together with the Series 1997B Bonds and the Series 2002 Bonds, the "*Refunded Bonds*"), and (2) pay certain fees and expenses in connection with the issuance of the Series 2016 Bonds. See "PLAN OF FINANCING" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

YRMC

Organized in 1942 as a nonprofit corporation, YRMC provides health care services through two acute care hospital facilities and other health care facilities. YRMC operates one acute care hospital facility in Prescott, Arizona (the *"West Campus"*) on land that it leases from Central Yavapai Hospital District of Yavapai County, Arizona (the *"District"*), a hospital district of the State of Arizona (the *"State"*), pursuant to the Lease Agreement, dated as of June 1, 1997, as amended (the *"Lease Agreement"*), between YRMC and the District. See "OVERVIEW AND GENERAL DESCRIPTION—The Lease Agreement" in Appendix A hereto. YRMC also owns an acute care hospital facility (the *"East Medical Center"*) located in Prescott Valley, Arizona (the *"East Campus"*). YRMC is exempt from federal income taxation under Section 501(a) of the Internal Revenue Code of 1986, as amended (the *"Code"*), as an organization described in Section 501(c)(3) of the Code. For additional information about YRMC, see Appendix A.

As of the date of issuance of the Series 2016 Bonds, YRMC will be the sole member of the obligated group (each, a *"Member"* and, together with all other corporations as may hereafter join the Obligated Group, the *"Members"* or the *"Obligated Group"*) created under the Loan and Trust Agreement, dated as of June 1, 1997, as amended and supplemented to date (as so amended and supplemented, the *"Master Agreement"*), among the Authority, YRMC and Wells Fargo Bank, National Association, as successor master trustee (the *"Master Trustee"*). Pursuant to the Master Agreement, any Person may enter into and any Member of the Obligated Group, except for YRMC, may withdraw from the Obligated Group, if certain conditions and financial tests are satisfied. YRMC has been designated to act as the "Obligated Group Agent" under the Master Agreement and, as such, is authorized to take certain actions on behalf of any other Members of the Obligated Group pursuant to the Master Agreement. For information regarding the Master Agreement, see Appendix C—"SUMMARY OF PRINCIPAL DOCUMENTS—Summary of the Master Agreement."

SECURITY FOR THE SERIES 2016 BONDS

The Loan Agreement requires payments by YRMC and any future Members of the Obligated Group in an amount that, together with other moneys available therefor (and interest thereon), will be sufficient to pay the principal of, premium, if any, and interest on the Series 2016 Bonds. YRMC will make payments under the Loan Agreement directly to the Bond Trustee.

Pursuant to the Master Agreement, YRMC's payment obligations with respect to the Series 2016 Bonds are secured on a parity with Parity Debt (as defined below) of the Obligated Group, subject to Permitted Encumbrances, by a Deed of Trust, dated as of June 1, 1997, as amended and supplemented to date (as so amended and supplemented, the *"Mortgage"*), from YRMC to the Master Trustee, as beneficiary. Pursuant to the Mortgage, YRMC has granted to the Master Trustee a security interest, to the extent permitted by law and subject to Permitted Encumbrances, in all Land described in the Mortgage, as well as certain improvements. See "SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2016 BONDS—The Mortgage" herein. Pursuant to the Master Agreement, YRMC's payment obligations with respect to the Series 2016 Bonds also are secured on a parity with Parity Debt by the grant of a security interest, to the extent permitted by law and subject to Permitted Encumbrances, in the Gross Receipts of the Obligated Group. The Mortgage and the security interest in the Gross Receipts of the Obligated Group collectively are referred to herein as the *"Collateral."* The Series 2016 Bonds are further secured by amounts on deposit in certain funds created by the Bond Indenture. See "SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2016 BONDS" and Appendix C—"SUMMARY OF PRINCIPAL DOCUMENTS—Summary of the Mortgage."

Upon their issuance, the Series 2016 Bonds will be secured by the Collateral on a parity with: the Authority's Hospital Revenue Refunding Bonds (Yavapai Regional Medical Center), Series 2013A (the *"Series 2013A Bonds"*), $30,265,000 of which are currently outstanding, and the Authority's Variable Rate Hospital Revenue Refunding Bonds (Yavapai Regional Medical Center), Series 2013B (the *"Series 2013B Bonds"*), $20,400,000 of which are currently outstanding. The Series 2013A Bonds and the Series 2013B Bonds collectively are referred to herein as the *"Outstanding Parity Bonds."* Any Member of the Obligated Group may incur additional debt secured by the Collateral on a parity with the Outstanding Parity Bonds and the Series 2016 Bonds (any such additional debt and the Outstanding Parity Bonds are collectively referred to herein as *"Parity Debt"*). See "SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2016 BONDS—The Master Agreement—Additional Indebtedness" herein and Appendix C—"SUMMARY OF PRINCIPAL DOCUMENTS—Summary of the Master Agreement—Parity Debt."

ADDITIONAL INDEBTEDNESS

The Master Agreement authorizes the Obligated Group to issue, incur, guarantee and assume other indebtedness, including additional Parity Debt, for the purposes and subject to the terms and conditions described therein. See "SUMMARY OF PRINCIPAL DOCUMENTS—Summary of the Master Agreement—Covenants and Warranties of the Obligated Group—Limitations on Incurrence of Additional Indebtedness" in Appendix C hereto.

RISKS

For a description of certain risks associated with the purchase of the Series 2016 Bonds, see "BONDHOLDERS' RISKS" herein.

CONTINUING DISCLOSURE

The Obligated Group has covenanted to provide annually to the Municipal Securities Rulemaking Board (the *"MSRB"*) through the Electronic Municipal Market Access (*"EMMA"*) system certain quantitative financial information and operating data and annual financial statements and will agree to provide to the MSRB through EMMA notice of the occurrence of certain events. In addition, the Obligated Group has covenanted to provide quarterly unaudited financial information to the MSRB through EMMA and to any Beneficial Owner (as defined in Appendix E) who requests such information in accordance with the Disclosure Undertaking (as defined herein) (a form of which is set forth in Appendix E). The Obligated Group has retained Digital Assurance Certification, L.L.C. (*"DAC"*) to act as dissemination agent on its behalf to file annual and quarterly reports in compliance with the undertaking described above. See "CONTINUING DISCLOSURE UNDERTAKING" herein and "FORM OF CONTINUING DISCLOSURE UNDERTAKING" in Appendix E.

AVAILABILITY OF DOCUMENTS

Copies of the Master Agreement, the Bond Indenture, the Loan Agreement, the Mortgage and the Lease Agreement, each as executed and delivered, may be examined or obtained at the expense of the person requesting the same at the designated corporate trust office of the Bond Trustee, currently in Los Angeles, California.

THE AUTHORITY

The Authority is a nonprofit corporation designated as a political subdivision of the State. The Authority was created pursuant to the Act. The Authority does not have the power to pledge the general credit or taxing power of the State or of any political subdivision thereof, including, but not limited to, Yavapai County, Arizona (the *"County"* or *"Yavapai County"*). The Authority is empowered to issue its bonds, including the Series 2016 Bonds, to provide funds for the financing or refinancing of the costs of the acquisition, construction, improvement or equipping of projects, as defined in the Act. The Authority is governed by a Board of Directors whose members are elected by the Board of Supervisors of the County. The Authority does not employ any staff to carry out its functions and contracts with independent third parties to do so. The Authority does not have, and does not expect to have, any substantial assets or properties.

SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2016 BONDS

THE BOND INDENTURE AND THE LOAN AGREEMENT

The Loan Agreement requires payments by YRMC in an amount that, together with other moneys available therefor (and interest thereon), will be sufficient to pay the principal of, premium, if any, and interest on the Series 2016 Bonds. Pursuant to the Bond Indenture, the Authority has assigned its rights in the Loan Agreement (other than the right to receive any Administrative Fees and Expenses to the extent payable to the Authority and except for any other Unassigned Rights) and the payments made thereunder to the Bond Trustee as security for the Series 2016 Bonds. YRMC will make payments under the Loan Agreement directly to the Bond Trustee. The obligations of YRMC to make payments under the Loan Agreement are full and unlimited obligations of YRMC and are secured on a parity with Parity Debt, subject to Permitted Encumbrances, by the Collateral. The Series 2016 Bonds are further secured by the amounts on deposit in any fund or account created by the Bond Indenture (except the Rebate Fund), including investment earnings thereon.

The Series 2016 Bonds are special limited obligations of the Authority, payable solely from amounts received by the Authority pursuant to the Loan Agreement, amounts paid by the Obligated Group pursuant to the Master Agreement, and amounts realized with respect to the Mortgage. None of the State, Yavapai County or any other agency or political subdivision thereof (other than the Authority, to the limited extent provided in the Bond Indenture) shall be obligated to pay the principal of premium, if any, or interest on the Series 2016 Bonds or other costs incident thereto. Neither the faith and credit nor the taxing power of the State, Yavapai County or any other agency or political subdivision thereof (including the Authority) is pledged to the payment of the principal of premium, if any, or interest on the Series 2016 Bonds or other costs incident thereto. The Authority has no taxing power.

THE MORTGAGE

Pursuant to the Mortgage, YRMC granted to the Master Trustee a security interest, to the extent permitted by law and subject to Permitted Encumbrances, in all Land described in the Mortgage, which consists generally of the site of an outpatient facility located in Prescott Valley, Arizona, which is owned by YRMC, and the 15 acres of the East Campus on which the East Medical Center is located. Pursuant to the Mortgage, YRMC also has granted to the Master Trustee a security interest, to the extent permitted by law and subject to Permitted Encumbrances, in (a) all buildings now or hereafter affixed to the Land (the *"Improvements"*); (b) all water and water rights, timber, crops and mineral interests pertaining to the Land; (c) all plans and specifications for the Improvements; (d) all permits, licenses, franchises, certificates, and other rights and privileges obtained in connection with the Land and the Improvements; (e) all rights, hereditaments and appurtenances pertaining to the foregoing; and (f) other interests of every kind and character that YRMC has or at any time hereafter acquires in the Land and the Improvements (together with the Land, the *"Mortgaged Property"*). The Mortgaged Property includes all of the facilities considered necessary by YRMC to operate the outpatient facility and the East Medical Center.

The Mortgage, as it relates to the East Medical Center, the Improvements thereon, and the other components of the Mortgaged Property relating solely to the East Medical Center, is subordinate to a purchase money security interest that was granted by YRMC to the party from whom YRMC purchased the East Campus. Pursuant to the land purchase note that is secured by such land purchase mortgage (the *"Land Purchase Note"*), YRMC is obligated to make equal quarterly payments of principal and interest, calculated at 6% per annum, until maturity on August 28, 2028. The outstanding principal amount of the Land Purchase Note as of July 1, 2016 was $1,744,870.23.

No appraisal has been obtained with respect to the Mortgaged Property. In addition, the Mortgage permits portions of the Mortgaged Property to be released from the lien of the Mortgage. No assurance can be given that the value of the Mortgaged Property, or the amounts received therefor upon any foreclosure of the Mortgage, will be sufficient to pay the principal of or the premium, if any, or interest on all Parity Debt. For a discussion of risks that relate to mortgage security generally, and the Mortgaged Property in particular, see "BONDHOLDERS' RISKS—Limitations on Mortgaged Property" herein.

THE MASTER AGREEMENT

Joint and Several Obligations. The Master Agreement provides that payment of the principal of, premium, if any, and interest on each Parity Debt obligation is the joint and several general obligation of each Member of the Obligated Group (subject to the right of each such Member, to cease its status as a Member of the Obligated Group pursuant to the terms and conditions of the Master Agreement except for YRMC, which may not withdraw so long as any Parity Bonds are outstanding). For a description of entry into or withdrawal from the Obligated Group, see Appendix C—"SUMMARY OF PRINCIPAL DOCUMENTS—Summary of the Master Agreement—Covenants and Warranties of the Obligated Group—

Additional Obligated Group Members" and "—Withdrawal from the Obligated Group." Upon the issuance of the Series 2016 Bonds, YRMC will be the sole Member of the Obligated Group.

Grant of Security Interest in Gross Receipts. As security for payments with respect to Parity Debt, YRMC has pledged, assigned and granted, and each future Member of the Obligated Group will pledge, assign and grant, to the Master Trustee a security interest in all Gross Receipts, subject to Permitted Encumbrances. So long as any Parity Debt remains outstanding, YRMC has covenanted and agreed, and each future Member of the Obligated Group will covenant and agree, pursuant to the Master Agreement, to deposit all Gross Receipts with the Master Trustee if any required payment relating to Parity Debt is not made when due, to the extent necessary to cure such deficiency. The Obligated Group has agreed to cause any financing statements, including amendments, supplements and continuation statements, to be recorded and filed as may be required in order to perfect the security interest in the Gross Receipts. See Appendix C—"SUMMARY OF PRINCIPAL DOCUMENTS—Summary of the Master Agreement—Security Interest in Gross Receipts."

The foregoing grant of a security interest in Gross Receipts will be perfected to the extent, and only to the extent, that such security interest may be perfected under the Uniform Commercial Code of the State by filing financing statements. The foregoing grant of a security interest is subject to Permitted Encumbrances and may be subordinated to the interest and claims of others in several instances. Some examples of cases of subordination of prior interests and claims are (i) statutory liens, (ii) rights arising in favor of the United States of America or any agency thereof, (iii) present or future prohibitions against assignment in any federal statutes or regulations, (iv) constructive trusts, equitable liens or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction, (v) federal or state bankruptcy laws that may affect the enforceability of the Master Agreement or grant of a security interest in the Gross Receipts, and (vi) rights of third parties in Gross Receipts converted to cash and not in the possession of the Master Trustee. In addition, it may not be possible to perfect a security interest in any manner whatsoever in certain types of Gross Receipts (*e.g.,* certain insurance proceeds, Medicare and Medicaid payments) prior to actual receipt by any Member of the Obligated Group for deposit with the Master Trustee. Under the Master Agreement, YRMC and each of the other Members of the Obligated Group, if any, retain possession of the Gross Receipts.

Limitations on Creation of Liens. The Obligated Group, in the Master Agreement, agrees that no Obligated Group Member will create or suffer to be created or exist any Lien upon the Collateral, now owned or hereafter acquired by the Obligated Group or any Obligated Group Member, other than Permitted Encumbrances. See Appendix C—"SUMMARY OF PRINCIPAL DOCUMENTS—Summary of the Master Agreement—Covenants and Warranties of the Obligated Group—Limitations on Creation of Liens" herein.

Consolidation, Merger, Sale or Conveyance. Under the Master Agreement, each Obligated Group Member may merge or consolidate with any other Obligated Group Member and may sell or convey all or substantially all of its assets to any Obligated Group Member, *provided* that any merger or consolidation pursuant to which YRMC would cease to exist as a separate corporate entity, or any sale or conveyance of all or substantially all of the assets of YRMC, is subject to an opinion of Bond Counsel that such merger, consolidation, sale or conveyance will not adversely affect the validity of the Series 2016 Bonds or the exclusion from gross income under Section 103 of the Code of interest paid on the Series 2016 Bonds. Under the Master Agreement, no Obligated Group Member is allowed to merge or consolidate with any other corporation that is not an Obligated Group Member or sell or convey all or substantially all of its assets to any person not an Obligated Group Member unless such Obligated Group Member has complied with the provisions of the Master Agreement summarized in Appendix C—"SUMMARY OF PRINCIPAL DOCUMENTS—Summary of the Master Agreement—Covenants and Warranties of the Obligated Group—Consolidation, Merger, Sale or Conveyance."

Financial Information. The Master Agreement provides that the financial information required to be provided thereunder, upon which various calculations under the Master Agreement will be based, will be prepared in accordance with accounting principles generally accepted in the United States of America. Such principles permit, and in some cases require, that the financial information of Persons who are not Members of the Obligated Group be combined with the financial information of Members of the Obligated Group. **Consequently, the financial information contained herein includes, in accordance with accounting principles generally accepted in the United States of America, the financial information of the District.**

The District is not and will not become a Member of the Obligated Group and is not obligated to pay debt service on the Series 2016 Bonds, the Outstanding Parity Bonds or other Parity Debt. Neither the District's revenues, which are minimal, nor the District's assets will be available to be applied to payment of the Series 2016 Bonds, the Outstanding Parity Bonds or other Parity Debt issued under the Master Agreement.

Financial information of Members of the Obligated Group could in the future include revenues and assets of additional Persons who are not Members of the Obligated Group, who would not be obligated to pay debt service on the Series 2016 Bonds, the Outstanding Parity Bonds or other Parity Debt issued under the Master Agreement and whose revenues and assets would not be available to be applied to payment of the Series 2016 Bonds, the Outstanding Parity Bonds or other Parity Debt. See information under the caption "FINANCIAL INFORMATION—Summary of Historic Revenues and Expenses," "—Management's Discussion and Analysis of Financial Performance," "—Historic and Pro Forma Coverage," "—Historic and Pro Forma Capitalization" and "—Historic Cash and Investments" in Appendix A and the combined financial statements and other financial information, including combining financial information with respect to YRMC, the sole Member of the Obligated Group, and the District in Appendix B hereto.

The Master Agreement also provides that, within 150 days after the close of each Fiscal Year, the Obligated Group Agent will furnish to the Master Trustee copies of financial statements of the Obligated Group presented on a combined basis. The Obligated Group Agent must furnish to the Master Trustee, within 150 days after the close of each Fiscal Year, a certificate signed by its president or senior vice president and by an Authorized Officer of each other Obligated Group Member stating that the Obligated Group has caused its operations for the year to be reviewed and that, in the course of that review, the Obligated Group is in compliance with the rate covenant contained in the Master Agreement and no default under the Master Agreement has come to its attention or, if such a default has appeared, a description of the default. In addition, the Obligated Group must from time to time render such reports concerning compliance with the Master Agreement as the Master Trustee (in order to ascertain compliance of the Obligated Group or the Master Trustee with the Master Agreement) may reasonably request.

Additional Indebtedness. The Obligated Group may incur additional Parity Debt, *provided* the Obligated Group meets certain requirements prescribed in the Master Agreement. Additional Parity Debt will be secured by the Collateral on a parity with the Series 2016 Bonds and other Parity Debt. Additional Parity Debt may bear such date or dates, interest rate or rates, maturities, redemption dates, redemption prices and other terms as are specified in the resolution or documents authorizing the issuance or incurrence thereof. See Appendix C—"SUMMARY OF PRINCIPAL DOCUMENTS—Summary of the Master Agreement—Parity Debt."

In addition, after issuance of the Series 2016 Bonds, in certain circumstances, Members of the Obligated Group may incur Additional Indebtedness that is not secured by the Collateral. See the information under the caption Appendix C—"SUMMARY OF PRINCIPAL DOCUMENTS—Summary of the Master Agreement—Covenants and Warranties of the Obligated Group—Limitations on Incurrence of Additional Indebtedness."

Immediately following the issuance of the Series 2016 Bonds and the defeasance of the Refunded Bonds, the aggregate principal amount of Outstanding Parity Bonds issued for the benefit of YRMC will be $95,250,000.

ADDITIONAL COVENANTS OF OBLIGATED GROUP

In connection with the issuance of the Series 2013B Bonds, the Obligated Group agreed to comply with additional covenants that are not described in Appendix C hereto. Such additional covenants are enforceable only at the direction of the holder of the Series 2013B Bonds. Amendment of or waiver of noncompliance with such covenants may only be granted by the holder of the Series 2013B Bonds. In the event such holder determines to declare a breach of a covenant and pursue remedies, such actions likely will materially adversely affect the operations and financial condition of the Obligated Group. The Obligated Group may also enter into other covenants with third parties from time to time that may not be enforced by the Master Trustee, but noncompliance with which may affect the operations of the Obligated Group. See "BONDHOLDERS' RISKS—YRMC's Financial Obligations Could Increase or Be Accelerated and Deplete Its Available Funds" herein.

NO DEBT SERVICE RESERVE FUND

No debt service reserve fund for the Series 2016 Bonds will be established in connection with the issuance of the Series 2016 Bonds.

THE SERIES 2016 BONDS

GENERAL DESCRIPTION

The Series 2016 Bonds are being issued pursuant to the Bond Indenture in the aggregate principal amount set forth on the cover of this Official Statement. The Series 2016 Bonds will be delivered in fully registered form without coupons. The Series 2016 Bonds will be dated their date of issuance, and will be payable as to principal, subject to the redemption provisions set forth herein, on the dates and in the amounts as set forth on the inside front cover hereof. The Series 2016 Bonds will be transferable and exchangeable as set forth in the Bond Indenture and, when issued, will be registered in the name of Cede

& Co., as nominee of The Depository Trust Company, New York, New York (*"DTC"*). DTC will act as securities depository for the Series 2016 Bonds. Ownership interests in the Series 2016 Bonds may be purchased in book-entry-only form, in the denominations hereinafter set forth. See Appendix F—"BOOK-ENTRY SYSTEM."

The Series 2016 Bonds will bear interest (based on a 360-day year of twelve 30-day months) from their date of issuance at the rates set forth on the inside front cover hereof. Interest on the Series 2016 Bonds is payable beginning on February 1, 2017 and semiannually thereafter on February 1 and August 1 of each year (each an *"Interest Payment Date"*) to the person whose name appears on the bond registration books of the Bond Trustee as the Holder thereof as of the close of business on the Record Date (which will be the fifteenth day of the calendar month preceding the month in which an Interest Payment Date occurs, whether or not a Business Day) for each Interest Payment Date (except with respect to interest in default, for which a special record date shall be established). So long as Cede & Co. is the registered owner of the Series 2016 Bonds, principal of and premium, if any, and interest on the Series 2016 Bonds are payable by wire transfer by the Bond Trustee to Cede & Co., as nominee for DTC, which, in turn, will remit such amounts to Direct Participants (as defined in Appendix F) for subsequent disbursement to the Beneficial Owners (as defined in Appendix F) thereof. See Appendix F—"BOOK-ENTRY SYSTEM."

If the book-entry system for the Series 2016 Bonds is ever discontinued, payment of interest on the Series 2016 Bonds is payable by check mailed by first class mail to the Holder, determined as of the close of business on the applicable Record Date, at its address as shown on the registration books, or, at the option of any Holder who owns at least $1,000,000 in principal amount of Series 2016 Bonds, by wire transfer to any account in the United States if written instructions are delivered to the Bond Trustee on or before the Record Date for the applicable Interest Payment Date. Payment of the principal or Redemption Price of any Series 2016 Bond will then be payable upon presentation and surrender of the Series 2016 Bonds at the office of the Bond Trustee.

REDEMPTION

Optional Redemption of Series 2016 Bonds. The Series 2016 Bonds maturing on or after August 1, 2027 are subject to optional redemption prior to their respective stated maturities at the option of the Authority (which option shall be exercised at the direction of YRMC), as a whole or in part, and if in part, in such maturities as may be specified by YRMC or if YRMC fails to specify such maturities, in inverse order of maturity, and, within a maturity, by lot in a manner selected by the Bond Trustee, on any date on or after August 1, 2026, at a Redemption Price equal to 100% of the principal amount thereof, plus accrued interest to the date fixed for redemption, without premium.

Extraordinary Optional Redemption of Series 2016 Bonds. The Series 2016 Bonds are subject to redemption prior to their respective stated maturities, at the option of the Authority (which option shall be exercised as directed by YRMC), as a whole or in part (in such maturities as may be specified by YRMC or, if YRMC fails to specify such maturities, in inverse order of maturity, and by lot within a maturity) on any date, from insurance proceeds with respect to, or from condemnation rewards from the taking of, or sale proceeds from sales consummated under threat of condemnation of, property of any Member, at a Redemption Price equal to the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium.

Notice of Redemption; Effect of Redemption. Notice of redemption will be mailed by the Bond Trustee, not less than 20 or more than 45 days prior to the redemption date, to the respective Holders of any Bonds designated for redemption at their addresses appearing on the bond registration books of the Bond Trustee. Each notice of redemption will state the date of such notice, the redemption date, the Redemption Price, the place or places of redemption (including the name and appropriate address or addresses of the Bond Trustee), the CUSIP number (if any), the maturity or maturities, that YRMC may rescind the redemption, and, in the case of Series 2016 Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice will also state that, subject to prior rescission and to satisfaction of any conditions to redemption as provided in the Bond Indenture, on said date there will become due and payable on each of said Series 2016 Bonds the Redemption Price thereof or of said specified portion of the principal amount thereof in the case of a Series 2016 Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon will cease to accrue, and such Series 2016 Bonds must then be surrendered at the address or addresses of the Bond Trustee specified in the redemption notice.

Notice of redemption having been duly given as required by the Bond Indenture, and moneys for payment of the Redemption Price of, together with interest accrued to the redemption date on, the Series 2016 Bonds (or portions thereof) so called for redemption being held by the Bond Trustee, on the redemption date designated in such notice, the Series 2016 Bonds (or portions thereof) so called for redemption shall become due and payable at the Redemption Price specified in such notice, plus interest accrued thereon to the redemption date, interest on the Series 2016 Bonds so called for redemption shall cease to accrue, said Series 2016 Bonds (or portions thereof) shall cease to be entitled to any benefit or security under the Bond Indenture, and the Holders of said Bonds shall have no rights in respect thereof except to receive payment of said Redemption Price and accrued interest to the date fixed for redemption from funds held by the Bond Trustee for such payment.

Each such notice will also state that such redemption is conditional upon receipt by the Bond Trustee on or prior to the date fixed for such redemption of sufficient moneys to pay the Redemption Price of the Series 2016 Bonds to be redeemed and that if such amounts have not been so received the notice will be of no force and effect, the Authority will not be required to redeem such Series 2016 Bonds and no Event of Default will have occurred. The Authority (at the request of YRMC) may also instruct the Bond Trustee to provide notice of redemption conditioned on the occurrence of any other event if such notice states that if such event does not occur the notice will be of no force and effect, the Authority will not be required to redeem such Series 2016 Bonds and no Event of Default will have occurred. In the event that a notice of redemption contains such a condition and such amounts are not so received or such event does not occur, the redemption will not be made and the Bond Trustee will thereafter as soon as practicable give notice to the same parties and in the same manner as the notice of redemption that such amounts were not received or such event did not occur and such redemption was not made.

YRMC shall have the right to rescind any optional or extraordinary optional redemption by providing written notice to the Bond Trustee no fewer than five (5) Business Days prior to the date fixed for redemption. The Bond Trustee shall mail notice of rescission of redemption in the same manner notice of redemption was originally provided.

Failure by the Bond Trustee to mail notice of redemption to any one or more of the respective Holders of any Series 2016 Bonds designated for redemption shall not affect the sufficiency of the proceedings for redemption with respect to the Holder or Holders to whom such notice was mailed.

MANDATORY PURCHASE IN LIEU OF REDEMPTION

Each Holder or Beneficial Owner, by purchase and acceptance of any Series 2016 Bond, irrevocably grants to YRMC the option to purchase such Series 2016 Bond at any time such Series 2016 Bond is subject to optional redemption as described above under "THE SERIES 2016 BONDS—REDEMPTION—Optional Redemption of Series 2016 Bonds," such Series 2016 Bond to be purchased at a purchase price equal to the then applicable Redemption Price of such Series 2016 Bond. In the event YRMC determines to exercise such option, YRMC shall deliver a Favorable Opinion of Bond Counsel to the Bond Trustee, and shall direct the Bond Trustee to provide notice of mandatory purchase, such notice to be provided, as and to the extent applicable, in the same manner as described above under "THE SERIES 2016 BONDS—REDEMPTION—Notice of Redemption; Effect of Redemption," and to select Series 2016 Bonds subject to mandatory purchase in the same manner as Series 2016 Bonds called for optional redemption. On the date fixed for purchase of any Series 2016 Bond as described under this heading, YRMC shall pay the purchase price of such Series 2016 Bond to the Bond Trustee in immediately available funds, and the Bond Trustee shall pay the same to the Holders of the Series 2016 Bonds being purchased against delivery thereof. No purchase of any Series 2016 Bond pursuant to the provisions of the Bond Indenture described under this heading shall operate to extinguish the indebtedness of YRMC evidenced by such Series 2016 Bond. No Holder or Beneficial Owner may elect to retain a Series 2016 Bond subject to mandatory purchase pursuant to the provisions of the Bond Indenture described under this heading.

BOOK-ENTRY SYSTEM

The Series 2016 Bonds will be issued in book-entry form. DTC will act as securities depository for the Series 2016 Bonds. The Series 2016 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Series 2016 Bond will be issued for each maturity in the total aggregate principal amount due on such maturity and will be deposited with DTC. See Appendix F—"BOOK-ENTRY SYSTEM."

YRMC and the Authority cannot and do not give any assurances that DTC will distribute to Direct Participants, or that Direct Participants and Indirect Participants (as defined in Appendix F) or others will distribute to the Beneficial Owners payments of principal of and interest and premium, if any, on the Series 2016 Bonds or any redemption or other notices, or that they will do so on a timely basis, or will serve and act in the manner described in this Official Statement. Neither YRMC nor the Authority is responsible or liable for the failure of DTC or any Direct Participant or Indirect Participant to make any payments or give any notice to a Beneficial Owner with respect to the Series 2016 Bonds or any error or delay relating thereto.

PLAN OF FINANCING

SERIES 2016 BONDS

The proceeds from the sale of the Series 2016 Bonds, together with other funds, are expected to be applied to refund on an advance basis all of the Refunded Bonds and pay certain fees and expenses in connection with the issuance of the Series 2016 Bonds.

A portion of the proceeds of the Series 2016 Bonds will be transferred to Wells Fargo Bank, National Association, the trustee for the Series 1997B Bonds (the "*Series 1997B Trustee*"), acting as escrow agent, to be held in an irrevocable escrow fund (the *"1997B Escrow Fund"*) established pursuant to an escrow agreement, dated the date of issuance of the Series 2016 Bonds, between YRMC and Wells Fargo Bank, National Association, as escrow agent. The funds deposited in the 1997B Escrow Fund will be used to purchase non-callable direct obligations of, or obligations that the principal of and interest on are unconditionally guaranteed by, the United States of America (the *"Escrow Securities"*), to be irrevocably deposited in trust for the benefit of the holders of the Series 1997B Bonds. The Escrow Securities will mature at such times and in such amounts and will bear interest payable at such times and in such amounts, together with any available cash in the 1997B Escrow Fund, such that sufficient moneys will be available in the 1997B Escrow Fund to redeem the Series 1997B Bonds on December 1, 2019 at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to December 1, 2019.

A portion of the proceeds of the Series 2016 Bonds will be transferred to The Bank of New York Mellon Trust Company, N.A., the trustee for the Series 2002 Bonds (the "*Series 2002 Trustee*"), acting as escrow agent, to be held in an irrevocable escrow fund (the *"2002 Escrow Fund"*) established pursuant to an escrow agreement, dated the date of issuance of the Series 2016 Bonds, between YRMC and The Bank of New York Mellon Trust Company, N.A., as escrow agent. The funds deposited in the 2002 Escrow Fund will be used to purchase Escrow Securities, to be irrevocably deposited in trust for the benefit of the holders of the Series 2002 Bonds. The Escrow Securities will mature at such times and in such amounts and will bear interest payable at such times and in such amounts, together with any available cash in the 2002 Escrow Fund, such that sufficient moneys will be available in the 2002 Escrow Fund to redeem the Series 2002 Bonds on December 1, 2019 at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to December 1, 2019.

A portion of the proceeds of the Series 2016 Bonds will be transferred to Wells Fargo Bank, National Association, the trustee for the Series 2008B Bonds (the "*Series 2008B Trustee*"), acting as escrow agent, to be held in an irrevocable escrow fund (the *"2008B Escrow Fund"* and, collectively with the 1997B Escrow Fund and the 2002 Escrow Fund, the *"Escrow Funds"*) established pursuant to an escrow agreement, dated the date of issuance of the Series 2016 Bonds, between YRMC and Wells Fargo Bank, National Association, as escrow agent. The funds deposited in the 2008B Escrow Fund will be used to purchase Escrow Securities, to be irrevocably deposited in trust for the benefit of the holders of the Series 2008B Bonds. The Escrow Securities will mature at such times and in such amounts and will bear interest payable at such times and in such amounts, together with any available cash in the 2008B Escrow Fund, such that sufficient moneys will be available in the 2008B Escrow Fund to redeem the Series 2008B Bonds on August 1, 2018 at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to August 1, 2018.

Upon such irrevocable deposits into the Escrow Funds, the Refunded Bonds will be deemed paid and no longer outstanding. The funds deposited in the Escrow Funds will not be available to make payments on the Series 2016 Bonds.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated proceeds of the sale of the Series 2016 Bonds and the estimated uses of such funds are shown below:

	SERIES 2016 BONDS
SOURCE OF FUNDS:	
Principal Amount of Bonds	$44,585,000
Net Original Issue Premium	3,177,252
Funds on Deposit with Series 1997B Trustee	2,078,513
Funds on Deposit with Series 2002 Trustee	782,495
Funds on Deposit with Series 2008B Trustee	2,754,624
TOTAL SOURCES	$53,377,884
USE OF FUNDS:	
Refund Series 1997B Bonds	$14,067,911
Refund Series 2002 Bonds	5,570,614
Refund Series 2008B Bonds	32,942,225
Costs of Issuance[1]	797,134
TOTAL USES	$53,377,884

(1) Includes estimated costs of issuance, underwriter's discount, fees and expenses of Bond Counsel, counsel to the Obligated Group and counsel to the Underwriter, and the Obligated Group's accountants, fees of rating agencies, costs of printing and fees and expenses of the Authority and its counsel.

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ESTIMATED ANNUAL DEBT SERVICE REQUIREMENTS

The following table sets forth, for each fiscal year ending December 31, the amounts required to be made available for the payment of principal due on the Series 2016 Bonds, for the payment of interest on the Series 2016 Bonds and for the total debt service on the Series 2016 Bonds. The following table also includes the estimated debt service due on Outstanding Parity Bonds and other notes payable by YRMC that will remain outstanding immediately following the issuance of the Series 2016 Bonds. The table does not include debt service requirements on the Refunded Bonds.

FISCAL YEAR ENDING DECEMBER 31	THE SERIES 2016 BONDS			TOTAL DEBT SERVICE ON OUTSTANDING PARITY BONDS(1)(2)	DEBT SERVICE ON NOTES PAYABLE(3)	TOTAL DEBT SERVICE(1)(2)
	PRINCIPAL	INTEREST	TOTAL			
2017	$1,095,000	$1,465,941	$2,560,941	$4,212,525	$260,501	$7,033,967
2018	710,000	1,936,325	2,646,325	4,130,025	260,501	7,036,851
2019	155,000	1,907,925	2,062,925	4,156,275	814,068	7,033,268
2020	850,000	1,901,725	2,751,725	4,080,775	201,917	7,034,417
2021	660,000	1,867,725	2,527,725	4,303,275	201,917	7,032,917
2022	465,000	1,834,725	2,299,725	4,530,675	201,916	7,032,316
2023	580,000	1,811,475	2,391,475	4,440,675	201,916	7,034,066
2024	800,000	1,782,475	2,582,475	4,250,675	201,916	7,035,066
2025	825,000	1,742,475	2,567,475	4,263,675	201,916	7,033,066
2026	955,000	1,701,225	2,656,225	4,173,675	201,916	7,031,816
2027	1,095,000	1,653,475	2,748,475	4,083,675	201,915	7,034,065
2028	1,500,000	1,598,725	3,098,725	3,783,675	151,436	7,033,836
2029	1,725,000	1,523,725	3,248,725	3,784,175	--	7,032,900
2030	1,810,000	1,437,475	3,247,475	3,785,350	--	7,032,825
2031	1,905,000	1,346,975	3,251,975	3,783,388	--	7,035,363
2032	2,000,000	1,251,725	3,251,725	3,783,025	--	7,034,750
2033	2,070,000	1,181,725	3,251,725	3,783,738	--	7,035,463
2034	5,925,000	1,106,688	7,031,688	--	--	7,031,688
2035	6,225,000	810,438	7,035,438	--	--	7,035,438
2036	6,455,000	577,000	7,032,000	--	--	7,032,000
2037	6,780,000	254,250	7,034,250	--	--	7,034,250
Total	$44,585,000	$30,694,217	$75,279,217	$69,329,275	$3,101,835	$147,710,327

(1) In addition to debt service on the Series 2013A Bonds and the Series 2013B Bonds, includes actual debt service on the Refunded Bonds paid in fiscal year ending December 31, 2016. Assumes that interest on the Series 2013B Bonds is payable at an average annual rate of 3.00% per annum.

(2) Does not include payments of principal and interest with respect to notes payable to third parties that are not Parity Debt. See "SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2016 BONDS—The Master Agreement—Additional Indebtedness" herein and Appendix B – Note 11 hereto.

(3) Includes payments of principal and interest on the Land Purchase Note, the note relating to YRMC's electronic medical records system, the note relating to YRMC's medical office building adjacent to the West Campus, and other notes payable to third parties in the amounts and at the rates specified in such notes. Such notes are not Parity Debt. See Appendix B – Note 11 hereto.

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BONDHOLDERS' RISKS

The business of YRMC is subject to a number of risks and uncertainties, many of which are beyond its control. Such risks may cause actual operating results or financial performance to be materially different from expectations, thereby affecting payments to be made with respect to the Series 2016 Bonds. The following briefly describes certain risks that could affect payments with respect to the Series 2016 Bonds. ***The discussion of risk factors is not, and is not intended to be, exhaustive. Prospective purchasers of the Series 2016 Bonds should analyze carefully the information contained in the entirety of this Official Statement, including the Appendices hereto, and additional information in the form of the complete documents summarized herein, copies of which are available as described in this Official Statement.***

GENERAL – REALIZATION OF REVENUES SUFFICIENT TO PAY DEBT SERVICE IS NOT GUARANTEED

The Series 2016 Bonds do not constitute a debt, liability or obligation of the Authority, the State, or any political subdivision thereof, including, but not limited to, Yavapai County, and are not payable in any manner from taxation. The Series 2016 Bonds are special limited obligations of the Authority, payable solely from amounts received by the Authority pursuant to the Loan Agreement, amounts paid by the Obligated Group pursuant to the Master Agreement, and amounts realized with respect to the Mortgage. None of the provisions of the Loan Agreement, the Master Agreement or the Mortgage provide any assurance that the obligations of the Obligated Group will be paid as and when due if the Members of the Obligated Group become unable to pay their debts as they come due or the Members of the Obligated Group otherwise become insolvent. See "SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2016 BONDS" above for more information.

The Obligated Group's ability to realize revenues sufficient to pay outstanding obligations, including debt service when due on the Series 2016 Bonds, is affected by and subject to many conditions which may change in the future to an extent and with effects that cannot be determined. The Obligated Group's receipt of future revenues is subject to, among other factors: (1) federal and state laws and regulations, particularly those targeting the health care industry, (2) the policies of third party payors, including governmental (Medicare and Medicaid) and commercial payors, (3) relationships with third party payors, including YRMC's ability to maintain favorable third party payor contracts, (4) future economic conditions, (5) increased competition from other health care providers, and (6) the capability of management of YRMC (*"Management"*). No assurance can be given or can be made that YRMC's future revenues will be sufficient to pay debt service on the Series 2016 Bonds when due.

AN ECONOMIC DOWNTURN OR OTHER UNFAVORABLE ECONOMIC CONDITIONS COULD NEGATIVELY IMPACT YRMC'S FINANCIAL CONDITION

The United States economy is unpredictable. Economic downturns and other unfavorable economic conditions have previously impacted the health care industry and health care providers' business, financial condition and results of operations. If general economic conditions worsen, YRMC may not be able to sustain future profitability, and its liquidity and ability to repay outstanding debt, including debt service on the Series 2016 Bonds, may be adversely affected. Broad economic factors – such as unemployment rates or instabilities in consumer spending – could affect YRMC's volumes and its ability to collect outstanding receivables. Other economic conditions that may adversely affect Obligated

Group revenues and expenses, and consequently, its ability to make payments on the Series 2016 Bonds, include but are not limited to: (1) volatility in the securities markets resulting in investment portfolios losses, (2) increased business failures and consumer and business bankruptcies, (3) federal and state budget challenges resulting in reduced or delayed Medicare and Medicaid reimbursement, (4) a reduction in the demand for health care services or patient decisions to postpone or cancel elective and non-emergency health care procedures, (5) increased malpractice and casualty insurance expenses, (6) reduced availability and affordability of health insurance, (7) a shortage of nursing and other professional personnel, (8) increased operating costs, (9) a reduction in the receipt of grants and charitable contributions, (10) unfavorable demographic developments in YRMC's service areas, and (11) increased competition from other health care institutions.

YRMC has significant holdings in a broadly diversified pool of short term and long term investments. Due to previous market disruptions, YRMC experienced losses on investments that adversely affected the non-operating results of YRMC over certain time periods. No assurance can be given that YRMC's investments will produce positive returns or that losses on investments will not occur in the future. See "FINANCIAL INFORMATION—Management's Discussion and Analysis of Financial Performance" in Appendix A hereto.

The availability of liquidity and credit to fund the continuation and expansion of many business operations has been limited in recent years. An inability to access the financial markets on acceptable terms at a desired time could negatively impact YRMC's growth plans, its ability to respond to changing economic and business conditions, and its ability to refinance existing debt.

FULL IMPACT OF HEALTH CARE REFORM ON THE HEALTH CARE INDUSTRY REMAINS UNPREDICTABLE

Affordable Care Act, Generally. The Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (the *"Affordable Care Act"* or *"ACA"*), has significantly changed, and continues to change, how health care services are covered, delivered and financed in the United States. The primary goal of the ACA – extending health coverage to millions of uninsured legal U.S. residents – has taken place through a combination of private sector health insurance reforms and Medicaid program expansion (discussed below). To fund Medicaid expansion, the ACA includes a broad array of quality improvement programs, cost efficiency incentives, and enhanced fraud and abuse enforcement measures, each designed to generate savings within the Medicare and Medicaid programs. Certain key provisions of the ACA are briefly discussed in more detail below.

While some provisions of the ACA took effect immediately upon or within a few months of final approval (March 2010), others continue to be phased in. Given the general complexity of the ACA, additional legislation is likely to be considered and enacted over time. Implementation of the ACA required and will continue to require the promulgation of complex regulations. Such regulations have had and will continue to have significant effects on the business of health care providers and third party payors. Because the health care industry will continue to be subject to significant new statutory and regulatory requirements which come with structural and operational changes, Management cannot predict the ultimate effect that the ACA may have on YRMC's business, financial condition, results of operation or cash flows.

The ACA has been the subject of several lawsuits challenging the constitutionality of certain of its provisions. In June 2012, the United States Supreme Court upheld most provisions of the ACA, while limiting the power of the federal government to penalize states for refusing to expand Medicaid; and on June 25, 2015, the United States Supreme Court issued a decision ruling that health insurance subsidies under the ACA would be available in all states, including those with a federally-facilitated health insurance exchange. Since the 2015 Supreme Court ruling, the ACA and its implementation have continued to face challenges in Congress and federal courts, and from some state governments, conservative advocacy groups, labor unions, and small business organizations. The outcome of continuing legal challenges to certain provisions of the ACA, or future Congressional action cannot be predicted. Any action that negatively impacts the number of individuals who have health insurance coverage could have a material adverse effect on YRMC's results of operations and cash flows.

Management is unable to predict the net effect of the ACA on future revenues and operations at this time due to uncertainty regarding a number of factors. See the subheading "Full Impact of ACA Difficult to Predict" below for a summary of certain of those factors.

ACA Health Insurance Market Reforms/Health Insurance Exchanges. One key provision of the ACA is the "individual mandate," which requires most Americans to maintain "minimum essential" health insurance coverage. Those who do not comply with the individual mandate must make a "shared responsibility payment" to the federal government in the form of a tax penalty. Individuals who are not exempt from the individual mandate, and who do not receive health insurance through an employer or government program, are expected to satisfy the individual mandate requirement by purchasing insurance from a private company or a "health insurance exchange." Health insurance exchanges are government-regulated organizations that provide competitive markets for buying health insurance by offering individuals and small employers a choice of different health plans, certifying plans that participate, and providing information to help consumers better understand their options. Some states have elected to operate their own exchanges. Citizens in state without a health insurance exchange can use the federal government's health insurance exchange found online at Healthcare.gov. Individuals enrolled in an insurance plan purchased through an exchange may be eligible for a premium credit or cost-sharing subsidy. Following legal challenges seeking to limit the availability of premium credits and subsidies only to individuals enrolled in coverage through a state-based exchange, in June 2015 the U.S. Supreme Court upheld U.S. Internal Revenue Service (*"IRS"*) regulations extending such subsidies to individuals who purchase coverage through the federal government's health insurance exchange. The health insurance exchanges may have a positive impact for hospitals by increasing the availability of health insurance to individuals who were previously uninsured. Conversely, health insurance exchanges may have a negative financial impact on health care providers to the extent (1) insurance plans purchased on the exchange reimburse providers at lower rates or (2) high deductible plans offered on the exchanges become more prevalent and lead to lower inpatient volumes as patients chose to forgo medical treatment to avoid such high deductibles. As the health insurance exchanges are still relatively new, their effect on the reimbursement rates paid by health insurers, and accordingly, on health care providers' business and financial condition, cannot be predicted.

The "employer mandate" provision of the ACA requires the imposition of penalties on employers having 50 or more employees who do not offer qualifying health insurance coverage that is affordable and provides minimum value to those working 30 or more hours per week. In general, employers with 100 or more full time equivalent employees were required to insure at least 70% of their employees beginning in

2015 and 95% of their employees by 2016; employers with 50-99 full time equivalent employees were required to start insuring their employees in 2016.

The ACA also established a number of other health insurance market reforms, including bans on lifetime limits and pre-existing condition exclusions, new benefit mandates, and increased dependent coverage (until the age of 26).

Any future legal or legislative action that reduces the number of individuals who have gained health insurance coverage since implementation of the ACA could have a material adverse effect on YRMC's results of operations and cash flows.

ACA Medicaid Expansion. Another key provision of the Affordable Care Act is the expansion of Medicaid coverage. Prior to the passage of the ACA, the Medicaid program offered federal funding to states to assist limited categories of low-income individuals (including children, pregnant women, the blind and the disabled) in obtaining medical care. The ACA expanded Medicaid eligibility to virtually all individuals under 65 years old with incomes up to 138% of the federal poverty level beginning in 2014. The ACA provides that the federal government will fund 100% of the Medicaid expansion costs through 2016. Federal funding for state Medicaid expansion will gradually decrease to 90% by 2020 and beyond. The expansion of the Medicaid program in each state is not mandatory and there is no deadline for a state to undertake expansion and qualify for the enhanced federal funding available under the ACA. In the event a state chooses not to participate in the federally funded Medicaid expansion, the net effect of ACA reforms could be significantly reduced.

Arizona implemented the ACA's Medicaid expansion as of January 2014 to allow its Medicaid program (known as the Arizona Health Care Cost Containment System or "*AHCCCS*") to cover most adults up to 138% of the federal poverty level. In the 2015 legislative session, Arizona lawmakers passed Senate Bill 1475 and Senate Bill 1092, which sought to reform AHCCCS and instructed the State's Medicaid agency to seek waivers from the Centers for Medicare & Medicaid Services ("*CMS*") for the legislature's proposed AHCCCS reforms. On September 30, 2015, the State submitted a Section 1115 Research and Demonstration Waiver to the CMS, seeking approval to reform AHCCCS to, among other things, allow for cost-sharing premiums and co-pays, eliminate non-emergency medical transportation coverage, include work requirements and monthly income and work verification, and include beneficiary disenrollment criteria and a lifetime limit of five years. CMS approved the waiver on September 30, 2016 for a five-year period ending September 30, 2021. Notably, the reformed AHCCCS requires adults over 100% of the federal poverty level to pay a monthly premium of 2% of household income or $25, whichever is less. Members that fail to make these monthly premiums will be disenrolled from AHCCCS. While YRMC cannot predict the effect of the reformed Arizona Medicaid Program or predict future legislative initiatives to further reform AHCCCS, either could result in YRMC experiencing higher bad debt and charity care expenses to the extent the expanded Medicaid population returns to uninsured status.

Arizona froze enrollment in its version of the Children's Health Insurance Program ("*CHIP*"), KidsCare, in 2010, and discontinued KidsCare at the end of January 2014 due to a lack of funding. CHIP provides low-cost health coverage to children in families that earn too much money to qualify for Medicaid. For more than two years, Arizona was the only state that did not have a CHIP. Arizona re-opened KidsCare enrollment in July 2016 and coverage for services began on September 1, 2016. The

State expects 30,000 to 40,000 children to be newly-eligible for CHIP. It is possible that the State again may opt to rescind KidsCare in the future due to state budget shortfalls. If Arizona freezes or suspends KidsCare in future years, YRMC could experience higher bad debt and charity care expenses to the extent the KidsCare population returns to uninsured status.

ACA Spending Reductions. The ACA contains a number of provisions designed to significantly reduce Medicare and Medicaid program spending, including: (1) negative adjustments to the "market basket" updates for Medicare's inpatient, outpatient, long-term acute and inpatient rehabilitation prospective payment systems, which began in 2010, as well as additional "productivity adjustments" that began in 2011; and (2) reductions to Medicare and Medicaid disproportionate share hospital (*"DSH"*) payments, which began for Medicare payments in federal fiscal year 2014 and will begin for Medicaid payments in federal fiscal year 2018, as the number of uninsured individuals declines. Any reductions to reimbursement under the Medicare and Medicaid programs could adversely affect YRMC's business and results of operations to the extent such reductions are not offset by increased revenues from providing care to previously uninsured individuals.

ACA Quality Improvement and Clinical Integration Initiatives. The Affordable Care Act mandated the creation of a number of payment reform measures designed to incentivize or penalize hospitals based on quality improvement measures, performance measures and clinical integration, such as the Readmission Reduction Program, the Hospital Value Based Purchasing Program, the Hospital Inpatient Quality Reporting Program, and the Hospital Acquired Condition Reduction Program. The Readmission Reduction Program reduces Medicare payments by specified percentages to hospitals with excess or preventable hospital admissions based on historical discharge data. The Hospital Value Based Purchasing Program, funded through an across the board reduction in payments to hospitals for inpatient services, reallocates and redistributes Medicare reimbursement funds to hospitals based on how well they perform on quality and patient experience measures. Under the Hospital Inpatient Quality Reporting Program, hospitals must report on the quality of their services according to CMS's required quality measures, by completing quarterly and annually by the specified submission deadlines, and beginning in federal fiscal year 2015, hospitals that did not participate successfully in the program were penalized one quarter of the percentage increase in their payment updates. The ACA also gave the Center for Medicare and Medicaid Innovation within CMS the authority to develop and test new payment methodologies designed to improve quality of care and lower costs. One such program is a national pilot program studying the use of "bundled" payments to hospitals, physicians and post-acute care providers relating to a single admission. Management is not currently aware of any situation in which an ACA quality, efficiency or clinical integration program is materially adversely affecting the financial condition or results of the operations of YRMC. However, YRMC's operations may be adversely affected by such programs in the future. See also, "INDUSTRY TREND TOWARDS ALTERNATIVE PAYMENT MODELS AND CLINICALLY INTEGRATED DELIVERY SYSTEMS MAY NEGATIVELY AFFECT REVENUES" below.

ACA Fraud and Abuse Enforcement Enhancements. In an attempt to reduce unnecessary health care spending, the ACA included a number of provisions aimed at combating fraud and abuse within the Medicare and Medicaid programs. The ACA provides additional enforcement tools to the government, facilitates cooperation between agencies by establishing mechanisms for the sharing of information, and enhances criminal and administrative penalties for non-compliance with the Medicare and Medicaid fraud and abuse laws, such as the Anti-Kickback Statute, Stark Law and federal False Claims Act (discussed below). For example, the ACA: (1) provides $350 million in increased federal funding over 10 years to fight health care fraud, waste and abuse; (2) authorizes the U.S. Department of Health and Human Services (*"HHS"*), in consultation with the Office of Inspector General (*"OIG"*), to suspend Medicare and Medicaid payments to a provider of services or a supplier "pending an investigation of a credible allegation of fraud;" (3) provides Medicare contractors with additional flexibility to conduct random prepayment reviews; and (4) strengthens the rules for returning overpayments made by governmental health programs and expands liability under the federal False Claims Act to include failure to timely repay identified overpayments. Furthermore, the Affordable Care Act contains provisions relating to recovery audit contractors (*"RACs"*), which are third-party organizations under contract with CMS that identify underpayments and overpayments under the Medicare program and recoup any overpayments on behalf of the government. The ACA expanded the RAC program's scope to include Medicaid claims and required all states to enter into contracts with RACs. Management is not currently aware of any pending recovery audit which, if determined adversely to YRMC, would materially adversely affect the financial condition or results of the operations of YRMC.

Full Impact of ACA Difficult to Predict. It remains difficult to predict the full impact of the Affordable Care Act on YRMC's future revenues and operations at this time due to uncertainty regarding a number of material factors, including: (1) how many currently uninsured individuals will ultimately obtain and retain insurance coverage as a result of the ACA (either through private health insurance or Medicaid); (2) what percentage of any newly insured patients will be covered under the Medicaid program vs. a commercial plan obtained on a health insurance exchange; (3) the pace at which insurance coverage expands, including the pace of different types of coverage expansion; (4) future changes in the reimbursement rates and market basket updates; (5) the percentage of individuals in the exchanges who select the high-deductible plans, considering that health insurers offering those kinds of products have traditionally sought to pay lower rates to hospitals; (6) the extent to which the enhanced program integrity and fraud and abuse provisions lead to a greater number of civil or criminal actions or impact Medicare and Medicaid payments; (7) the extent to which the ACA puts pressure on the profitability of health insurers, which in turn might cause them to seek to reduce payments to hospitals with respect to both newly insured individuals and their existing business; (8) the amount of overall revenues YRMC will generate from the Medicare and Medicaid programs when the reductions are fully implemented; (9) whether future reductions required by the ACA will be changed by statute prior to becoming effective; (10) the reductions to Medicaid DSH payments; (11) what the losses in revenues, if any, will be from the ACA's quality initiatives; (12) how successful clinical integration and other pilot programs in which YRMC participates will be at coordinating care and reducing costs; and (13) the scope and nature of potential changes to Medicare reimbursement methods, such as an emphasis on bundling payments or coordination of care programs.

FEDERAL AND STATE BUDGET CHALLENGES OR FUNDING POLICY CHANGES COULD RESULT IN REDUCED OR DELAYED MEDICARE AND MEDICAID REIMBURSEMENT

General. For fiscal years December 31, 2015 and 2014, respectively, approximately 40.3% and 41.6% of YRMC's net patient service revenues were derived from the Medicare program, the federally funded government health insurance program for individuals over 65 regardless of income and individuals with permanent disabilities or with End-Stage Renal Disease. For fiscal years December 31, 2015 and 2014, respectively, approximately 8.3% and 7.7% of YRMC's net patient service revenues were derived from the Medicaid program, the joint federal and state health insurance program that, together with the Children's Health Insurance Program, provides health coverage to certain low-come individuals and children and individuals with disabilities. As a result, YRMC is highly dependent on these federal health insurance programs and could be adversely affected by changes in federal and state funding for these programs. See Appendix A—"FINANCIAL INFORMATION—Sources of Patient Service Revenue."

In addition to the changes affected by the ACA (discussed above), the Medicare and Medicaid programs are subject to: (1) other statutory and regulatory changes, administrative rulings, interpretations and determinations concerning patient eligibility requirements, funding levels and the method of calculating payments or reimbursements, among other things; (2) requirements for utilization review; and (3) federal and state funding restrictions, all of which could materially increase or decrease payments from these government programs in the future, as well as affect the cost of providing services to patients and the timing of reimbursement, which could in turn adversely affect YRMC's overall business, financial condition, results of operations or cash flows. Any material adverse effects resulting from future reductions in payments from government programs could be exacerbated if YRMC is not able to manage its operating costs effectively.

Federal Budget Challenges. Past federal legislation and policy aimed at federal deficit reduction has resulted in across-the-board federal program spending reductions, including automatic yearly reductions in Medicare provider payments. The effect of future government health care funding or federal deficit policy changes on YRMC's operations is unpredictable. If reimbursement rates paid by governmental payers are reduced, if the scope of services covered by governmental payers is limited, or if an Obligated Group provider is excluded from participation in the Medicare or Medicaid program or any other government health care program, there could be a material adverse effect on YRMC's business, financial condition, results of operations or cash flows.

State Budget Challenges. Many states face budgetary challenges that have resulted, and likely will continue to result, in reduced Medicaid funding levels to hospitals and other health care providers. Because most states are required to operate with balanced budgets, and the Medicaid program is generally a significant portion of a state's budget, states can be expected to adopt or consider adopting future legislation designed to reduce or not increase Medicaid expenditures. In addition, some states delay issuing Medicaid payments to providers to manage state expenditures. Continuing pressure on state budgets and other factors could result in future reductions to Medicaid payments, payment delays or additional taxes on hospitals.

The Medicaid program provides additional payments for hospitals that serve a disproportionate share of low income and indigent patients. YRMC's Medicaid DSH payments represented an immaterial amount of net patient service revenues for fiscal years December 31, 2014 and 2015.

FAILURE TO NEGOTIATE FAVORABLE CONTRACTS WITH COMMERCIAL INSURERS COULD ADVERSELY AFFECT REVENUES

For fiscal years December 31, 2015 and 2014, respectively, approximately 45.9% and 42.8% of YRMC's net patient service revenues were derived from commercial insurers, including HMO, PPOs and other managed care plans. Accordingly, YRMC's ability to negotiate and renew contracts on competitive terms with commercial insurers significantly affects YRMC's revenues and operating results. YRMC's results of operations could be adversely affected if (1) it is unable to enter into and maintain commercial insurance contracts, including managed care contracts, on acceptable terms, (2) if it experiences material reductions in the contracted rates from commercial insurers or (3) if it has difficulty collecting from commercial payers. Additionally, private payers are increasingly attempting to control health care costs through increased utilization reviews, greater enrollment in managed care programs, such as HMOs and PPOs and directly contracting with hospitals to provide services on a discounted basis. The trend toward consolidation among private managed care payers tends to increase their bargaining power over prices and fee structures. Other health care companies, including some with greater financial resources, greater geographic coverage or a wider range of services, may compete with YRMC for opportunities with commercial insurers. For example, competitors may negotiate exclusivity provisions with certain managed care plans or otherwise restrict the ability of managed care companies to contract with Obligated Group providers.

FAILURE TO COMPLY WITH COMPLEX AND EVOLVING FEDERAL AND STATE HEALTH CARE REGULATIONS COULD RESULT IN LARGE FINES, PENALTIES OR EXCLUSION FROM THE GOVERNMENTAL HEALTH CARE PROGRAMS

General. YRMC maintains health care compliance policies and procedures aimed at complying with federal and state health care regulations such as the Anti-Kickback Statute, Stark Law, False Claims Act, HIPAA and EMTALA (each as discussed below), among others. While Management conducts YRMC's operations and enters into business arrangements in a manner that it believes is consistent with existing federal and state health care regulations, governmental entities responsible for enforcing these laws may nevertheless assert that YRMC is in violation of these laws. In addition, because health care regulations are particularly complex, such regulations may be interpreted and enforced in a manner that is inconsistent with Management's interpretation. YRMC's business and financial results could be harmed if it is alleged to have violated existing health care regulations or if it fails to comply with new or changed health care regulations. Furthermore, health care, as one of the largest industries in the United States, continues to attract much legislative interest and public attention. Further changes in the health care regulatory framework increasing burdens on health care providers could have a material adverse effect on YRMC's business, financial condition, results of operations or cash flows.

Certain key health care regulations are briefly discussed below. See also, information under the heading "HEIGHTENED ENFORCEMENT OF HEALTH CARE LAWS AND REGULATIONS GOVERNING HEALTH CARE REIMBURSEMENT COULD RESULT IN UNEXPECTED COSTS, INVESTIGATIONS OR ENFORCEMENT ACTIONS" below.

Anti-Kickback Statute. The Anti-Kickback Statute is a criminal law that prohibits the knowing and willful payment of "remuneration" to induce or reward patient referrals or the generation of business involving any item or service payable by the federal health care programs (e.g., drugs, supplies, or health care services for Medicare or Medicaid patients). Remuneration includes anything of value and can take many forms besides cash, such as free rent, expensive hotel stays and meals, and excessive compensation for medical directorships or consultancies. The Anti-Kickback Statute covers the payers of kickbacks (those who offer or pay remuneration) as well as the recipients of kickbacks (those who solicit or receive remuneration). Criminal penalties, civil penalties and administrative sanctions for violating the Anti-Kickback Statute include fines (up to $50,000 per kickback plus monetary penalties up to three times the amount of damages sustained by government), jail terms, and exclusion from participation in the federal health care programs. In addition, under the Affordable Care Act, submission of a claim for services or items generated in violation of the Anti-Kickback Statute constitutes a false or fraudulent claim and may be subject to additional penalties under the federal False Claims Act (discussed below). Furthermore, it is a violation of the federal Civil Monetary Penalties Law to offer or transfer anything of value to Medicare or Medicaid beneficiaries that is likely to influence their decision to obtain covered goods or services from one provider or service over another. Many states, including Arizona, have statutes similar to the federal Anti-Kickback Statute, except that the state statutes usually apply to referrals for services reimbursed by all third party payers, not just federal programs.

Anti-Kickback "safe harbors" described in federal regulations protect certain payment and business practices that could otherwise implicate the Anti-Kickback Statute from criminal and civil prosecution. Example of certain arrangements with safe harbors protection include personal services and rental agreements, investments in ambulatory surgical centers, and payments to bona fide employees. To be protected by a safe harbor, an arrangement must squarely meet each of the elements of safe harbor described in regulation. The fact that certain conduct or a given business arrangement does not squarely meet all the required elements of a safe harbor does not necessarily render the conduct or business arrangement illegal under the Anti-Kickback Statute. Rather, such conduct and business arrangements may be subject to increased scrutiny by government enforcement authorities and should be reviewed on a case by case basis.

Many states, including Arizona, have anti-kickback and fee-splitting statutes designed to prohibit inducements or improper remuneration for the referral of patients.

Management believes its policies, procedures and business arrangements have been and currently are in material compliance with the Anti-Kickback Statute and Arizona anti-kickback and fee-splitting regulations but no assurance can be given that a violation will not be found. Any sanctions imposed as a result of an Anti-Kickback Statute or similar state law violation could have a material adverse effect on the future operations or financial condition of YRMC.

<u>Stark Law</u>. The Stark Law generally restricts referrals by physicians of Medicare or Medicaid patients to entities with which the physician or an immediate family member has a financial relationship, unless one of several exceptions applies. The referral prohibition applies to a number of statutorily defined "designated health services," such as clinical laboratory, physical therapy, radiology, and inpatient and outpatient hospital services. Exceptions to the Stark Law's referral prohibition cover a broad range of common financial relationships. These statutory and the subsequent regulatory exceptions are available to protect certain permitted employment relationships, relocation arrangements, leases, group practice arrangements, medical directorships, and other common relationships between physicians and providers of designated health services, such as hospitals. A violation of the Stark Law may result in a denial of payment, required refunds to patients and the Medicare program, civil monetary penalties of up to $15,000 for each violation, civil monetary penalties of up to $100,000 for "sham" arrangements, civil monetary penalties of up to $10,000 for each day that an entity fails to report required information, and exclusion from participation in the Medicare and Medicaid programs and other federal programs. In addition, the submission of a claim for services or items generated in violation of the Stark Law may constitute a false or fraudulent claim, and thus be subject to additional penalties under the federal False Claims Act.

Many states, including Arizona, have adopted self-referral statutes similar to the Stark Law, some of which extend beyond the related state Medicaid program to prohibit the payment or receipt of remuneration for the referral of patients and physician self-referrals regardless of the source of the payment for the care.

Management believes its policies, procedures and business arrangements are in material compliance with the Stark Law and similar state law but no assurance can be given that a violation will not be found. Any sanctions imposed as a result of a Stark Law or similar state law violation could have a material adverse effect on the future operations or financial condition of YRMC.

YRMC's participation in and development of joint ventures and other financial relationships with physicians could be adversely affected by the Stark Law and similar state enactments. Moreover, new payment structures promoted by the ACA, such as "accountable care entities" and other arrangements involving combinations of hospitals, physicians and other providers who share payment savings, could potentially be seen as implicating the Anti-Kickback Statute or the Stark Law.

False Claims Act and *Qui Tam* Lawsuits. Health care providers are subject to *qui tam* or "whistleblower" lawsuits under the federal False Claims Act ("*FCA*"), which allows private individuals to bring actions on behalf of the government, alleging that a hospital or health care provider has defrauded a government program, such as Medicare or Medicaid. If the government intervenes in the action and prevails, the defendant may be required to pay three times the actual damages sustained by the government, plus mandatory civil penalties for each false claim submitted to the government. As part of the resolution of a *qui tam* case, the party filing the initial complaint may share in a portion of any settlement or judgment. If the government does not intervene in the action, the *qui tam* plaintiff may continue to pursue the action independently. There are many potential bases for liability under the False Claims Act. Liability often arises when an entity knowingly submits a false claim for reimbursement to the federal government. The FCA defines the term "knowingly" broadly. Though simple negligence will not give rise to liability under the FCA, submitting a claim with reckless disregard to its truth or falsity constitutes a "knowing" submission under the FCA and, therefore, will qualify for liability.

The Fraud Enforcement and Recovery Act of 2009 expanded the scope of the FCA by, among other things, creating liability for knowingly and improperly avoiding repayment of an overpayment received from the government and broadening protections for whistleblowers. Under the Affordable Care Act, the knowing failure to report and return an overpayment within 60 days of identifying the overpayment or by the date a corresponding cost report is due, whichever is later, constitutes a violation of the FCA. Further, the Affordable Care Act expands the scope of the FCA to cover payments in connection with health insurance exchanges if those payments include any federal funds. *Qui tam* actions can also be filed under certain state false claims laws if the fraud involves Medicaid funds or funding from state and local agencies. The Deficit Reduction Act provides financial incentives to states that pass similar false claims statutes or amend existing false claims statutes that track the FCA more closely with regard to penalties and rewards to *qui tam* relators. A number of states have passed similar statutes expanding the prohibition against the submission of false claims to nonfederal third-party payors. Arizona does not currently have a state false claims statute. However, Management cannot predict whether such a law will be passed in the future.

On June 30, 2016 the Department of Justice (DOJ) issued an Interim Final Rule with Request for Comments (Interim Rule) that adjusts for inflation of civil monetary penalties, including almost doubling penalties for FCA violations. The current FCA civil penalties are between $5,500 to $11,000 per claim, plus three times the amount of damages which the federal government sustains because of the false claim. As of August 1, 2016, FCA civil penalties increase to between $10,781.40 and $21,562.80 per claim, plus three times the amount of damages that the federal government sustains because of the false claim. It is important to note that when FCA penalties increase, so do the financial rewards for whistleblowers, increasing their incentive to allege false or fraudulent claims.

At the present time, Management is not aware of any overpayments or pending or threatened claims, investigations or enforcement actions regarding the FCA which, if determined adversely to YRMC, would have a material adverse effect on the financial condition or results of operations of YRMC.

HIPAA. The Health Insurance Portability and Accountability Act of 1996 and its implementing regulations ("*HIPAA*") mandates the adoption of specific standards for electronic transactions and code sets that are used to transmit certain types of health information. HIPAA's objective is to encourage efficiency and reduce the cost of operations within the health care industry. To protect the information transmitted using the mandated standards and the patient information used in the daily operations of a covered entity, HIPAA also sets forth federal rules protecting the privacy and security of protected health information ("*PHI*"). The privacy and security regulations address the use and disclosure of individually identifiable health information and the rights of patients to understand and control how their information is used and disclosed. The law provides both criminal and civil fines and penalties for covered entities that fail to comply with HIPAA.

To receive reimbursement from CMS for electronic claims, health care providers and health plans must use HIPAA's electronic data transmission (transaction and code set) standards when transmitting certain health care information electronically. Effective October 1, 2015, CMS changed the formats used for certain electronic transactions and began requiring the use of updated standard code sets for certain diagnoses and procedures known as ICD-10 code sets. Although use of the ICD-10 code sets required significant modifications to payment systems and processes, Management believe that the cost of compliance with these regulations has not had and is not expected to have a material adverse effect on YRMC's business, financial condition, results of operations or revenues. Furthermore, the Affordable Care Act required HHS to adopt standards for additional electronic transactions and to establish operating rules to promote uniformity in the implementation of each standardized electronic transaction. Management believes that YRMC's electronic data transmissions are materially compliant with current standards.

Under HIPAA, covered entities must establish administrative, physical and technical safeguards to protect the confidentiality, integrity and availability of electronic PHI maintained or transmitted by them or by others on their behalf. In 2009, HIPAA was amended by the Health Information Technology for Economic and Clinical Health ("*HITECH*") Act to impose certain of the HIPAA privacy and security requirements directly upon business associates of covered entities and significantly increase the monetary penalties for violations of HIPAA. Regulations that took effect in late 2009 also require business associates to notify covered entities, who in turn must notify affected individuals and government authorities, of data security breaches involving unsecured PHI. Since the passage of the HITECH Act, enforcement of HIPAA violations has increased.

Management believes its policies and procedures are in material compliance with HIPAA and similar state privacy laws but no assurance can be given that a violation will not be found. Any sanctions imposed as a result of a HIPAA or state privacy law violation could have a material adverse effect on the future operations or financial condition of YRMC.

EMTALA. The federal Emergency Medical Treatment and Active Labor Act ("*EMTALA*") imposes certain requirements on hospitals and facilities with emergency departments. Generally, EMTALA requires that hospitals and other facilities with emergency departments provide "appropriate medical screening" to patients who come to the emergency department to determine if an emergency medical condition exists. If so, the hospital must stabilize the patient within the capabilities of the hospital and the patient cannot be transferred unless stabilization has occurred or the transfer is done pursuant to EMTALA requirements. In addition, a hospital which receives an inappropriate transfer must report that transfer to CMS. Failure to comply with EMTALA may result in a hospital's exclusion from the Medicare and/or Medicaid programs, as well as imposition of civil monetary penalties. As such, failure of YRMC to meet its responsibilities under EMTALA could have a material adverse effect on the financial condition or operations of YRMC.

Management believes its policies and procedures are in material compliance with EMTALA, but no assurance can be given that a violation of EMTALA will not be found. Any sanctions imposed as a result of an EMTALA violation could have a material adverse effect on the future operations or financial condition of the Members of YRMC.

HEIGHTENED ENFORCEMENT OF HEALTH CARE LAWS AND REGULATIONS GOVERNING HEALTH CARE REIMBURSEMENT COULD RESULT IN UNEXPECTED COSTS, INVESTIGATIONS OR ENFORCEMENT ACTIONS

Both federal and state government agencies continue heightened and coordinated civil and criminal enforcement efforts against the health care industry. Enforcement authorities may aggressively pursue perceived violations of health care laws. In the current regulatory climate, it is anticipated that many hospitals and physician groups may be subject to an audit, investigation or other enforcement action regarding the health care fraud laws mentioned above. The cost of defending such an action, the time and management attention consumed and the facts of a case may dictate settlement. Therefore, regardless of the merits of a particular case, a health care provider could experience materially adverse settlement costs, as well as materially adverse costs associated with implementation of any settlement agreement. Prolonged and publicized investigations could also be damaging to the reputation and business of a health care provider, regardless of outcome. Moreover, pursuant to the Affordable Care Act, the OIG is permitted to suspend Medicare and Medicaid payments to a health care provider "pending an investigation of a credible allegation of fraud."

Although YRMC has extensive policies and procedures in place to facilitate compliance in all material respects with the laws, rules and regulations affecting the health care industry, these policies and procedures may not be wholly effective. If an Obligated Group Member is alleged or found to have violated such laws, rules or regulations or if Medicare or Medicaid payments are suspended due to an allegation of fraud, YRMC's business, financial condition, results of operations or cash flows could be materially adversely affected.

YRMC Could be limited by, or Incur Substantial Liability Under, Other Federal or State Laws

In addition to laws and regulation specific to the health care industry, as discussed above, YRMC is subject to a wide variety of laws and regulations in the ordinary course of business. Violation of these laws or regulations could result in various penalties, demands, or substantial defense costs, any of which could have a material adverse effect on YRMC's financial condition or results of operations.

Environmental Regulation. YRMC is subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations. These include, but are not limited to: (1) air and water quality control requirements; (2) waste management requirements; (3) specific regulatory requirements applicable to asbestos and radioactive substances; (4) requirements for providing notice to employees and members of the public about hazardous materials handled by or located at the hospital; and (5) requirements for training employees in the proper handling and management of hazardous materials and wastes.

YRMC may be subject to requirements related to investigating and remedying hazardous substances located on their property, including such substances that may have migrated off of their property. Typical hospital operations include the handling, use, storage, transportation, disposal and/or discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants and contaminants. As such, hospital operations are particularly susceptible to the practical, financial and legal risks associated with compliance with such environmental laws and regulations. Such risks may result in damage to individuals, property or the environment; may interrupt operations and/or increase their cost; may result in legal liability, damages, injunctions or fines; and may result in investigations, administrative proceedings, civil litigation, criminal prosecution, penalties or other governmental agency actions; and may not be covered by insurance. There is no assurance that YRMC will not encounter such problems in the future and such problems may result in material adverse consequences to the operations or financial condition of YRMC.

At the present time, Management is not aware of any pending or threatened claim, investigation or enforcement action regarding any such environmental issues which, if determined adversely to YRMC, would have a material adverse effect on YRMC's financial condition or results of operations.

Antitrust Laws. 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. Enforcement activity by federal and state agencies in the health care sector continues to be very active. In particular, the Federal Trade Commission has publicly acknowledged increasing enforcement action in the areas of hospital and physician combinations. Violation of the antitrust laws could subject a hospital to criminal and civil enforcement by federal and state agencies, as well as treble damage liability by private litigants. At various times, YRMC 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.

The most common areas of potential liability are joint activities among providers with respect to payor contracting, medical staff credentialing, hospital and physician mergers and acquisitions and allegations of exclusion of competitors from market opportunities. From time to time, YRMC may be involved in joint contracting activity or affiliation discussions with other hospitals or providers. The precise degree to which this or similar joint activities may expose YRMC to antitrust risk from governmental or private sources is dependent on specific facts which may change from time to time. Physicians who are subject to adverse peer review proceedings may file federal antitrust actions against hospitals, although the Health Care Quality and Improvement Act may provide immunity from such claims if certain requirements are met. Hospitals regularly have disputes regarding credentialing and peer review and therefore 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. Recent court cases have challenged alleged agreements to exclude competitors from managed care networks. Such activities may result in monetary liability for the participating hospitals under certain circumstances where a competitor suffers business damage. Government or private parties are entitled to challenge mergers, acquisitions, joint ventures, or other affiliations that may injure competition. Liability in any of these or other antitrust areas of liability may be substantial, depending on the facts and circumstances of each case and may have a material adverse impact on YRMC.

Professional Lawsuits and Other Claims. Professional liability and other actions alleging wrongful conduct and seeking punitive damages are often filed against hospitals and other health care providers. Litigation also arises from the corporate and business activities of hospitals, from a hospital's status as an employer, as a result of medical staff or provider network peer review or the denial of medical staff or provider network privileges. Professional and general liability insurance does not cover all claims and is subject to policy limitations. If the aggregate limit of any of YRMC's professional and general liability policies is exhausted, in whole or in part, it could deplete or reduce the limits available to pay any other material claims applicable to that policy period. Any losses not covered by or in excess of the amounts maintained under insurance policies will be funded from YRMC's working capital. Furthermore, there is no assurance that hospitals will be able to maintain the coverage amounts currently in place in the future, that the coverage will be sufficient to cover malpractice judgments rendered against a hospital or that such coverage will be available at a reasonable cost in the future. Additionally, one or more of YRMC's insurance carriers could become insolvent and unable to fulfill obligations to defend, pay or reimburse YRMC when those obligations become due. In that case, or if payments of claims exceed Management's estimates, or are not covered by YRMC's insurance, it could have a material adverse effect on YRMC's business, financial condition, results of operations or cash flows.

Loss of Accreditation, Licensure or Other State Approvals may Negatively Affect Operations or Financial Condition

YRMC's facilities are subject to periodic review by the Arizona Department of Health Services and various federal, state and local agencies state and local regulations relating to personnel, operating policies and procedures, fire prevention, rate-setting, the adequacy of medical care, and compliance with building codes and environmental protection laws. Various licenses and permits also are required in order to dispense narcotics, operate pharmacies, handle radioactive materials and operate certain equipment. 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 YRMC. Failure to receive accreditation or licensure could have a material adverse impact on YRMC's operations and financial condition. Management currently anticipates no difficulty renewing or continuing currently held licenses, certifications or accreditations.

Many states have certificate of need ("*CON*") laws, which laws, among other things, may require that a health care facility obtain state approval before constructing a health care facility, expanding a health care facility or changing a health care facility's bed capacity. The general intent of a state CON law is to restrain health care facility costs and allow coordinated planning of new services and construction. Failure to obtain necessary state approval can result in the inability to expand facilities, add services, acquire a facility or change ownership. Further, violation of such laws may result in the imposition of civil sanctions or the revocation of a facility's license. Arizona currently does not have a CON law. However, Management cannot predict whether a state CON law will be implemented in the future.

INDUSTRY TREND TOWARDS ALTERNATIVE PAYMENT MODELS AND CLINICALLY INTEGRATED DELIVERY SYSTEMS MAY NEGATIVELY AFFECT REVENUES

Value based purchasing and alternative payment model initiatives of both governmental and commercial payers tying financial incentives to quality and efficiency of care will increasingly affect the results of operations of hospitals and other health care facilities, and may negatively impact their revenues if they are unable to meet expected quality standards. As discussed above, the Affordable Care Act contains a number of provisions intended to promote value based purchasing in the federal health care programs. See "FULL IMPACT OF HEALTH CARE REFORM ON THE HEALTH CARE INDUSTRY REMAINS UNPREDICTABLE—ACA Quality Improvement and Clinical Integration Initiatives" above. CMS has set a goal of tying 30% of traditional Medicare payments to quality or value through alternative payment models such as accountable care organizations, bundled payment arrangements or integrated care demonstrations by the end of 2016, and tying 50% of payments to these models by the end of 2018; the 30% goal was reached almost a year ahead of schedule, evidencing a rapid volume-to-value evolution within the Medicare program. It is generally anticipated that CMS will continue to experiment with additional alternative payment models.

There is also a trend among private payers toward value based purchasing and alternative payment models for health care services. Many large commercial payers expect hospitals to report quality data, and several of these payers will not reimburse hospitals for certain preventable adverse events. Industry trends predict that value based purchasing programs, including programs that condition reimbursement on patient outcome measures, to become more common and to involve a higher percentage of reimbursement amounts. This trend could negatively impact YRMC's revenues, particularly if it is unable to meet the quality and cost standards established under the new payment models.

In order to stay ahead or keep up with industry trends, many hospitals and health systems are pursuing clinical integration strategies with physician groups in order to offer an integrated package of health care services to patients and health care insurers. These integration strategies may take many forms, including management service organizations that provide physicians or physician groups with a combination of financial and managed care contracting services, office and equipment, office personnel and management information systems. Integration objectives may also be achieved via physician-hospital organizations, organizations which are typically jointly owned or controlled by a hospital and physician group for the purpose of managed care contracting, implementation and monitoring. Other integration structures include hospital-based clinics or medical practice foundations, which may purchase and operate physician practices as well as provide all administrative services to physicians.

Often the start-up capitalization for such structures, as well as operational deficits, are funded by the sponsoring hospital or health system. Depending on the size and organizational characteristics of a particular strategy, these capital requirements may be substantial. In some cases, the sponsoring hospital or health system may be asked to provide a financial guarantee for the debt of a related entity that is carrying out an integrated delivery strategy. In certain of these structures, the sponsoring hospital or health system may have an ongoing financial commitment to support operating deficits, which may be substantial on an annual or aggregate basis. In addition, participating physicians may seek their independence for a variety of reasons, thus putting the hospital or health system's investment at risk and potentially reducing its managed care leverage and/or overall utilization.

These types of integrated delivery strategies are generally designed to conform to existing trends in the delivery of medicine, to implement anticipated aspects of health care reform, to increase physician availability to the community and/or enhance the managed care capability of the affiliated hospital and physicians. However, these goals may not be achieved, and, if the structure is not functionally successful, it may produce materially adverse results that are counterproductive to some or all of the above-stated goals.

All such integrated delivery strategies carry with them the potential for legal or regulatory risks in varying degrees. Such strategies may call into question compliance with the Medicare fraud and abuse laws, relevant antitrust laws and federal or state tax exemption. Such risks will turn on the facts specific to the implementation, operation or future modification of any integrated delivery system. In addition, depending on the type of structure, a wide range of governmental billing and other issues may arise, including questions of the authorization of the entity to bill for or on behalf of the physicians involved. Other related legal and regulatory risks may arise, including employment, pension and benefits, requirements for risk-bearing organizations and corporate practice of medicine, particularly in the current atmosphere of frequent and often unpredictable changes in federal and state legal requirements regarding health care and medical practice. The ability of hospitals or health systems to conduct integrated physician operations may also be altered or eliminated in the future by legal or regulatory interpretation or changes or by health care fraud enforcement.

COMPETITION FROM OTHER SERVICE PROVIDERS COULD ADVERSELY AFFECT PATIENT VOLUME

The health care business is highly competitive, and competition among hospitals and other health care providers for patients has intensified in recent years. Increased competition from a wide variety of sources, including specialty hospitals, other hospitals and health care systems, inpatient and outpatient health care facilities, long term care and skilled nursing services facilities, clinics, physicians and others, may adversely affect the utilization and/or revenues of hospitals. Competing facilities in YRMC's service areas may: (1) offer a broader array of services to patients and physicians, (2) have larger or more specialized medical staffs to admit and refer patients, (3) have a better reputation in the community, (4) be more centrally located with better parking or closer proximity to public transportation, (5) be able to negotiate more favorable reimbursement rates with payors, or (6) may not be subject to various restrictions applicable to YRMC. If YRMC's competitors are better able to attract patients, recruit physicians, expand services or obtain favorable managed care contracts at their facilities, YRMC may experience an overall decline in patient volumes.

Future competition may arise from new sources not currently anticipated or prevalent. Moreover, additional quality measures and future trends toward clinical transparency may have an unanticipated impact on YRMC's competitive position and patient volumes. Additionally, scientific and technological advances, new procedures, drugs and appliances, preventive medicine and outpatient health care delivery may reduce utilization and revenues of hospitals in the future or otherwise lead the way to new avenues of competition.

IMPLEMENTATION OF COSTLY NEW INFORMATION TECHNOLOGY OR MEDICAL TECHNOLOGY MAY BE REQUIRED BY LAW OR OTHERWISE NECESSARY TO REMAIN COMPETITIVE

The ability to adequately price and bill health care services and to accurately report financial results depends on the integrity of the data stored within information technology ("*IT*") systems, as well as the operability of such systems. IT systems require an ongoing commitment of significant resources to maintain, protect and enhance existing systems and develop new systems to keep pace with continuing changes in information processing technology, evolving systems and regulatory standards. There can be no assurance that efforts to upgrade and expand information systems capabilities, protect and enhance these systems and develop new systems to keep pace with continuing changes in information processing technology will be successful or that additional systems issues will not arise in the future. Future government regulation and adherence to technological advances could result in an increased need of YRMC to implement new technology. Such implementation could be costly and is subject to cost overruns and delays in application, which may have a material adverse effect on the financial condition or operations of YRMC.

Additionally, medical discoveries and advancements, including the development of new drugs, devices or procedures may add significantly to Obligated Group's cost of providing services with no or little offsetting increase in federal reimbursement. Moreover, such advancements also may render obsolete the way health care facilities currently provide services, thereby either increasing expense or reducing revenues. Any such effect cannot be predicted.

YRMC COULD BE ADVERSELY AFFECTED BY NEGATIVE REVIEWS

Health care consumers are now able to access hospital performance data on quality measures and patient satisfaction, as well as standard charges for services, to compare competing providers. If any of YRMC's health care facilities achieve poor results (or results that are lower than competitors) on quality measures or patient satisfaction surveys, or if its standard charges are higher than competitors, YRMC may attract fewer patients.

FUTURE ACQUISITIONS, DIVESTITURES OR OTHER AFFILIATIONS COULD CAUSE THE ENTITIES AND ASSETS THAT CURRENTLY MAKE UP THE OBLIGATED GROUP TO CHANGE FROM TIME TO TIME

YRMC periodically evaluates and selectively pursues potential merger and affiliation candidates on a consistent basis as part of its overall strategic planning and development process. As a result, it is possible that the entities and assets that currently make up the Obligated Group may change from time to time, subject to provisions in the Master Agreement and other financing documents that apply to merger, sale, disposition or purchase of assets or with respect to joining or withdrawing from the Obligated Group. See "SUMMARY OF PRINCIPAL DOCUMENTS—Summary of the Master Agreement" in Appendix C hereto.

In addition to relationships with hospitals and physicians, YRMC may pursue investments, ventures, affiliations, development and acquisitions of other health care-related entities. These may include home health care, long-term care entities or operations, pharmaceutical providers and other health care enterprises that support the overall operations and mission of YRMC. In addition, YRMC may pursue such transactions with health insurers, HMOs, PPOs, third party administrators and other health insurance-related businesses. Because of the integration occurring throughout the health care field, YRMC will consider such arrangements where there is a perceived strategic or operational benefit. All such initiatives may involve significant capital commitments and/or capital or operating risk in businesses in which YRMC may have less expertise than in hospital operations. There can be no assurance that these projects, if pursued, will not have a material adverse effect on the financial condition of YRMC.

UNANTICIPATED CATASTROPHIC EVENTS COULD ADVERSELY AFFECT REVENUES

Cyber Attacks. YRMC relies on IT systems, including electronic health records, to process, transmit and store sensitive and confidential data, including protected health information, personally identifiable information of its patients and employees, and proprietary and confidential business performance data. Although YRMC routinely monitors and tests its security systems and processes and implements various security measures designed to protect confidential information, IT systems are often subject to computer viruses, attacks by hackers, or breaches due to employee error or malfeasance. Although Management is not currently aware of having experienced a material breach of its IT systems, YRMC IT security measures may not be sufficient to prevent cyber-attacks in the future. Additionally, as cybersecurity threats continue to evolve, YRMC may not be able to anticipate certain attack methods in order to implement effective protective measures, and may be required to expend significant additional resources to continue to modify and strengthen security measures, investigate and remediate any vulnerabilities, or invest in new technology designed to mitigate security risks. YRMC's IT systems routinely interface with and rely on third party systems who are also subject to the risks outlined above and may not have or use appropriate controls to protect confidential information. A breach or attack affecting a third party service providers could harm YRMC's business and could have a material adverse effect on the financial condition of YRMC.

Facility Damage. Hospitals are highly dependent on the condition and functionality of their physical facilities. Damage from natural causes, fire, deliberate acts of destruction, terrorism or various facility system failures may have a material adverse impact on hospital operations, financial conditions and results of operations, especially if insurance is inadequate to cover resulting property and business losses.

Infectious Disease Outbreak. YRMC's business and financial results could be harmed by a national or localized outbreak of a highly contagious or epidemic disease. If an outbreak of an infectious disease such as the Zika virus or Ebola virus were to occur nationally or in YRMC's service area, its business and financial results could be adversely effected. The treatment of a highly contagious disease at one of YRMC's facilities may result in a temporary shutdown or diversion of patients. In addition, unaffected individuals may decide to defer elective procedures or otherwise avoid medical treatment, resulting in reduced patient volumes and operating revenues. YRMC cannot predict any costs associated with the potential treatment of an infectious disease outbreak or preparation for such treatment.

AN INABILITY TO EMPLOY AND RETAIN QUALIFIED EMPLOYEES COULD ADVERSELY AFFECT FINANCIAL CONDITION

Hospitals are large employers with a wide diversity of employees. The ability of YRMC to employ and retain qualified employees, including any senior management, and its ability to maintain good relations with such employees and employee unions affect the quality of services to patients and the financial condition of YRMC. Increasingly, employees of hospitals are becoming unionized and many hospitals have collective bargaining agreements with one or more labor organizations. Employees subject to collective bargaining agreements may include essential nursing and technical personnel, as well as food service, maintenance and other trade personnel. Renegotiation of collective bargaining agreements upon expiration may result in significant cost increases to hospitals. Employee strikes or other adverse labor actions may have an adverse impact on operations, revenue, and hospital reputation. Presently, no YRMC employees are represented by labor unions and Management is not aware of any efforts to organize employees into any collective bargaining groups. See "EMPLOYEE RELATIONS" in Appendix A.

PROFESSIONAL STAFFING SHORTAGES, PHYSICIAN SUPPLY AND PHYSICIAN RECRUITMENT REGULATIONS COULD ADVERSELY IMPACT FINANCIAL CONDITION OR OPERATIONS

In past years, the health care industry experienced a scarcity of nursing personnel, respiratory therapists, radiation technicians, pharmacists and other trained health care technicians. It is possible such shortages will reappear in the future. Competition for such employees, coupled with increased recruiting and retention costs, could materially increase hospital operating costs and limit grow.

It is essential to YRMC's ongoing business that it attract an appropriate number of quality physicians in the specialties required to support its services and that it maintains good relationships with those physicians. The success of YRMC's business depends in significant part on the number, quality, specialties, and admitting and scheduling practices of admitting physicians. A shortage of physicians, especially in primary care, could become a significant issue for health providers in the coming years. Any physician shortage could be compounded by the expansion of coverage to the uninsured under the ACA. In addition, reductions in Medicare or Medicaid reimbursement could lead to physicians relocating their practices in communities with lower Medicare and Medicaid populations. YRMC may be required to invest additional resources for recruiting and retaining physicians or may be required to increase the percentage of employed physicians in order to continue serving the growing population base and maintain market share.

In recruiting, retaining and otherwise contracting with physicians, YRMC will be limited by rules promulgated by the IRS, CMS and the OIG. For example, IRS Revenue Ruling 97-21 provides that tax-exempt hospitals that provide recruiting and retention incentives to physicians to join their medical staffs or to provide medical services in the community risk loss of tax-exempt status unless the incentives are reasonably necessary to address a community need and provide a community benefit. Failure to structure a contractual arrangement with a physician to comply with an applicable Anti-Kickback Statute safe harbor or Stark Law exception, as discussed above under the heading "FAILURE TO COMPLY WITH COMPLEX AND EVOLVING FEDERAL AND STATE HEALTH CARE REGULATIONS COULD RESULT IN LARGE FINES, PENALTIES OR EXCLUSION FROM THE GOVERNMENTAL HEALTH CARE PROGRAMS," could result in substantial fines, penalties, or exclusion from the federal health care programs.

Management believes that YRMC's physician recruitment arrangements are in material compliance with applicable laws and regulations, but no assurance can be given that regulatory authorities will not take a contrary position or that YRMC will not be found to have violated applicable law or that future laws, regulations or policies will not have a material adverse impact on the ability of YRMC to recruit and retain physicians.

PENSION AND BENEFIT FUNDS LIABILITIES COULD BE SIGNIFICANT

As large employers, hospitals may incur significant expenses to fund pension and benefit plans for employees and former employees and to fund required workers' compensation benefits. Funding obligations in some cases may be erratic or unanticipated and may require significant commitments of available cash needed for other purposes. In addition, to the extent investment returns are lower than anticipated or losses on investments occur, YRMC may also be required to make additional deposits in connection with pension fund liabilities. See "EMPLOYEE RELATIONS —Employee Retirement Plan" in Appendix A.

WAGE AND HOUR CLASS ACTIONS AND LITIGATION

Federal law and many states impose standards related to worker classification, eligibility and payment for overtime, liability for providing rest periods and similar requirements. Large employers with complex workforces, such as hospitals, are susceptible to actual and alleged violations of these standards. In recent years, there has been a proliferation of lawsuits over these "wage and hour" issues, often in the form of large, sometimes multi state, class actions. For large employers such as hospitals and health systems, such class actions can involve multimillion dollar claims, judgments and/or settlements. A major class action decided or settled adversely to YRMC could have a material adverse impact on its financial condition and result of operations. Currently, no such class action lawsuits are pending against YRMC.

MEDICAL STAFF DISPUTES COULD RESULT IN SUBSTANTIAL EXPENSES

The primary relationship between a hospital and physicians who practice in it is through the hospital's organized medical staff. Medical staff bylaws, rules and policies establish the criteria and procedures by which a physician may have his or her privileges or membership curtailed, denied or revoked. Physicians who are denied medical staff membership or certain clinical privileges or who have such membership or privileges curtailed or revoked often file legal actions against hospitals and medical staffs. Such actions may include a wide variety of claims, including antitrust claims, some of which could result in substantial uninsured damages to a hospital. Furthermore, from time to time, actions or decisions of hospital management may cause unrest among certain physician groups or members of the medical staff, which could result in legal or other actions, such as resignation from the medical staff. In addition, failure of the hospital governing body to adequately oversee the conduct of its medical staff may result in hospital liability to third parties.

AN IRS RECLASSIFICATION OF INDEPENDENT CONTRACTORS TO EMPLOYEES COULD RESULT IN UNEXPECTED COSTS AND PENALTIES

Health care providers, like all businesses, are required to withhold income taxes from amounts paid to employees. If the employer fails to withhold the tax, the employer becomes liable for payment of the tax imposed on the employee. On the other hand, businesses are not required to withhold federal taxes from amounts paid to a worker classified as an independent contractor. The IRS has established criteria for determining whether a worker is an employee or an independent contractor for tax purposes. If the IRS were to reclassify a significant number of hospital independent contractors (*e.g.,* physician medical directors) as employees, back taxes and penalties could be material.

JOINT VENTURES MAY IMPLICATE FRAUD AND ABUSE OR TAX LAWS

YRMC's participation in and development of joint ventures and other financial relationships with physicians could be adversely affected by the Anti-Kickback Statute, the Stark Law and similar state laws. The OIG has expressed its concern in various advisory bulletins that many types of joint venture arrangements involving hospitals may implicate the Anti-Kickback Statute, because the joint ventures parties are typically in a position to refer patients of federal health care programs. In addition, under the federal tax laws governing Section 501(c)(3) organizations, a tax-exempt hospital's participation in a joint venture with for-profit entities must further the hospital's exempt purposes and the joint venture arrangement must permit the hospital to act exclusively in the furtherance of its exempt purposes, with only incidental benefit to any for-profit partners. If the joint venture does not satisfy these criteria, the hospital's tax exemption may be revoked, the hospital's income from the joint venture may be subject to tax or the parties may be subject to some other sanction. Management believes its joint ventures are in material compliance with applicable laws and regulations.

THE NON-PROFIT HEALTH CARE ENVIRONMENT CARRIES CERTAIN RISKS

General. As a nonprofit tax exempt organization, YRMC is subject to federal, state and local laws, regulations, rulings and court decisions relating to its organization and operation, including its operation for charitable purposes. At the same time, YRMC conducts large scale complex business transactions and is a major employer in its geographic areas. There can often be a tension between the rules designed to regulate a wide range of charitable organizations and the day to day operations of a complex health care organization.

An increasing number of the operations or practices of health care providers have been challenged or questioned to determine if they are in compliance with the regulatory requirements for nonprofit tax-exempt organizations. These challenges, in some cases, are broader than concerns about compliance with federal and state statutes and regulations, such as Medicare and Medicaid compliance, and instead, in many cases, are examinations of core business practices of the health care organizations. Areas that have come under examination have included pricing practices, billing and collection practices, charitable care, executive compensation, exemption of property from real property and sales taxation and others. These challenges and questions have come from a variety of sources, including state attorneys general, the IRS, labor unions, Congress, state legislatures, local school boards, other federal and state agencies and patients and in a variety of forums, including hearings, audits and litigation. Senate and House committees have conducted several nationwide investigations of hospital billing and collection practices, including proposed reform in the area of tax-exempt organizations as a part of health care reform generally.

Litigation Related to Billing and Collection Practices. Lawsuits have been filed in both federal and state courts alleging, among other things, that hospitals have failed to fulfill their obligations to provide charity care to uninsured patients and have overcharged uninsured patients. The cases are proceeding in various courts around the country with inconsistent results. While it is not possible to make general predictions, some hospitals and health systems have incurred substantial costs in defending such lawsuits and in some cases have entered into substantial settlements. YRMC is not currently a defendant in litigation relating to billing and collection practices.

Challenges to Real Property Tax Exemptions. Recently, the real property tax exemptions afforded to certain nonprofit health care providers by state and local taxing authorities have been challenged on the grounds that the health care providers were not engaged in sufficient charitable activities. These challenges have been based on a variety of grounds, including allegations of aggressive billing and collection practices and excessive financial margins. The majority of the real property owned by YRMC is exempt from property tax. Management is not aware of any challenges to this status. Any investigations or audits by the State or other governmental entities could lead to challenges with regard to property tax exemption with respect to facilities of the Obligated Group which, if successful, could adversely and materially affect the property tax exemption with respect to certain of the facilities.

Indigent Care/Community Benefit. Tax-exempt hospitals often treat large numbers of indigent patients who are unable to pay in full for their medical care. General economic conditions that affect the number of employed individuals who have health coverage affects the ability of patients to pay for health care. Similarly, changes in government policy, which may result in coverage exclusions under local, county, state and federal health care programs, may increase the frequency and severity of indigent treatment by such hospitals and other providers. It is also possible that future legislation could require that tax-exempt hospitals maintain minimum levels of indigent care as a condition of federal income tax exemption and exemption from certain state and local taxes.

OBLIGATED GROUP FINANCINGS CARRY CERTAIN RISKS

The obligations of the Members of the Obligated Group under the Master Agreement are limited to the same extent as the obligations of debtors typically affected by bankruptcy, insolvency and the application of general principles of creditors' rights and as additionally described below. The Master Agreement permits the addition of other Members of the Obligated Group if certain conditions are met. See "SUMMARY OF PRINCIPAL DOCUMENTS—Summary of the Master Agreement—Covenants and Warranties of the Obligated Group—Additional Obligated Group Members" in Appendix C hereto. The obligations of any future Members of the Obligated Group under the Master Agreement will be limited to the same extent as the obligations of debtors typically are limited by the application of bankruptcy and insolvency laws, the application of laws governing creditors' rights and the application of equitable principles, and as additionally described below.

The joint and several obligations described herein of the Members of the Obligated Group to make payments of debt service on each Parity Debt obligation pursuant to the Master Agreement may not be enforceable to the extent (1) enforceability may be limited by applicable bankruptcy, moratorium, reorganization, fraudulent conveyance or similar laws affecting the enforcement of creditors' rights and by general equitable principles or (2) such payments (a) are requested to be made with respect to payments on any Parity Debt obligation (other than the Series 2016 Bonds) that is issued for a purpose that is not consistent with the charitable purposes of the Member of the Obligated Group from which such payment is requested or that is issued for the benefit of any entity other than a tax exempt organization; (b) are requested to be made from any money or assets that are donor restricted or which are subject to a direct or express trust which does not permit the use of such money or assets for such payment; (c) would result in the cessation or discontinuation of any material portion of the health care or related services previously provided by the Member of the Obligated Group from which such payment is requested; or (d) are requested to be made pursuant to any loan violating applicable usury laws. The extent to which the money or assets of any present or future Member of the Obligated Group falls within the categories referred to above cannot be determined and could be substantial. The foregoing notwithstanding, the accounts of the members of the Obligated Group are and will continue to be combined for financial reporting purposes and will be used in determining whether various covenants and tests contained in the Master Agreement (including tests relating to the issuance of additional Indebtedness) are satisfied.

A Member of the Obligated Group may not be required to make any payment of any Parity Debt or portion thereof or the recipient of such payment may be compelled to return such payment, the proceeds of which were not lent or otherwise disbursed to such Member of the Obligated Group to the extent that such payment would conflict with or would be prohibited or avoidable under applicable laws.

The application of the law relating to the enforceability of guaranties or obligations of a Member of the Obligated Group to make debt service payments on behalf of another Member of the Obligated Group is not amenable to an unqualified declaration of whether a transfer would be prohibited or subject to avoidance.

As a general matter, in addition to a transfer of property made with the actual intent to hinder, defraud or delay creditors, a transfer of an interest in property by an entity may be avoided if the transfer is made for less than the "reasonably equivalent value" or "fair consideration" and the transferor (1) is insolvent (*e.g.,* is unable to pay its debts as they become due), (2) rendered insolvent by the transaction, (3) is undercapitalized (*i.e.,* operating or about to operate without property constituting reasonably sufficient capital given its business operations) or (4) intended or expected to incur debts that it could not pay as they became due.

The lack of certainty in the treatment of transfers is attributable to several factors. First, there is no true uniform law governing fraudulent transfers. Such transfers may be avoided under the Bankruptcy Code, state law variants of the Uniform Fraudulent Transfer Act and its predecessor, the Uniform Fraudulent Conveyance Act or other non-uniform statutes or common law principles. Second and more importantly, the standards for determining the reasonable equivalence of value or the fairness of consideration and the measure for determining insolvency are subjective standards resolved in the exercise of judicial discretion after engaging in a fact intensive analysis. This subjectivity has resulted in a conflicting body of case law and a lack of certainty as to whether a given transfer would be subject to avoidance.

In addition, the Bankruptcy Code provides a means to avoid transfers of a debtor's interests in property made on account of an antecedent debt within 90 days of the debtor filing for relief or one year if the transferee is an "insider," if, as a result of that transfer, the transferee receives more than it would have received in a liquidation of the debtor under Chapter 7 of the Bankruptcy Code. Whether the creation of a lien or a payment, made by a Member of the Obligated Group would be determined to be avoidable would be dependent on the particular circumstances surrounding the transfer.

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

ENFORCEABILITY OF SECURITY INTEREST IN GROSS RECEIPTS MAY BE LIMITED

The Loan Agreement provides that YRMC shall make payments sufficient to pay the Series 2016 Bonds and the interest thereon as the same become due. The obligation of YRMC to make such payments, and pay other obligations secured by the Master Agreement, is secured by a security interest granted by the Obligated Group to the Master Trustee in the Gross Receipts as described under the heading "SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2016 BONDS" above.

The enforceability, priority and perfection of the security interest in Gross Receipts created under the Master Agreement and the ability to receive and realize on the same may be limited by a number of factors, including, without limitation: (1) provisions prohibiting the direct payment of amounts due to health care providers from Medicaid and Medicare programs to persons other than such providers; (2) the absence of an express provision permitting assignment of receivables due under the contracts between the Members of the Obligated Group and third party payors and present or future legal prohibitions against assignment; (3) certain judicial decisions which cast doubt upon the right of the Master Trustee, in the event of the bankruptcy of a Member of the Obligated Group, to collect and retain accounts receivable from Medicare, Medicaid, General Assistance and other governmental programs; (4) commingling of proceeds of accounts receivable with other moneys of the Members of the Obligated Group not so pledged under the Master Agreement; (5) statutory liens; (6) rights arising in favor of the United States of America or any agency thereof; (7) constructive trusts or equitable or other rights impressed or conferred thereon by a federal or state court in the exercise of its equitable jurisdiction; (8) federal and state laws governing fraudulent transfers as discussed above; (9) federal bankruptcy laws that may affect the enforceability of the Master Agreement or the security interest in the Gross Receipts; (10) rights of third parties in Gross Receipts converted to cash and not in the possession of the Master Trustee; and (11) claims that might arise if appropriate financing or continuation statements or amendments of financing statements are not filed in accordance with the Uniform Commercial Code of the applicable state, as from time to time in effect.

With respect to receivables and revenues not subject to the security interest, or where such security interest was unenforceable, the Master Trustee would occupy the position of an unsecured creditor. Counsel to YRMC has not provided an opinion with regard to the enforceability of the security interest on Gross Receipts of YRMC, where such Gross Receipts are derived from the Medicare and Medicaid programs (including AHCCCS).

The value of the security interest in the Gross Receipts could be diluted by the incurrence of additional Parity Debt secured equally and ratably with (or in certain cases senior or subordinate to) the Series 2016 Bonds as to the security interest in the Gross Receipts.

Accounts receivable of the Members of the Obligated Group which constitute Gross Receipts and are pledged as security under the Master Agreement may be sold or pledged if such sale or pledge is in accordance with the provisions of the Master Agreement. If a prior security interest in accounts receivable is granted, the Master Trustee's security interest therein would be subordinated to such prior interest and the holders of such prior security interest would have a claim to the Obligated Group's accounts receivable prior to the security interest therein which secures all Parity Debt. The lien created under the Master Agreement on accounts receivable sold pursuant to the Master Agreement would terminate and be immediately released upon any such sale.

LIMITATIONS ON MORTGAGED PROPERTY

The obligations of YRMC and any future Members of the Obligated Group under the Master Agreement will be secured by the Mortgage, subject to Permitted Encumbrances. The practical realization of value from the real property subject to the Mortgage upon any default by the Obligated Group will depend upon the exercise of various remedies specified by the Mortgage. Under existing law, the remedies specified in the Mortgage, the Master Agreement and the Loan Agreement may not be readily available or may be limited. A court could decide not to order the specific performance of the covenants contained in those documents.

The Mortgaged Property is primarily for hospital and clinical purposes and is subject to physical restrictions which severely limit the alternative uses which can be made of such property. If the Master Trustee should take possession of the Mortgaged Property pursuant to its remedies under the documents, the number of entities which could be interested in purchasing the Mortgaged Property would be limited, and as a result, the ability of the Master Trustee to lease or resell the Mortgaged Property to third parties would be limited, and the sale price or rentals might thus be adversely affected. Therefore, upon any Event of Default and foreclosure or similar remedy under the Mortgage, the Master Trustee may not realize an amount sufficient to pay the obligations outstanding under the Master Agreement.

YRMC has obtained a title insurance policy issued to it in respect of the Land subject to the Mortgage, but such policy does not insure the interest of the Master Trustee as beneficiary under the Mortgage. No appraisal of the Mortgaged Property was completed in connection with the title insurance policy issued to YRMC and no appraisal of the Mortgaged Property has been obtained in connection with the issuance of the Series 2016 Bonds. Purchasers of the Series 2016 Bonds should not rely on YRMC's title insurance policy as a source of recovery if the Master Trustee is unable for any reason to realize value from the Mortgaged Property when exercising remedies for an Event of Default under the Master Agreement.

MASTER AGREEMENT PERMITS ISSUANCE OF ADDITIONAL DEBT ON PARITY WITH SERIES 2016 BONDS

The Master Agreement permits the issuance of Additional Parity Debt that will be secured by the Collateral on a parity with the Series 2016 Bonds and the other Parity Debt and also permits incurrence of Additional Indebtedness by the Obligated Group that is not secured by the Collateral. See the information in Appendix C under the caption "SUMMARY OF PRINCIPAL DOCUMENTS—Summary of the Master Agreement—Covenants and Warranties of the Obligated Group—Limitations on Incurrence of Additional Indebtedness."

SECURITY FOR THE SERIES 2016 BONDS COULD BE AFFECTED BY CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS

Pursuant to the terms of the Master Agreement, the Members of the Obligated Group may incur Additional Indebtedness (including Indebtedness secured by the Collateral), letters of credit and other third party guarantees which is entitled to the benefits of security which does not extend to any other Indebtedness (including the Series 2016 Bonds). Such security may include Liens on the Property of the Obligated Group (including health care facilities) or any depreciation reserve, debt service or interest reserve or similar fund established for such Additional Indebtedness. See "SUMMARY OF PRINCIPAL DOCUMENTS—Summary of the Master Agreement—Covenants and Warranties of the Obligated Group—Limitations on Incurrence of Additional Indebtedness" and "—Limitations on Creation of Liens" in Appendix C hereto.

Certain amendments to the Master Agreement may be made with the consent of the Holders of not less than a majority of the principal amount of the affected Outstanding Parity Debt. Such amendments could be material and could result in the modification, waiver or removal of significant covenants or restrictions and in the event additional Parity Debt is issued in the future, such percentage may be composed wholly or partially of the holders of Parity Debt other than the Series 2016 Bonds. In addition, certain of the rights and remedies afforded to the holders of Parity Debt by the Master Agreement, including without limitation the right to demand acceleration of Parity Debt (including the Series 2016 Bonds), may be controlled by the holders of not less than 25% in aggregate principal amount of the Parity Debt Outstanding. Immediately following the issuance of the Series 2016 Bonds, the Series 2016 Bonds will constitute approximately 47% of the outstanding Parity Debt under the Master Agreement. See "SUMMARY OF PRINCIPAL DOCUMENTS—Summary of the Master Agreement—Amendments to the Master Agreement" in Appendix C hereto.

Certain amendments to the Bond Indenture and Loan Agreement may be made in the discretion of the Bond Trustee. Other amendments to the Bond Indenture and the Loan Agreement may be made with the prior written consent of the holders of not less than a majority of the aggregate principal amount of the outstanding Series 2016 Bonds.

YRMC'S FINANCIAL OBLIGATIONS COULD INCREASE OR BE ACCELERATED AND DEPLETE ITS AVAILABLE FUNDS

The payment of bonds that are tendered for purchase but not remarketed is dependent on the ability of YRMC to maintain and promptly liquidate sufficient assets to pay the purchase price. There can be no assurance that it will be able to do so. See "FINANCIAL INFORMATION—Historic Cash and Investments" in Appendix A.

If the Series 2013B Bonds cannot be remarketed when tendered, YRMC could be forced to liquidate investments, or apply cash to purchase such bonds, thus reducing its liquid assets available to pay the Series 2016 Bonds and continue its revenue producing operations.

The current agreement relating to the Series 2013B Bonds contains, and agreements with other credit providers relating to bonds issued for the benefit of YRMC contain and may contain covenants that may be waived or enforced by such credit providers and which are more restrictive than the Master Agreement covenants described herein. The current agreement relating to the Series 2013B Bonds requires YRMC to satisfy and maintain specified financial ratios, including semi-annual requirements to maintain a liquidity threshold and not to exceed a ratio of long term debt to capitalization, that are more stringent than YRMC's financial covenants contained in the Master Agreement. The ability of YRMC to meet those financial ratios can be affected by events beyond its control, and there can be no assurance that it will continue to meet those ratios. A breach of any of these covenants could result in a default under the Master Agreement, the current agreement relating to the Series 2013B Bonds, or agreements with future creditors. Upon an event of default under any of these agreements, creditors of YRMC could elect to declare all outstanding indebtedness or advances immediately due and payable and terminate all commitments to extend further credit. Any such action could result in an acceleration of the due date for the Series 2016 Bonds without the consent of the Holders. In addition, the Master Agreement may be amended without the consent of the Holders of the Series 2016 Bonds in ways that could permit YRMC to take action that is currently prohibited or conditioned, and such action, if taken, could adversely affect the owners for the Series 2016 Bonds. See Appendix C—"SUMMARY OF PRINCIPAL DOCUMENTS—Summary of the Master Agreement."

ENFORCEMENT OF REMEDIES MAY BE LIMITED OR DELAYED BY BANKRUPTCY OR OTHER LAWS

The obligations of the Members of the Obligated Group under the Master Agreement are general obligations of the Members of the Obligated Group and are secured only by the security interest granted to the Master Trustee in the Collateral. Enforcement of the remedies mentioned under the headings "SUMMARY OF PRINCIPAL DOCUMENTS—Summary of the Master Agreement—Default by the Obligated Group" and "—Summary of the Bond Indenture—Relationship with the Master Agreement," "—Acceleration of Maturities" and "—Application of Revenues and Other Funds After Default" in Appendix C to this Official Statement may be limited or delayed in the event of application of federal bankruptcy laws or other laws affecting creditors' rights and may be substantially delayed and subject to judicial discretion in the event of litigation or the required use of statutory remedial procedures.

If the Members of the Obligated Group were to file a petition for relief under Title 11 of the United States Bankruptcy Code (the *"Bankruptcy Code"*), the filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against the Members of the Obligated Group and any interest they have in their property. If the bankruptcy court so ordered, a Member of the Obligated Group's property, including its accounts receivable and proceeds thereof, could be used, at least temporarily, for the benefit of such Member's bankruptcy estate despite the claims of its creditors.

In a case under the current Bankruptcy Code, the Obligated Group could file a plan of reorganization. The plan is the vehicle for satisfying, and provides for the comprehensive treatment of all claims against the Members of the Obligated Group, and could result in the modification of rights of any class of creditors, secured or unsecured. To confirm a plan of reorganization, with one exception discussed below, it must be approved by the vote of each class of impaired creditors. A class approves a plan if, of those who vote, those holding more than one-half in number and two-thirds in amount vote in favor of a plan. Approval by classes of interests requires a vote in favor of the plan by two-thirds in amount. If these levels of votes are attained, those voting against the plan or not voting at all are nonetheless bound by the terms thereof. Other than as provided in the confirmed plan, all claims and interests are discharged and extinguished. If fewer than all of the impaired classes accept the plan, the plan may nevertheless be confirmed by the bankruptcy court, and the dissenting claims and interests would be bound thereby. For this to occur, one of the impaired classes must vote to accept the plan and the bankruptcy court must determine that the plan does not "discriminate unfairly" and is "fair and equitable" with respect to the nonconsenting class or classes. The Bankruptcy Code establishes different fair and equitable tests for secured claims and interest holders. To be confirmed, the bankruptcy court must also determine that a plan, among other requirements, provides creditors with not less than would be received in the event of liquidation, is proposed in good faith, and that the debtor's performance is feasible.

THE BOND DOCUMENTS COULD BE CANCELED UNDER CERTAIN CIRCUMSTANCES PURSUANT TO THE ARIZONA CONFLICT OF INTEREST LAW

The provisions of Arizona Revised Statutes Section 38-511, as amended, provide that public agencies, including the Authority, may, within three years after its execution, cancel any contract, without penalty or further obligation, made by the public agency if any person significantly involved in the initiating, negotiating, securing, drafting or creating of the contract on behalf of the public agency is, at any time while the contract or any extension thereof is in effect, an employee of any other party to the contract in any capacity or a consultant to any other party of the contract with respect to the subject matter thereof. The cancellation becomes effective when written notice from the governing body of the public agency is received by all other parties to the contract unless the notice specifies a later time. The Authority is a party to several contracts which are material to the payment of the Series 2016 Bonds, including the Bond Indenture and the Loan Agreement. Exercise of a remedy under Arizona Revised Statutes Section 38-511, as amended, would adversely affect the holders of the Series 2016 Bonds.

INTEREST RATE SWAPS AND HEDGE RISK

YRMC does not currently have any interest rate swap agreements in place but it may enter into interest rate swap agreements to hedge interest rate risk in the future. Any interest rate swap or other hedge agreement may, at any time, have a negative value to YRMC. Such agreements may also be subject to early termination upon the occurrence of certain specified events. If either YRMC or the counterparty terminates such an agreement when the agreement has a negative value to YRMC, YRMC could be obligated to make a termination payment to the counterparty in the amount of such negative value and such payment could be substantial and potentially materially adverse to YRMC's financial condition.

The occurrence of a termination event or changes in the market value of such agreements could negatively or positively impact YRMC's operating results and financial condition, and such impact could be material. In the event of an early termination of a swap agreement, there can be no assurance that (1) where the swap agreement has a positive value to YRMC, YRMC will receive any termination payment payable to it by the respective swap counterparty, (2) where the swap agreement has a negative value to YRMC, YRMC will have sufficient amounts to pay a termination payment payable by them to the respective swap counterparty, and (3) in any event, YRMC will be able to obtain a replacement swap agreement with comparable terms.

YRMC may periodically enter into interest rate swap agreements that require YRMC to post collateral to secure its obligations in certain circumstances. YRMC's ability to post collateral consisting of cash and securities and thereby place a lien thereon to secure its payment obligations under interest rate swap agreements is limited by the Master Agreement. If YRMC is unable to secure its obligations under such interest rate swap agreement with sufficient collateral, the swap counterparty to such swap agreement may have the right to terminate the swap agreement.

YRMC Could Lose Its State Operating License under the Arizona Immigration Law

The Legal Arizona Workers Act prohibits all employers from knowingly or intentionally employing after December 31, 2007, any person not authorized under federal law to work in the United States. If any employer is found to have intentionally employed an unauthorized alien, then all licenses necessary for the employer to operate at the location where the alien was employed are required to be suspended for a minimum of ten days. If the employer violates the statute by intentionally employing an unauthorized alien within five years after first being found to have intentionally employed an unauthorized alien, then all licenses necessary for the employer to operate at the location of the illegal employment must be permanently revoked. An employer can create a rebuttable presumption that it did not intentionally or knowingly employ an unauthorized alien if it verifies the individual's employment authorization through the federal "E Verify" program.

YRMC has clear policies against employment of unauthorized aliens, and in addition to checking immigration documentation as already required by federal law, has initiated verification of employment status through the "E Verify" program for all individuals hired since January 1, 2008. If, however, YRMC were found to have knowingly or intentionally employed unauthorized aliens in violation of the statute, the consequences could have a material adverse effect on YRMC.

Bond Ratings May be Lowered or Withdrawn

There can be no assurance that the ratings assigned to the Series 2016 Bonds at the time of issuance will not be lowered or withdrawn at any time, the effect of which could adversely affect the market price for and marketability of the Series 2016 Bonds. See the information under the heading "RATINGS."

UNDERWRITER MAY NOT BE ABLE TO CREATE A MARKET FOR THE SERIES 2016 BONDS

Subject to prevailing market conditions, the Underwriter intends, but is not obligated, to make a market in the Series 2016 Bonds. There is presently no secondary market for the Series 2016 Bonds and no assurance can be given that a secondary market will develop. Consequently, investors may not be able to resell the Series 2016 Bonds purchased should they need or wish to do so.

MAINTENANCE OF TAX EXEMPT STATUS IS DEPENDENT UPON COMPLIANCE WITH VARIOUS LAWS AND REGULATIONS

The tax exempt status of interest on the Series 2016 Bonds depends, among other things, upon maintenance by YRMC of its status as an organization described in Section 501(c)(3) of the Code. The maintenance of such status is contingent on compliance with general rules based on the Code, Treasury regulations and judicial decisions regarding the organization and operation of tax exempt hospitals and health systems, including their operation for charitable and other permissible purposes and their avoidance of transactions that may cause their earnings or assets to inure to the benefit of private individuals. As these general principles were developed primarily for public charities that do not conduct large-scale technical operations and business activities, they often do not adequately address the myriad of operations and transactions entered into by a modern health care organization. Although traditional activities of health care providers, such as medical office building leases, have been the subject of interpretations by the IRS in the form of private letter rulings, many activities or categories of activities have not been fully addressed in any official opinion, interpretation or policy of the IRS. The interpretation of the IRS and its position on these rules as they affect the organization and operation of health care organizations (for example, with respect to providing charity care, joint ventures, physician and executive compensation, physician recruitment and retention, etc.) are constantly evolving. The IRS can and in fact occasionally does, alter or reverse its positions concerning tax exemption issues, even concerning long held positions upon which tax exempt health care organizations have relied.

In addition to violations of the Code, the IRS has asserted that tax exempt hospitals that are in violation of Medicare and Medicaid regulations regarding inducement for referrals may also be subject to revocation of their tax exempt status. Because a wide variety of hospital physician transactions potentially violate these broadly stated prohibitions on inducement for referrals, the IRS has broadened the range of activities that may directly affect tax exemption, without defining specifically how those rules will be applied. As a result, tax exempt hospitals, particularly those that have extensive transactions with physicians, are currently subject to an increased degree of scrutiny and, potentially, enforcement activities by the IRS. The policy position of the IRS is not necessarily indicative of a judicial determination of the applicable issues.

Section 4958 of the Code imposes excise taxes on "excess benefit transactions" between "disqualified persons" and tax exempt organizations such as YRMC. According to the legislative history and regulations associated with Section 4958, these excise taxes may be imposed by the IRS either in lieu of or in addition to revocation of exemption. These intermediate sanctions may be imposed in situations in which a "disqualified person" (such as "insider") engages in "excess benefit transactions" such as (1) a transaction with a tax exempt organization on other than a fair market value basis, (2) receipt of unreasonable compensation from a tax exempt organization or (3) receipt of payment in an arrangement that otherwise violates the prohibition against private inurement. A disqualified person who benefits from an excess benefit transaction will be subject to an excise tax equal to 25% of the amount of the excess benefit. Organization managers who participate in the excess benefit transaction knowing it to be improper are subject to an excise tax equal to 10% of the amount of the excess benefit, subject to a maximum penalty of $20,000 per transaction. A second penalty, in the amount of 200% of the excess benefit, may be imposed on the disqualified person (but not upon the organization manager) if the excess benefit is not corrected within a specified period of time. Fair market value and reasonable compensation for tax purposes typically reflect a range rather than a specific dollar amount, and the IRS does not rule in advance on whether a transaction results in more than fair market value payment or more than reasonable compensation to a disqualified person. Although it is not possible to predict what enforcement action, if any, the IRS might take related to potential excess benefit transactions, consistent with the legislative history of Section 4958, regulations issued by the IRS in March 2008 indicate that not all excess benefit transactions jeopardize exempt status. Rather, the IRS will consider all relevant facts and circumstances including: the size and scope of the organization's activities that further exempt purposes; the size, scope and frequency of any excess benefit transactions; whether the organization has implemented appropriate safeguards reasonably designed to prevent future excess benefit; and whether the organization has corrected, or made good faith efforts to correct, any excess benefit such as by obtaining repayment of the amount of any excess benefit.

The legislative history of Section 4958 is potentially favorable to taxpayers because it provides the IRS with a punitive option short of revoking tax-exempt status to deal with incidents of private inurement. However, the standards for tax exemption have not been changed, including the requirement that no part of the net earnings of an exempt entity inure to the benefit of any private individual. Consequently, although the IRS has only infrequently revoked the tax exemption of nonprofit health care corporations in the past, the risk of revocation remains and there can be no assurance that the IRS will not direct enforcement activities against YRMC.

In certain cases, the IRS has imposed substantial monetary penalties and future charity care or public benefit obligations on tax exempt hospitals in lieu of revoking their tax exempt status, as well as requiring that certain transactions be altered, terminated or avoided in the future and/or requiring governance or management changes. These penalties and obligations are typically imposed on the tax exempt hospital pursuant to a "closing agreement" with respect to the hospital's alleged violation of Section 501(c)(3) exemption requirements. Given the uncertainty regarding how tax exemption requirements may be applied by the IRS, Obligated Group members are, and will be, at risk for incurring monetary and other liabilities imposed by the IRS through this "closing agreement" or similar process. Like certain of the other business and legal risks described herein which apply to large multi hospital systems, these liabilities are probable from time to time for some systems in the nonprofit health care industry and could be substantial, in some cases involving millions of dollars, and in extreme cases could be materially adverse.

The ACA contains many features from previous tax exemption reform proposals, including a set of sweeping changes applicable to charitable hospitals exempt under Section 501(c)(3) of the Internal Revenue Code. The ACA: (1) imposes new eligibility requirements for 501(c)(3) hospitals, coupled with an excise tax for failures to meet certain of those requirements; (2) requires mandatory IRS review of the hospitals' entitlement to exemption; (3) sets forth new reporting requirements including information related to community health needs assessments and audited financial statements; and (4) imposes further reporting requirements on the Secretary of the Treasury regarding charity care levels.

The Tax Exempt and Governmental Entities Division of the IRS is responsible for the Team Examination Program (referred to as *"TEP"*) of the IRS which conducts audits of exempt organizations using teams of revenue agents. The TEP audit teams consider a wide range of possible issues, including the community benefit standard, private inurement and private benefit, partnerships and joint ventures, retirement plans and employee benefits, employment taxes, tax-exempt bond financing, political contributions and unrelated business income. In addition, the IRS conducts compliance checks and correspondence audits that focus initially on limited issues, such as executive compensation, unrelated business income or community benefit. Such limited scope reviews can be expanded in certain circumstances to include a variety of other issues as in a TEP audit. The IRS has periodically conducted audit and other enforcement activity regarding tax-exempt health care organizations. Certain audits are conducted by teams of revenue agents, often take years to complete and require the expenditure of significant staff time by both the IRS and the audited organization.

YRMC could be audited by the IRS. Management believes that they have materially complied with the tax laws. Nevertheless, because of the complexity of the tax laws and the presence of issues about which reasonable persons can differ, a TEP or other audit could result in additional taxes, interest and penalties. A TEP or other audit also could potentially affect the tax exempt status of YRMC.

If the IRS were to find that YRMC has participated in activities in violation of certain regulations or rulings, the tax-exempt status of such entity could be in jeopardy. Although the IRS has not frequently revoked the 501(c)(3) tax-exempt status of nonprofit health care organizations, it could do so in the future. Loss of tax exempt status by YRMC could result in loss of the exclusion from gross income of the interest on the Series 2016 Bonds that, in turn, could result in a default under the Bond Indenture, potentially triggering an acceleration of the Series 2016 Bonds. Any such event would have material adverse consequences on the future financial condition and results of operations of YRMC. Additionally, the loss of federal tax exempt status by YRMC could adversely affect its access to future tax exempt financing.

As described herein under the caption "TAX MATTERS," failure to comply with certain legal requirements may cause the interest on the Series 2016 Bonds to become included in gross income of the recipients thereof for federal income tax purposes. In such event, the Series 2016 Bonds may be accelerated at the discretion of the Bond Trustee or at the written request of holders of not less than 25% of the aggregate principal amount of all the Series 2016 Bonds then outstanding under the Bond Indenture. The Bond Indenture does not provide for the payment of any additional interest or penalty in the event the interest on the Series 2016 Bonds is determined to be includible in gross income for federal income tax purposes.

FUTURE LEGISLATION COULD ADVERSELY AFFECT YRMC'S OPERATIONS, FINANCIAL CONDITION OR TAX-EXEMPT STATUS

Legislation is periodically introduced in the U.S. Congress and in the State legislature that could adversely affect the operations or financial condition of YRMC. In addition to legislative proposals previously discussed herein, other legislative proposals that could have an adverse effect on YRMC could include: (1) laws limiting hospital revenues, reimbursement, costs or charges, (2) laws requiring an increase in the quantity of indigent care required to maintain federal income tax exempt status, (3) any changes in the taxation of nonprofit corporations or in the scope of their exemption from income or property taxes, (4) limitations on the amount or availability of tax exempt financing for corporations described in Section 501(c)(3) of the Code, (5) regulatory limitations affecting YRMC's ability to undertake capital projects or develop new services, or (6) elimination of the exclusion of interest on tax exempt bonds from gross income for all or some taxpayers. The scope and effect of any such legislation that may be adopted cannot be predicted, but may have the effect of subjecting a portion of the income of YRMC to federal or state income taxes or to other tax penalties and adversely affect the ability of YRMC to generate net revenues sufficient to meet its obligations and to pay the debt service on the Series 2016 Bonds and its other obligations.

TAX EXEMPT STATUS OF THE SERIES 2016 BONDS

As described hereinafter under the caption "TAX MATTERS," failure to comply with certain continuing legal requirements may cause interest on the Series 2016 Bonds to become subject to federal income taxation retroactive to the date of issuance of the Series 2016 Bonds. The Bond Indenture does not provide for the payment of any additional interest or penalty in the event of the taxability of interest on the Series 2016 Bonds.

Although the IRS has only infrequently taxed the interest received by holders of bonds that were represented to be tax exempt, the IRS has examined a number of bond issues and concluded that such bond issues did not comply with applicable provisions of the Code and related regulations. The IRS has typically entered into closing agreements with issuers and beneficiaries of such bond issues under which potentially substantial payments have been made to the IRS to settle the issue of whether the interest on such bond issues could be treated as tax exempt. No assurance can be given that the IRS will not examine a Bondholder, YRMC or the Series 2016 Bonds. If such an examination were to occur, it could have an adverse impact on the marketability and price of the Series 2016 Bonds and could lead to claims by the IRS for payment of substantial amounts by YRMC to resolve any issue.

Proposals to eliminate or limit the benefit of tax exempt interest on bonds such as the Series 2016 Bonds have been made in the past, may currently be under consideration, and may be made again in the future. If adopted, any such proposal could adversely impact such benefit and could adversely impact the marketability of the Series 2016 Bonds by the holders thereof.

MISCELLANEOUS RISK FACTORS

The following factors, among others, may also adversely affect the operation of health care facilities, including YRMC's facilities, to an extent that cannot be determined at this time:

- Cost increases without corresponding increases in revenue.

- Any termination or alteration of existing agreements with individual physicians or physician groups that render services to Obligated Group patients.

- An inflationary economy.

- Any inability to obtain future governmental approvals to undertake projects necessary to remain competitive both as to rates and charges as well as quality and scope of care.

- Laws requiring particular staffing levels at medical facilities.

- The outcome of presidential or other political office elections.

LITIGATION

To the knowledge of the Authority, there are no legal proceedings or litigation now pending or threatened directly against the Authority, or to the knowledge of YRMC, pending or threatened against YRMC, which would restrain or enjoin the issuance, sale, execution or delivery of the Series 2016 Bonds, or any proceedings of the Authority taken with respect to the issuance or sale thereof, or the pledge or application of any money or security provided for the payment of the Series 2016 Bonds or the existence or powers of the Authority. For a discussion of litigation affecting YRMC, see Appendix A—"OTHER INFORMATION—Litigation."

APPROVAL OF LEGALITY

Legal matters incidental to the issuance of the Series 2016 Bonds by the Authority and with regard to the tax-exempt status of the interest on the Series 2016 Bonds (see "TAX MATTERS") are subject to the receipt of the opinion of Squire Patton Boggs (US) LLP, Bond Counsel to YRMC. The signed legal opinion of Bond Counsel, substantially in the form attached hereto as Appendix D, dated and premised on law in effect on the date of issuance of the Series 2016 Bonds, will be delivered on the date of issuance of the Series 2016 Bonds. The legal opinion to be delivered may vary from that text if necessary to reflect facts and law on the date of delivery. The opinion will speak only as of its date, and subsequent distributions of it by recirculation of this Official Statement or otherwise shall create no implication that Bond Counsel has reviewed or expresses any opinion concerning any of the matters referred to in the opinion subsequent to its date. In rendering its opinion, Bond Counsel will rely upon certifications and representations of facts to be contained in the transcript of proceedings which Bond Counsel will not have independently verified.

Boyle, Pecharich, Cline, Whittington & Stallings, P.L.L.C., Prescott, Arizona will pass on certain matters for the Obligated Group. Certain legal matters will be passed upon for the Underwriter by its counsel, Chapman and Cutler LLP, Chicago, Illinois. Certain legal matters will be passed upon for the Authority by its counsel, Boyle, Pecharich, Cline, Whittington & Stallings, P.L.L.C., Prescott, Arizona.

The various legal opinions to be delivered concurrently with the delivery of the Series 2016 Bonds will speak only as of the date of delivery and will be qualified in certain customary respects, including as to the enforceability of the various legal instruments by limitations imposed by state and federal law affecting remedies and by bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles and to the exercise of judicial discretion in appropriate cases. The legal opinions express the professional judgment of counsel rendering them, but are not binding on any court or other governmental agency and are not guarantees of a particular result.

TAX MATTERS

In the opinion of Squire Patton Boggs (US) LLP, Bond Counsel, under existing law: (i) interest on the Series 2016 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and (ii) interest on the Series 2016 Bonds is exempt from Arizona state income taxes. Bond Counsel expresses no opinion as to any other tax consequences regarding the Series 2016 Bonds.

The opinion on tax matters will be based on and will assume the accuracy of certain representations and certifications, and continuing compliance with certain covenants, of the Authority and YRMC contained in the transcript of proceedings and that are intended to evidence and assure the foregoing, including that the Series 2016 Bonds are and will remain obligations the interest on which is excluded from gross income for federal income tax purposes. In addition, Bond Counsel has relied on, among other things, the opinion of Boyle, Pecharich, Cline, Whittington & Stallings, P.L.L.C., counsel to YRMC, regarding, among other matters, the current status of YRMC as an organization described in Section 501(c)(3) of the Code, and the use of the facilities refinanced with the Series 2016 Bonds in activities that are not considered “unrelated trade or business” activities of YRMC, as defined in Section 513(a) of the Code, which opinion is subject to a number of qualifications and limitations. Failure of YRMC to maintain its status as an organization described in Section 501(c)(3) of the Code or to operate the facilities refinanced by the Series 2016 Bonds in a manner that is substantially related to YRMC’s exempt purpose under Section 513(a) of the Code may cause interest on the Series 2016 Bonds to be included in gross income retroactively to the date of the issuance of the Series 2016 Bonds. Bond Counsel will not independently verify the accuracy of the Authority’s and YRMC’s certifications and representations or the continuing compliance with the Authority’s and YRMC’s covenants and will not independently verify the accuracy of the opinion of YRMC’s counsel.

The opinion of Bond Counsel is based on current legal authority and covers certain matters not directly addressed by such authority. It represents Bond Counsel’s legal judgment as to exclusion of interest on the Series 2016 Bonds from gross income for federal income tax purposes but is not a guaranty of that conclusion. The opinion is not binding on the IRS or any court. Bond Counsel expresses no opinion about (i) the effect of future changes in the Code and the applicable regulations under the Code or (ii) the interpretation and the enforcement of the Code or those regulations by the IRS.

The Code prescribes a number of qualifications and conditions for the interest on state and local government obligations to be and to remain excluded from gross income for federal income tax purposes, some of which require future or continued compliance after issuance of the obligations. Noncompliance with these requirements by the Authority or YRMC may cause loss of such status and result in the interest on the Series 2016 Bonds being included in gross income for federal income tax purposes retroactively to the date of issuance of the Series 2016 Bonds. YRMC and, subject to certain limitations, the Authority have each covenanted to take the actions required of it for the interest on the Series 2016 Bonds to be and to remain excluded from gross income for federal income tax purposes and not to take any actions that would adversely affect that exclusion. After the date of issuance of the Series 2016 Bonds, Bond Counsel will not undertake to determine (or to so inform any person) whether any actions taken or not taken, or any events occurring or not occurring, or any other matters coming to Bond Counsel’s attention, may adversely affect the exclusion from gross income for federal income tax purposes of interest on the Series 2016 Bonds or the market value of the Series 2016 Bonds.

A portion of the interest on the Series 2016 Bonds earned by certain corporations may be subject to a federal corporate alternative minimum tax. In addition, interest on the Series 2016 Bonds may be subject to a federal branch profits tax imposed on certain foreign corporations doing business in the United States and to a federal tax imposed on excess net passive income of certain S corporations. Under the Code, the exclusion of interest from gross income for federal income tax purposes may have certain adverse federal income tax consequences on items of income, deduction or credit for certain taxpayers, including financial institutions, certain insurance companies, recipients of Social Security and Railroad Retirement benefits, those that are deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations, and individuals otherwise eligible for the earned income tax credit. The applicability and extent of these and other tax consequences will depend upon the particular tax status or other tax items of the owner of the Series 2016 Bonds. Bond Counsel will express no opinion regarding those consequences.

Payments of interest on tax-exempt obligations, including the Series 2016 Bonds, are generally subject to IRS Form 1099-INT information reporting requirements. If a Series 2016 Bond owner is subject to backup withholding under those requirements, then payments of interest will also be subject to backup withholding. Those requirements do not affect the exclusion of such interest from gross income for federal income tax purposes.

Bond Counsel's engagement with respect to the Series 2016 Bonds ends with the issuance of the Series 2016 Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority, YRMC or the owners of the Series 2016 Bonds regarding the tax status of interest thereon in the event of an audit examination by the IRS. The IRS has a program to audit tax-exempt obligations to determine whether the interest thereon is includible in gross income for federal income tax purposes. If the IRS does audit the Series 2016 Bonds, under current IRS procedures, the IRS will treat the Authority as the taxpayer and the beneficial owners of the Series 2016 Bonds will have only limited rights, if any, to obtain and participate in judicial review of such audit. Any action of the IRS, including but not limited to selection of the Series 2016 Bonds for audit, or the course or result of such audit, or an audit of other obligations presenting similar tax issues, may affect the market value of the Series 2016 Bonds.

Prospective purchasers of the Series 2016 Bonds upon their original issuance at prices other than the respective prices indicated on the inside front cover of this Official Statement and prospective purchasers of the Series 2016 Bonds at other than their original issuance should consult their own tax advisers regarding other tax considerations such as the consequences of market discount, as to all of which Bond Counsel expresses no opinion.

RISK OF FUTURE LEGISLATIVE CHANGES AND/OR COURT DECISIONS

Legislation affecting tax-exempt obligations is regularly considered by the United States Congress and may also be considered by the State legislature. Court proceedings may also be filed, the outcome of which could modify the tax treatment of obligations such as the Series 2016 Bonds. There can be no assurance that legislation enacted or proposed, or actions by a court, after the date of issuance of the Series 2016 Bonds will not have an adverse effect on the tax status of interest on the Series 2016

Bonds or the market value or marketability of the Series 2016 Bonds. These adverse effects could result, for example, from changes to federal or state income tax rates, changes in the structure of federal or state income taxes (including replacement with another type of tax), or repeal (or reduction in the benefit) of the exclusion of interest on the Series 2016 Bonds from gross income for federal or state income tax purposes for all or certain taxpayers.

For example, recent presidential and legislative proposals would eliminate, reduce or otherwise alter the tax benefits currently provided to certain owners of state and local government bonds, including proposals that would result in additional federal income tax on taxpayers that own tax-exempt obligations if their incomes exceed certain thresholds. Investors in the Series 2016 Bonds should be aware that any such future legislative actions (including federal income tax reform) may retroactively change the treatment of all or a portion of the interest on the Series 2016 Bonds for federal income tax purposes for all or certain taxpayers. In such event, the market value of the Series 2016 Bonds may be adversely affected and the ability of holders to sell their Series 2016 Bonds in the secondary market may be reduced. The Series 2016 Bonds are not subject to special mandatory redemption, and the interest rates on the Series 2016 Bonds are not subject to adjustment in the event of any such change.

Investors should consult their own financial and tax advisers to analyze the importance of these risks.

ORIGINAL ISSUE DISCOUNT AND ORIGINAL ISSUE PREMIUM

Certain of the Series 2016 Bonds (*"Discount Bonds"*) will be offered and sold to the public at an original issue discount (*"OID"*). OID is the excess of the stated redemption price at maturity (the principal amount) over the "issue price" of a Discount Bond. The issue price of a Discount Bond is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of the Discount Bonds of the same maturity is sold pursuant to that offering. For federal income tax purposes, OID accrues to the owner of a Discount Bond over the period to maturity based on the constant yield method, compounded semiannually (or over a shorter permitted compounding interval selected by the owner). The portion of OID that accrues during the period of ownership of a Discount Bond (i) is interest excluded from the owner's gross income for federal income tax purposes to the same extent, and subject to the same considerations discussed above, as other interest on the Series 2016 Bonds, and (ii) is added to the owner's tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale or other disposition of that Discount Bond. The amount of OID that accrues each year to a corporate owner of a Discount Bond is taken into account in computing the corporation's liability for federal alternative minimum tax. A purchaser of a Discount Bond in the initial public offering at the price for that Discount Bond stated on the inside front cover of this Official Statement who holds that Discount Bond to maturity will realize no gain or loss upon the retirement of that Discount Bond.

Certain of the Series 2016 Bonds (*"Premium Bonds"*) will be offered and sold to the public at a price in excess of their stated redemption price at maturity (the principal amount). That excess constitutes bond premium. For federal income tax purposes, bond premium is amortized over the period to maturity of a Premium Bond, based on the yield to maturity of that Premium Bond (or, in the case of a Premium Bond callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on that Premium Bond), compounded semiannually. No portion of that bond premium is deductible by the owner of a Premium Bond. For purposes of determining the owner's gain or loss on the sale, redemption (including redemption at maturity) or other disposition of a Premium Bond, the owner's tax basis in the Premium Bond is reduced by the amount of bond premium that is amortized during the period of ownership. As a result, an owner may realize taxable gain for federal income tax purposes from the sale or other disposition of a Premium Bond for an amount equal to or less than the amount paid by the owner for that Premium Bond. A purchaser of a Premium Bond in the initial public offering at the price for that Premium Bond stated on the inside front cover of this Official Statement who holds that Premium Bond to maturity (or, in the case of a callable Premium Bond, to its earlier call date that results in the lowest yield on that Premium Bond) will realize no gain or loss upon the retirement of that Premium Bond.

Owners of Discount and Premium Bonds should consult their own tax advisers as to the determination for federal income tax purposes of the amount of OID or bond premium properly accruable or amortizable in any period with respect to the Discount or Premium Bonds and as to other federal tax consequences and the treatment of OID and bond premium for purposes of state and local taxes on, or based on, income.

CONTINUING DISCLOSURE UNDERTAKING

YRMC will undertake all responsibilities for any continuing disclosure, as described below, to the registered owners and Beneficial Owners (as described below), from time to time, of the Series 2016 Bonds, and the Authority has no obligation to the registered owners or Beneficial Owners or any other person with respect to such disclosures.

YRMC will execute and deliver a Continuing Disclosure Undertaking (the *"Disclosure Undertaking"*) in substantially the form set forth in Appendix E hereto, with respect to the Series 2016 Bonds. The Disclosure Undertaking is made for the benefit of the registered and Beneficial Owners (as defined in the Disclosure Undertaking) of the Series 2016 Bonds and in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934 (the *"Rule"*).

By the Disclosure Undertaking, YRMC will agree (i) to provide annually to EMMA annual financial statements and certain quantitative financial information and operating data of the type specified in the Disclosure Undertaking (the *"Annual Report"*) and (ii) to provide notices of certain events to the MSRB through EMMA, and of any failure to provide the Annual Report when due.

YRMC additionally has covenanted that it will provide or cause to be provided not later than 60 days after the end of each fiscal quarter, unaudited combined financial information for the Obligated Group and the District for such fiscal quarter, prepared by YRMC, including a balance sheet, a cash flow statement and a combined statement of operations, to the MSRB through EMMA and to any Beneficial Owner that requests such information from YRMC at least two business days prior to the end of such fiscal quarter. See Appendix E—"FORM OF CONTINUING DISCLOSURE UNDERTAKING."

The Obligated Group will be obligated to provide the foregoing information only to the MSRB through EMMA and to any Beneficial Owner who requests such information, as described in Appendix E.

The Obligated Group has retained DAC to act as dissemination agent on its behalf to file annual and quarterly reports and material event notices in compliance with the undertakings described above.

YRMC has previously executed similar continuing disclosure undertakings related to the Series 2013A Bonds, the Series 2008B Bonds, the Series 2002 Bonds and the Series 1997B Bonds (collectively, the "*Prior Disclosure Undertakings*"). YRMC believes it has made timely submissions of all annual and quarterly reports for the previous five years except as described in this paragraph. YRMC filed the March 2016 quarterly report two days late. The annual information filed for 2013 did not include tables relating to trends in revenues and expenses and historic capitalization, as required by the Prior Disclosure Undertakings. In addition, the number of observation days has not been included in the utilization information filed annually as required by the Prior Disclosure Undertaking relating to the Series 2013A Bonds. Finally, the number of beds by specialty type was not disclosed in the annual information for 2011 and 2012, as required by the Prior Disclosure Undertakings. Management of YRMC has implemented additional procedures to ensure full compliance with the requirements of the Disclosure Undertaking and the Prior Disclosure Undertakings.

A failure by YRMC to comply with any provision of the Disclosure Undertaking will not constitute a default or an Event of Default under the Bond Indenture, the Loan Agreement or the Master Agreement.

For a more complete description of the content, time, and place of filing of Annual Reports, financial statements and notices and quarterly information, the circumstances under which provisions of the Disclosure Undertaking may be amended or waived, when Beneficial Owners of Series 2016 Bonds are entitled to take action to enforce the Disclosure Undertaking, limitations on enforcement of the Disclosure Undertaking, and other provisions of the Disclosure Undertaking, see the proposed form of the Disclosure Undertaking in Appendix E.

LEGAL INVESTMENTS

To the extent governed by Arizona law, the Act provides that the Series 2016 Bonds are securities in which all public officers and bodies of the State of Arizona and all counties, cities, towns and other municipal corporations, political subdivisions and public bodies and public officers of any thereof, all banks, bankers, trust companies, savings banks and institutions, building and loan associations, savings and loan associations, investment companies, insurance companies and associations and all executors, administrators, guardians, trustees and other fiduciaries may legally invest any sinking funds, moneys or other funds belonging to them or under their control.

FINANCIAL STATEMENTS

The audited combined financial statements of YRMC and the District as of December 31, 2015 included in Appendix B to this Official Statement have been audited by BKD LLP, independent auditors, as stated in their report thereon appearing herein.

UNDERWRITING

The Series 2016 Bonds are being purchased by Wells Fargo Bank, National Association (the *"Underwriter"*) at an aggregate underwriting discount of $205,375 from the initial public offering prices set forth on the inside front cover page.

The Bond Purchase Agreement related to the Series 2016 Bonds provides that the Underwriter will purchase all the Series 2016 Bonds if any are purchased. The Underwriter may offer and sell the Series 2016 Bonds to certain dealers (including dealers depositing Series 2016 Bonds into unit investment trusts) and others at prices lower than the public offering prices stated on the inside front cover page hereof. The initial public offering prices set forth on the inside front cover page may be changed by the Underwriter.

The Underwriter may engage in other transactions with YRMC, the Authority and their respective affiliates, including transactions related to the investment of proceeds for the Series 2016 Bonds, in which it could earn additional compensation. Moreover, the Underwriter and its affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. The Underwriter and its affiliates have provided, and may in the future provide, a variety of these services to YRMC and the Authority and to persons and entities with relationships with YRMC and the Authority, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriter and its affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of YRMC and the Authority (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with YRMC and the Authority. The Underwriter and its affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities or instruments.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Products Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934. Wells Fargo Bank, National Association, acting through its Municipal Products Group ("WFBNA"), the Underwriter of the Series 2016 Bonds, has entered into an agreement (the "WFA Distribution Agreement") with its affiliate Wells Fargo Advisors, LLC ("WFA"), for the distribution of certain municipal securities offerings, including the Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Bonds with WFA. WFBNA has also entered into an agreement (the "WFSLLC Distribution Agreement") with its affiliate Wells Fargo Securities, LLC ("WFSLLC"), for the distribution of municipal securities offerings, including the Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

Wells Fargo Bank, National Association is serving as Underwriter, Master Trustee and Bond Trustee for the Series 2016 Bonds and will be compensated separately for serving in each capacity.

RATINGS

Fitch Ratings, Inc. and Moody's Investors Service, Inc. have assigned the ratings on the Series 2016 Bonds of "BBB+" and "Baa1," respectively. No application was made to any other rating agency for the purpose of obtaining additional ratings on the Series 2016 Bonds. Such ratings reflect only the views of such organizations, and any explanation of the significance of such ratings may only be obtained from the rating agency furnishing the same. Certain information and materials not included in this Official Statement were furnished to such rating agencies by YRMC. Generally, rating agencies base their ratings on the information and materials so furnished and on investigations, studies and assumptions made by the rating agencies. There is no assurance that the ratings mentioned above will remain in effect for any given period of time or that they might not be lowered or withdrawn entirely by the rating agencies, if, in their judgment, circumstances so warrant. YRMC and the Underwriter have undertaken no responsibility either to bring to the attention of the holders of the Series 2016 Bonds any proposed change in or withdrawal of any rating or to oppose any such proposed revision or withdrawal. Any such downward change in or withdrawal of any rating might have an adverse effect on the market price or marketability of the Series 2016 Bonds.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Causey Demgen Moore P.C., a firm of independent public accountants, will deliver to YRMC, on or before the date of issuance and delivery of the Series 2016 Bonds, its verification report indicating that it has verified, in accordance with attestation standards established by the American Institute of Certified Public Accountants, the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Escrow Securities, to pay, when due, the maturing principal of and interest on the Series 1997B Bonds, the Series 2002 Bonds, and the Series 2008B Bonds, and (b) the mathematical computations of yield used by Bond Counsel to support its opinion that interest on the Series 2016 Bonds will be excluded from gross income for federal income tax purposes.

The verification performed by Causey Demgen Moore P.C. will be solely based upon data, information and documents provided to Causey Demgen Moore P.C. by YRMC and its representatives. Causey Demgen Moore P.C. has restricted its procedures to recalculating the computations provided YRMC and its representatives and has not evaluated or examined the assumptions or information used in the computations.

FINANCIAL ADVISOR

YRMC has retained Kaufman, Hall & Associates, LLC, Skokie, Illinois, as financial advisor in connection with the issuance of the Series 2016 Bonds. Although Kaufman, Hall & Associates, LLC has assisted in the preparation of this Official Statement, Kaufman, Hall & Associates, LLC was not and is not obligated to undertake, and has not undertaken to make, an independent verification and assumes no responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

MISCELLANEOUS

The references herein and in the Appendices hereto to the Master Agreement, the Mortgage, the Bond Indenture, the Loan Agreement, the Lease Agreement, the Disclosure Undertaking and other materials are brief summaries of certain provisions thereof. Such summaries do not purport to be complete, and, for full and complete statements of such provisions, reference is made to such instruments, documents, and other materials, copies of which are on file at the principal corporate trust office of the Bond Trustee.

The information presented herein has been obtained from YRMC and other sources believed to be reliable, but is not guaranteed as to accuracy or completeness. So far as any statements made in this Official Statement involve matters of opinion, whether or not expressly so stated, such statements are intended merely as such and not as representations of fact.

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

All information contained herein related to YRMC and the Obligated Group has been provided and approved by YRMC for use in this Official Statement.

This Official Statement has been approved by the Board of Directors and management of YRMC, and its distribution has been authorized by the Authority and the Board of Directors and management of YRMC. Concurrently with the delivery of the Series 2016 Bonds, the undersigned representative of the Obligated Group will furnish a certificate to the effect that, to the best of his knowledge, the information relating to YRMC and the Obligated Group in this Official Statement did not as of its date, and does not as of the date of delivery of the Series 2016 Bonds, contain any untrue statement of a material fact or omit to state a material fact which should be included herein for the purpose for which this Official Statement is to be used or which is necessary in order to make the statements contained herein, in the light of the circumstances in which they were made, not misleading. Concurrently with the delivery of this Official Statement, the undersigned representative of the Obligated Group will furnish a certificate to the effect that this Official Statement is a "final official statement" in the judgment of such representative for purposes of Securities and Exchange Commission Rule 15c2-12.

The Authority has furnished only the information contained in this Official Statement under the heading "THE AUTHORITY" and the information relating to the Authority under the heading "LITIGATION," and the Authority has not furnished, reviewed, investigated or verified any other information contained in this Official Statement. The Authority makes no representation as to the adequacy, completeness or accuracy of this Official Statement or the information contained herein.

References to website addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such websites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement.

This Official Statement is not to be construed as a contract or agreement between the Authority or YRMC and the purchasers or owners of any of the Series 2016 Bonds.

THE INDUSTRIAL DEVELOPMENT AUTHORITY OF
THE COUNTY OF YAVAPAI

By: /s/ Norman Perry
President

Approved:

YAVAPAI COMMUNITY HOSPITAL ASSOCIATION,
dba YAVAPAI REGIONAL MEDICAL CENTER

By: /s/ Lee R. Livin
Chief Financial Officer

APPENDIX A

CERTAIN INFORMATION CONCERNING

YAVAPAI REGIONAL MEDICAL CENTER
Two Great Hospitals ... One Caring Spirit

YAVAPAI REGIONAL MEDICAL CENTER

The information contained herein as Appendix A to this Official Statement has been obtained from Yavapai Community Hospital Association d/b/a Yavapai Regional Medical Center.

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OVERVIEW AND GENERAL DESCRIPTION

The Yavapai Community Hospital Association, doing business as Yavapai Regional Medical Center (*"YRMC"*), which is the sole member of the Obligated Group, was incorporated in April 1942 as an Arizona nonprofit corporation. YRMC has been determined by the Internal Revenue Service to be exempt from federal income taxation as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the *"Code"*). YRMC's mission is to provide comprehensive, high quality healthcare consistent with its communities' needs, and YRMC's vision is to create a "Total Healing Environment"; an environment wherein the people of YRMC work in partnership with the patients and their families seeking peace of mind and peace of heart as well as physical cures or comfort because YRMC understands the indivisible relationship that exists between body, mind and the human spirit. As described more completely below, YRMC's healthcare operations are located in the City of Prescott, Arizona and the Town of Prescott Valley, Arizona which are approximately 100 miles and 85 miles, respectively, northwest of Phoenix, Arizona.

YRMC operates an acute care hospital facility with 134 licensed beds, 114 of which were staffed as of June 30, 2016 (the *"West Medical Center"*). The West Medical Center is located on a 22.1 acre site in Prescott (the *"West Campus"*), which land is owned by Central Yavapai Hospital District of Yavapai County, Arizona, a hospital district of the State of Arizona (the *"District"*). The legal relationship between the District and YRMC is that of landlord-tenant. The legal obligations of YRMC to the District are set forth in a lease agreement relating to the West Medical Center (the *"Lease Agreement"*).

The District was organized in 1960 under the provisions of Title 48, Chapter 13, Article 1, Arizona Revised Statutes, as amended (the *"Hospital District Act"*). The Hospital District Act provides that the affairs of the District are to be conducted by a five-member board of directors who are elected at large for five-year terms and who serve without compensation. The District has no taxing power without voter approval, has no other source of revenue and does not, directly or indirectly, provide financial support to YRMC. At present YRMC has no plans to request any form of financial support from the District. The District is not obligated with respect to The Industrial Development Authority of the County of Yavapai Hospital Revenue Refunding Bonds (Yavapai Regional Medical Center) Series 2016 (the "*Series 2016 Bonds*").

In addition, YRMC owns approximately 36.5 acres in Prescott Valley (the *"East Campus"*). In May 2006, YRMC opened an acute care hospital with 50 licensed beds (the *"East Medical Center"*) to meet expanding demand for inpatient capacity in the Prescott Valley area. The facility has since been expanded to add a Woman's Health Pavilion and a BreastCare Center. Currently the facility has 72 licensed and staffed beds as of June 30, 2016. YRMC also owns and operates, on the East Campus, an office complex of approximately 52,000 square feet mainly occupied by hospital staff, including certain outpatient services, and a 30,000 square foot medical office building.

YRMC also has two affiliated organizations. The Yavapai Regional Medical Center Foundation (the "Foundation") is a supporting organization, as described under Section 509(a)(3) of the Code, dedicated solely to supporting and guiding all of YRMC's fund raising and development programs, and Yavapai Regional Medical Center Physician Care, LLC (*"YRMC PhysicianCare"*), a wholly owned subsidiary of YRMC, is a medical services organization operating physician practices and employing physicians within YRMC's primary service area. Neither the Foundation nor YRMC PhysicianCare is obligated with respect to the Series 2016 Bonds.

On August 1, 2016, YRMC became the sole owner of Prescott Medical Imaging, LLC, an Arizona limited liability company (*"PMI"*), originally formed with YRMC's radiology group. PMI is a full-service outpatient imaging center adjacent to the West Campus. The operations of PMI have been moved into YRMC and PMI is now an inactive limited liability company.

YRMC recently took a leadership role in the formation of North Central Arizona Accountable Care ("*NCAAC*") – a Medicare Shared Savings Program Accountable Care Organization. Since its inception in 2015, NCAAC has grown to a network of more than 800 quality-focused healthcare providers serving approximately 34,000 Medicare beneficiaries in Yavapai and Coconino Counties.

THE LEASE AGREEMENT

The hospital land located on the West Campus is leased from the District under the Lease Agreement for an annual rent that equals the amounts necessary to meet the minimal operating expenses of the District. The current Lease Agreement runs from June 1, 1997 through the "Termination Date," which is 15 days after the latest of the following: (i) the final maturity date of the Series 1997B Bonds, the Series 2002 Bonds, the Series 2008A Bonds and the Series 2008B Bonds; (ii) the final maturity date of any subsequent indebtedness of YRMC for which YRMC requests and the District grants an extension of the Termination Date, which includes the Series 2016 Bonds (the *"Subsequent Lessee Debt"*); or (iii) the date the Series 1997B Bonds, the Series 2002 Bonds, the Series 2003A Bonds, the Series 2008A Bond and the Series 2008B Bonds and Subsequent Lessee Debt are no longer outstanding in accordance with their terms.

In 2010, the District acquired an additional 1.7 acres that are contiguous to the West Campus. The additional acres have been added to the Lease Agreement. YRMC plans to preserve the property for future West Campus expansion. The Lease Agreement requires District approval for YRMC to make improvements costing more than $1,000,000 on District land. Historically the District has granted such approvals based on information provided by YRMC. YRMC has no reason to believe that such approvals will not be granted in the future. For a more detailed discussion of the Lease Agreement, see "SUMMARY OF PRINCIPAL DOCUMENTS—Summary of the Lease Agreement" in Appendix C to this Official Statement.

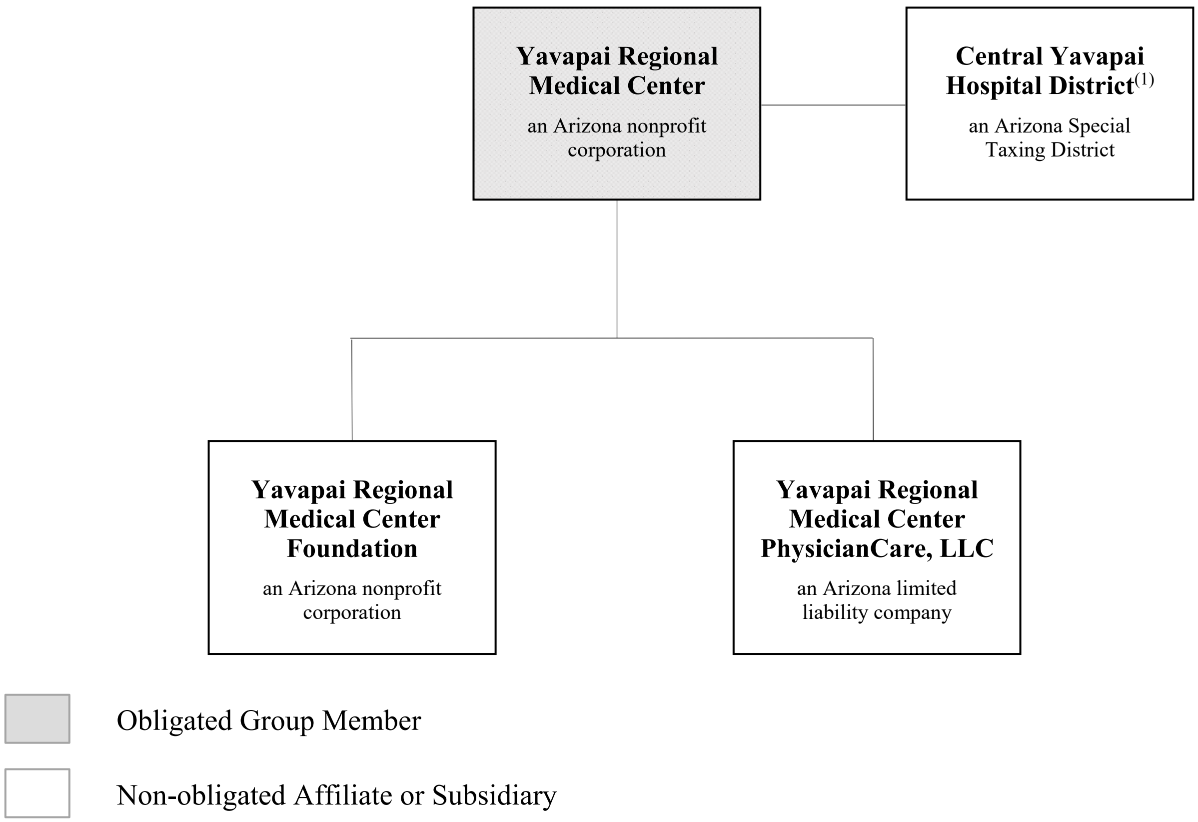
OWNED FACILITIES

The East Campus is approximately 12 miles east of the West Campus and has 72 licensed general acute care beds, all of which were in service as of June 30, 2016. YRMC also owns and operates the YRMC-Del E. Webb Outpatient Center, which is located adjacent to the East Campus, occupies approximately 30,000 square feet and provides both outpatient services and office space. In addition, YRMC owns a 22,000 square foot office building, approximately 50% of which is leased to Yavapai County (the *"County"*) for healthcare services.

In 2012, YRMC acquired a 30,000 square foot medical office building, which is located on the East Campus and was originally constructed by a third party developer in May 2008. The medical office building is located on approximately 1/2 acre and is being leased to YRMC PhysicianCare as a primary care office. YRMC issued a note to a third party to finance the medical office building (the "Land Purchase Note"). All of the buildings and the vacant land on the East Campus are encumbered by the mortgage securing the Land Purchase Note.

ORGANIZATIONAL STRUCTURE

The following diagram illustrates YRMC's corporate structure. No entity other than YRMC has any liability with respect to the Series 2016 Bonds.



(1) The District is an independent governmental entity that leases real property to YRMC. Due to the specialized purpose of the District, the District's financial information is included as part of YRMC's audited combined financial statements. See Appendix B – Note 1 hereto.

EXISTING FACILITIES

WEST CAMPUS MEDICAL CENTER FACILITIES

Prescott Community Hospital began operations in 1943. In 1964, YRMC relocated its operations to the present West Campus location, which had been constructed by the District. Since that time, the West Campus and West Campus Medical Center have been periodically expanded and renovated in response to growing community needs. Expansion of the surgery department to six state-of-the-art operating rooms, two of which are capable of heart surgery, and the replacement and expansion of the endoscopy department to a state-of-the-art five room department, was completed in 2006. In addition, the space formerly occupied by the Birthing Center was remodeled in 2010/2011 and is now the Progressive Care Unit that supports the YRMC Heart Program inpatient needs. The West Campus Medical Center consists of approximately 348,000 square feet.

There are several other facilities located on the West Campus, including an 18,500 square foot ambulatory surgery center, sub-leased by YRMC to Prescott Outpatient Surgical Center, which contains four surgical suites and the 2,100 square foot YRMC MSO Administrative Office Suite. The West Campus also has a 9,600 square foot full-service outpatient imaging center owned and operated by YRMC, called Prescott Medical Imaging. An additional 14,000 square foot building houses the outpatient physical rehabilitation, occupational and speech rehabilitation facilities as well as an Adult Fitness/Wellness Center.

EAST CAMPUS MEDICAL CENTER FACILITIES

The area in and around Prescott Valley underwent tremendous growth over the past three decades. In order to meet the healthcare needs of this growing community and to provide greater geographic access to residents in this part of the Service Area, YRMC began a significant expansion of its existing outpatient facilities on the future site of its East Campus, with the construction of the Del E. Webb Outpatient Center, which opened in 1997. The Del E. Webb Outpatient Center which is owned by YRMC totals approximately 30,000 square feet and includes outpatient diagnostic imaging and laboratory services, preventive medicine services, physical rehabilitation, speech and occupational therapy, as well as YRMC administrative support including Business Office, Scheduling and Family Resource Center. Approximately 5,000 square feet of space in the facility is leased to physicians on the medical staff of YRMC.

YRMC also owns a two-story Health Services Building immediately adjacent to the Del E. Webb Center. This facility, which was completed in August 2002, contains a total of approximately 22,000 square feet, of which 11,000 square feet are currently leased to the County to provide space for the County Health Department. YRMC Wound Care Center occupies approximately 6,000 square feet with an additional 5,000 square feet preserved for future expansion needs.

In 2006, YRMC opened the East Campus Medical Center to meet the expanding demand for inpatient bed capacity and emergency medicine needs that resulted from the substantial population growth in the Service Area. Currently 72 inpatient beds are in service at this facility, which provides complete medical and surgical acute care services. The East Campus Medical Center consists of approximately 170,000 square feet.

Construction of YRMC's Women's Health Pavilion on the East Campus was completed in May 2010 with the relocation of the existing Birthing Center from the West Campus to the East Campus. In 2011, a 6,500 square foot BreastCare Center, which provides diagnostic breast imaging services, including a dedicated breast MRI suite, was added adjacent to the Women's Health Pavilion.

In 2012, construction began to expand the East Campus Emergency Department with 9,600 square feet of new construction area, which increased the capacity of the Emergency Department Exam Rooms from 13 to 26. This project was completed in June 2013.

Also in 2012, YRMC purchased the Outpatient Services Building located on the East Campus. The 30,000 square foot building houses physician offices, including cardiologists and a breast surgeon. It also contains outpatient cardiac testing services an outpatient clinical laboratory, and Prescott Valley Medical Imaging, YRMC's outpatient imaging services.

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YRMC INPATIENT CAPACITY

The allocation of licensed bed capacity and beds in service as of June 30, 2016 is presented below:

CURRENT INPATIENT CAPACITY

WEST MEDICAL CENTER

	Bed Capacity	
Licensure Category	Licensed	In Service
Medical/Surgical[1]	118	98
Intensive/Cardiac Care	16	16
Totals	134	114

EAST MEDICAL CENTER

	Bed Capacity	
Licensure Category	Licensed	In Service
Medical/Surgical[1]	30	30
MOSU	10	10
Obstetrics – LDRP	16	16
Pediatrics	10	10
CCN	6	6
Totals	72	72

TOTAL WEST AND EAST MEDICAL CENTER

	Bed Capacity	
Licensure Category	Licensed	In Service
Medical/Surgical[1]	148	128
Intensive/Cardiac Care	16	16
MOSU	10	10
Obstetrics – LDRP	16	16
Pediatrics	10	10
CCN	6	6
Totals	206	186

OTHER YRMC OWNED REAL ESTATE

With the growth of YRMC PhysicianCare employed physician division, YRMC renovated its 4,000 square foot vacant property in Prescott Valley, which opened in June 2013. In addition, YRMC purchased and renovated a 4,767 square foot property in Prescott to house an employed physician practice that opened in 2012.

The District owns YRMC 1.7 acres adjacent to the West Campus currently used for overflow parking. YRMC continues to evaluate whether to develop the property for YRMC services.

In 2013, YRMC purchased a 174-acre parcel of land located approximately eight miles north of the YRMC West Campus. This property was determined to be strategically important for YRMC to meet the projected growth of the Chino Valley and north Prescott area.

GOVERNANCE AND MANAGEMENT

YRMC is an Arizona nonprofit membership corporation. All residents of the District who are at least 18 years old are voting members of YRMC that vote on YRMC by-law changes and membership to the Council of Electors. Approximately 25 members of YRMC are designated by various governmental, business, educational, ethnic, religious and healthcare organizations in the District as YRMC's Council of Electors, which, in turn, selects members (each a *"Trustee"*) of YRMC's Board of Trustees (the *"Board of Trustees"*).

The affairs of YRMC are directed by a nine-member Board of Trustees, each of whom are selected by a Council of Electors from the membership of YRMC to serve for staggered five-year terms. The Chief Executive Officer and the President of the Medical Staff serve as ex-officio members of the Board of Trustees without vote.

YRMC formed a separate Arizona non-profit corporation, the Foundation, during Fiscal Year 2002. The Foundation's sole purpose is to provide financial support for YRMC's operating and capital needs. YRMC is the sole corporate member of the Foundation, ratifies the appointment of its board of directors and retains certain reserved powers over its operations. Pursuant to the Foundation's by-laws, its board (currently five members) can be comprised of up to 21 members and must include the Chief Executive Officer of YRMC. As of June 30, 2016, the Foundation had two employees and approximately $1 million in restricted pledges/donations.

Board of Trustees and Officers

Listed below are the names, offices, principal occupations, date of election to the Board of Trustees, and the date upon which each Trustee's current term expires for the present members of the Board of Trustees:

Board Member	Occupation	Elected	Current Term Expires
Paula Kneisl, Chair	Retired - Director Samaritan Village	2010	2017
Steve Sischka, Vice Chair	Owner/Vice President of Olsen's Grain, Inc.	2014	2019
Mike Beatty	President/Owner Prescott Investor Services	2013	2018
Jane Bristol	Retired - City of Prescott Economic Dev.	2011	2021
James Howard, Ph.D.	Retired - Superintendent of Schools	2015	2020
John MacKenzie D.O.	Physician - Neurologist	2008	2018
Linda Medina	Retired - CNO, Maricopa Medical Center	2007	2017
Daniel Storvick, D.Min.	Retired – Pastor	2014	2019
Sanford Williams	Owner/President of Quality Plastics, LLC	2015	2020
John Amos, *ex-officio*(1)	President & Chief Executive Officer, YRMC	n/a	n/a
Larry Owens, MD, *ex-officio*(1)	Physician, Chief of Staff, YRMC	n/a	n/a

(1) Serve as long as they hold their respective positions as Chief Executive Officer and Chief of Staff for YRMC.

Relationships Among the Parties

The Board of Trustees has adopted written policies regarding conflicts of interest when contemplating a transaction or arrangement that might benefit the private interest of an officer or Trustee. Such policies set forth the procedures to be used in determining whether a potential conflict of interest exists, including a duty to disclose a potential conflict and the disciplinary actions to be taken if a Board member violates the policy. YRMC conducts periodic reviews to ensure it operates in a manner consistent with its charitable purposes and does not engage in activities that could jeopardize its status as an organization exempt from federal income tax. Additionally, each Trustee and each member of senior management are required annually to complete and sign a conflict of interest questionnaire.

Committees

The Board of Trustees maintains several committees that report to the Board of Trustees. The Board of Trustees appoints a Human Resources Committee, an Audit Committee, a Planning and Finance Committee, an Investment Committee, a Joint Conference Committee, a Quality Improvement Committee and a Bylaws Committee. These committees monitor the conflict of interest policy, review employment conditions, review and recommend the annual operating budget and capital expenditure plan, oversee the preparation, modifications, and implementation of the strategic, long range and short range plans of YRMC, review audit reports, as well as other special matters. Three to seven Trustees sit on each of the committees.

SENIOR MANAGEMENT

YRMC's senior management includes a number of personnel who, in turn, supervise managers, directors and department heads, who have direct responsibilities for various clinical, ancillary and support services. The resumes of the principal members of the senior management team follow.

John Amos, age 52, has served as the President and Chief Executive Officer of YRMC since October, 2013. Prior to becoming President and Chief Executive Officer, Mr. Amos was the East Campus Administrator since January 2005. Mr. Amos joined YRMC as the Director of the Physical Rehabilitation Services in 1999. He began his clinical healthcare career in a Rehabilitation Hospital in Vero Beach, Florida in 1989. His management healthcare career began as a Regional Director of Operations for Sunbelt Therapy Management Services, Inc. Mr. Amos graduated from Colorado State University with a Bachelor of Science degree in Occupational Therapy in 1988. He obtained a Master of Science degree in Management from Northern Arizona University in 2005.

Lee Livin, age 54, has served as the Chief Financial Officer for YRMC since January, 2015. Prior to joining YRMC, he was the Executive Vice President of Strategy and Chief Financial Officer at Eskenazi Health from 2004-2015. Mr. Livin also served seven years as a Financial Executive with Cambio Health Solutions/FTI Consulting, where he worked with financially distressed health systems. He graduated from the University of Arizona with his Bachelor of Science degree in Business Administration; Accounting in 1985 and completed his Master's Degree in Business Administration from the University of Phoenix, Tucson Arizona campus in 1991. Mr. Livin has over 25 years of executive healthcare financial and strategic management experience including academic, for-profit and not-for-profit, multi-facility hospital management, integrated health system management, turnaround management and public accounting/auditing experience.

Larry P. Burns, Jr., age 55, has served as Chief Operating Officer of the West Campus since June 2008. Prior to joining YRMC, Mr. Burns was with Marion General Hospital in Marion, Indiana for eight years, most recently as its Vice President of Operations. From 1997 to 2000 Mr. Burns served as Director of Resource Management at Fayette Memorial Hospital in Indiana and also served with the Department of Veterans Affairs Medical Centers from 1992 to 1997. In 1991, he completed his undergraduate work in Accounting & Finance at Southern Illinois University and in 2002 was awarded his Master of Business Administration degree from Indiana Wesleyan University. Mr. Burns received his fellowship from the American College of Healthcare Executives in 2006.

Anthony Torres, MD, age 59, has served as the Chief Medical Officer of YRMC since July 1, 2016. Dr. Torres was previously the Medical Director of YRMC PhysicianCare since October, 2013. Dr. Torres has been on the Medical Staff at YRMC since 2006 and practiced in the PhysicianCare Internal Medicine clinic from 2009-2015. Prior to joining PhysicianCare, Dr. Torres was in group practice in Walnut Creek, California since 1993. He graduated from Universidad Autonoma de Guadalajara in 1987 with his medical degree and completed his residency and internship at New York Medical College, St. Vincent's Hospital and Medical Center, New York, NY in 1991 and was Chief Resident from 1991-1992. Dr. Torres received his Fellowship training from Hunter S.P.O.R.T.S Medicine Center, Fairview Heights, Illinois in 1993. He maintains his Board Certification from the American Board of Internal Medicine and currently serves as Chairman of the PhysicianCare Finance, Quality Assurance and

Physician Leadership Committees and is Chairman of the Board of North Central Arizona Accountable Care.

Diane Drexler, age 50, has served as the Chief Nursing Officer for YRMC since 2011. Ms. Drexler's role is to provide leadership and strategic vision for nursing services throughout the organization. Prior to joining YRMC, Diane served as the Vice President of Patient Care Services at Western Regional Medical Center, located in West Phoenix. Diane also worked at Banner Estrella Medical Center (*"BEMC"*) from 2003 to 2007. Prior to joining BEMC, Ms. Drexler was the administrative director of cardiology services and outpatient treatment center at Banner Good Samaritan Medical Center in Phoenix from 1993 to 2003. She is a member of various organizations, including American Organization of Nurse Executives, American College of Healthcare Executives, & Arizona Organization of Nurse Executives. Ms. Drexler graduated with a Bachelor of Science degree in Nursing from the University of New Mexico in 1987. She received her Master of Business Administration degree from Arizona State University in 1997. She is currently enrolled in the Doctorate of Nursing Practice program at Arizona State University with an anticipated graduation in May of 2018. In 2006, she participated in the Johnson & Johnson Wharton Fellows Nurse Executive Leadership Program. Ms. Drexler is a graduate of the Robert Wood Johnson Executive Nurse Fellowship Program.

Frank Almendarez, age 56, has served as Administrator at YRMC's East Campus since August, 2014. Prior to joining YRMC, he was a Chief Operating Officer at Williamette Valley Medical Center in McMinnville, Oregon. He began his clinical healthcare career as a Registered Nurse and Charge Nurse in the Emergency Department from 1986-2000 working for various California Health Care Facilities. His management healthcare career began as Director of Emergency, Occupational Health, Diagnostic Imaging and Emergency Preparedness at St. Dominic's Hospital in Manteca, California. Mr. Almendarez also served four years as a Chief Nursing Officer at Alta Vista Regional Medical Center in Las Vegas, Nevada. Mr. Almendarez graduated from California State University with a Bachelor of Science degree in Nursing and obtained a Master of Health Services Administration degree from St. Mary's College. In addition to his administrative duties at the East Medical Center, Frank serves on the Board of Directors for the Prescott Valley Chamber of Commerce and is a member of the Superintendent's Advisory Committee for the Humboldt Unified School District.

Mark Timm, age 51, has been the Executive Director of Human Resources of YRMC since November 2007. Previously, Mr. Timm served as the Employment/Employee Relations Manager and Interim Human Resources Director since joining YRMC in February 2003. Mr. Timm has 20 years of human resource and senior leadership management experience. Seventeen years of Mr. Timm's professional human resources experience has been in acute healthcare. Mr. Timm earned his B.S.B.A. in Human Resources Management from the University of Arizona in 1995.

Tim Roberts, age 51, joined Yavapai Regional Medical Center as the Chief Information Officer in 2015. Mr. Roberts' tenure in the health care information technology industry spans over 25 years, including experience as chief executive officer of Health Information Network and as chief information officer of Lakeland Health in St. Joseph, Michigan. Mr. Roberts holds a Masters of Health Administration degree from Washington University School of Medicine in St. Louis, Missouri. He is a member of the AzHeC Board of Directors, CHIME and HIMSS.

Robbie Nicol, age 68, joined YRMC in 1986 as the Director of Development and Community Relations. Ms. Nicol was previously employed by John C. Lincoln Hospital (now Honor Health) in Phoenix from 1982 to 1986 where her responsibilities included management of health promotion programs, community relations and staff education and a predecessor of Banner Health Services in Phoenix from 1980 to 1982, where Ms. Nicol managed community and staff health education programs and marketed corporate wellness programs. Ms. Nicol's background includes working in the academic environment as well as more than 30 years in healthcare administration. Ms. Nicol received a Bachelor of Science degree from Iowa State University in 1972 and a Masters of Business Administration from Drake University in Des Moines, Iowa, in 1980.

STRATEGIC PRIORITIES AND GOALS

Management of YRMC has created a five year strategic plan that contains four goals: (i) physicians and YRMC collaborate to provide exceptional care; (ii) YRMC offers a sustainable portfolio of services with an appropriate balance among wellness, ambulatory, inpatient and continuum of care services; (iii) YRMC provides care that is team based, grounded in best practices and well-coordinated across all settings; and (iv) the employees of YRMC deliver services with excellent clinical outcomes and patient satisfaction that are price and cost competitive. The objectives within each goal are set forth below:

PHYSICIAN COLLABORATION

- Attract and retain excellent physicians
- Strengthen hospital and medical staff collaboration
- Commit to physician leadership development

SUSTAINABLE PORTFOLIO OF SERVICES

- Seek opportunities for growth in services that meet community needs
- Maintain financial viability of YRMC services
- Enhance geographic availability of ambulatory services
- Strengthen capabilities for managing population health
- Advance YRMC's philanthropy program

COORDINATED CARE

- Strengthen team-based care models
- Leverage use of technology in integrating care processes
- Implement standardized, system-wide processes based on best practices
- Facilitate seamless transitions of care

EXCELLENT CLINICAL OUTCOMES

- Strengthen quality of care and patient safety
- Enhance patient satisfaction
- Increase employee engagement and commitment
- Improve operational efficiency
- Bolster community perception of YRMC

SERVICES

GENERAL

YRMC's healing network includes two full-service acute care hospitals, 11 primary and specialty care clinics, the YRMC Wellness Center and the YRMC Del E. Webb Outpatient Center.

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The following is a list of patient services provided at the West and/or East Campuses:

24-hour Emergency Care

Air Ambulance Service

At the James Family Heart Center:
Coronary Artery Bypass Surgery
Off-Pump Coronary Artery Bypass Surgery
Valvular Surgery
MAZE Surgical Procedures
Major Chest Surgery
Cardiac Rehabilitation
Electro-Physiology (EP)
Coming Soon: Transcatheter Aortic Valve Replacement (TAVR)

At the BreastCare Center:
Digital Mammography
Breast Ultrasound
Fine Needle Biopsy
Core Needle Biopsy
Stereotactic Biopsy
Ultrasound Guided Biopsy
MRI Guided Biopsy
Dedicated Breast MRI
DEXA Scan
Care Navigation and Coordination
Surgical Consultation

At the Family Birthing Center:
Family-Centered Obstetrics
Birthing Suites
Level II Nursery
Birthing Classes and Family Resources

Primary and Specialty Care (YRMC PhysicianCare):
Family Medicine
Internal Medicine
Cardiology
Neurology
Neurosurgery
Physiatry
Endocrinology
Occupational Medicine
Breast Surgery
General Surgery
Gastroenterology
Palliative Care
Pediatrics

At the Advanced Wound Care Center:
Acute and Chronic Wound Therapy
Hyperbaric Oxygen Therapy
Case Management
Consultation

Cardiac Catheterization and Angiography Suite

Inpatient and Outpatient Surgical Services:
General Surgery
Orthopedic Surgery
Cardiovascular Surgery
Neurosurgery
Vascular Surgery
Endobronchial Ultrasound (EBUS)
Nav Bronchodialator

Patient Blood Management Program

Interventional Radiology Services

Inpatient and Outpatient Medical Imaging Services

Inpatient and Outpatient Physical, Occupational and Speech Therapy

Preventive Medicine (Pendleton Centers):
Cardiac Rehabilitation
Diabetes Education and Management
Adult Fitness Program
Personal Training
Nutritional Consultation

24-hour Medical Laboratory Service and Blood Bank

Cardiopulmonary Laboratory, which provides:
Electrocardiogram
Stress Echocardiogram
Holter Monitoring
Event Recorder Monitoring
Diagnostic Echocardiogram
Tilt Table Testing
Pacemaker Testing
Cardioversion
Transesophageal Echocardiogram
Non-Invasive Arterial Testing
Spirometry
Methacholine Challenge
EEO
Transcutaneous Oximetry
Pulmonary Assessments
Respiratory Wellness Programs
Electroencephalogram
Evoke Potentials

Endoscopy Services

Intravenous (IV) Therapy:
IV Medical Administration
Chemotherapy
Central Venous Access Device
Disease Specific Specialty Drug Therapy

Medical, Surgical, Telemetry, Progressive, Critical and Intensive Care

Clinical Pharmacy Services

Care Management

At the Family Resource Center:
Education
Child Development

Partners for Healthy Students:
School Based Clinics

Clinical Nutritional Services

Health Screenings and Education

Extensive Community Outreach

SIGNATURE SERVICES

Every YRMC service line adheres strictly to YRMC's Vision of a Total Healing Environment, including these Signature Services:

YRMC PhysicianCare. YRMC's Vision of a Total Healing Environment is supported through the alignment of strategically located primary and specialty care clinics in Prescott, Prescott Valley, Chino Valley and Bagdad. YRMC makes a strong commitment to recruit highly skilled physicians to these clinics to maximize access to care for residents of western Yavapai County. Specialties include:

Family Medicine;
Internal Medicine;
Cardiology;
Neurology;
Neurosurgery;
Physiatry;
Occupational Medicine;
Breast Surgery;
Endocrinology;
Pediatrics;
Palliative Medicine;
General Surgery; and
Gastroenterology.

YRMC Spine Center. YRMC PhysicianCare Neurosurgery and Physiatry practitioners form the core of YRMC's Spine Center, a multidisciplinary team of physiatry, neurosurgery and physical rehabilitation experts that provide a continuum of assessment, treatment, rehabilitation and education to back pain patients.

The James Family Heart Center. In 2005, YRMC began offering percutaneous coronary intervention, which places balloons and stents into coronary arteries to open blockages, and began treating patients with heart rhythm disturbances or congestive heart failure. These procedures were performed in the hospital's two cardiac catheterization laboratories and were the first steps leading to the start of the cardiovascular surgery program. In 2007, YRMC opened a Cardiovascular Program with a cardiothoracic surgeon, an open heart surgical team, specially trained staff and supporting technology. The program added a second cardiothoracic surgeon in 2009. In 2015 a hybrid operating room was added to the James Family Heart Center and electrophysiology services were added. Later this year, transcather aortic valve replacement is scheduled to begin in the hybrid operating room. The James Family Heart Center performed 156 open heart surgeries and 101 thoracic surgeries in calendar year 2015.

The Family Birthing Center. The Family Birthing Center is part of YRMC's growing Women's Health Pavilion located in Prescott Valley. Since opening in 2010, the Family Birthing Center has provided western Yavapai County with 45,000 square feet of family-centered obstetrics, birthing suites and a newborn nursery. In 2012, the Family Birthing Center earned Level II accreditation for its nursery. 1,022 babies were born in the Family Birthing Center in 2015.

The BreastCare Center. The BreastCare Center, which opened in 2011, is part of YRMC's Women's Health Pavilion located in Prescott Valley, located approximately 12 miles from the West Campus and approximately 0 miles from the East Campus. The BreastCare Center provides the region's most comprehensive array of breast care services, including digital mammography, breast ultrasound, fine needle biopsy, core needle biopsy, ductogram, breast MRI, patient navigation, surgical consultation and genetic testing. Furthermore, the BreastCare Center's dedicated breast MRI – added in 2013 – is the only breast MRI in Arizona designed specifically to study breast tissue. Bone density scanning (DEXA scan) was added in 2016. In 2015, the BreastCare Center performed:

1,379 digital mammography procedures;
1,301 ultrasound procedures;
250 ultrasound guided biopsies; and
143 stereotactic biopsies.

Cardiac Catheterization/Angiography Suite. Procedures are performed to diagnose problems of the heart or to identify and treat vascular problems of the head, neck, kidneys, abdomen and legs. Other procedures performed are vertebroplasty for back pain, insertion of permanent pacemakers and defibrillators, and an array of biliary and central line insertions.

Orthopedics. YRMC is committed to providing orthopedic care in the region and operates a joint replacement surgery program. YRMC continues to recruit orthopedic specialists in the areas of arthroscopic surgery, orthopedic traumatology, osteoporosis care, spine care, sports medicine, hand surgery, spine surgery and total joint reconstruction.

The Advanced Wound Care Center. The Advanced Wound Care Center relocated to a new facility in the YRMC Del E. Webb Outpatient Center in 2012 to make room for more treatment suites and two new hyperbaric oxygen (*"HBO"*) therapy chambers. YRMC's Advanced Wound Care Center offers the most comprehensive wound therapy in the region.

Patient Blood Management. YRMC is one of the very few hospitals in the U.S. to offer a formal patient blood management program, attracting patients from across Arizona and around the region that prefer to have surgery without receiving a blood transfusion.

Physical Rehabilitation Services. YRMC has one of the largest teams of rehabilitation experts in the region providing specialty services in Physical, Occupational and Speech Therapy. YRMC's team of licensed therapists manage both inpatient and outpatient orthopedic injuries, neurological rehabilitation, comprehensive spine treatment, sports medicine, hand therapy, lymphedema management, cognitive training and occupational medicine.

Preventive Medicine. The Department of Preventive Medicine, also known as the Pendleton Centers, has been serving western Yavapai County since 1985. This program operates from two fitness and wellness centers in Prescott, located approximately 12 miles from the Prescott West Campus, and also on the East Campus in Prescott Valley. The Pendleton Centers provide an opportunity for patients to transition from a rehabilitative care setting to a wellness setting. The programs offered at the Pendleton Centers include:

Cardiac Rehabilitation;
Diabetes Education;
Adult Fitness;
Personal Training;
Parkinson's Disease Exercise Class;
Reversing Heart Disease Support Group;
Pre-Operative Knee and Hip Replacement Class;
Lymphedema Support Group;
REACH: Resistive Exercise and Aerobic Activity from a Chair; and
Silver Sneakers: An innovative health, exercise and wellness program designed specifically for older adults to help them live healthy, active lifestyles.

AWARDS AND RECOGNITIONS

YRMC's was one of only ten hospitals recognized nationally for surgical outcomes by Consumer Reports in 2013. Also in 2013, Consumer Reports ranked YRMC among top ten hospitals that had at least ten kinds of surgeries with a high rating in 30% of those procedures and YRMC was among three other facilities in Arizona as the highest rated for hip surgery. Only 34 facilities nationally were awarded Consumer Reports' highest rating.

In Healthstream's February 2016 Consumer Perception Survey, YRMC scored a 98 out of 100 Brand Equity Index Rating, one of the highest in the country.

MEDICAL STAFF

YRMC's medical staff covers a wide range of clinical specialties and is divided into several categories, including Active, Consulting, Specialty Consulting, Affiliate, Associate and Allied Health Professionals. The Active and Consulting Staff consists of those members of the Medical Staff that are either MD or DO and have admitting privileges. Currently, YRMC's Associate Staff physician members hold membership on the Medical Staff but do not exercise privileges.

The following table does not include information pertaining to the Affiliate or Allied Health Professional Staff.

AS OF JUNE 30, 2016
MEDICAL STAFF COMPOSITION

SPECIALTY	TOTAL PHYSICIANS[(1)]	ADMITTING STAFF[(2)]	AVERAGE AGE[(2)]	BOARD CERTIFIED	APPROXIMATE PERCENT OF 2015 ADMISSIONS
Anesthesiology	14	0	52.9	13	--
Cardiology	10	10	50.3	10	6.70%
Cardiac Surgery	3	3	49.3	3	3.30%
Dermatology	4	0	55.3	4	--
Emergency Medicine	21	0	43.4	19	--
Endocrinology	1	0	48.0	1	0.52%
Family Medicine	28	4	60.6	26	1.22%
Gastroenterology	6	6	43.8	6	0.02%
General Surgery	9	9	54.4	9	4.14%
Hematology/Oncology	2	2	66.0	2	--
Hospitalist	12	12	46.5	12	53.32%
Infectious Disease	1	1	50.0	1	--
Internal Medicine	18	7	54.3	18	5.98%
Nephrology	12	12	45.8	11	0.02%
Neurology	5	5	54.4	5	0.10%
Neurosurgery	1	1	67.0	1	2.82%
Obstetrics/Gynecology	11	11	52.8	10	11.33%
Ophthalmology	6	6	54.2	6	--
Oral Surgery	3	3	43.3	3	--
Orthopaedic Surgery	10	10	50.9	7	7.89%
Otolaryngology	0	0	0.0	0	--
Pathology	3	0	56.6	3	--
Pediatrics	13	10	46.2	12	1.66%
Pediatric Cardiology	2	2	59.0	2	--
Physical Medicine	2	1	37.0	1	--
Plastic Surgery	3	3	62.7	3	0.02%
Psychiatry	0	0	0.0	0	--
Pulmonary Medicine	4	4	58.3	3	--
Rheumatology	1	1	65.0	1	--
Radiation Oncology	1	1	67.0	1	--
Radiology	7	0	47.9	7	--
Urology	3	3	48.7	3	0.96%
Total/Average Age	216	127	49.7		100.00%

(1) Includes all MD/DO members.
(2) Includes only those MD/DO with admitting privileges.

The ten most active admitting physicians in 2015 accounted for 47.2% of the total YRMC admissions. All ten were hospitalists. The average age of the ten most active admitting physicians is approximately 45.8 years.

TEN MOST ACTIVE ADMITTERS

SPECIALTY	AGE	NUMBER OF ADMISSIONS	% OF TOTAL
Hospitalist	36	621	6.2%
Hospitalist	49	528	5.2%
Hospitalist	55	512	5.1%
Hospitalist	36	502	5.0%
Hospitalist	49	462	4.6%
Hospitalist	55	449	4.5%
Hospitalist	47	435	4.3%
Hospitalist	50	425	4.2%
Hospitalist	45	419	4.2%
Hospitalist	36	407	4.0%
Total		4,760	47.2%

The average age of the Admitting members of the medical staff is approximately 49.7 years, which in part reflects the continued success of physician recruiting activities discussed below. The age distribution of the Admitting staff as of June 30, 2016, is depicted in the following table:

AGE DISTRIBUTION: ADMITTING STAFF

AGE GROUP	NUMBER	PERCENT
29-39	26	13.6%
40-49	62	32.5%
50-59	61	31.9%
60-69	38	19.9%
70 and over	4	2.1%
Total	191	

PHYSICIAN RECRUITING

YRMC has a Medical Staff Development Plan (the *"Plan"*) which requires that members of the medical staff be Fellows in their respective specialties at the time they join the staff or within five years thereafter. The Plan is administered by the Board of Trustees through the Medical Staff Development Plan Review Group subcommittee.

Another element of the Plan is the identification of medical staff needs and recruitment of physicians in selected specialty areas. Recruitment efforts are determined in part by population growth, demographic trends and perceived clinical needs. Direct recruiting activities are led by existing members of the medical staff and YRMC. YRMC supports medical staff recruiting by providing administrative support. YRMC has provided short-term loans and allowances for physician relocation as appropriate. Also, YRMC has formed a management service organization to employ and manage selected physician specialties. The continual success of physician recruitment is reflected in the following table, which indicates that between January 1, 2013 and June 30, 2016 medical staff membership increased by 4.4%.

CHANGES IN MEDICAL STAFF MEMBERSHIP

	FISCAL YEARS ENDED DECEMBER 31,			AS OF JUNE 30,
	2013	2014	2015	2016
Members at the beginning of the fiscal year	207	211	210	214
Additions	10	10	14	4
Deletions	(6)	(11)	(10)	(2)
Members at the end of the fiscal year	211	210	214	216

EMPLOYEE RELATIONS

HUMAN RESOURCES

As of June 30, 2016, YRMC employed approximately 1,848 full and part-time employees. In 2009, YRMC began employing physicians and physician practice personnel. As of June 30, 2016, total full time equivalent employees for the employed physician practices was 217. The following table depicts the total paid full time equivalent employees for the fiscal years ended December 31, 2011 through 2015:

TRENDS IN FULL-TIME EMPLOYEES EQUIVALENT

FISCAL YEAR	TOTAL PAID FTE (ACTUAL)
2011	1,519.6
2012	1,523.0
2013	1,532.3
2014	1,501.1
2015	1,504.8

For the year ended December 31, 2015, turnover among YRMC's nursing staff was approximately 15.2%, which was slightly lower than the national rate of 17.1%. As part of its efforts to attract and retain qualified nursing personnel, YRMC sponsors a nurse education position at a local community college. None of YRMC's employees are represented by labor unions. YRMC believes it maintains a good relationship with its employees.

EMPLOYEE RETIREMENT PLAN

As part of its overall employee benefit program, YRMC sponsors a defined contribution Group Tax Sheltered Annuity Plan (*"TSA"*). Under the TSA, YRMC contributes an amount equal to each participant's contribution, up to a maximum of 5% of each participant's annual compensation. The TSA covers all regular employees who choose to participate, however, YRMC makes contributions only for employees who have worked at least 1,000 hours during the year and who have completed at least one year of service. Employee contributions are fully vested, whereas YRMC contributions vest over a five-year period. YRMC's contributions to the TSA were $2.75 million in 2015 and $2.74 million in 2014.

SERVICE AREA

YRMC draws approximately 95% of its admissions from the western portion of Yavapai County, which management defines as YRMC's *"Service Area."* The Service Area, shown in the below map, totals approximately 5,500 square miles of primarily rural area, and is located approximately 90 minutes north of the Phoenix Metropolitan Area. The Service Area is separated from the eastern portions of the County by the Mingus Mountains, which restricts traffic flow between the two parts of the County.

The population of the entire Service Area is estimated to be 217,000 per the 2015 U.S. Census Bureau data. YRMC's Service Area includes the growing communities of Prescott, Prescott Valley, Chino Valley, Dewey-Humboldt, Mayer, Paulden, Bagdad, Yarnell, Kirkland, Skull Valley and Crown King in north-central Arizona. The greatest concentration of population within the Service Area is in the environs of Prescott, Prescott Valley and Chino Valley, which have a total population of approximately 95,233 per the 2015 United States Census Bureau. Prescott is also a center of commercial activity and is the Yavapai County seat. Based on the State of Arizona (the *"State"*) 2015 discharge data for acute care hospitals, 41.3% of YRMC admissions are from the Prescott area; 25.4% are from the Prescott Valley area; 13.6 % are from the Chino Valley area, north of Prescott; 14.3% are from the south, west and other portions of the Service Area; and 5.4% are from outside the Service Area.

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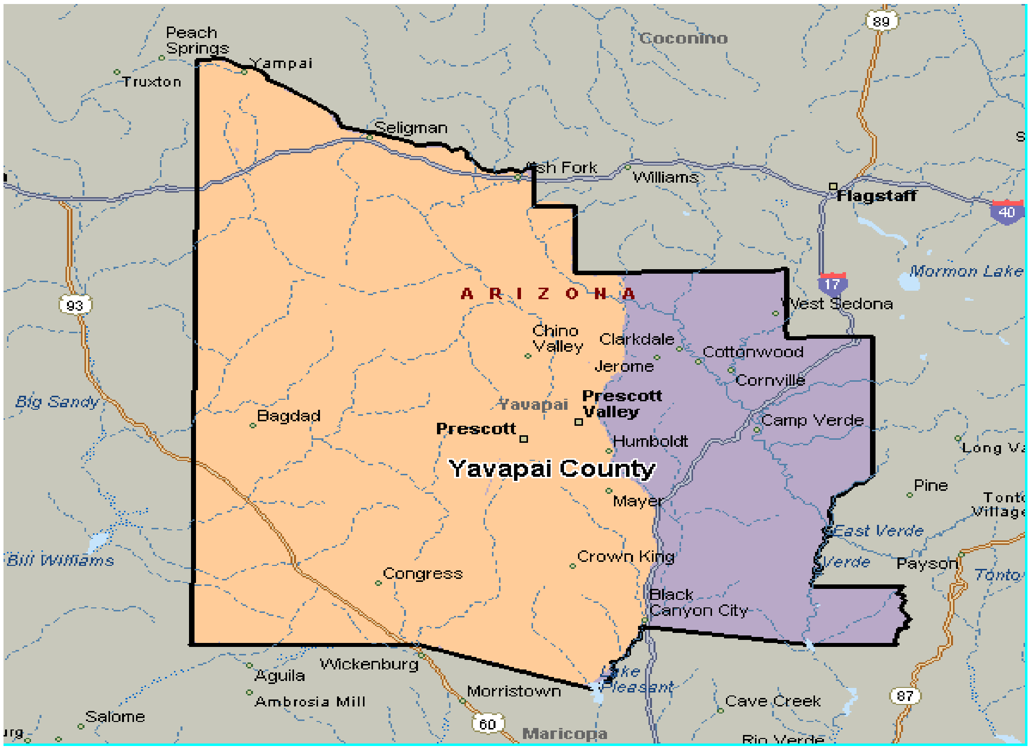
Service Area
and
Yavapai County



Market Characteristics

The County has been one of the fastest growing counties in the State and the United States. According to the U.S. Census Bureau, between 1990 and 2000, the population of the County grew by approximately 56.5% while the State's population increased by approximately 40%. Between 2000 and 2010, the population of the County grew by approximately 25.2%, slightly higher than the State's population increase of 24.6%, with Yavapai County, Prescott, and Prescott Valley growing 5%, 5%, and 9% each year respectively over the past 5 years. Demographic forecasts by state and regional planning agencies predict annual growth rates of 2.5% to 3.2% for zip codes in the region, resulting in an estimated 38% increase in total population in the region by 2025. Growth rates vary by sub-region, with the Chino Valley and Prescott Valley areas forecast to increase the most at 54% and 47%, respectively, by 2025.

Population Growth

	1990-2000	2000-2010	2010-2015
Yavapai County	56.5%	25.2%	5.3%
Arizona	40.0%	24.6%	6.8%
United States	10.3%	12.5%	4.1%

Source: U.S. Census Bureau.

As of 2010, according to U.S. Census data, approximately 24% of the County's population is 65 or older, compared to approximately 14% for the State. From 2000 to 2010, the County's population of 65 and over grew 38%. The Prescott area has been listed in several national publications as a desirable place to retire, including *Money Magazine*, *US News and World Report* and *CNN Money*.

The 10 largest employers in the County based upon employment size are as follows:

LARGEST EMPLOYERS
Yavapai County

Employer	Number of Employees	% of Total County Employment
Yavapai County	1,462	1.58%
Yavapai Regional Medical Center	1,405	1.52%
Veterans Medical Center	1,128	1.22%
Cyprus Bagdad Copper Mine	870	0.94%
Walmart	840	0.91%
Total:	5,705	6.17%
Total Employment in Yavapai County:	92,430	100.00%

Source: Yavapai County 2015 Comprehensive Annual Financial Report.

The table below sets forth the average annual unemployment rates for the County, the State of Arizona and the United States, determined by taking the numerical average of the monthly unemployment rate reported for each such jurisdiction.

UNEMPLOYMENT DATA
ANNUAL AVERAGE UNEMPLOYMENT PERCENTAGE

	2014	2015	2016
Yavapai County	6.3%	5.9%	5.5%
Arizona	N/A	6.8%	6.3%
United States	6.1%	5.3%	4.9%

Source: U.S. Bureau of Labor Statistics (June annually).
N/A means not available.

Other key economic characteristics of the County for 2014, most recent data available, as compared to the State of Arizona are presented below:

POPULATION PROFILE CHARACTERISTICS	YAVAPAI COUNTY	STATE OF ARIZONA
Median Household Income	$44,000	$50,068
Median Home Value	247,500	208,400
Median Age	49	35

Source: Laborstats.az.gov.

COMPETITION

YRMC has had a large, steady market share in the service area. In 2015, YRMC's overall market share was 74% with a 1% market share going to the local rehabilitation hospital, a service not offered by YRMC.

	INPATIENT MARKET SHARE		
	2013	2014	2015
Overall	75%	74%	74%
Obstetrical	87%	85%	87%

Source: Arizona Department of Health Services Discharge Data Set.

The Veterans Administration Medical Center, located in Prescott, which does not provide services to the general population, and Verde Valley Medical Center, a 110 licensed bed acute care hospital located in Cottonwood, which is over one hour's drive from Prescott Valley, are the only other hospitals in the County. Based on the Arizona Department of Health Services state-wide discharge data set, YRMC's overall market share of admissions generated from the Service Area zip codes has decreased very slightly over the past three years generating 74% in 2015, as compared to 75% experienced in 2013. The market share for obstetrical inpatients was 87% in 2015, which was comparable to the 87% market share in 2013. Management attributes YRMC's continued strong market share to a combination of additional physicians joining the YRMC medical staff and the availability of additional inpatient facilities and services.

The majority of the inpatient outmigration is to the Phoenix metropolitan area, approximately a two hour drive from Prescott and a one and a half hour drive from Prescott Valley, where the major tertiary care facilities and the children's hospitals are located. The outmigration is spread across a number of hospitals with Banner Good Samaritan being the highest, capturing 6% of the Prescott market in 2015.

YRMC faces a variety of competitors in the provision of outpatient services. Among these are a for-profit outpatient diagnostic laboratory, two imaging centers, special procedure facilities in physician offices, and two outpatient surgery centers.

YRMC is a minority partner in Prescott Outpatient Surgical Center, an Arizona limited partnership (*"POSC"*). POSC is housed in a facility adjacent to the West Campus. YRMC sub-leases the majority of the facility to POSC.

AFFILIATIONS AND COLLABORATIONS

Within Arizona, merger and acquisition activity has centered on the Phoenix market. There has not been any merger and acquisition activity in Prescott. However, in other rural Arizona markets, over the past couple of years, hospitals in Casa Grande, Page and Payson were acquired by Banner Health.

During 2016, YRMC joined four other Arizona health systems to create a non-exclusive strategic alliance, called Arizona Care Together ("*ACT*"). The health systems in ACT are Kingman Regional Medical Center, Flagstaff Regional Medical Center, Summit Healthcare, Tucson Medical Center and YRMC ACT is responding to market forces such as integration, value-based purchasing, care coordination, and accountable care organizations, while still offering independent institutional governance.

Members of ACT work together in a formalized partnership to:

- Exchange best practices
- Combine resources
- Develop coordinated information systems
- Reduce costs/develop shared services
- Manage the health of populations

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HISTORIC OPERATING RESULTS

The following table presents trends in utilization for YRMC for the Fiscal Years ended December 31, 2013, 2014 and 2015 and the three months ended June 30, 2015 and 2016.

TRENDS IN SELECTED UTILIZATION STATISTICS FOR YRMC (WEST AND EAST MEDICAL CENTER COMBINED)

	FISCAL YEARS ENDED DECEMBER 31,			SIX MONTHS ENDED JUNE 30,	
	2013	2014	2015	2015	2016
Licensed Beds	206	206	206	206	206
Average Beds in Service	186	186	186	186	186
Admissions	11,183	10,238	10,097	5,089	5,553
Overall Case Mix Index (1)	1.46	1.46	1.41	1.45	1.49
Medicare Case Mix Index	1.52	1.50	1.55	1.63	1.60
Patient days	33,484	33,074	32,948	17,146	18,721
• Medical/Surgical (2)	31,427	30,924	30,822	16,123	17,500
• Obstetrics/Gynecology	2,057	2,150	2,126	1,023	1,221
Average Daily Census	91.7	90.6	90.3	94.7	102.9
Percent Occupancy (3)	44.5	44.0	43.8	46.0	49.9
Average Length of Stay	3.23	3.27	3.25	3.35	3.45
Births	1,039	1,096	1,022	525	512
Surgical Procedures	6,190	6,019	6,672	3,232	3,756
• Inpatient	2,885	2,784	2,744	1,330	1,607
• Outpatient	2,783	3,235	3,928	1,902	2,149
Emergency Department Visits (4)	59,878	66,814	69,242	34,642	37,213
Radiology Procedures	112,265	118,884	127,908	63,416	69,824
Laboratory Procedures	632,697	654,879	672,799	340,072	360,705
Cardiopulmonary Procedures	34,533	45,952	47,649	23,901	23,684
Rehabilitation Treatments	91,728	138,051	143,948	57,549	61,689
Cath Lab/Angio Suite - Patients	2,242	2,174	2,088	1,062	1,159

(1) Includes all inpatients.
(2) Includes pediatrics and intensive care.
(3) Includes "fast track" patients.
Source: YRMC Records.

MANAGEMENT'S DISCUSSION OF UTILIZATION TRENDS

Six Months Ended June 30, 2015 Compared to Six Months Ended June 30, 2016. Admissions were up over prior year 9.1% due, in part, to strong volumes experienced in three months ended March 31, 2016. The surgical procedures for both inpatient and outpatient had a strong first half in 2016, due primarily to cardiovascular and orthopedic physician recruitment. Patient catheterization lab volumes were favorable, also due primarily to physician recruitment.

Inpatient discharges and patient days grew by 8.5% and 15.1%, respectively, and emergency room visits increased 7.4% due to the same factor. In the first quarter of 2016, YRMC experienced high seasonal utilization due primarily to unusually high levels of respiratory illness, orthopedic, cardiovascular and general surgeries.

Year Ended December 31, 2014 Compared to Year Ended December 31, 2015. YRMC inpatient volumes declined modestly by 1.4% in admissions primarily due to the continued drop in the birth rate (-6.8%). The Average Length of Stay dropped slightly and remains relatively low. Ancillary area increases included radiology procedures at 7.6%, cardiopulmonary lab at 3.7%, rehabilitation treatments at 4.3%, emergency department at 3.6% and laboratory procedures at 2.7%.

Inpatient discharges and patient days fell by 2.8% and 0.4%. Deliveries decreased by 6.8%, which is similar to the national trend of fewer births per household. Emergency room visits increased 3.6%. Total surgeries increased 10.8% due primarily to the increase in outpatient cases (21.4%) at YRMC. The rise in outpatient cases is primarily attributed to the opening of the hybrid operating room in the fourth quarter of 2015.

Year Ended December 31, 2013 Compared to Year Ended December 31, 2014. Inpatient discharges and patient days fell by 3.0% and 2.1%, respectively, due primarily to the conversion from inpatient to outpatient settings, particularly with respect to circulatory and orthopedic services. Emergency room visits increased 6% due to general population growth, Medicaid expansion and less than adequate primary care capacity.

FINANCIAL INFORMATION

SUMMARY OF HISTORIC REVENUE AND EXPENSES

The following table sets forth summary combined assets, liabilities, revenues and expenses of YRMC for the periods indicated, including those controlled affiliates of YRMC that are not obligated on the Series 2016 Note or the Series 2016 Bonds. The summary should be read in conjunction with the complete combined financial statements of YRMC and the notes to the combined financial statements included in Appendix B to this Official Statement. The summary combined revenues and expenses for the fiscal years ended December 31, 2013, 2014, and 2015 included in the following table are derived from the audited combined financial statements of YRMC. The summary combined revenues and expenses for the six-month periods ended June 30, 2015 and 2016 included in the following table are derived from the unaudited combined financial statements of YRMC and include all adjustments, consisting of normal recurring adjustments, that management considers necessary for a fair presentation on a basis consistent with the audited financial statements. These operating results are not necessarily indicative of the results that may be reflected for the entire fiscal year ending December 31, 2016.

In the fiscal year ended December 31, 2015, YRMC accounted for approximately 94.3% of total operating revenue, 89.3% of total operating expenses and 95.2% of total net assets of YRMC and affiliates.

TRENDS IN REVENUE AND EXPENSES

	FISCAL YEARS ENDED DECEMBER 31, (AUDITED, $ IN THOUSANDS)			SIX MONTHS ENDED JUNE 30, (UNAUDITED, $ IN THOUSANDS)	
	2013	2014	2015	2015	2016
OPERATING REVENUES:					
Net Patient Service Revenue Net of Provision for Uncollectible Accounts	$212,737	$236,858	$271,306	$132,614	$153,150
Other Operating Revenue[1]	11,221	15,464	9,757	4,339	6,021
Total Operating Revenues	223,958	252,322	281,063	136,953	159,171
EXPENSES:					
Salaries, wages and employee benefits	$121,296	$121,392	$133,598	$ 62,307	$ 69,221
Supplies, Services and Other	77,199	90,130	95,344	47,027	49,475
Professional Fees	10,835	13,253	15,273	7,003	8,026
Depreciation and Amortization	14,398	14,611	15,306	7,368	7,854
Interest	4,987	4,577	4,430	2,235	2,154
Total Operating Expenses	$228,715	$243,963	$263,951	$125,940	$136,730
Income From Operations	($ 4,757)	$ 8,359	$ 17,112	$ 11,013	$ 22,441
Income in equity investees	($ 30)	$ 0	($ 111)	$ 0	$ 0
Gain (Loss) from extinguishment of debt	($ 1,100)	$ 0	$ 0	$ 0	$ 0
Gain (Loss) from discontinued operations	$ 0	$ 0	$ 0	($ 2)	$ 2
Other	$ 1,490	$ 496	($ 2,013)	$ 0	$ 10
Increase in Unrestricted Net Assets	($ 4,397)	$ 8,855	$ 14,988	$ 11,011	$ 22,453

(1) Includes interest, dividends and realized gain/losses.

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TRENDS IN ASSETS AND LIABILITIES

	FISCAL YEARS ENDED DECEMBER 31, (AUDITED, $ IN THOUSANDS)			SIX MONTHS ENDED JUNE 30, (UNAUDITED, $ IN THOUSANDS)
	2013	2014	2015	2016
ASSETS:				
Current Assets				
Cash and cash equivalents	$38,849	$24,681	$51,058	$66,525
Short term investments	63,919	65,889	57,554	58,153
Net A/R	42,380	34,734	30,605	32,255
Inventories	5,183	4,423	5,218	5,224
Contributions rec, cur	1,082	318	263	263
Prepaid expense	4,231	4,095	2,196	3,843
Total Current Assets	$155,644	$134,140	$146,894	$166,263
Investments	$18,852	$32,330	$30,857	$29,837
Assets limited as to US-held by Trustees	7,384	7,454	7,129	10,151
Contributions receivable	304	1	75	75
PP&E net	154,561	160,211	161,558	160,218
Other assets, net	4,885	3,865	4,568	2,810
Total Assets	$341,630	$338,001	$351,081	$369,354
LIABILITIES AND NET ASSETS				
Current Liabilities				
Current portion of LT debt	$3,487	$5,133	$5,061	$2,986
Accounts payable	10,231	7,774	7,769	6,444
Accrued expense & other	14,378	11,925	14,055	14,443
Amounts due to third party	2,904	480	232	50
Total Current Liabilities	$31,000	$25,312	$27,117	$23,923
Long-Term Debt	$107,235	$101,864	$98,170	$97,299
Other long-term liabilities	2,271	2,016	1,842	1,660
Total Liabilities	$140,506	$129,192	$127,129	$122,882
NET ASSETS				
Unrestricted	$199,078	$207,932	$222,920	$245,372
Temp restricted	1,885	872	1,027	1,095
Perm restricted	161	5	5	5
Total Net Assets	$201,124	$208,809	$223,952	$246,472
Total Liabilities & Net Assets	$341,630	$338,001	$351,081	$369,354

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL PERFORMANCE

General. During the past three years, YRMC has experienced strong growth in its income from operations, resulting from management's focus on improving revenue cycle and developing new service lines.

Six Month Periods Ended June 30, 2015 and June 30, 2016. Income from operations increased from $11.0 million during the six months ended June 30, 2015 to $22.4 million in the six months ended June 30, 2016. The increase in performance was driven by large volume increases experienced during the six months ended June 30, 2016 as compared to the prior period as described above under "MANAGEMENT'S DISCUSSION OF UTILIZATION TRENDS." Total operating revenue increased from $137.0 million during the six months ended June 30, 2015 to $159.2 million during the six months ended June 30, 2016. Net patient service revenue was $132.6 million during the six months ended June 30, 2015, compared to $153.2 million during the six months ended June 30, 2016. Net patient revenue grew 15.5% from the six months ended June 30, 2015.

Operating expenses increased $10.8 million during the six months ended June 30, 2016, or 8.6% from the six months ended June 30, 2015. A significant portion of the increased costs is attributable to volume increases described above, primarily in the variable expense lines such as supplies and labor. Labor costs increased $6.9 million during the six months ended June 30, 2016 or 11.1% from the combination of a market rate adjustment done in August 2015 and volume growth. Supplies, Services and Other increased $2.5 million or 5.2% as a result of inpatient and outpatient volume growth. Professional Fees increased $1.0 million or 14.6% primarily driven by contract staffing needs filling positions during the months of high volume.

The operational margin combined with the investment/other activities yielded an increase in unrestricted net assets for the six months ended June 30, 2016 of $22.4 million compared to $11.0 million in the six months ended June 30, 2015.

Fiscal Years Ended December 31, 2014 and December 31, 2015. Income from operations increased from $8.4 million during fiscal year 2014 to $17.1 million in 2015. Total operating revenues increased from $252.3 million during 2014 to $281.1 million during fiscal year 2015. Net patient service revenue was $236.9 million during 2014, compared to $271.3 million during fiscal year 2015. Net patient revenue grew 14.5% from the prior year primarily due to increasing volume in outpatient services described above under "MANAGEMENT'S DISCUSSION OF UTILIZATION TRENDS" and revenue cycle improvements. Additionally, fewer patients were without a payor source due to Medicaid expansion.

Operating expenses increased $20.0 million, or 8.2% from the prior year. Labor costs increased to $133.6 million or 10.1% from the implementation of a market rate increase and the volume growth described above. Supplies, Services and Other increased $5.2 million or 5.8% as a result of YRMC's participation in Arizona's Medicaid expansion program, as the assessment fee for 2015 was $1.0 million more than 2014. Also YRMC opened its new hybrid operating room in 2015 accounting for $2.1 million of the increase in supplies expense compared to fiscal year 2014. Professional Fees increased $2.0 million due to reclassifying of professional services to properly account for Medicare Wage Index purposes.

Outside of its operational activities, the organization recorded a loss of $2.0 million compared to a gain of $0.5 million in the prior year, primarily due to poor equity market performance. The operational margin combined with the investment/other activities yielded an increase in unrestricted net assets for the fiscal year 2015 of $14.9 million compared to $8.9 million in the fiscal year 2014.

Fiscal Years Ended December 31, 2013 and December 31, 2014. Income from operations increased from -$4.8 million during fiscal year 2013 to $8.4 million in 2014. Total operating revenue increased from $224.0 million during 2013 to $252.3 million during fiscal year 2014. Net patient service revenue was $212.7 million during 2013, compared to $236.9 million during fiscal year 2014. Net patient revenue grew 11.3% from the prior year due to increasing volume related to outpatient services described above. Also, revenue performance in fiscal year 2013 was negatively impact of the implementation of electronic medical records.

Operating expenses increased $15.2 million, or 6.7% from the prior year. Labor costs increased only $0.1 million or 0.1% due to outsourcing YRMC's information technology support. However, supplies, services and other increased $12.9 million or 16.8% due to such outsourcing. Additionally, supplies increased in relationship to volume increase.

Outside of its operational activities, the organization recorded a gain of $0.5 million compared to a gain of $1.5 million in the prior year. Investment and other income totaled $0.5 million in 2014 compared to a total of $0.4 million in 2013. The operational margin combined with the investment/other activities yielded an increase in unrestricted net assets for the fiscal year 2014 of $8.9 million compared to -$4.4 million in the fiscal year 2013.

Recent Developments. YRMC has applied for and anticipates obtaining the Sole Community Hospital designation from CMS during fiscal year 2016. Sole Community Hospitals are those that meet a distance/time requirement from other hospitals and provide the vast preponderance of hospital services to its community. The benefits of this designation include additional inpatient Medicare and Medicare Advantage reimbursement and fewer governmental payment reductions.

Critical Accounting Policies. Management of YRMC considers its critical accounting policies to be those that involve accounting issues requiring the exercise of the most significant judgments and estimates in the preparation of its financial statements. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

YRMC has agreements with third-party payers that provide for payments to YRMC at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, and include estimated retroactive revenue adjustments. Retroactive adjustments are accrued on an estimated basis in the period related services are rendered and adjusted in future periods as final settlements are determined.

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, YRMC analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounting and provision for bad debts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, YRMC analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), YRMC records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

YRMC operates in an environment of medical malpractice and professional liability risks. YRMC purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Under such policy, only claims made and reported to the insurer during the policy term, regardless of when the incident giving rise to the claims occurred, are covered. YRMC has a deductible for the first $250,000 per occurrence of medical malpractice risks. YRMC also carries umbrella coverage for up to $10,000,000 per occurrence. Estimated reserves recorded for professional liability risks at December 31, 2015, were $0.8 million. Although considerable variability is inherent in professional liability reserve estimates, management believes the reserves for losses and loss expenses are adequate based on information currently known. It is reasonably possible that this estimate could change materially in the near term.

Capital Expenditures and Liquidity. Capital spending for the past three years was $4.1 million in 2013; $18.9 million in 2014, and $15.8 million in 2015. In addition to routine capital expenditures consistent with previous years, YRMC recently contracted with an independent consulting firm to conduct a master facility plan update. The following are the major construction initiatives identified in the plan, including cost estimates. Management anticipates that each of these projects will be funded through income from operations and YRMC's cash and investments and will be complete by the end of 2019.

Project	Estimated Cost
East Campus Ambulatory Surgery renovation of the existing Lobby/Waiting area in Surgery to create a new higher end entry into the space, renovating the existing grey shell space as well as building an expansion to the existing building between the surgery and labor/delivery Suite.	$3,000,000
West Campus expansion of the existing second floor catheterization laboratory suite to create an elevated addition.	$3,400,000
The construction of a new approximately 32,000 square foot medical office building adjacent to the West Campus. The building would consist of 2 or 3 stories with parking for 85 cars.	$7,700,000
West Campus relocation of administration and data services from the first floor of the existing building to a new medical office building in the adjacent parking lot. Upon completion of this relocation the laboratory would be built in the existing administration/data suite and the existing radiology department would be expanded.	$ 950,000

PROJECT	ESTIMATED COST
The construction of an elevated parking deck on the West Campus with capacity for 250-300 cars.	$3,200,000

Cash, cash equivalents, short-term investments and long-term investments, excluding donor restricted assets, held by YRMC totaled $154.5 million at June 30, 2016, as compared to $138.1 million at June 30, 2015, representing 218 and 212 Days Cash on Hand, respectively. In addition, YRMC has the ability to borrow up to $0.9 million under a revolving line of credit issued by a local bank to meet any temporary short-term cash demands. By focusing on improvements in revenue cycle and expense management, YRMC has improved its cash flow over the past three years, which has caused days cash on hand to increase from 207 at December 31, 2013 to 218 at June 30, 2016.

SOURCES OF PATIENT SERVICE REVENUE

YRMC derives its patient service revenue from Medicare, Medicaid, which in Arizona is referred to as *"AHCCCS"* (including AHCCCS managed care plans), commercial insurers and a limited number of private managed care payors (including health maintenance organizations and preferred provider organizations), self-paying patients and other sources. The patient service revenue percentages are shown after deductions for contractual adjustments, and are net of allowances estimated for doubtful or uncollectible accounts. For further information on Medicare, AHCCCS, and other payors see "BONDHOLDERS' RISKS—Federal and State Budget Challenges or Funding Policy Changes Could Result in Reduced or Delayed Medicare and Medicaid Reimbursement" in this Official Statement.

The following table shows the percentage distribution of net patient service revenue by major payor source, excluding provision for uncollectible accounts, for the Fiscal Years ended December 31, 2013, 2014 and 2015.

SOURCES OF NET PATIENT REVENUE

	FISCAL YEARS ENDED DECEMBER 31,		
PAYOR CATEGORY	2013	2014	2015
Medicare	43.2%	41.6%	40.3%
Medicaid	6.5%	7.7%	8.3%
Commercial/Managed Care	43.5%	42.8%	45.9%
Self-Pay	1.1%	0.9%	0.7%
Other Payors	5.7%	7.0%	4.8%
Total	100.0%	100.0%	100.0%

Managed Care. YRMC maintains contracts with a number of the major commercial insurance carriers and a limited number of managed care plans with enrollees residing within its Service Area. Most of the reimbursement received from commercial plans and other third-party payors, including managed care plans, is based on a discounted fee-for-service/percentage of billed charges methodology. Management characterizes the level of such discounts as relatively minimal. BlueCross/BlueShield of Arizona (*"BlueCross"*), the largest single private third-party payor to YRMC, which accounted for approximately 23.7% of its net patient service revenue during the year ended December 31, 2015, reimburses YRMC primarily on a DRG basis for inpatient services and modified billed charges for outpatient services. Management characterizes the BlueCross discounts from billed charges as modest.

Medicare and AHCCCS. Substantially all of the Medicare reimbursement received by YRMC is based on diagnostic related groups (MS-DRG) for inpatient hospital services, and based on the ambulatory payment classification system (APC) for those outpatient services where a fee schedule doesn't apply. The AHCCCS reimbursement received by YRMC is based on established per diem rates for inpatients and the specific cost to charge ratios for outpatients (overall a slightly higher percentage of charges than received from Medicare). See "BONDHOLDERS' RISKS—Federal and State Budget Challenges or Funding Policy Changes Could Result in Reduced or Delayed Medicare and Medicaid Reimbursement" in the forepart of this Official Statement.

Medicare's DRG payments are composed of two components, a labor component and a non-labor component. In general, the labor component is adjusted for prevailing wages within either the applicable CBSA or rural area within the State.

Arizona continues to fund its Medicaid expansion through a "provider fee" borne by the State's hospitals. This expansion has provided insurance coverage to over 500,000 low income Arizona residents.

YRMC, based upon a number of factors, received Medicare disproportionate share and uncompensated care payments totaling approximately $1.2 million, $1.3 million and $1.2 million for its care of low-income patients in Fiscal Years ended 2013, 2014 and 2015, respectively. The disproportionate share calculation results in YRMC receiving additional payments related to inpatient Medicare stays, not including outlier payments.

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HISTORIC AND PRO FORMA COVERAGE

The following table sets forth the historic combined coverage of principal and interest requirements for YRMC for the Fiscal Years ended December 31, 2013, 2014 and 2015, based on the actual debt service in each year and pro forma as adjusted based on the estimated maximum annual debt service after taking into account the issuance of the Series 2016 Bonds. The income available for debt service is calculated in a manner consistent with the Master Agreement.

HISTORIC COVERAGE OF PRINCIPAL AND INTEREST REQUIREMENTS

	FISCAL YEAR ENDED DECEMBER 31,		
	2013	2014	2015
	($ in thousands)		
Income available for debt service:			
Excess of revenue over expenses	($ 5,886)	$ 8,359	$17,001
Plus: Depreciation and amortization	14,398	14,611	15,306
Plus: Interest	4,987	4,577	4,430
Total income available and interest requirements:	$13,499	$27,547	$36,737
Historic principal and interest requirements:			
Interest expense	$ 4,987	$ 4,577	$ 4,430
Principal	4,963	3,487	4,951
Total actual debt service	$ 9,950	$ 8,064	$ 9,381
Coverage of historic actual debt service[(1)]	1.36x	3.42x	3.92x
Maximum annual debt service after issuance of the Series 2016 Bonds[(1)]	7,037	7,037	7,037
Pro forma coverage of maximum annual debt service after issuance of the Series 2016 Bonds[(1)]	1.92x	3.91x	5.22x

(1) Includes debt service on the Series 2016 Bonds, the Series 2013A Bonds and the Series 2013B Bonds, payments of principal and interest on the Land Purchase Note, the note relating to YRMC's electronic medical records system, the note relating to YRMC's medical office building adjacent to the West Campus, and other notes payable to third parties in the amounts and at the rates specified in such notes. See Appendix B – Note 11 hereto. The Series 2013B Bonds bear interest at variable rates and are assumed to bear interest at a rate of 3.00% per annum. Actual debt service may differ from that assumed.

HISTORIC AND PRO FORMA CAPITALIZATION

The following table sets forth the capitalization of YRMC for fiscal year ended December 31, 2015. The pro forma for the fiscal year ended as of December 31, 2015, reflects capitalization for the period adjusted as if the Series 2016 Bonds had been issued on December 31, 2015. The information for fiscal year ended December 31, 2015, was extracted from the audited financial statements of YRMC and should be read in conjunction with the audited financial statements appearing as Appendix B, including footnotes.

HISTORIC AND PRO FORMA CAPITALIZATION

	DECEMBER 31, 2015 ACTUAL	DECEMBER 31, 2015 PRO FORMA
LONG-TERM DEBT – FIXED RATE:		
Series 1997B Bonds(1)	12,500,000	--
Series 2002 Bonds(1)	4,915,000	--
Series 2008B Bonds(1)	30,000,000	--
Series 2013A Bonds(1)(2)	30,265,000	30,265,000
Series 2016 Bonds		44,585,000
Total Fixed Rate Debt	77,680,000	74,850,000
LONG TERM DEBT – VARIABLE RATE DEMAND DEBT		
Series 2013B Bonds	20,400,000	20,400,000
Miscellaneous Debt(3)	5,213,244	5,213,244
Total Debt(4)	103,293,244	100,463,244
Less: Unamortized premium (discount)	-61,896	-61,896
Less: Current portion of long-term debt	-5,060,792	-5,060,792
Total long-term debt net	98,170,556	95,340,556
Unrestricted Net Assets	222,920,163	222,920,163
Temporarily Restricted Net Assets	1,027,073	1,027,073
Total Capitalization	$322,117,792	$319,287,792
Ratio long-term debt to total capitalization	30.5%	29.9%

(1) Debt incurred through issuance of limited obligation revenue bonds by governmental issuers. Proceeds of the debt were (or, in the case of the Series 2016 Bonds, are expected to be) loaned to YRMC and debt is secured by obligations issued under the Master Agreement.
(2) These are the Series 2016 Bonds offered pursuant to this Official Statement.
(3) Includes various notes. See Appendix B – Note 11 hereto.
(4) Excludes bond premium and discount.

HISTORIC CASH AND INVESTMENTS

The following table sets forth the cash, cash equivalents, short-term investments and long-term investments, excluding donor restricted assets, held by YRMC as of December 31, 2013, 2014 and 2015, and the six months ended June 30, 2015 and 2016. Also shown are YRMC's days of cash on hand as of December 31, 2013, 2014 and 2015, and the six months ended June 30, 2015 and 2016. The information for December 31, 2013, 2014 and 2015 was derived from the audited combined financial statements of YRMC. The information for June 30, 2015 and 2016 was derived from internal unaudited combined financial statements of YRMC and includes all adjustments, consisting of normal recurring adjustments that management considers necessary for a fair presentation on a basis consistent with the audited financial statements. The information for December 31, 2014 and 2015 should be read in conjunction with the audited combined financial statements appended as Appendix B, including footnotes.

HISTORIC CASH, INVESTMENTS AND DAYS CASH ON HAND

	FISCAL YEARS ENDED DECEMBER 31,			SIX MONTHS ENDED JUNE 30,	
	2013	2014	2015	2015	2016
			($ in thousands)		
Cash and cash equivalents	$38,849	$24,681	$51,058	$48,655	$66,525
Short-term investments(1)	63,919	65,889	57,554	59,877	58,889
Investments	18,852	31,433	29,450	29,590	29,101
Total	$121,620	$122,003	$138,062	$138,122	$154,515
Days cash on hand	207	194	203	212	218

(1) Short-term investment allocation estimated for 6 month ending due to restatement done at year end during audit review.

OTHER INFORMATION

INVESTMENT POLICIES

YRMC engaged in 2012 a third party, J.P. Morgan, to provide investment management and advisory services for the purpose of assisting YRMC in optimizing investment portfolio performance. As part of this process, the Investment Committee of the YRMC Board of Trustees periodically reviews and approves YRMC's investment policy, with a goal of improving investment returns and reducing the risk of investment principal loss during times of market downturns. YRMC's investment policy defines permitted and non-permitted investments. It is the role of the Investment Committee, on advice of the Investment Advisor, to approve an asset allocation approach within the permitted investments and consistent with the cash needs of YRMC.

YRMC's asset allocation as of June 30, 2016, consisted wholly of equity funds, fixed income funds, certificates of deposit and cash or money market accounts.

Insurance

Malpractice Insurance. YRMC is insured for medical malpractice risks under a claims made insurance policy. Total coverage under the policy is $1 million per occurrence with excess coverage of $10 million, which coverage YRMC's management believes to be adequate based upon historical experience. YRMC is self-insured for malpractice claims up to $250,000 per claim, which includes related expenses.

General Insurance. YRMC presently carries an all risk insurance policy covering all buildings and contents on a blanket basis in the approximate amounts of $219.6 million for buildings and $103.3 million for contents, which includes coverage of boilers and machinery with a $1.0 million limit per accident.

Litigation

On July 20, 2016, the Department of Justice ("*DOJ*") alerted YRMC that it was investigating potential violations of the False Claims Act associated with errors in YRMC's wage data. This data was reported on YRMC's Medicare cost reports which allegedly resulted in overpayments to YRMC by the Medicare Program that YRMC had failed to timely repay. The cost reports at issue were for fiscal years 2006 through 2009. YRMC and the DOJ have fully settled the matter for a $6 million payment by YRMC, without admitting any wrongdoing on the part of YRMC.

There is no pending or threatened litigation against YRMC, except for: (i) litigation involving claims of professional liability being defended by insurance companies on behalf of YRMC in which the probable ultimate recoveries and costs of defense, in the opinion of YRMC's counsel, will be within YRMC's insurance limits, subject to applicable deductibles; and (ii) matters involving other typical claims wherein the probable ultimate recoveries and litigation expenses will not, in the opinion of YRMC's management, adversely affect YRMC's operations or financial condition.

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APPENDIX B

COMBINED FINANCIAL STATEMENTS OF YAVAPAI COMMUNITY HOSPITAL ASSOCIATION AND THE DISTRICT

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Yavapai Community Hospital Association and Affiliates
d/b/a Yavapai Regional Medical Center

Independent Auditor's Report and Combined Financial Statements

December 31, 2015 and 2014

Yavapai Community Hospital Association and Affiliates
d/b/a Yavapai Regional Medical Center
December 31, 2015 and 2014

Contents

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Independent Auditor's Report

Board of Directors
Yavapai Community Hospital Association and Affiliates
d/b/a Yavapai Regional Medical Center
Prescott, Arizona

We have audited the accompanying combined financial statements of Yavapai Community Hospital Association and Affiliates d/b/a Yavapai Regional Medical Center (the Organization), which comprise the combined balance sheets as of December 31, 2015 and 2014, and the related combined statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined 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 audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

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

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

Board of Directors
Yavapai Community Hospital Association and Affiliates
d/b/a Yavapai Regional Medical Center

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Yavapai Community Hospital Association and Affiliates d/b/a Yavapai Regional Medical Center as of December 31, 2015 and 2014, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

Colorado Springs, Colorado
March 28, 2016

Yavapai Community Hospital Association and Affiliates
d/b/a Yavapai Regional Medical Center
Combined Balance Sheets
December 31, 2015 and 2014

Assets

	2015	2014
Current Assets		
Cash and cash equivalents	$ 51,058,145	$ 24,681,230
Short-term investments	57,554,227	65,888,582
Patient accounts receivable, net of allowance; 2015 - $21,565,756 and 2014 - $14,587,818	30,604,490	34,734,061
Inventories	5,218,310	4,422,782
Contributions receivable, current	262,578	318,918
Prepaid expenses and other current assets	2,196,335	4,095,351
Total current assets	146,894,085	134,140,924
Investments	30,856,977	32,329,551
Assets Limited as to Use - Held by Bond Trustees	7,129,435	7,453,715
Contributions Receivable	75,424	1,028
Property, Plant and Equipment, Net	161,557,611	160,211,016
Other Assets, Net	4,567,864	3,865,001
Total assets	$ 351,081,396	$ 338,001,235

Liabilities and Net Assets

	2015	2014
Current Liabilities		
Current portion of long-term debt	$ 5,060,792	$ 5,132,974
Accounts payable	7,769,394	7,773,763
Accrued expenses and other	14,054,775	11,925,259
Amounts due to third-party payers	231,720	479,582
Total current liabilities	27,116,681	25,311,578
Long-term Debt	98,170,556	101,864,318
Other Long-term Liabilities	1,842,162	2,016,227
Total liabilities	127,129,399	129,192,123
Net Assets		
Unrestricted	222,920,163	207,932,338
Temporarily restricted	1,027,073	872,013
Permanently restricted	4,761	4,761
Total net assets	223,951,997	208,809,112
Total liabilities and net assets	$ 351,081,396	$ 338,001,235

Yavapai Community Hospital Association and Affiliates
d/b/a Yavapai Regional Medical Center
Combined Statements of Operations
Years Ended December 31, 2015 and 2014

	2015	2014
Operating Revenues		
Patient service revenue (net of contractual discounts and allowances)	$ 290,985,418	$ 274,553,401
Provision for uncollectible accounts	(19,679,025)	(37,695,830)
Net patient service revenue less provision for uncollectible accounts	271,306,393	236,857,571
Interest, contributions and other income	9,562,274	13,951,239
Net assets released from restriction for operations	194,370	1,513,686
Total operating revenues	281,063,037	252,322,496
Operating Expenses		
Salaries and wages	103,691,326	98,510,237
Employee benefits	29,907,001	22,881,750
Professional fees	15,272,598	13,252,694
Supplies, services and other	95,343,961	90,130,175
Depreciation and amortization	15,306,298	14,611,288
Interest	4,429,756	4,576,890
Total operating expenses	263,950,940	243,963,034
Excess of Revenues Over Expenses Before Other Income	17,112,097	8,359,462
Other Income (Expense)		
Loss in equity investees	(110,664)	-
Total other income (expense)	(110,664)	-
Excess of Revenues Over Expenses	17,001,433	8,359,462
Contributions for purchase of property and equipment	176,223	227,121
Change in unrealized gains (losses) on investments	(2,182,303)	275,602
Change in value of split-interest agreements	(7,528)	(7,474)
Increase in Unrestricted Net Assets	$ 14,987,825	$ 8,854,711

Yavapai Community Hospital Association and Affiliates
d/b/a Yavapai Regional Medical Center
Combined Statements of Changes in Net Assets
Years Ended December 31, 2015 and 2014

	2015	2014
Unrestricted Net Assets		
Excess of revenues over expenses	$ 17,001,433	$ 8,359,462
Contributions for purchase of property and equipment	176,223	227,121
Change in unrealized gains (losses) on investments	(2,182,303)	275,602
Change in value of split-interest agreements	(7,528)	(7,474)
Increase in unrestricted net assets	14,987,825	8,854,711
Temporarily Restricted Net Assets		
Contributions received	349,430	500,323
Net assets released from restriction for operations	(194,370)	(1,513,686)
Increase (Decrease) in temporarily restricted net assets	155,060	(1,013,363)
Permanently Restricted Net Assets		
Net assets released from restriction by donor	-	(156,415)
Change in Net Assets	15,142,885	7,684,933
Net Assets, Beginning of Year	208,809,112	201,124,179
Net Assets, End of Year	$ 223,951,997	$ 208,809,112

Yavapai Community Hospital Association and Affiliates
d/b/a Yavapai Regional Medical Center
Combined Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014
Operating Activities		
Change in net assets	$ 15,142,885	$ 7,684,933
Items not requiring (providing) cash		
Depreciation	14,837,139	14,116,161
Amortization	469,159	495,127
Loss on disposal of property, plant and equipment	55,594	-
Loss in equity investees	110,664	-
Realized and unrealized (gains) losses on investments	1,763,456	(275,602)
Provision for uncollectible accounts	19,679,025	37,695,830
Contributions of or for acquisition of property and equipment	(176,223)	(227,121)
Change in allowance for uncollectible contributions	134,541	(330,078)
Change in value of split-interest agreements	7,528	7,474
Changes in		
Patient accounts receivable	(15,549,454)	(30,049,481)
Estimated amounts due to third-party payers	(247,862)	(2,424,259)
Accounts payable and accrued expenses	2,742,986	(6,019,338)
Other long-term liabilities	(174,065)	(255,252)
Inventory, prepaids and other assets	(252,917)	2,847,905
Net cash provided by operating activities	38,542,456	23,266,299
Investing Activities		
Purchase of property and equipment	(15,758,063)	(18,965,652)
Distributions from equity investee	-	32,000
Purchase of investments and assets limited as to use	(6,275,962)	(62,534,493)
Proceeds from disposition of investments and assets limited as to use	14,643,715	47,293,006
Net cash used in investing activities	(7,390,310)	(34,175,139)
Financing Activities		
Principal payments on long-term debt	(4,951,454)	(3,486,510)
Contributions restricted for the purchase of property and equipment	176,223	227,121
Net cash used in financing activities	(4,775,231)	(3,259,389)
Increase (Decrease) in Cash and Cash Equivalents	26,376,915	(14,168,229)
Cash and Cash Equivalents, Beginning of Year	24,681,230	38,849,459
Cash and Cash Equivalents, End of Year	$ 51,058,145	$ 24,681,230
Supplemental Cash Flows Information		
Interest paid	$ 4,457,444	$ 4,568,931
Acquisition of property and equipment accrued for, but unpaid	$ 476,658	$ 1,102,025
Executed promissory note for purchase of building	$ 1,400,000	$ -

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The accompanying combined financial statements include the accounts of Yavapai Community Hospital Association (the Hospital) doing business as Yavapai Regional Medical Center, an Arizona nonprofit corporation; Central Yavapai Hospital District (the District); Yavapai Regional Medical Center Foundation (the Foundation), an Arizona nonprofit corporation; Yavapai Regional Medical Center Physician Care, LLC (the MSO) and North Central Arizona Accountable Care, LLC (the ACO) (collectively, the Organization). The Hospital provides health care and related services in Yavapai County, Arizona and is licensed to operate 206 beds. At December 31, 2015, all 206 of these beds were in service. The District was organized primarily to assist in providing medical facilities to serve the population of Central Yavapai County. The MSO was organized in 2008 for the purpose of providing physician services to the Central Yavapai County. The ACO was organized in 2014 to promote greater accountability for the quality, effectiveness and efficiency of health care delivered to patients through providers who work together based on the principles of clinical integration to improve the coordination of health care items and services, to encourage investment in infrastructure and redesigned care processes for high quality and efficient service delivery, and to incent higher value care.

Principles of Combination

The combined financial statements include the accounts of the Hospital, the District, the Foundation, the MSO and the ACO. Intercompany transactions and balances have been eliminated in combination. The District holds certain medical facilities of the Hospital, the Foundation's purpose is to benefit and support the Hospital, and the MSO and ACO are 100% owned by the Hospital; therefore, the financial statements are combined.

Use of Estimates

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

Cash Equivalents

The Organization considers all liquid investments, other than those limited as to use, with original maturities of three months or less to be cash equivalents. At December 31, 2015 and 2014, cash equivalents consisted primarily of money market accounts with brokers and overnight sweep accounts.

At December 31, 2015, the Organization's cash accounts (including cash classified as an investment) exceeded federally insured limits by approximately $54,500,000.

Investments and Investment Return

Investments in debt and equity securities are carried at fair value. The investments in affiliates are reported on the equity method of accounting. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments. Investment return is reflected in the statements of operations and changes in net assets as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Assets Limited as to Use

Assets whose use is limited include assets held by trustees under bond indenture agreements, which can be used only for the purpose designated by such agreements.

Patient Accounts Receivable

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Organization analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounting and provision for bad debts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the Organization analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Organization records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Organization's allowance for doubtful accounts for self-pay patients was approximately 97% and 92% at December 31, 2015 and 2014, respectively. In addition, the Organization's provision for uncollectible accounts decreased approximately $18,000,000 for the year ended December 31, 2014, to approximately $19,700,000 for the year ended December 31, 2015. The Organization experienced a large amount of write-offs during 2014 and saw an overall reduction of net self-pay receivables in 2015.

Inventories

The Organization states supply inventories at the lower of cost, determined using the first-in, first-out method, or market.

Property and Equipment

Property and equipment are depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

Leasehold improvements	10–20 years
Buildings and service equipment	20–40 years
Equipment	3–20 years

The carrying value of property and equipment is reviewed annually to determine potential impairment. If events or circumstances suggest that the carrying value may be permanently impaired and will not be recoverable, the assets will be reduced to their estimated recoverable value.

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. These costs are being amortized using the straight-line method over the life of the debt and are included in other noncurrent assets in the accompanying combined balance sheets.

Physician Guarantees and Loans

The Organization has entered into a contract with a third-party physician group in which the Organization makes payments to the physicians in excess of the amounts they earn in their practices up to the amount of the income guarantee. At December 31, 2015 and 2014, the Organization determined there is not a material fair value of a liability related to outstanding income guarantee agreements.

To enhance its physician recruitment effort, the Organization provides advances to certain physicians who agree to relocate their service area to fill a community need and remain in practice there for a specified period of time. Such payments are recoverable from the physicians on a prorated basis if they do not fulfill their commitment period to the community, which is typically five years subsequent to the guarantee period. In addition, the Organization advances money to certain physicians under loan agreements. As of December 31, 2015 and 2014, the Organization had advanced money to physicians of approximately $326,000 and $686,000, respectively, which is included in the other current assets and other assets category on the combined balance sheets.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Organization in perpetuity.

Net Patient Service Revenue

The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, and includes estimated retroactive revenue adjustments. Retroactive adjustments are accrued on an estimated basis in the period related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care

In support of its mission, the Organization voluntarily provides free care to patients who lack financial resources and are deemed to be medically indigent. Because the Organization does not pursue collection of amounts determined to qualify as charity care, they are not reported in net patient service revenue. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges. The costs of charity care provided under the Organization’s charity care policy for the years ended December 31, 2015 and 2014 were approximately $2,952,000 and $2,430,000, respectively. In addition to uncompensated costs, the Organization also commits significant time and resources to endeavors and critical services which meet otherwise unfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable.

Contributions

Unconditional promises to give cash and other assets are accrued at estimated fair value at the date each promise is received. Gifts received with donor stipulations are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified and reported as an increase in unrestricted net assets.

Professional Liability Claims

The Hospital recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any. Professional liability claims are described more fully in Note 8.

Excess of Revenues Over Expenses

The combined statements of operations include excess of revenues over expenses. Changes in unrestricted net assets, which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, the change in value of split-interest agreements, permanent transfers to and from affiliates for other than goods and services and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs is contingent on the Hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital recognizes revenue at the end of the reporting period when management is reasonably assured it will meet all of the meaningful use objectives and all other contingencies have been met.

The Hospital completed requirements under both the Medicare and Medicaid programs and has recorded revenue of approximately $915,000 and $3,300,000 for the years ended December 31, 2015 and 2014, respectively, which is included in other income within operating revenues in the combined statements of operations.

Income Taxes

The Hospital and the Foundation have been recognized as exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (the IRC) and a similar provision of state law. The District has been recognized as a nonprofit governmental entity and is also exempt from federal income taxes under Section 115 of the IRC and a similar provision of state law. The MSO and ACO are considered disregarded entities under provisions of the IRC and a similar section of the Arizona income tax law. Therefore, income or loss for the MSO and ACO are reported to the Hospital for inclusion in its respective tax returns. The Organization is subject to federal income tax on any unrelated business taxable income. With a few exceptions, the Organization is no longer subject to U.S. federal examinations by tax authorities for years before 2012.

Reclassifications

Certain reclassifications have been made to the 2014 financial statements to conform to the 2015 financial statement presentation. These reclassifications had no effect on the change in net assets.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the combined financial statements were issued.

Note 2: Net Patient Service Revenue

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision for bad debts related to uninsured patients in the period the services are provided. This provision for bad debts is presented on the combined statement of operations as a component of net patient service revenue.

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

Medicare. Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Outpatient services are predominantly paid based on prospectively determined rates per procedure. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

Medicaid. The Arizona Health Care Cost Containment System (AHCCCS) reimburses inpatient services rendered to Medicaid program beneficiaries at prospectively determined rates, based on level of care. Outpatient services are reimbursed on prospectively determined rates per procedure.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

The following summary details gross patient service charges and deductions from these charges at December 31:

	2015	2014
Gross charges at established rates		
Inpatient	$ 394,398,473	$ 371,198,640
Outpatient	527,514,446	455,285,612
	921,912,919	826,484,252
Contractual adjustments	(630,927,501)	(551,930,851)
Patient service revenue (net of contractuals)	290,985,418	274,553,401
Provision for uncollectible accounts	(19,679,025)	(37,695,830)
Net patient service revenue	$ 271,306,393	$ 236,857,571

Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the years ended December 31, 2015 and 2014, was:

	2015	2014
Medicare	$ 107,935,531	$ 105,568,026
Medicaid	21,021,370	18,337,837
Other third-party payers	125,248,420	111,603,486
Patients	36,780,097	39,044,052
Total	$ 290,985,418	$ 274,553,401

Note 3: Concentration of Credit Risk

The Hospital and the MSO grant credit without collateral to their patients, most of whom are area residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at December 31 were:

	2015	2014
Medicare	31%	33%
Medicaid	10%	9%
Other third-party payers	57%	54%
Patients	2%	4%
	100%	100%

Note 4: Investments, Assets Limited as to Use and Investment Return

Investments and Assets Limited as to Use

	2015	2014
Investments		
Cash	$ 1,407,304	$ 8,704,809
Certificates of deposit	514,665	1,503,616
Money markets	2,878,147	6,718,714
U.S. Large-Cap Equity Mutual Funds	15,494,299	15,582,819
U.S. Mid-Cap Equity Mutual Funds	4,151,736	4,272,602
International Equity Mutual Funds	12,425,049	12,829,929
U.S. Fixed Income Mutual Funds	24,588,975	23,512,756
Corporate bonds	11,681,590	7,830,756
Government bonds	8,982,225	10,158,846
International bonds	821,160	738,713
Mortgage and asset-backed bonds	12,446,822	13,713,935
Accrued income	148,667	104,353
	$ 95,540,639	$ 105,671,848

Investments and assets limited as to use are included in the following combined balance sheet captions:

	2015	2014
Short-term investments	$ 57,554,227	$ 65,888,582
Investments	30,856,977	32,329,551
Assets limited as to use - held by bond trustees	7,129,435	7,453,715
	$ 95,540,639	$ 105,671,848

Pursuant to the terms of the bond indenture (see Note 11), the Organization is required to maintain amounts on deposit with the bond trustees. The funds held by the bond trustees are invested according to the bond indentures, stated at fair market value and may only be used as permitted by the trust agreements.

Total investment return is composed of the following:

	2015	2014
Interest and dividend income	$ 2,311,512	$ 2,708,748
Realized gains (losses)	418,847	(211,021)
Change in unrealized gains (losses) on other than trading securities	(2,182,303)	275,602
Total	$ 548,056	$ 2,773,329

Total investment return is reflected in the combined statements of operations:

	2015	2014
Unrestricted net assets		
Interest, contributions and other income	$ 2,730,359	$ 2,497,727
Change in unrealized gains (losses) on other than trading securities	(2,182,303)	275,602
	$ 548,056	$ 2,773,329

Note 5: Property and Equipment

Property and equipment at December 31 consists of the following:

	2015	2014
Land	$ 15,814,349	$ 15,814,349
Leasehold and land improvements	12,812,968	12,785,480
Buildings and service equipment	167,374,582	162,141,985
Equipment	135,583,552	122,332,770
Construction-in-progress	2,231,408	4,502,647
Total	333,816,859	317,577,231
Accumulated depreciation	(172,259,248)	(157,366,215)
Total property and equipment	$ 161,557,611	$ 160,211,016

In December 2010, the Hospital entered into a commitment contract for $29,445,000 related to the implementation of an electronic medical records system. In October 2013, the Hospital amended the contract above to include outsourced technology personnel as well as additional costs related to the electronic medical records system. The amended contract results in a total commitment of approximately $150,000,000 over a 10-year period. Approximately $40,400,000 and $25,900,000 of costs associated with the contract have been incurred as of December 31, 2015 and 2014, respectively.

Note 6: Contributions Receivable

Contributions receivable consisted of the following at December 31:

	2015	2014
Due within one year	$ 277,227	$ 343,459
Due in one to five years	89,000	1,121
	366,227	344,580
Less		
Allowance for uncollectible contributions and unamortized discount	28,225	24,634
	$ 338,002	$ 319,946

The Organization has established gift annuities where donors may contribute assets to the Organization in exchange for the right to receive a fixed dollar annual return during their lifetimes. The Organization has a liability for these split-interest agreements of $64,866 and $67,988 as of December 31, 2015 and 2014, respectively, which is included in accrued expenses. The liability is determined at the time of the contribution using actuarial life expectancy tables and discount rates equal to the applicable federal rates and is updated annually as of December 31.

Note 7: Related-party Transactions

Prescott Medical Imaging, LLC

The Organization is a 50% owner of Prescott Medical Imaging, LLC, an imaging center which began operations in November 2003. The investment in the joint venture is accounted for on the equity method of accounting. The amount of the investment is $126,851 and $139,261 at December 31, 2015 and 2014, respectively. The Organization owns the building in which the joint venture operates and leases the building to the joint venture. The Organization recognized $180,180 and $194,030 of rent revenue from Prescott Medical Imaging, LLC for the years ended December 31, 2015 and 2014, respectively.

Prescott Outpatient Surgical Center

The Organization has a 20% ownership in a limited partnership that operates a surgery center. The investment in the limited partnership is accounted for on the equity method of accounting. The Organization shares only in the income of the partnership per the partnership agreement. The amount of the investment was $390,770 and $489,024 at December 31, 2015 and 2014, respectively. The Hospital owns the building in which the limited partnership operates, and leases the building to the limited partnership. The Hospital recognized $298,771 and $244,592 of rent revenue from Prescott Outpatient Surgical Center for the years ended December 31, 2015 and 2014, respectively.

Note 8: Medical Malpractice Claims

The Organization purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Under such policy, only claims made and reported to the insurer during the policy term, regardless of when the incident giving rise to the claims occurred, are covered. The Organization has a deductible for the first $50,000 per occurrence of medical malpractice risks.

The Organization has recorded approximately $860,000 and $1,003,000 of current professional liability reserves, which are included in its combined balance sheets as of December 31, 2015 and 2014, respectively.

Although considerable variability is inherent in professional liability reserve estimates, management believes the reserves for losses and loss expenses are adequate based on information currently known. It is reasonably possible that this estimate could change materially in the near term.

The professional liability risks, in excess of certain per claim and aggregate deductible amounts, are insured through unrelated commercial insurance carriers. The amounts receivable under these insurance contracts included $260,000 and $402,500, included in other current assets at December 31, 2015 and 2014, respectively.

Note 9: Self-insured Health Care Plan

The Organization sponsors a health care plan for its employees. This plan is self-insured to the extent of the deductible amounts under the excess risk insurance policy the Organization has obtained. Accruals for unpaid claims amounted to $1,728,410 and $1,075,000 at December 31, 2015 and 2014, respectively, and are included in the accompanying combined balance sheets in accrued expenses.

Note 10: Line-of-Credit

The Organization had an $895,000 line-of-credit that expired on May 1, 2015. The line was not renewed prior to December 31, 2015 and there was no amount outstanding at December 31, 2014. Interest was due monthly at an interest rate equal to the bank's prime rate plus 1.00% (4.25% at December 31, 2014) and was secured by substantially all of the Organization's assets. The line was renewed subsequent to December 31, 2015 under the same terms and amount noted above and expires February 1, 2017.

Note 11: Long-term Debt

	2015	2014
Series 2013A (A)	$ 30,265,000	$ 32,295,000
Series 2013B (B)	20,400,000	20,400,000
Series 2008B (C)	30,000,000	30,000,000
Series 2002 (D)	4,915,000	5,150,000
Series 1997B (E)	12,500,000	13,300,000
Note payable to financial institution (F)	1,167,098	3,123,143
Notes payable to third parties (G)	2,646,146	2,576,555
Promissory note (H)	1,400,000	-
Total long-term debt	103,293,244	106,844,698
Unamortized premium (discount)	(61,896)	152,594
Less current portion of long-term debt	(5,060,792)	(5,132,974)
Long-term debt—net	$ 98,170,556	$ 101,864,318

(A) Series 2013A; principal balances are bifurcated into multiple tranches consisting of serial bonds that are due annually beginning in 2014 through 2021 with each tranche having a separate fixed interest rate ranging from 3.0% to 5.0%, and term bonds due in 2028 and 2033 with separate fixed interest rates of 5.0% and 5.25%, respectively; collateralized by a security interest in the Organization's gross receipts; interest payments are due monthly into an interest fund held by trustee, which is paid out semiannually to bond holders on August 1 and February 1.

(B) Series 2013B; accrue interest using various modes over the life of the bonds; collateralized by a security interest in the gross receipts of the Organization. The bonds shall initially be in the Flex Private Placement Mode and bear interest at a Variable Rate Flex Private Placement Rate for a Flex Private Placement Rate Period commencing on the closing date to September 1, 2023. The interest rate at December 31, 2015 was 1.17%. Interest payments are due monthly. Principal payments are due annually beginning in 2021 through 2027.

(C) Series 2008B; fixed interest rate of 5.625%, collateralized by a mortgage on the Organization's Prescott Valley outpatient facility, the East campus and a security interest in the Organization's gross revenues; interest payments are due monthly into an interest fund which is paid out semiannually to bond holders on August 1 and February 1; principal payments are due in 2033 and 2037.

(D) Series 2002; originally variable interest rate which was converted to a fixed rate at the Organization's option; collateralized under a municipal bond insurance policy; interest payments due monthly; principal payments due annually through 2030.

On August 20, 2009 the Series 2002 Bonds were remarketed into multiple tranches that are due annually on December 1, beginning 2009 through 2030, with each tranche having a separate fixed interest rate ranging from 3.0% to 5.375%, collateralized by a municipal bond insurance policy.

(E) Series 1997B; originally variable interest rates determined upon remarketing, collateralized by a mortgage on the Organization's Prescott Valley outpatient facility and a security interest in the Organization's gross revenues; interest payments are due based on remarketing; principal payments are due semiannually into a bond fund, which is paid out annually to bond holders through 2026.

On August 20, 2009, the Series 1997B Bonds were remarketed into multiple tranches that are due annually on December 1, beginning 2009 through 2026, with each tranche having a separate fixed interest rate ranging from 3.0% to 5.125%, collateralized by a municipal bond insurance policy.

(F) Note payable to financial institution, fixed interest at 2.86%, collateralized by the Organization's electronic medical records system, monthly payments consisting of principal and interest and totaling $168,322 are due through July 2016.

(G) Notes payable to third parties, fixed interest rates at December 31, 2015 ranging from 5.5% to 6.0%, collateralized by land and building in Prescott Valley owned by the Organization, interest and principal payments due through 2028. Amount includes capital lease obligation of $181,475 outstanding at December 31, 2015.

(H) Promissory note, payable in two installments of $700,000 due on January 4, 2016 and January 3, 2017. Fixed interest rate of 0%.

The Organization is required to maintain a ratio of income available for debt service to maximum annual debt service of at least 1.5 to 1. The Organization is also required to maintain a cash balance equal to at least 60 days of cash operating expenses. The Organization is also required to maintain a ratio of debt to unrestricted net assets of at least 65%.

Aggregate annual maturities of long-term debt at December 31, 2015 were:

2016	$ 5,060,792
2017	4,130,869
2018	3,473,477
2019	4,486,338
2020	3,857,638
Thereafter	82,284,130
	$ 103,293,244

Note 12: Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purpose or periods:

	2015	2014
Time restricted	$ 338,002	$ 319,946
Programs	689,071	552,067
	$ 1,027,073	$ 872,013

During 2015 and 2014, net assets released from donor restrictions for the purpose of operations were $194,370 and $1,513,686, respectively.

Note 13: Endowment

During the year ended December 31, 2008, the State of Arizona passed the *Uniform Prudent Management of Institutional Funds Act* (UPMIFA or the Act). The Act was effective April 14, 2008 and provides statutory guidance for the management, investment and expenditures of endowment funds held by not-for-profit organizations. Amongst other provisions, the Act eliminates the "historical dollar value" rule for endowment funds, in favor of guidelines regarding what constitutes prudent spending and explicitly requires consideration of the following factors (if relevant):

1. Duration and preservation of the fund
2. Purposes of the Organization and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Organization
7. Investment policies of the Organization

The endowment includes donor-restricted endowment funds only. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization's Foundation Board has interpreted the state of Arizona's UPMIFA as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment.

The composition of net assets by type of endowment fund at December 31 was:

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 22,342	$ 4,761	$ 27,103

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 21,561	$ 4,761	$ 26,322

Changes in endowment net assets for the year ended December 31 were:

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 21,561	$ 4,761	$ 26,322
Investment income	-	781	-	781
Endowment net assets, end of year	$ -	$ 22,342	$ 4,761	$ 27,103

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 21,322	$ 161,176	$ 182,498
Investment income	-	239	-	239
Donor release	-	-	(156,415)	(156,415)
Endowment net assets, end of year	$ -	$ 21,561	$ 4,761	$ 26,322

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Organization is required to retain as a fund of perpetual duration pursuant to donor stipulation or UPMIFA. The Organization has not experienced this type of activity.

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the Organization must hold in perpetuity. The Organization emphasizes a conservative approach to asset allocation that places a greater emphasis on preservation of principal and moderate growth within prudent risk constraints.

The Organization has a policy (the spending policy) of appropriating endowment earnings for purposes established by the donors at the time contributions are made. Where no specific purposes have been designated for an endowment contribution, the annual earnings are transferred to the unrestricted general fund of the Organization.

Note 14: Functional Expenses

The Organization provides health care services primarily to residents within its geographic area. Expenses related to providing these services are as follows:

	2015	2014
Health care services	$ 214,602,852	$ 198,368,847
General and administrative	49,348,088	45,594,187
	$ 263,950,940	$ 243,963,034

Note 15: Operating Leases

The Organization leases certain buildings and equipment under long-term operating leases through 2019. Rental expense totaled approximately $1,180,000 and $1,960,000 in 2015 and 2014, respectively.

Future minimum lease payments at December 31, 2015 were:

2016	$	226,492
2017		148,950
2018		148,950
2019		63,710
Future minimum lease payments	$	588,102

Note 16: Employee Benefit Plan

The Organization sponsors a defined contribution Group Tax Sheltered Annuity Plan (the TSA). Under the TSA, the Organization contributes an amount equal to each participant's contribution, up to a maximum of 5% of each participant's annual compensation. The TSA covers all regular employees who choose to participate; however, the Organization makes contributions only for employees who have worked at least 1,000 hours during the year and completed at least one year of service. Employee contributions are fully vested, whereas Organization contributions vest over a five-year period. The Organization's contributions to the TSA were $2,747,558 and $2,749,451 in 2015 and 2014, respectively. The custodian of the TSA is Voya Services Company.

The Organization established the Yavapai Regional Medical Center CEO Supplementary Executive Retirement Plan for the current president and chief executive officer effective October 1, 2013. The plan is a funded deferred compensation plan under Section 457(f) of the Internal Revenue Code.

Note 17: Deferred Revenue

In July 2001, the Organization entered into an agreement with Yavapai County (the County) in connection with the construction of a medical office building. The Organization agreed to pay for the construction of the building and for all repairs and maintenance of the building. The County agreed to pay the Organization $2,100,000 for the construction of the building and half of any construction costs in excess of $2,100,000 up to $600,000. The agreement provides for the County to share the space of the building with the Organization for a period of 40 years. Either party can terminate the contract with notice. In the event of termination of the contract by the County in the first 25 years, the Organization is required to return a prorated amount of the payment received from the County. Should the Organization terminate the contract early, it must return a prorated amount over the 40-year term to the County. The Organization has recorded the amount received from the County as other long-term liabilities and is amortizing the balance to other revenue over the 40-year term of the lease. The balance outstanding was $1,488,656 and $1,544,306, which is included in other long-term liabilities, at December 31, 2015 and 2014, respectively.

Note 18: Disclosures About Fair Value of Financial Instruments

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. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying combined balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Recurring Measurements

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying combined balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2015.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Organization does not carry any Level 3 securities.

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying combined balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31:

	2015			
		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money Markets Held by Brokers Included in investments	$ 2,878,147	$ 2,878,147	$ -	$ -
U.S. Large-Cap Equity Mutual Funds	15,494,299	15,494,299	-	-
U.S. Mid-Cap Equity Mutual Funds	4,151,736	4,151,736	-	-
International Equity Mutual Funds	12,425,049	12,425,049	-	-
U.S. Fixed Income Mutual Funds	24,588,975	24,588,975	-	-
Corporate bonds	11,681,590	11,681,590	-	-
Government bonds	8,982,225	8,982,225	-	-
International bonds	821,160	-	821,160	-
Mortgage and asset-backed bonds	12,446,822	-	12,446,822	-

	2014			
		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money Markets Held by Brokers Included in investments	$ 6,718,714	$ 6,718,714	$ -	$ -
U.S. Large-Cap Equity Mutual Funds	15,582,819	15,582,819	-	-
U.S. Mid-Cap Equity Mutual Funds	4,272,602	4,272,602	-	-
International Equity Mutual Funds	12,829,929	12,829,929	-	-
U.S. Fixed Income Mutual Funds	23,512,756	23,512,756		-
Corporate bonds	7,830,756	7,830,756		-
Government bonds	10,158,846	10,158,846		-
International bonds	738,713	-	738,713	-
Mortgage and asset-backed bonds	13,713,935	-	13,713,935	-

Note 19: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in Notes 1 and 2.

Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in Notes 1 and 8.

Admitting Physicians

The Organization is served by a group of admitting physicians whose patients comprise approximately 49% of the Organization's net patient service revenue.

Litigation

The Organization is at times involved in litigation and routine regulatory investigations arising in the normal course of business. Management has consulted with legal counsel and estimates that these matters will be resolved without a material impact on the operations or financial position of the Organization. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

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APPENDIX C

SUMMARY OF PRINCIPAL DOCUMENTS

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APPENDIX C

SUMMARY OF PRINCIPAL DOCUMENTS

Below are brief descriptions of certain provisions of the Master Agreement, the Bond Indenture, the Loan Agreement, the Mortgage, and the Lease Agreement. These descriptions do not purport to be comprehensive or definitive, and are qualified in their entirety by reference to such documents, which may be amended as described below. Copies of such documents are available as described under the "INTRODUCTORY STATEMENT — Availability of Documents," in the forepart of this Official Statement.

Capitalized words and terms not otherwise defined herein have the same meanings provided in the forepart of this Official Statement or in the document to which they refer.

SUMMARY OF THE MASTER AGREEMENT

The Master Agreement sets forth, among other things, the terms as described in which the Members of the Obligated Group may incur and secure debt. The following summarizes certain provisions of the Master Agreement; however, it is not a comprehensive description and reference is made to the full text of the Master Agreement for a complete recital of its terms.

Definitions of Certain Terms

"1997A Bonds" means the Industrial Development Authority of the County of Yavapai Hospital Revenue Refunding Bonds (Yavapai Regional Medical Center), Series 1997A, dated as of June 1, 1997, and issued pursuant to the Master Agreement, none of which are outstanding.

"Accountant" means a firm of Independent certified public accountants (which may be the external auditing firm of the Obligated Group or of any Obligated Group Member).

"Accounts Receivable" means any and all right to payment for services rendered or for goods sold or leased which is not evidenced by an instrument or chattel paper, whether or not it has been earned by performance.

"Act" means Title 35, Chapter 5, Arizona Revised Statutes, as amended from time to time.

"Additional Indebtedness" means any Indebtedness incurred by any Obligated Group Member subsequent to the issuance of the 1997A Bonds.

"Additional Parity Indebtedness" means any Indebtedness of any Obligated Group Member that is secured by the Collateral on a parity basis, as provided in the Master Agreement, with the Series 1997A Bonds and any subsequent issues of Additional Parity Indebtedness incurred in accordance with the provisions of the Master Agreement.

"Adjusted Contributions" means, for any fiscal year of a Person, the lesser of: (i) the Contributions actually received by such Person for such fiscal year or (ii) the sum total of Contributions actually received by such Person during such fiscal year and during the preceding four fiscal years of such Person divided by five, provided that, in making the computation under (ii), the amount of Contributions for the fiscal year (of such five fiscal years) in which the amount of Contributions is largest shall, if it exceeds 150% of the amount of Contributions for the fiscal year (of such five fiscal years) in which the amount of Contributions is second largest, be reduced to an amount equal to 150% of the amount of Contributions for said fiscal year in which the amount of Contributions is second largest.

"Affiliate" of any specified corporation or other entity means any other entity directly or indirectly controlling or controlled by or under direct or indirect common control with such specified entity. For purposes of this definition, "control" when used with respect to any specified entity means the power to direct the management and policies of such entity, directly or indirectly, whether through appointment of the Governing Body, ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Aggregate Income Available for Debt Service" means, as to any period of time, the aggregate of Income Available for Debt Service of each Obligated Group Member for such period, determined in such manner that no portion of Income Available for Debt Service of any such Obligated Group Member is included more than once.

"Annual Debt Service" means the Long-Term Indebtedness Service Requirement for the Fiscal Year in question.

"Authorized Officer" means (i) in the case of the Authority, the President, any Vice President, Secretary/Treasurer or Assistant Secretary/Treasurer of the Authority, and when used with reference to an act or document of the Authority also means any other person authorized to perform the act or execute the document, and (ii) in the case of the Obligated Group Agent or any other Obligated Group Member, the Chairman, the Chief Executive Officer or Chief Financial Officer, and when used with reference to an act or document of the Obligated Group Agent or any other Obligated Group Member, also means any other person or persons authorized to perform the act or execute the document.

"Balloon Indebtedness" means (i) Long-Term Indebtedness 25% or more of the initial principal amount of which matures (or is payable at the option of the holder) during any twelve month period, if such 25% or more is not to be amortized to below 25% by mandatory redemption prior to the beginning of such twelve month period, or (ii) any balloon maturity or maturity payable prior to maturity at the option of the holder, constituting any portion of an issue of Long-Term Indebtedness which portion, if treated as a separate issue of Indebtedness, would meet the test set forth in clause (i) of this definition and which portion of Indebtedness is designated as Balloon Indebtedness in an Officer's Certificate stating that such portion will be deemed to constitute a separate issue of Balloon Indebtedness.

"Bondholder," "Holder," "Owner" or "Registered Owner" means (i) with respect to the Parity Bonds, the registered owner of any of the Parity Bonds from time to time as shown in the books kept by the Master Trustee as bond register and transfer agent and (ii) with respect to Parity Debt, the persons or entities identified in accordance with the provisions of the Master Agreement relating to Parity Debt.

"Business Day" means a day on which banks located in each of the cities in which the principal corporate trust offices of the Master Trustee and the Paying Agent are located are not required or authorized to be closed and on which the New York Stock Exchange is not closed.

"Capitalized Interest" means that portion of the proceeds of any Indebtedness or any other funds that are held in trust, are invested only in Permitted Investments which mature no later than one business day prior to the related interest payment date, and are restricted to be used to pay interest due or to become due on Indebtedness, including funds held in connection with an advance refunding or a cross-over refunding.

"Code" means the Internal Revenue Code of 1986, as amended from time to time. References to the Code and Sections of the Code include relevant applicable regulations and proposed regulations thereunder and under the Internal Revenue Code of 1954 and any successor provisions to those Sections, regulations or proposed regulations and, in addition, all revenue rulings, announcements, notices, procedures and judicial determinations under the foregoing.

"Collateral" means the security interest in Gross Receipts of the Obligated Group granted in the Master Agreement and the Mortgage.

"Consultant" means a person or firm which is not unacceptable to the Master Trustee, is a recognized professional consultant of favorable reputation having the skill and experience necessary to render the particular report or certificate required, and is Independent.

"Contributions" means the aggregate amount of all contributions, grants, gifts, bequests and devises actually received in cash or marketable securities by any Person in the applicable fiscal year of such Person and any such contributions, grants, gifts, bequests and devises originally received in a form other than cash or marketable securities by any Person which are converted in such fiscal year to cash or marketable securities, but excluding all Contributions to the extent restricted by the donor thereof so as to prevent their use for the payment of debt service on Parity Debt of the Obligated Group.

"Credit Facility" means any irrevocable transferable letter of credit, insurance policy, guaranty or other agreement constituting a credit enhancement or liquidity facility which is in a commercially reasonable form.

"Current Assets" means cash and cash equivalent deposits, marketable securities, Accounts Receivable, accrued interest receivable, funds not designated by the Governing Body of any Obligated Group Member for any specific purpose and any other intangible assets of any Obligated Group Member ordinarily considered current assets under generally accepted accounting principles.

"Default" means any event that with the lapse of time or the giving of notice, or both, would be an Event of Default.

"Defeasance Obligations" means the noncallable Permitted Investments defined in clauses (a) and (i) of such definition.

"District" means the Central Yavapai District of Yavapai County, Arizona Hospital District.

"Event of Bankruptcy" means (i) any Obligated Group Member commences a voluntary case under the federal bankruptcy laws, or becomes insolvent or unable to pay its debts as they become due, or makes an assignment for the benefit of creditors, or applies for, consents to or acquiesces in the appointment of, or taking possession by, a trustee, receiver, custodian or similar official or agent for itself or any substantial part of its Property; (ii) a trustee, receiver, conservator, custodian or similar official or agent is appointed for any Obligated Group Member or for any substantial part of its Property and such trustee or receiver will not be discharged within 90 days; or (iii) any Obligated Group Member has an order or decree for relief in an involuntary case under the federal bankruptcy laws entered against it, or a petition seeking reorganization, readjustment, arrangement, composition, or other similar relief as to it under the federal bankruptcy laws or any similar law for the relief of debtors is brought against it and will not be discharged within 90 days.

"Event of Default" has the meaning given such term under the heading "SUMMARY OF MASTER AGREEMENT — Default by the Obligated Group."

"Fiscal Year" means the fiscal year ending December 31 or any other fiscal year designated from time to time in writing by the Obligated Group Agent to the Master Trustee for purposes of making historical calculations or determinations set forth in the Master Agreement on a Fiscal Year basis, or for purposes of combinations or consolidation of accounting information. With respect to any Obligated Group Member whose actual fiscal year is different from that designated above, the actual fiscal year of such Obligated Group Member which ended within the Fiscal Year designated above will be used.

"Fitch" means Fitch Ratings, or its successors or assigns, and, if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, "Fitch" will be deemed to refer to any other nationally recognized securities rating agency designated by an Officer's Certificate to the Master Trustee.

"Governing Body" means, with respect to any Obligated Group Member, its board of directors, board of trustees, or other board or group of individuals in which the power to direct the management and policies of the Obligated Group Member is vested.

"Government Obligations" means (i) direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America, (ii) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America, (iii) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America, or (iv) evidences of ownership of proportionate interests in future interest and principal payments on obligations described in clause (i) above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated.

"Government Restriction" means the occurrence of the following: (i) changes in applicable laws, governmental regulations or governmental insurance programs have occurred which prevent, have prevented or will prevent the Obligated Group and all other hospitals and health care institutions under similar circumstances from generating sufficient Aggregate Income Available for Debt Service to comply with the particular requirement of the financing document in question, (ii) the effect upon the Obligated Group and all other hospitals and healthcare institutions under circumstances similar to the circumstances set forth in clause (i) above has been confirmed by a signed Consultant's opinion or report delivered to the Master Trustee, (iii) an Officer's Certificate has been delivered to the Master Trustee stating that the Obligated Group has generated the highest level of Aggregate Income Available for Debt Service which, in the opinion of such officer, could reasonably be generated given the circumstances set forth in clause (i) above, and (iv) there has been delivered to the Master Trustee, if requested by the Master Trustee, an Opinion of Counsel as to any conclusions of law supporting the opinion or report of the Consultant.

"Gross Receipts" means all receipts, revenues, income and other moneys received by or on behalf of the Obligated Group Members, or any of them from its ownership, leasing or operation of the Hospital Facilities, including, but without limiting the generality of the foregoing, insurance and condemnation proceeds with respect to the Hospital Facilities to which an Obligated Group Member is entitled by law or under the Lease Agreement, or any portion thereof, and all rights to receive the same, whether in the form of accounts, Accounts Receivable, instruments, contract rights or other rights, and the proceeds of such rights, whether now owned or held or hereafter coming into existence; provided, however, that (i) gifts, grants (including Hill-Burton grants), bequests, donations and contributions heretofore or hereafter made to any Obligated Group Member and designated or specified by the granting authority, donor or maker thereof as being for specified purposes in any way inconsistent with the payment of debt service on Parity Debt (including but not limited to grants, gifts, bequests, donations and contributions designated for land, capital assets or capital improvements) and the income derived therefrom and (ii) proceeds of any Indebtedness to the extent inconsistent with the provisions of such Indebtedness should be excluded from Gross Receipts.

"Guaranty" means a loan commitment or other financial obligation of any Member of the Obligated Group which loan commitment or obligation guarantees in any manner, whether directly or indirectly, any obligation of any other Person who is not a Member of the Obligated Group which obligation would, if such other Person were a Member of the Obligated Group, constitute Indebtedness under the Master Agreement; provided, however, that notwithstanding the foregoing, none of the following will be deemed to constitute a Guaranty; (a) a continuing obligation of a type described in paragraph (j) under the caption "Limitations on Incurrence of Additional Indebtedness" in this Appendix C; (b) the endorsement in the ordinary course of business of negotiable instruments for deposit or collection, (c) rentals payable in future years under leases, other than leases properly capitalized under generally accepted accounting principles, and (d) any indemnification agreement entered into by any Member of the Obligated Group in connection with surety bonds, performance bonds, bid bonds, material bonds, labor bonds, stay bonds, appeal bonds and other similar bonds, except to the extent that a surety bond requires reimbursement of cash deposits by an Obligated Group Member. Nothing in this definition or otherwise should be construed to count a Guaranty more than once.

"Historic Test Period" means (i) the most recent Fiscal Year of the Obligated Group, if audited financial statements with respect to such Fiscal Year are available for the Obligated Group or for each Obligated Group Member, or (ii) if such audited financial statements are not available, the most recent period for which such audited financial statements are available.

"Hospital Facilities" means the improvements, fixtures and equipment now or hereafter located on the real property described in the Master Agreement.

"Income Available for Debt Service" means, with respect to each Obligated Group Member, as to any period of time, net income, or excess of revenue over expenses (but including only Contributions that are Adjusted Contributions) before depreciation, amortization and interest, as determined in accordance with generally accepted accounting principles consistently applied; provided, that no determination thereof takes into account (a) any gain or loss resulting from either the extinguishment of Indebtedness or the sale, exchange, revaluation or other disposition of capital assets or other long term assets not in the ordinary course of business, (b) all items which under generally accepted accounting principles are considered extraordinary items and which are substantially non-cash charges, (c) the net proceeds of insurance (other than proceeds of business interruption insurance and casualty insurance, but only to the extent that the loss resulting from the casualty is included in expenses for the applicable period of time) and condemnation awards, and (d) realized and unrealized gains or losses on investments including, without limitations, losses from other temporary declines in investments.

"Indebtedness" means all obligations for payments of principal and interest with respect to money borrowed, incurred or assumed by one or more Obligated Group Members, all Guaranties, and all purchase money mortgages, financing or capital leases (including without limitation, any obligation under a lease with the District to pay debt service on bonds of the District), installment purchase contracts or other similar instruments in the nature of a borrowing by which any Obligated Group Member will be unconditionally obligated to pay, except obligations of one Obligated Group Member to another Obligated Group Member. Nothing in this definition or otherwise should be construed to count Indebtedness more than once and if Indebtedness incurred in accordance with the provisions of the Master Agreement described in paragraph (h) under the caption "Limitations on Incurrence of Additional

Indebtedness" in this Appendix C constitutes Long-Term Indebtedness, then it shall be treated as described under the caption "Debt Service on Variable Rate Indebtedness, Tender Indebtedness and Credit Enhanced Indebtedness" in this Appendix C, and if Indebtedness incurred in accordance with the provisions of the Master Agreement described in paragraph (h) under the caption "Limitations on Incurrence of Additional Indebtedness" does not constitute Long-Term Indebtedness, then it shall be treated as Indebtedness only to the extent of the reimbursement obligation on amounts drawn under the Credit Facility or, in the reasonable judgment of the Obligated Group Agent, likely to be drawn on the Credit Facility, exceeds the obligation on such other Indebtedness for which a Credit Facility is provided.

"Independent" means an individual who is not, or a firm no member, stockholder, director, officer or employee of which is, an officer, member, director or employee of any Obligated Group Member or any Affiliate or the Master Trustee or the Authority.

"Insurance Consultant" means an Independent person or firm appointed by the Obligated Group Agent, and satisfactory to the Master Trustee, who is qualified to survey risks and to recommend insurance coverage for hospital facilities and services and organizations engaged in like operations, has actuarial Personnel experienced in the area of insurance for which the Obligated Group is insuring and who has a favorable national reputation for skill and experience in such surveys and such recommendations.

"Interim Indebtedness" means Indebtedness incurred in anticipation of a financing of Property with Long-Term Indebtedness.

"Lease Agreement" means the Lease Agreement, dated as of June 1, 1997, between the District and the Association, as amended by the First Amendment to Lease Agreement, dated March 22, 2001, the Second Amendment to Lease Agreement, dated May 6, 2003, and the Third Amendment to the Lease Agreement, dated as of January 1, 2008, together with any further amendments thereto permitted thereunder.

"Lien" means any mortgage, pledge, security interest, lien, judgment lien, easement, or other encumbrance on title, including, but not limited to, any mortgage or pledge of, security interest in or lien or encumbrance on any Property of any Obligated Group Member which secures any Indebtedness or any other obligation of any Obligated Group Member, or which secures any obligation of any person other than an obligation to any Obligated Group Member, excluding liens applicable to Property in which any Obligated Group Member has only a leasehold interest unless the lien secures Indebtedness of any Obligated Group Member or an obligation of any person other than any Obligated Group Member.

"Long-Term Indebtedness" means all Indebtedness, other than Short-Term Indebtedness, included in the following: (i) Indebtedness with respect to money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, longer than one year; (ii) Indebtedness with respect to leases which are capitalized in accordance with generally accepted accounting principles having an original term, or renewable at the option of the lessee for a period from the date originally incurred, longer than one year; (iii) Indebtedness with respect to installment purchase contracts having an original term in excess of one year; and (iv) Tender Indebtedness, Non-Recourse Indebtedness and Subordinated Indebtedness.

"Long-Term Indebtedness Service Coverage Ratio" means, for any period of time, the ratio of Aggregate Income Available for Debt Service to Maximum Annual Debt Service.

"Long-Term Indebtedness Service Requirement" means, for any period of time, the aggregate of the scheduled payments to be made (other than from amounts irrevocably deposited with the Master

Trustee or otherwise held for the benefit of a lender for purposes of such payments, including funds held in connection with an advance refunding or a cross-over refunding) in respect of principal of and interest on Long-Term Indebtedness of the Obligated Group during such period, also taking into account (i) with respect to Balloon Indebtedness, the provisions pertaining to debt service on Balloon Indebtedness, (ii) with respect to Variable Rate Indebtedness, the provisions pertaining to debt service on Variable Rate Indebtedness, (iii) with respect to Capitalized Interest, the provisions pertaining to credit for Capitalized Interest, (iv) with respect to Indebtedness represented by a Guaranty of obligations of a Person, the provisions pertaining to restrictions on Guaranties, (v) with respect to Indebtedness supported by a Credit Facility, the provisions pertaining to computation of Indebtedness with a Credit Facility, and (vi) with respect to Interim Indebtedness, the computation of principal and interest requirements should be treated as if it were Long-Term Indebtedness as provided in paragraph (f) under the caption "Limitations on Incurrence of Additional Indebtedness" in this Appendix C.

"Master Agreement" means the Loan and Trust Agreement, dated as of June 1, 1997 entered into in connection with the issuance of the 1997A Bonds, as supplemented and amended to date and as it may be further amended or supplemented in accordance with its terms.

"Master Trustee" means Wells Fargo Bank, National Association, as successor trustee under the Master Agreement.

"Maximum Annual Debt Service" means the highest Long-Term Indebtedness Service Requirement for the then current or any future Fiscal Year.

"Member" means a Person then obligated under the Master Agreement, including the Association.

"Moody's" means Moody's Investor Services, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns.

"Mortgage" means the Deed of Trust from the Association to Wells Fargo Bank, National Association, as successor trustee, with the Master Trustee as beneficiary, dated as of June 1, 1997, as amended by the First Supplemental Deed of Trust, dated as of March 29, 2001, as supplemented and amended by the Second Supplemental Deed of Trust, dated as of July 1, 2003, together with the Partial Release and Reconveyance of Deed of Trust, dated as of September 20, 2005, the Confirmation of Additional Parity Obligations, dated as of February 1, 2008, the Confirmation of Additional Parity Obligations, dated as of May 1, 2008, the Confirmation of Additional Party Obligations, dated as of August 13, 2013, the Confirmation of Additional Parity Obligations, dated September 19, 2013, and the Confirmation of Additional Parity Obligations to be executed in connection with the issuance of the Series 2016 Bonds.

"Mortgage Trustee" means Wells Fargo Bank, National Association or any successor thereto.

"Mortgaged Property" means the real property subject to the Mortgage.

"Non-Recourse Indebtedness" means any Indebtedness secured by a Lien on any real property, fixtures and tangible personal property, which Indebtedness is not a general obligation of the Obligated Group or any Obligated Group Member, and the liability for which Indebtedness is effectively limited to the Property subject to such Lien with no recourse, directly or indirectly, to any other Property or to any Obligated Group Member. Property acquired with Non-Recourse Indebtedness may also secure a Non-Recourse Indebtedness incurred to refund or refinance, directly or indirectly, prior Non-Recourse Indebtedness.

"Obligated Group" means the Association and any future Obligated Group Member.

"Obligated Group Agent" means the Association, or such other Obligated Group Member as the then incumbent Obligated Group Agent designates as a successor by an Officer's Certificate delivered to the Master Trustee.

"Obligated Group Member" or "Member of the Obligated Group" means any corporation that is or may hereafter become a constituent of the Obligated Group by virtue of the terms of the Master Agreement.

"Officer's Certificate" means a certificate signed by an Authorized Officer of the Obligated Group Agent.

"Opinion of Bond Counsel" means a written opinion of an Independent firm of attorneys, of nationally recognized standing in matters pertaining to the federal tax exemption of interest on bonds issued by municipalities, and duly admitted to practice law before the highest court of any state of the United States.

"Opinion of Counsel" means a written opinion of an Independent attorney or firm of attorneys selected by the Authorized Officer of the Obligated Group Agent and (except as otherwise provided in the Master Agreement, the Bond Indenture, or the Loan Agreement) may be counsel for an Obligated Group Member or for the Master Trustee.

"Outstanding," when used to modify the term "Indebtedness," refers to Indebtedness which as of such date remains unpaid except Indebtedness for the payment or redemption of which sufficient moneys have been irrevocably deposited to such date in trust for the holders of such Indebtedness (whether upon or prior to the maturity or redemption date of any such Indebtedness), or which is deemed to have been paid with moneys or securities, pursuant to the provisions of the documents securing such Indebtedness; provided that if such Indebtedness is to be redeemed prior to the maturity thereof, notice of such redemption shall have been given or irrevocable instructions shall have been made therefor and provided further, that the District Bonds and the Pool Loan shall not be considered to be outstanding from and after the issuance of the 1997A Bonds.

"Parity Bonds" means, collectively, (i) the Series 1997B Bonds, (ii) the Series 2002 Bonds, (iii) the 2008B Bonds, (iv) the Series 2013A Bonds, (v) the Series 2013B Bonds, (vi) the Series 2016 Bonds and (vii) any subsequent Additional Parity Indebtedness, so long as they remain Outstanding; provided, however, that Parity Bonds will not include any Additional Parity Indebtedness relating to a Credit Facility or to a liquidity facility which relates to Additional Parity Indebtedness, unless as expressly required by the terms of such Credit Facility or liquidity facility. See APPENDIX A — "CERTAIN INFORMATION CONCERNING YAVAPAI REGIONAL MEDICAL CENTER."

"Parity Debt" means, collectively, (i) the Series 1997B Bonds, (ii) the Series 2002 Bonds, (iii) the 2008B Bonds, (iv) the Series 2013A Bonds, (v) the Series 2013B Bonds, (vi) the Series 2016 Bonds and (vii) any subsequent Additional Parity Indebtedness, so long as they remain Outstanding. See APPENDIX A — "CERTAIN INFORMATION CONCERNING YAVAPAI REGIONAL MEDICAL CENTER."

"Paying Agent" means the Bond Trustee, and any successor Paying Agent designated from time to time as described in the Bond Indenture.

"Permitted Encumbrance" means a Permitted Encumbrance as described herein under the caption "Limitation on Creation of Liens."

"Permitted Investments" means any of the following:

(a) Government Obligations;

(b) Federal Housing Administration debentures;

(c) the listed obligations of government-sponsored agencies which are not backed by the full faith and credit of the United States of America: (1) Federal Home Loan Mortgage Corporation (FHLMC): Participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts) and Senior Debt obligations; (ii) Farm Credit Banks (formerly: Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives): Consolidated system-wide bonds and notes; (iii) Federal Home Loan Banks (FHL Banks): Consolidated debt obligations; (iv) Federal National Mortgage Association (FNMA): Senior debt obligations and mortgage-backed securities (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts); (v) Student Loan Marketing Association (SLMA): Senior debt obligations (excluded are securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date); (vi) Financing Corporation (FICO): Debt obligations; and (vii) Resolution Funding Corporation (REFCORP): Debt obligations;

(d) Unsecured certificates of deposit, time deposits, and bankers' acceptances (having maturities of not more than 30 days) of any bank the short-term obligations of which are rated 'A-1' or better by S&P;

(e) deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC), in banks which have capital and surplus of at least $5 million;

(f) Commercial paper (having original maturities of not more than 270 days) rated 'A-1 +' by S&P and 'Prime-1' by Moody's;

(g) Money market funds rated 'AAm' or 'AAm-G' by S&P, or better;

(h) "State Obligations", which means: (i) Direct general obligations of any state of the United States of America or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated 'A3' by Moody's and 'A' by S&P, or better, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated; (ii) Direct general short-term obligations of any state agency or subdivision or agency thereof described in (a) above and rated 'A-1 +' by S&P and 'Prime-1' by Moody's; and (iii) Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state, state agency or subdivision described in (a) above and rated 'AA' or better by S&P and 'Aa' or better by Moody's;

(i) Pre-refunded municipal obligations rated "AAA" by S&P and "Aaa" by Moody's meeting the following requirements: (i) the municipal obligations are (A) not subject to redemption prior to maturity or (B) the trustee for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions; (ii) the municipal obligations are secured by cash or United States Treasury Obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations; (iii) the principal of and interest on the United States Treasury Obligations (plus any cash in the escrow) has been verified by the report of Accountants to be sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on the municipal obligations (“Verification”); (iv) the cash or United States Treasury Obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for owners of the municipal obligations; (v) no substitution of a United States Treasury Obligation shall be permitted except with another United States Treasury Obligation and upon delivery of a new Verification; and (vi) the cash or United States Treasury Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent;

(j) Repurchase agreements.

(i) With (A) any domestic bank, or domestic branch of a foreign bank, the long term debt of which is rated at least “A” by S&P and Moody’s; or (B) any broker-dealer with “retail customers” or a related affiliate thereof which broker-dealer has, or the parent company (which guarantees the provider) of which has, long-term debt rated at least “A” by S&P and Moody’s, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation; or (C) any other entity rated “A” or better by S&P and Moody’s;

(ii) provided that: (A) The market value of the collateral is maintained at levels and upon such conditions as would be acceptable to S&P and Moody’s to maintain an “A” rating in an “A” rated structured financing (with a market value approach); (B) The Master Trustee or a third party acting solely as agent therefor or for the Issuer (the “Holder of the Collateral”) has possession of the collateral or the collateral has been transferred to the Holder of the Collateral in accordance with applicable state and federal laws (other than by means of entries on the transferor’s books); (C) The repurchase agreement shall state and an opinion of counsel shall be rendered at the time such collateral is delivered that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession); (D) All other requirements of S&P in respect of repurchase agreements shall be met;

(iii) The repurchase agreement shall provide that if during its term the provider’s rating by either Moody’s or S&P is withdrawn or suspended or falls below “A-” by S&P or “A3” by Moody’s, as appropriate, the provider must, at the direction of the Master Trustee, within 10 days of receipt of such direction, repurchase all collateral and terminate the agreement, with no penalty or premium to the Master Trustee; and

(iv) Notwithstanding (ii) above, if a repurchase agreement has a term of 270 days or less (with no evergreen provision), collateral levels need not be as specified in (ii)(A) above, so long as such collateral levels are 103% or better and the provider is rated at least “A” by S&P and Moody’s, respectively.

(k) Investment agreements with a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least “AA” by S&P and “Aa” by Moody’s; provided that, by the terms of the investment agreement:

(i) interest payments are to be made to the Master Trustee at times and in amounts as necessary to pay debt service (or, if the investment agreement is for the construction fund, construction draws) on the 1997A Bonds;

(ii) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven days' prior notice; the Master Trustee hereby agrees to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;

(iii) the investment agreement shall state that it is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof; or, in the case of a bank, that the obligation of the bank to make payments under the agreement ranks pari passu with the obligations of the bank to its other depositors and its other unsecured and unsubordinated creditors;

(iv) the Master Trustee receives the opinion of domestic counsel (which opinion shall be addressed to the Master Trustee) that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and of foreign counsel (if applicable);

(v) the investment agreement shall provide that if during its term (A) the provider's rating by either S&P or Moody's falls below "AA-" or "Aa3", respectively, the provider shall, at its option, within 10 days of receipt of publication of such downgrade, either (I) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the Master Trustee or a third party acting solely as agent therefor (the "Holder of the Collateral") collateral free and clear of any third-party liens or claims the market value of which collateral is maintained at levels and upon such conditions as would be acceptable to S&P and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach); or (II) repay the principal of and accrued but unpaid interest on the investment, and (B) the provider's rating by either S&P or Moody's is withdrawn or suspended or falls below "A-" or "A3", respectively, the provider must, at the direction of the Master Trustee, within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the Master Trustee;

(vi) The investment agreement shall state and an opinion of counsel shall be rendered, in the event collateral is required to be pledged by the provider under the terms of the investment agreement, at the time such collateral is delivered, that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession); and

(vii) the investment agreement must provide that if during its term (A) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the Master Trustee, be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Issuer or Trustee, as appropriate, and (B) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("event of insolvency"), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Master Trustee.

"Person" means any natural person, firm, joint venture, association, partnership (including without limitation, general and limited partnerships), society, estate, trust, corporation, limited liability company, public body, agency or political subdivision thereof or any other similar entity.

"Property" means any and all land, leasehold interests, buildings, machinery, equipment, hardware, and inventory of each Obligated Group Member wherever located and whether now or hereafter acquired, and any and all rights, titles and interests in and to any and all property whether real or personal, tangible or intangible and wherever situated and whether now or hereafter acquired.

"Property, Plant and Equipment" means all Property of each Obligated Group Member which is property, plant and equipment under generally accepted accounting principles.

"Securities Depository" means The Depository Trust Company or any successor depository designated under the Master Agreement.

"Short-Term Indebtedness" means all indebtedness, other than Long-Term Indebtedness, which meets one or more of the following criteria: (i) Indebtedness with respect to money borrowed payable on demand or for an original term, or renewable at the option of the borrower for a period from the date originally incurred, of one year or less; (ii) Indebtedness with respect to leases which are capitalized in accordance with generally accepted accounting principles having an original term, or renewable at the option of the lessee for a period from the date originally incurred, of one year or less; and (iii) Indebtedness with respect to installment purchase contracts having an original term of one year or less.

"S&P" means Standard & Poor's Rating Services, McGraw-Hill Financial, its successors and their assigns.

"State" means the State of Arizona.

"Subordinated Indebtedness" means any obligations incurred or assumed by one or more Obligated Group Members, the payment of which is by its terms specifically subordinated to payments on Parity Debt and the principal of and interest on which would not be paid (whether by the terms of such obligation or by agreement of the obligee):

(i) in the event of any insolvency or bankruptcy proceedings, and any receivership, liquidation, reorganization or other similar proceedings in connection therewith, relative to any Member of the Obligated Group or its creditors, as such, or to its Property, and in the event of any proceedings for voluntary liquidation, dissolution or other winding up of any Member of the Obligated Group, whether or not involving insolvency or bankruptcy, the Parity Debt will be entitled to receive payment in full of all principal and interest on all such Parity Debt before the holders of the Subordinated Indebtedness are entitled to receive any payment on account of principal (and premium, if any) or interest upon the Subordinated Indebtedness.

(ii) in the event that any issue of Subordinated Indebtedness is declared due and payable before its expressed maturity because of the occurrence of any event of default (under circumstances when the provisions of clause (i) above will not be applicable), the Parity Debt at the time such Subordinated Indebtedness so becomes due and payable because of such occurrence of such an event of default will be entitled to receive payment in full of all principal and interest on all such Parity Debt before the holders of the Subordinated Indebtedness are entitle to receive nay accelerated payment of principal (and premium, if any) or interest upon the Subordinated Indebtedness.

(iii) if any Event of Default with respect to Parity Debt has occurred and is continuing (under circumstances when the provisions of clause (i) above will not be applicable), the Parity Debt will be entitled to receive payment in full of all principal and interest on all such Parity Debt before the holders of the Subordinated Indebtedness are entitled to receive any accelerated payment.

(iv) the Subordinated Indebtedness may provide that the provisions of clauses (i), (ii) and (iii) above are solely for the purpose of defining the relative rights of the Parity Debt and the holders of the Subordinated Indebtedness, and that nothing in the Master Agreement impairs, as between the Obligated Group and the holders of the Subordinated Indebtedness, the obligations of the Obligated Group, which is unconditional and absolute, to pay to the holders thereof the principal thereof and premium, if any, and interest thereon in accordance with its terms, nor will anything therein prevent the holders of the Subordinated Indebtedness from exercising all remedies otherwise permitted by applicable law or thereunder upon default thereunder, subject to the rights under clauses (i), (ii) and (iii) above of the Parity Debt, as the case may be, to receive cash, property or securities otherwise payable or deliverable to the holders of the Subordinated Indebtedness; and the Subordinated Indebtedness may provide that, insofar as a trustee or paying agent for such Subordinated Indebtedness is concerned, the foregoing provisions will not prevent the application by such trustee or paying agent for the purpose of the payment of or on account of the principal (and premium, if any) and interest on such Subordinated Indebtedness if such trustee or paying agent did not have knowledge at the time of such application that such payment was prohibited by the foregoing provisions.

"Supplemental Agreement" means any indenture, loan agreement, financing document or other agreement amending or supplementing the terms of the Master Agreement or providing for the issuance or securing of Parity Bonds or Additional Parity Indebtedness.

"Tender Indebtedness" means Indebtedness with an original term of longer than one year from the date originally incurred, which is payable upon demand of the holder; provided, however, to the extent and for the periods during which payments are required to be made pursuant to a reimbursement obligation to a financial institution, if any, providing liquidity for such Indebtedness (the "Liquidity Provider") as a result of a Liquidity Provider advancing funds and not being reimbursed, then the terms of such Indebtedness will be determined in accordance with such reimbursement obligation.

"Total Operating Revenues" means the net patient service revenue of the Obligated Group as determined in accordance with generally accepted accounting principles consistently applied.

"Value" means when used in connection with Property of any Obligated Group Member the cost basis of such property, net of accumulated depreciation, as it is carried on the books of such member and in conformity with generally accepted accounting principles consistently applied, and when used in connection with Property of the Obligated Group, means the aggregate of the cost basis so determined with respect to such Property of the Obligated Group Members determined in such a manner that no portion of such cost basis of Property of any Obligated Group Member is included more than once; provided, however that, at the option of the Obligated Group Agent, the value of any item of real property of any Obligated Group Member may be determined using an MM appraisal dated no more than one year from the date as of which such real property's value is used for purposes of a test under the Master Agreement filed with the Master Trustee.

"Variable Rate Indebtedness" means the Series 2008A Bonds and any other Indebtedness that bears interest at a variable, adjustable or floating rate.

Accounting Standards

Where the character or amount of any asset, liability or item of revenue or expense required to be determined, or any consolidation, combination or other accounting computation is required to be made, for the purposes of the Master Agreement or any agreement, document or certificate executed and delivered in connection with or as described in the Master Agreement, this will be done in accordance with generally accepted accounting principles at the time in effect, to the extent applicable, except where such principles are inconsistent with the requirements. The financial statements of the Obligated Group may include revenues, expenses, assets, liabilities and other financial information of entities that are not Members of the Obligated Group but whose financial information under generally accepted accounting principles is required to be combined or consolidated with the financial information of any Member of the Obligated Group or whose income or loss is reflected in such financial information of the Obligated Group as a result of utilizing the equity method of accounting for subsidiaries. Such combined and combining financial statements will be used where the character or amount of any asset, liability or item of revenue or expense is required to be determined, or any consolidation, combination or other accounting computation is required to be made for purposes of the Master Agreement or such agreement, document or certificate.

Where the application of generally accepted accounting principles requires that with respect to any Fiscal Year of the Obligated Group, only a portion of a Member of the Obligated Group's income or expenses, or both, incurred during the Fiscal Year be included in any consolidation, combination or other accounting computation required to be made for purposes of the Master Agreement or any agreement, document, or certificate executed and delivered in connection with or pursuant to the Master Agreement, then for all such purposes the amount of such income and expenses so included will be annualized by being multiplied by 365 (or 366) as appropriate) and divided by the number of days in the Fiscal Year of such Member determined under generally accepted accounting principles. As applied to any entity that operates a hospital, extended care facility or other discrete enterprise of a type with respect to which particular accounting principles, from time to time, have been generally adapted or modified, the term "generally accepted accounting principles" includes such adaptations or modifications.

Security Interest in Gross Receipts

As additional security for its obligations to pay principal or, premium, if any, and interest on Parity Debt, including the Series 2016 Bonds, and monetary obligations related to Parity Debt, each Obligated Group Member pursuant to the Master Agreement grants to the Master Trustee a security interest in its Gross Receipts and upon any rights to receive such Gross Receipts. If any required payment so secured is not made when due, each Obligated Group Member agrees to transfer or pay over to the Master Trustee any Gross Receipts with respect to which this security interest remains perfected pursuant to law without being commingled with other funds (unless already so commingled) and any Gross Receipts thereafter received will upon receipt be transferred to the Master Trustee in the form received (with necessary endorsement) to the extent necessary to cure the deficiency. Each Obligated Group Member represents and warrants that the security interest granted with respect to its Gross Receipts is and at all times will be a first security interest, subject only to Permitted Encumbrances, provided, however, that Additional Parity Indebtedness may be granted a parity lien on Gross Receipts as described under the caption "Parity Debt" in this Appendix C.

Covenants and Warranties of the Obligated Group

Rates and Charges

The Obligated Group agrees to use its best efforts to maintain for each Fiscal Year a ratio of Aggregate Income Available for Debt Service to Maximum Annual Debt Service of at least 1.25; provided, however, in computing Maximum Annual Debt Service in any Fiscal Year there will not be included any Long-Term Indebtedness Service Requirement on any Long-Term Indebtedness issued in such Fiscal Year unless the Obligated Group is required to make principal or interest payments on such Long-Term Indebtedness in the year in which such Long-Term Indebtedness is issued and, provided further, that in computing Maximum Annual Debt Service in any Fiscal Year there will not be included any Long-Term Indebtedness Service Requirement on any Long-Term Indebtedness to the extent principal of and interest due on such Long-Term Indebtedness in such Fiscal Year is paid from the proceeds of such Long-Term Indebtedness.

If such ratio, as calculated at the end of any Fiscal year, is below 1.25, the Obligated Group covenants to retain a Consultant, within 60 days after the receipt of all audits for such Fiscal Year, to determine the reasons such ratio was below 1.25 and to make recommendations to increase such ratio for subsequent Fiscal Years of the Obligated Group at least to the level required or, if in the opinion of the Consultant the attainment of such level is impracticable, to the highest practicable level. The Obligated Group Agent will notify the Master Trustee of the retention of any Consultant pursuant to the Master Agreement.

Each Member of the Obligated Group agrees that it will deliver to the Master Trustee (x) within 30 days of receipt of such Consultant's report (1) a certified copy of a resolution adopted by the Governing Body of each Member of the Obligated Group accepting such report, and (2) a report setting forth in reasonable detail the steps the Obligated Group proposes to take to implement the recommendations of such Consultant, and (y) quarterly reports demonstrating the progress made by the Obligated Group in implementing the recommendations of such Consultant.

So long as the Obligated Group complies with the provisions of the Master Agreement as described in the two preceding paragraphs and follows such Consultant's recommendations, such provisions will be deemed to have been complied with even if such ratio for any subsequent Fiscal Year of the Obligated Group is below 1.25; provided, however, such ratio may not fall below 1.00.

If Government Restrictions exist, which prevent compliance with the ratios set forth above, the requirements set forth above will be deemed satisfied as long as (i) a certificate of a Consultant is received by the Master Trustee at least once during each year that Government Restrictions exist to the effect that failure to comply with the ratios set forth above was due solely to Government Restrictions and not as a result of any factor or circumstance within the control of the Obligated Group and (ii) an Officer's Certificate of the Obligated Group Agent is received by the Master Trustee demonstrating that the Long-Term Indebtedness Coverage Ratio for the Historic Test Period is at least equal to 1.00.

Limitations on Incurrence of Additional Indebtedness

Under the Master Agreement, the Obligated Group agrees that no Obligated Group Member will incur any Additional Indebtedness other than one or more of the following; provided that, except as otherwise provided in the Master Agreement, at the time of incurrence thereof no Event of Default or event which with notice or lapse of time, or both, would constitute an Event of Default under the Master Agreement has occurred and is continuing unless such event will be cured upon incurrence of such Indebtedness and application of the proceeds thereof and the placing in service of any facilities financed thereby; provided, further, that this requirement concerning no Event of Default will not apply to (1) Indebtedness incurred as described in paragraph (n) under this caption, or (2) if in the case of refunding Indebtedness incurred as described under paragraph (c) below only, the Master Trustee determines to waive this requirement and, in granting this waiver, the Master Trustee may rely upon a report of a nationally recognized Consultant, selected by the Master Trustee, that such waiver is in the best interest of the holders of Parity Debt.

(a) Long-Term Indebtedness if:

(i) prior to incurrence of the Long-Term Indebtedness, there is delivered to the Master Trustee an Officer's Certificate certifying the Long-Term Indebtedness Service Coverage Ratio for the Historic Test Period, taking into account the current aggregate Outstanding principal amount of all existing Long-Term Indebtedness to be outstanding after the issuance of the proposed additional Long-Term Indebtedness, and the proposed additional Long-Term Indebtedness, as if it had been incurred at the beginning of such Period, is not less than 1.50; or

(ii) prior to incurrence of the Long-Term Indebtedness, there is delivered to the Master Trustee an Officer's Certificate certifying the Long-Term Indebtedness Service Coverage Ratio for each of the two most recent Fiscal Years for which audited financial statements of the Obligated Group are available, taking into account the current aggregate Outstanding principal amount of all existing Long-Term Indebtedness to be outstanding after the issuance of the proposed additional Long-Term Indebtedness, and the proposed additional Long-Term Indebtedness, as if it had been incurred at the beginning of such period, is not less than 1.35; or

(iii) prior to incurrence of the Long-Term Indebtedness, there is delivered to the Master Trustee an Officer's Certificate certifying that the Long-Term Indebtedness Service Coverage Ratio (A) for the Historic Test Period, not taking the proposed additional Long-Term Indebtedness into account, is not less than 1.35 (or 1.00 if a Consultant of national recognition determines that Government Restrictions prevented the realization of 1.35) or (B) for each of the two most recent Fiscal Years for which audited financial statements of the Obligated Group are available, not taking the proposed additional Long-Term Indebtedness into account, is not less than 1.25 (or 1.00 if a Consultant of national recognition determines that Government Restrictions prevented the realization of 1.25) and (2) a nationally recognized Consultant's report certifying that the projected Long-Term Indebtedness Service Coverage Ratio for each of the next two full Fiscal Years following the incurrence of such Long-Term Indebtedness or, in the case of the incurrence of such Long-Term Indebtedness for capital improvements, following the completion of the facilities being financed, taking the proposed additional Long-Term Indebtedness into account, is not less than 1.50. The requirements of the Master Agreement as described in this subparagraph (a)(iii) will be deemed satisfied if Government Restrictions exist, and if there is delivered to the Master Trustee a nationally recognized Consultant's opinion to the effect that the projected Long-Term Indebtedness Coverage Ratio for each of the next two full Fiscal Years following the borrowing in question will not be less than 1.00.

(b) Indebtedness to complete facilities to the extent necessary to provide a completed and equipped facility of the type and scope contemplated at the time, and in accordance with the general plans and specifications for such facility as originally prepared with only such changes therein as may be made in conformance with the documents under which the Long-Term Indebtedness was originally incurred to finance such facility, in an amount not to exceed 15% of the Long-term Indebtedness which was originally incurred to finance such facility, provided there is delivered to the Master Trustee an Officer's Certificate (i) specifying the estimated cost of completing the construction or equipping of the facility to be completed and (ii) demonstrating that the proceeds of such completion Indebtedness and other available moneys will be sufficient to finance the cost of completion.

(c) Long-Term Indebtedness incurred for the purpose of refunding or refinancing, including advance refunding or cross-over refunding, any Outstanding Long-Term Indebtedness; provided that the Maximum Annual Debt Service on the proposed Long-Term Indebtedness and existing Long-Term Indebtedness to remain Outstanding after the issuance of the refunding Indebtedness will not be increased by more than 10% more than the Maximum Annual Debt Service on the existing Long-Term Indebtedness, as evidenced by an Officer's Certificate filed with the Master Trustee.

(d) Short-Term Indebtedness, provided that immediately after the incurrence of such Indebtedness the aggregate Outstanding principal amount of all such Short-Term Indebtedness does not exceed 15% of the aggregate of Total Operating Revenues for the Historic Test Period; provided that for a period of at least 30 days in each Fiscal Year the Outstanding principal amount of all such Indebtedness will not exceed 5% of the aggregate of Total Operating Revenues of the Obligated Group for such Historic Test Period, unless there is filed with the Master Trustee an Officer's Certificate to the effect that such Short-Term Indebtedness, because of Government Restrictions, must or reasonably should remain Outstanding in excess of such 5% limitation. Short-Term Indebtedness may also be incurred if such Short-Term Indebtedness could be incurred under paragraph (a) assuming it were Long-Term Indebtedness with its actual short-term maturity.

(e) Non-Recourse Indebtedness or Subordinated Indebtedness, without limitation; provided, that there is filed with the Master Trustee an Officer's Certificate evidencing that the proposed Indebtedness satisfies the requirements contained in the applicable definitions and projecting that the provisions of the Master Agreement described under the caption "Rate Covenant" will be complied with for the then current and the next following Fiscal Year, taking into consideration projected revenues and the proposed Indebtedness.

(f) Interim Indebtedness if prior to the incurrence of such Interim Indebtedness, there is delivered to the Master Trustee:

(i) an Officer's Certificate stating that the anticipated Long-Term Indebtedness is reasonably expected to be completed within 60 months; reports or opinions of the type required by either subparagraph (a)(ii) or (a)(iii) under this caption demonstrating that all requirements of the Master Agreement as described in either subparagraph (a)(ii) or (a)(iii) under this caption would be met if such Interim Indebtedness were then being issued as Long-Term Indebtedness with level debt service maturing over the shorter of a 25-year period or the estimated useful life of the Property to be financed thereby and with an interest rate equal to (A) the Master Trustee's average prime commercial interest rate during a six-month period ending not more than 40 days prior to the incurrence of the proposed Interim Indebtedness or (B) 85% of such prime rate, if the Officer's Certificate states that the anticipated take out financing will be tax exempt; and

(ii) a written statement of an Independent Person who is an investment banker experienced in the underwriting of Long-Term Indebtedness of the type in anticipation of which such Interim Indebtedness is proposed to be incurred or assumed, setting forth the opinion of such investment banker (which opinion will be based upon the best estimates and recent experience of such investment banker under the then-prevailing market conditions but will not in any event be deemed to constitute an offer to purchase any such Long-Term Indebtedness or otherwise to create or give rise to any liability or obligation on the part of said investment banker with respect thereto) to the effect that Long-Term Indebtedness maturing over the term and bearing interest as described in the foregoing paragraph (ii) would, if then being offered, be marketable on reasonable and customary terms.

(g) Indebtedness in the form of installment purchase contracts, capitalized leases, purchase money mortgages, loans, sale agreements or other similar borrowing instruments; provided that the aggregate Annual Debt Service on the Indebtedness permitted under the Master Agreement as described in this subdivision (g) will not in any Fiscal Year exceed 2% of Total Operating Revenues for the Historic Test Period; provided further that such indebtedness may exceed 2% of Total Operating Revenues for the Historic Test Period if it could have been incurred under the Master Agreement as described in paragraph (a) under this caption assuming such Indebtedness were Long-Term Indebtedness.

(h) Any Indebtedness represented by a letter of credit reimbursement agreement or other similar reimbursement agreement entered into by an Obligated Group Member and an institution providing a Credit Facility with respect to any other Indebtedness incurred in accordance with the Master Agreement described in any other provision under this caption.

(i) Indebtedness incurred in connection with the establishment of captive insurance companies or self-insurance trusts described under the “Insurance” provision of the Master Agreement; provided that the aggregate principal amount of the Indebtedness incurred in the Master Agreement described in this paragraph (i) will not exceed three 3% of Total Operating Revenue for the Historic Test Period unless such excess is treated as Indebtedness incurred as described in and in compliance with the Master Agreement described in paragraph (a) under this caption.

(j) Any continuing obligation of any Member of the Obligated Group to pay principal of and interest on Indebtedness which is deemed to be discharged or defeased in accordance with the terms of the instrument or instruments creating or evidencing such Indebtedness; provided, however, that there is delivered to the Master Trustee a letter from a nationally-recognized firm of Accountants verifying the adequacy of any escrow established in connection with the discharge or defeasance of such Indebtedness.

(k) Indebtedness incurred or deemed incurred by virtue of any recourse obligation associated with any sale or assignment of or lien on Accounts Receivable, but in no event will the Indebtedness be in an amount in excess of the monetary consideration received from any such sale or assignment.

(l) Indebtedness may be incurred to construct, renovate or replace Property of the Obligated Group if federal or state agencies, authorities, officials or similar governmental bodies with jurisdiction over any Member of the Obligated Group specifically mandate such construction, renovation or replacement as a condition to such Member of the Obligated Group being able to continue to carry on such of its activities as are subject to the jurisdiction of such federal or state agency, authority, official or similar governmental body.

(m) Guaranties incurred in accordance with the provisions of the Master Agreement described under the caption “Restriction on Guaranties” in this Appendix C.

(n) Any Indebtedness incurred to trade creditors not mentioned in any other paragraph under this caption incurred in the ordinary course of business as determined by the Obligated Group Agent (of if not so incurred, for which money for the payment of which is on deposit in a construction fund or another restricted fund).

Restrictions on Guaranties

Under the Master Agreement, the Obligated Group agrees that no Obligated Group Member will enter into, or become liable after the date of the Master Agreement in respect of, any Guaranty unless (i) such Guaranty is of Indebtedness of another Obligated Group Member, or (ii) such Guaranty is of obligations of a Person which is not an Obligated Group Member, and such Guaranty could then be incurred as Indebtedness under the Master Agreement of the type represented by the obligation guaranteed.

For purposes of any covenants or computations provided for in the Master Agreement, the aggregate annual principal and interest payments on, and the principal amount of, any indebtedness of a Person (the "Guarantee") which is not an Obligated Group Member under the Master Agreement of the type represented by the obligation guaranteed, which is the subject of a Guaranty under the Master Agreement, and which would, if such obligation were incurred by an Obligated Group Member, constitute Long-Term Indebtedness, will be deemed equivalent to the percentage of the actual Annual Debt Service on, and principal amount of, such indebtedness, as determined in the table set forth below (with the long-term indebtedness coverage ratio calculated in the same way as the Long-Term Indebtedness Coverage Ratio under the Master Agreement for the Historic Test Period), for so long as such Guaranty constitutes a contingent liability under generally accepted accounting principles; provided, however, that the Annual Debt Service on, and principal amount of, any Long-Term Indebtedness represented by a Guaranty will be deemed equivalent to all of the actual Annual Debt Service on, and principal amount of, such Indebtedness, for so long as payments have been and continue to be required to be made by any Obligated Group Member on such Guaranty and for a period of 36 months thereafter unless the Obligated Group deposits Defeasance Obligations with the Master Trustee with a fair market value of 125% of the principal amount of the Indebtedness guaranteed as security for such guaranty.

If the long-term indebtedness coverage ratio of the Guarantee	Then the percentage of actual Annual Debt Service to be used for purposes of this paragraph is:
less than 2.00	50%
Greater than or equal to 2.00	20%

Debt Service on Balloon Indebtedness

For purposes of the computation of the Long-Term Indebtedness Service Requirement, Annual Debt Service or Maximum Annual Debt Service, whether historic or projected, Balloon Indebtedness will deemed to be Indebtedness which, at the later of the date of its original incurrence or the date of calculation, is (i) payable over the shorter of (A) a 25-year term or (B) the then remaining useful life of the asset financed with such Balloon Indebtedness, with level annual debt service, and (ii) at a rate of interest equal to the most recent Revenue Bond Index as published not more than 10 days prior to the date of calculation by The Bond Buyer or any successor or, if it is discontinued, a similar index. Notwithstanding anything to the contrary in the Master Agreement, the full amount of Balloon Indebtedness must be included in any computation of the Long-Term Indebtedness Service Requirement in the event the date of calculation is within twelve months of the actual maturity date of such Balloon Indebtedness.

Debt Service on Variable Rate Indebtedness, Tender Indebtedness and Credit Enhanced Indebtedness

For purposes of the computation of the Long-Term Indebtedness Service Requirement, Annual Debt Service or Maximum Annual Debt Service for Variable Rate Indebtedness (i) under the provisions of the Master Agreement described under the caption "Rates and Charges," the interest rate on the Outstanding Variable Rate Indebtedness is the weighted average interest rate on the Outstanding Variable Rate Indebtedness during the Fiscal Year that is the subject of the calculation, and (ii) for all other computations under the Master Agreement, (A) if any Variable Rate Indebtedness is Outstanding prior to the computation, then the interest rate on such Indebtedness will be deemed to be the weighted average interest rate on the Outstanding Variable Rate Indebtedness during a 12 month period ending not more than 40 days prior to the computation, (B) the interest rate on any proposed Variable Rate Indebtedness will be deemed to be the interest rate on comparable Variable Rate Indebtedness computed as set forth in (A), and (C) if there is no Variable Rate Indebtedness Outstanding and Variable Rate Indebtedness is proposed to be incurred, then the interest rate on the proposed Indebtedness will be deemed to be 50 basis points higher than the most recent Revenue Bond Index as published not more than 10 days prior to the date of calculation by The Bond Buyer or any successor or, if it is discontinued, a similar index.

For purposes of the computation of the Long-Term Indebtedness Service Requirement, Annual Debt Service Requirement or Maximum Annual Debt Service, the principal and interest requirements on Outstanding Tender Indebtedness will not include amounts payable upon exercise by the holder thereof of the option to tender such Tender Indebtedness, will be deemed to include any periodic fees of the provider (the "Liquidity Provider") of any Credit Facility, and will not be based upon the terms of any reimbursement obligation to the Liquidity Provider except to the extent and for periods during which payments have been required to be made in accordance with such reimbursement obligation due to the Liquidity Provider advancing funds and not being reimbursed. Any Obligated Group Member, which also is undertaking any contingent repayment obligation, will not also be deemed to be incurring separate Indebtedness to the Liquidity Provider.

For purposes of the computation of the Long-Term Indebtedness Service Requirement, Annual Debt Service Requirement or Maximum Debt Service, the principal and interest requirements on Outstanding Indebtedness, which is secured by a Credit Facility, will be deemed to include all periodic payments to a Person other than an Obligated Group Member who has undertaken, as described in a Credit Facility, to provide moneys necessary for payment to holders of such Indebtedness (the "Credit Provider"), but will not be based upon the terms of any reimbursement obligation to the Credit Provider except to the extent and for periods during which payments have been required to be made as described in such reimbursement obligation due to the Credit Provider advancing funds and not being reimbursed. Any Obligated Group Member which also is undertaking any contingent repayment obligation, will not also be deemed to be incurring separate Indebtedness to the Credit Provider.

Credit for Capitalized Interest

For purposes of the computation of the Long-Term Indebtedness Service Requirement, Annual Debt Service or Maximum Annual Debt Service, whether historic or projected, the Obligated Group may, at the election of the Obligated Group Agent, subtract from interest due on Indebtedness any Capitalized Interest which is available and is to be applied to make such interest payment in the year such interest comes due, at the time of such computation for the period in question, for the payment of such interest on such Indebtedness.

Limitations on Creation of Liens

Under the Master Agreement, the Obligated Group agrees that no Obligated Group Member will create or suffer to be created or exist any Lien upon Collateral owned on the date of authentication and delivery of the 1997A Bonds or acquired after such date by the Obligated Group or any Obligated Group Member, other than Permitted Encumbrances. Permitted Encumbrances consist of the following:

(i) Liens arising by reason of good faith deposits with any Obligated Group Member in connection with leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by an Obligated Group Member 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;

(ii) Any lien arising by reason of the Lease Agreement, 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 Obligated Group Member to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with worker's compensation, unemployment insurance, pension or profit sharing plans or other social security, or to share in the privileges or benefits required for companies participating in such arrangements;

(iii) Any judgment lien against any Obligated Group Member so long as such judgment is being contested and execution thereon is stayed or, in the absence of such contest and stay, such judgment lien will not materially impair the Property or subject the Property to material loss or forfeiture;

(iv) (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 the exercise of such right would not materially alter the use of such Property or materially and adversely affect the value thereof, 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 liens of mechanics, materialmen, laborers, suppliers or vendors 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 are being contested and execution thereon is stayed (or with respect to liens of mechanics, materialmen and laborers, have been due for less than 60 days) or the existence of which will not subject the Property to material loss or forfeiture; (C) easements, rights-of-way, servitudes, restrictions and other minor defects, encumbrances, and irregularities in the title to any Property which do not materially impair the use of such Property or materially and adversely affect the value thereof; (D) rights reserved to or vested in any municipality or public authority to control or regulate any Property or to use 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 (E) to the extent that it affects title to the Property, the Master Agreement;

(v) The Existing Liens on Property described in Schedule A to the Master Agreement which existed on the date of authentication and delivery of the 1997A Bonds, including renewals thereof, provided that no such Existing Lien may be extended or modified to apply to any Property of any Obligated Group Member not subject to such Existing Lien on such date, unless such Existing Lien as so extended or modified otherwise qualifies as a Permitted Encumbrance under the applicable provisions of the Master Agreement;

(vi) Any lease of Property which, in the judgment of the Obligated Group Member, is reasonably necessary or appropriate for or incidental to the use of such Property, taking into account the nature and terms of the lease and the nature and purposes of the Property;

(vii) Any Lien on Property of a Person that becomes an Obligated Group Member pursuant to a consolidation, merger, sale or conveyance in accordance with the provisions of the Master Agreement described under the caption "Consolidation, Merger, Sale or Conveyance" below and that is not incurred in contemplation of such consolidation, merger, sale or conveyance; provided that no such Lien may be extended or modified to apply to any Property of any Obligated Group Member not subject to such Lien on such date, unless such Lien if so extended or modified otherwise qualifies as a Permitted Encumbrance under the Master Agreement;

(viii) Any Lien on Property, Plant and Equipment which Lien secures Indebtedness (excluding Non-Recourse Indebtedness) incurred in compliance with the provisions of the Master Agreement described under the caption "Limitations on Incurrence of Additional Indebtedness" above, if, after giving effect to the Lien, (A) the Value of Property, Plant and Equipment which is encumbered in accordance with the Master Agreement as described in this paragraph (viii) will not exceed fifteen percent (15%) of the Value of the Property, Plant and Equipment (including Mortgaged Property) as of the end of the Historic Test Period and (B) the Value of the Property, Plant and Equipment that is not encumbered in accordance with the Master Agreement as described in this paragraph (viii) is at least equal to the principal amount of the Outstanding Bonds and Parity Debt;

(ix) [Reserved.]

(x) Any Lien subordinated to all Parity Debt on all or a portion of the Collateral to secure any Indebtedness incurred pursuant to the provisions of the Master Agreement described under the caption "Limitations on Incurrence of Additional Indebtedness" above;

(xi) Any Lien on Accounts Receivable securing or deemed to secure any Indebtedness incurred or deemed incurred by virtue of any recourse obligation associated with any assignment, sale, or pledge of Accounts Receivable;

(xii) Any Lien on Property, Plant and Equipment securing Indebtedness incurred pursuant to the Master Agreement as described in paragraph (g) under the caption "Limitations on Incurrence of Additional Indebtedness" above;

(xiii) any Lien in favor of a trustee or other representative of the creditor on the proceeds of Indebtedness deposited with such representative (including earnings thereon) prior to the application of such proceeds;

(xiv) any Lien on moneys deposited by patients or others with any Obligated Group Member as security for or as prepayment for the cost of patient care or other services;

(xv) any Lien on any Property (or the income therefrom) received by any Obligated Group Member through gifts, grants or bequests, such Liens being due to restrictions on such gifts, grants or bequests of such Property or the income thereon, up to the fair market value of such Property;

(xvi) any Lien on Collateral securing all Parity Debt incurred in accordance with the provisions of the Master Agreement described under the caption "Limitations on Incurrence or Additional Indebtedness" above on a parity (subject to any intervening Liens);

(xvii) any lease, sale or similar agreement entered into in connection with the issuance of and providing for or securing the payment of Parity Debt;

(xviii) Liens, charges and encumbrances on Property (including income derived from such Property) which are security only for Non-Recourse Indebtedness and which do not extend to any Property other than the Property that may secure Non-Recourse Indebtedness;

(xix) Any Lien arising by reason of deposit in trust of cash (or securities permitted for such purpose as described in the terms of the documents governing the payment of or discharge of Indebtedness) in an amount the principal of, premium, if any, and interest on which will be sufficient to pay, without reinvestment, all or a portion of the principal of, premium, if any, and interest on, as the same becomes due (at maturity or earlier redemption), any Indebtedness which would otherwise be considered Outstanding;

(xx) Any Liens on pledges of grants or gifts, which secure payment of Short-Term Indebtedness;

(xxi) Any Lien on Property, which (A) is created or incurred in the ordinary course of business, (B) does not secure, directly or indirectly, the repayment of borrowed money or the payment of installment sales contracts or capital leases (individually or in the aggregate), and (C) does not materially impair the value or the utility of the Property subject to such Lien;

(xxii) Any lease and leaseback, lien security interest or similar arrangements entered into by a Member of an Obligated Group with an issuer of tax-exempt Indebtedness, to the extent that such arrangement is required by law in connection with the issuance of such Indebtedness;

(xxiii) Statutory rights of the United States of America to recover against any Member of the Obligated Group by reason of any Federal loan, grant or subsidy made available to the Obligated Group and similar rights under state statutes;

(xxiv) Operating leases or ground leases of Property, Plant and Equipment with an initial term of five years or less, where any Member of the Obligated Group is the lessor; or any license or other use agreement made with respect to any Property where revenues generated thereunder inure to the benefit of the Obligated Group;

(xxv) Such minor defects and irregularities of title to Collateral as normally exist with respect to property similar in character, and which do not materially adversely affect the value of or materially impair such Collateral; and

(xxvi) Any Lien on pledges, gifts or grants to be received in the future, including any income derived from the investment thereof, and Liens on or in Property given, bequeathed or devised to the owner thereof existing at the time of such gift, bequest or devise, provided that (A) such Liens attach solely to the Property which is the subject of such gift, bequest or devise, and (B) any Indebtedness secured by such Liens is not assumed the Obligated Group.

Sale, Lease or other Disposition of Property

Under the Master Agreement, the Obligated Group agrees that the Obligated Group Members will not, in the aggregate, in any Fiscal Year sell, lease or otherwise dispose of Property, Plant and Equipment the Value of which would cause the aggregate Value of Property, Plant and Equipment so transferred in such Fiscal Year to exceed 7% of the total assets of the Obligated Group as shown on the financial statements for the Historic Test Period, except for the following transfers, sales or leases of Property, provided that the following transfers, sales or leases will not be permitted without the prior written consent of the Master Trustee in any period during which a Default has occurred and is continuing:

(i) to another Obligated Group Member or (in the case of Property, Plant and Equipment) to the District; or

(ii) to any Person if, in the judgment of the Obligated Group Agent, such Property, Plant and Equipment has, or within the next succeeding twenty-four calendar months is reasonably expected to, become inadequate, obsolete, worn out, unsuitable, unprofitable, undesirable or unnecessary and the sale, lease, removal or other disposition thereof will not materially impair the structural soundness, efficiency or economic value of, adequate parking for, ingress and egress from, the remaining Property, Plant and Equipment; or

(iii) Current Assets (other than Accounts Receivables) in the ordinary course of business; or

(iv) Property (except for Mortgaged Property and Collateral that is not tangible personal property) if within the ordinary course of business and if the Obligated Group receives fair market value therefor, as certified in an Officer's Certificate; or

(v) Property (except for Collateral) that either (A) for the Historic Test Period prior to the sale, lease or other disposition, an Officer's Certificate delivered to the Master Trustee demonstrating that the Long-Term Indebtedness Service Coverage Ratio, taking into consideration the proposed sale, lease or disposition is at least equal to the actual Long-Term Indebtedness Service Coverage Ratio for such period, or (B) (1) for the Historic Test Period immediately prior to the sale, lease or other disposition, an Officer's Certificate delivered to the Master Trustee demonstrating that the Long-Term Indebtedness Service Coverage Ratio, taking into consideration the proposed sale, lease or disposition would not be reduced by more than 15% of what it had been prior to the proposed sale, lease or disposition and (2) immediately after such proposed sale, lease or disposition, the Obligated Group would meet the conditions of the Master Agreement described in paragraph (a) under the caption "Limitations on Incurrence of Additional Indebtedness" in this Appendix C for the incurrence of one dollar of additional Long-Term Indebtedness; or

(vi) Property (except for Collateral) provided that an Officer's Certificate delivered to the Master Trustee demonstrating that, for the Historic Test Period prior to the sale, lease or other disposition, the Long-Term Indebtedness Service Coverage Ratio improves as a result of such sale, lease or disposition; or

(vii) to any Person if the transfer consists of Accounts Receivable and contract rights and the Obligated Group receives fair market value therefor, provided that (A) any Indebtedness incurred in connection therewith satisfies the requirements of the Master Agreement described under the caption "Limitations on Incurrence of Additional Indebtedness" in this Appendix C; and (B)(1) the Long-Term Indebtedness Service Coverage Ratio for the Historic Test Period is at least 3.00 and cash is maintained as of the date of such transfer in an amount not less than an amount equal to 100 days of operating expenses, in which case up to 75% of the Accounts Receivables of the Obligated Group may be transferred, (2) the Long-Term Indebtedness Service Coverage Ratio for the Historic Test Period is at least 2.00 and cash is maintained as of the date of such transfer in an amount not less than an amount equal to 65 days of operating expenses, in which case up to 50% of the Accounts Receivables of the Obligated Group may be transferred, or (3) the Long-Term Indebtedness Service Coverage Ratio for the Historic Test Period is at least 1.25 and cash is maintained as of the date of such transfer in an amount not less than an amount equal to 30 days of operating expenses, in which case up to 20% of the Accounts Receivables of the Obligated Group may be transferred; or

(viii) loans, if in writing, and Obligated Group Member reasonably expects to be repaid and the loan bears interest at a reasonable interest rate; or

(ix) cash or cash equivalents to the extent that, after taking onto account such disposition or transfer, (A) the cash and cash equivalents of the Obligated Group would be at least 85% of the greater of (1) the cash and cash equivalents of the Obligated Group as of the end of the most recent Fiscal Year and (2) the cash and cash equivalents of the Obligated Group as of the date of the proposed disposition or transfer, and (B) the cash and cash equivalents of the Obligated Group would be no less than the greater of (1) a dollar amount equal to 75 days of operating expenses, calculated as of the end of the most recent Fiscal year and (2) a dollar amount equal to 75 days of operating expenses, calculated as of the date of the proposed disposition or transfer; or

(x) Mortgaged Property, if: (1) the Master Trustee receives the determination by a nationally recognized Consultant that the Long-Term Indebtedness Service Coverage Ratio for the two full Fiscal Years following the proposed release is not expected to be less than such ratio for the Historic Test Period, (2) the Obligated Group Agent furnishes evidence satisfactory to the Master Trustee that Property of similar Value will become Mortgaged Property and such new Mortgaged Property will produce Income Available for Debt Service similar to that of the Mortgaged Property sold and (3) the Master Trustee receives an Opinion of Bond Counsel that such release will not adversely affect the exclusion from gross income under Section 103 of the Code of interest payable on the tax-exempt Parity Bonds and is permitted under the Act; or

(xi) Real Property, including Mortgaged Property, that is unimproved or improved only by surface parking and/or landscaping, if there remains sufficient unencumbered (other than by the Mortgage) parking for the purposes and operations of the Obligated Group and the Obligated Group retains sufficient unencumbered (other than by the Mortgage) rights of ingress and egress; or

(xii) the investment and reinvestment of cash, cash equivalents and other investments in other cash equivalents and other investments which are commercially reasonable and deemed to be reasonably prudent by the Member of the Obligated Group making such investment or reinvestment; or

(xiii) any moneys actually released in connection with the termination of a retirement plan for Personnel of any Member of the Obligated Group; or

(xiv) under a lease which would constitute a Permitted Encumbrance under the provisions of the Master Agreement described in subparagraph (a)(vi) under the caption "Limitations on Creation of Liens" in this Appendix C.

Additional Obligated Group Members

As provided under the Master Agreement, if at any time the Obligated Group Agent and any Person determines that such Person should become an Obligated Group Member, the Obligated Group Agent and the Person may execute and deliver to the Master Trustee an instrument containing the agreement of such Person (a) to become an Obligated Group Member under the Master Agreement and thereby become subject to compliance with all provisions of the Master Agreement pertaining to an Obligated Group Member, including the performance and observance of all covenants and obligations of an Obligated Group Member thereunder, and (b) confirming to the Master Trustee and each other Obligated Group Member that all Parity Debt then Outstanding under the Master Agreement will be paid in accordance with the terms thereof when due. In addition, as a condition of such Person becoming a Member of the Obligated Group, the Master Trustee also has received (i) an Officer's Certificate that, as a result of any Person becoming an Obligated Group Member as part of such transaction, the Obligated Group would not be in default in the performance or observance of any covenant or condition to be performed or observed by it under the Master Agreement, the Obligated Group would meet the conditions of the Master Agreement described in paragraph (a) under the caption "Limitation on Incurrence of Additional Indebtedness" for the incurrence of one dollar of additional Long-Term Indebtedness and the Long-Term Indebtedness Service Coverage Ratio for the Historic Test Period, calculated as if such transaction had occurred at the beginning of such Historic Test Period, will be at least 85% of such Long-Term Indebtedness Service Coverage Ratio before such transaction and (ii) an Opinion of Bond Counsel to the effect that under then existing law the consummation of such transaction would not adversely affect the validity of Parity Bonds, or the exclusion from gross income under Section 103 of the Code of interest paid on the tax-exempt Parity Bonds.

Upon any Person becoming an Obligated Group Member as described under this caption, all of the provisions, terms, covenants and representations set forth in the Master Agreement will apply to such Person from the time that such Person becomes an Obligated Group Member. All Liens of a Person becoming an Obligated Group Member that were in existence prior to the time of such Person becoming an Obligated Group Member will be permitted under the Master Agreement only if such Liens are in compliance with the provisions in the Master Agreement described under the caption "Limitation on Creation of Liens."

Withdrawal From the Obligated Group

As provided under the Master Agreement, no Obligated Group Member may withdraw from the Obligated Group unless: (a) the Obligated Group Agent consents to such withdrawal; (b) the Master Trustee has received an Opinion of Bond Counsel to the effect that under then existing law such Obligated Group Member's withdrawal from the Obligated Group would not adversely affect the validity of the Parity Bonds or the tax-exempt status of interest payable on the tax-exempt Parity Bonds; (c) the Master Trustee has received (A) an Officer's Certificate demonstrating that the Long-Term Indebtedness Service Coverage Ratio for the Historic Test Period, taking into account the proposed withdrawal, is at least 1.35 and is at least 85% of such Long-Term Indebtedness Service Coverage Ratio before such withdrawal; or (B) a nationally recognized Consultant's report to the Master Trustee demonstrates that the withdrawal will be beneficial and will increase the Long-Term Indebtedness Service Coverage Ratio of the Obligated Group for the next full Fiscal Year subsequent to the proposed withdrawal compared to the Ratio for the Historic Test Period; (d) the Master Trustee has received an Officer's Certificate to the effect that, as a result of the withdrawal of such Obligated Group Member, the Obligated Group (A) will not be in default in the performance or observance of any covenant or condition to be performed under the Master Agreement, and (B) would meet the conditions of the Master Agreement described in paragraph (a) under the caption "Limitations on Incurrence of Additional Indebtedness" in this Appendix C for the incurrence of one dollar of additional Long-Term Indebtedness; and (e) the Association will not withdraw so long as any Parity Bonds are Outstanding.

Consolidation, Merger, Sale or Conveyance

As provided under the Master Agreement, each Obligated Group Member may merge or consolidate with any other Obligated Group Member and may sell or convey all or substantially all of its assets to any Obligated Group Member, provided that any merger or consolidation pursuant to which any Original Member of the Obligated Group would cease to exist as a separate corporate entity, or any sale or conveyance of all or substantially all of the assets of any Original Member of the Obligated Group, is subject to an Opinion of Bond Counsel that such merger, consolidation, sale or conveyance will not adversely affect the validity of the Parity Bonds or the exclusion from gross income under Section 103 of the Code of interest paid on the tax-exempt Parity Bonds. The Obligated Group covenants that no Obligated Group Member will merge or consolidate with any other corporation which is not an Obligated Group Member or sell or convey all or substantially all of its assets to any Person not an Obligated Group Member unless:

(a) either it will be the continuing corporation, or the successor corporation (if other than an Obligated Group Member) will be a corporation organized and existing under the laws of the United States of America or a state thereof and such corporation becomes an Obligated Group Member or otherwise expressly assumes in writing the due and punctual payment of the principal of and premium, if any, and interest on all Outstanding Parity Debt according to its tenor, and the due and punctual performance and observance of all of the covenants and conditions of the and Master Agreement, which document must be executed and delivered to the Master Trustee by such corporation; and

(b) either it or the successor corporation will not immediately after such merger or consolidation, or such sale or conveyance, have failed to meet any of the covenants contained in the Master Agreement which would be an Event of Default in the performance or observance of any such covenant; and

(c) there has been delivered to the Master Trustee and the Authority an Opinion of Bond Counsel to the effect that under then existing law the consummation of such merger, consolidation, sale or conveyance would not adversely affect the validity of the Parity Bonds or the exclusion from gross income under Section 103 of the Code of interest paid on the tax-exempt Parity Bonds; and

(d) there is delivered to the Master Trustee a certificate or report of a nationally recognized Accountant or Consultant demonstrating that immediately after such consolidation, merger, sale or conveyance, such corporation could incur one dollar or more of Long-Term Indebtedness under the Master Agreement as described under paragraph (a) of the caption "Limitations on Incurrence of Additional Indebtedness," taking into account such consolidation, merger, sale or conveyance; and

(e) there is delivered to the Master Trustee an Officer's Certificate demonstrating that immediately after such consolidation, merger, sale or conveyance, the Long-Term Indebtedness Service Coverage Ratio for the Historic Test Period, calculated as if the consolidation, merger, sale or conveyance had occurred at the beginning of such Historic Test Period, will be at least 85% of such Long-Term Indebtedness Service Coverage Ratio before such consolidation, merger, sale or conveyance; and

(f) there is delivered to the Master Trustee an Opinion of Counsel to the effect that such consolidation, merger, sale or conveyance complies with the requirements of the Master Agreement, and all conditions precedent have been satisfied, and that such consolidation, merger, sale or conveyance is legal, valid and binding and enforceable, subject to reasonable exceptions for bankruptcy, insolvency and similar laws and the application of equitable principles.

Certain Additional Covenants of the Obligated Group

Each member of the Obligated Group covenants in the Master Agreement, among other things: to comply with all applicable laws, rules and regulations; to maintain certain specified insurance or self-insurance on its properties; to maintain and preserve its properties in good working order; and to keep certain books and records.

Parity Debt

Additional Parity Indebtedness may be issued or incurred by any Obligated Group Member for the purpose of financing or refinancing projects to be owned or used by any Obligated Group Member, or for refunding of obligations previously issued, whether by the Authority or another entity, or for any other use or purpose of an Obligated Group Member insofar as permitted by applicable law. Parity Debt, to the extent applicable, shall bear such date or dates, interest rate or rates, maturities, redemption dates, redemption prices and other terms as shall be specified in the resolution authorizing the issuance or incurrence thereof.

Parity Debt may be incurred by the Obligated Group or any Obligated Group Member only if such Parity Debt does not violate the covenants with respect to Indebtedness as described under the caption "Limitations on Incurrence of Additional Indebtedness" and upon certification by the Master Trustee that all the conditions set forth in the Master Agreement have been satisfied for incurrence of Parity Debt.

In the Master Agreement, each member of the Obligated Group jointly and severally covenants, so long as any Parity Debt is Outstanding, that it will duly and punctually pay the principal of, the premium, if any, and the interest on each Parity Debt obligation at or prior to the opening of business on the due date thereof and at the times and at the place and in the manner provided therein when and as the same become payable, whether at maturity, upon call for redemption, by acceleration of maturity or otherwise, according to the true intent and meaning thereof. If for any reason any payment requirement pursuant to terms of any Parity Debt has not been timely paid by any Obligated Group Member, other Members will be obligated to make such payment and each Member of the Obligated Group waives promptness, diligence, notice of acceptance and any other notice with respect to its agreement to pay any and all payments of Parity Debt and also waives any requirement that the Master Trustee or any holder thereof protect, secure, perfect or insure any security interest or lien or any Property subject thereto or exhaust any right or take any action against any Member of the Obligated Group or any other Person or any collateral. To the extent permitted by law, the obligation of the Obligated Group to make payments on Parity Debt will be absolute and unconditional, will be binding and enforceable in all circumstances whatsoever, will not be subject to setoff, recoupment or counterclaim and will be a joint and several general obligation of each Obligated Group Member and each Obligated Group Member agrees to make payment from all lawfully available sources.

Default by the Obligated Group

For purposes of the Master Agreement, "Event of Default" means any one of the events set forth below and "Default" means any event that with the lapse of time or the giving of notice, or both, would be an Event of Default:

(a) Debt Service on the 1997A Bonds. Any principal (including sinking fund installments) of, premium, if any, or interest on any 1997A Bond is not be paid when due, whether at maturity, by acceleration, upon redemption or otherwise.

(b) Payments of Debt Service by the Obligated Group. The Obligated Group fails to make any payment required of it with respect to payment of debt service and funds under the Master Agreement when the same becomes due and payable.

(c) Rebate Payments. Any amounts owed to the United States under the Master Agreement are not paid when due.

(d) Parity Debt Defaults. An event of default occurs with respect to any agreement securing Parity Debt (which includes the Series 2016 Bonds and the Bond Indenture) and continue beyond any applicable grace period.

(e) Other Obligations. The Obligated Group fails to make any other required payment to the Master Trustee, or the Authority under the Master Agreement, and such failure is not remedied within 20 days after written notice thereof is given by the Authority or the Master Trustee to the Obligated Group; or the Obligated Group fails to observe or perform any of its other agreements, covenants or obligations under the Master Agreement, the Mortgage or any Related Bond Document and such failure is not remedied within 60 days after written notice thereof is given by the Authority or the Master Trustee to the Obligated Group Agent, unless the breach is not curable within 60 days and the Obligated Group Agent notifies the Authority and the Master Trustee within such 60 days that it is proceeding diligently in its efforts to cure said breach, in which event it will be an Event of Default if said breach is not cured within 90 days after such notice is given by the Obligated Group Agent to the Authority and the Master Trustee, provided, however, that an event described in this paragraph (e) will not be an Event of Default if there should be compliance with the provisions of the Master Agreement described under the caption "Withdrawal from the Obligated Group" in this Appendix C, to exclude such Member from the Obligated Group, and that all steps necessary to cause the withdrawal of such Member from the Obligated Group are completed within 60 days of receipt of notice of the existence of such an event.

(f) Warranties. There is a material breach of warranty made in the Master Agreement by the Obligated Group as of the date it was intended to be effective and the breach is not cured within 60 days after written notice thereof is given by the Authority or the Master Trustee to the Obligated Group Agent, unless the breach is not curable within 60 days and the Obligated Group Agent notifies the Authority and the Master Trustee within such 60 days that it is proceeding diligently in its efforts to cure said breach, in which event it will be an Event of Default if said breach is not cured within 90 days after such notice is given by the Obligated Group Agent to the Authority and the Master Trustee.

(g) Bankruptcy. An Event of Bankruptcy occurs, provided that, in the event of a filing of an involuntary case in bankruptcy under the United States Bankruptcy Code or the commencement of a proceeding under any other applicable law concerning bankruptcy, insolvency or reorganization against any Obligated Group Member, such event will not be an Event of Default unless such petition or proceeding remains undismissed for a period of 90 days.

(h) Breach of Other Agreements. A breach occurs (and continues beyond any applicable grace period) with respect to the performance of any agreement securing Additional Indebtedness or other Indebtedness of the Obligated Group with an outstanding principal amount of at least equal to 2% of Total Operating Revenues for the Historic Test Period or pursuant to which the same was issued or incurred, so that a holder or holders of such Indebtedness or a trustee or trustees under any such agreement accelerates such Indebtedness; but an Event of Default will not be deemed to be in existence or to be continuing under this paragraph (h) if (A) the Obligated Group is in good faith contesting the existence of such breach or event and if such acceleration is being stayed by judicial proceedings, (B) the power of acceleration is not exercised and the power of acceleration ceases to be in effect, or (C) such breach or event is remedied and the acceleration, if any, is wholly annulled. The Obligated Group Agent will notify the Authority and the Master Trustee of any such breach or event immediately upon the Obligated Group Agent's becoming aware of its occurrence and will from time to time furnish such information as the Authority or the Master Trustee may reasonably request for the purpose of determining whether a breach or event described in this paragraph (h) has occurred and whether such power of acceleration has been exercised or continues to be in effect.

(i) Waiver. If the Master Trustee determines that an Event of Default has been cured before the entry of any final judgment or decree with respect to it, the Master Trustee will waive the Event of Default and its consequences, including any acceleration, by written notice to the Obligated Group Agent.

Remedies Upon Events of Default

Under and as described in the terms of the Master Agreement and the Mortgage, the Master Trustee will exercise all remedies with respect to the Collateral upon behalf of the holders of the Parity Debt.

Acceleration. If an Event of Default occurs and is continuing, the Master Trustee may, and upon direction of the Holders of not less than 25% in aggregate principal amount of the Parity Debt Outstanding the Master Trustee will, by written notice to the Obligated Group Agent, the Authority, and the holders of such Parity Debt, declare immediately due and payable the principal amount of the Outstanding Parity Debt and the payments to be made by the Obligated Group therefor, and accrued interest on the foregoing, whereupon the same becomes immediately due and payable without any further action or notice. Such acceleration will be automatic upon the occurrence of the Event of Default described in paragraph (g) under the caption "Default by the Obligated Group."

Annulment of Acceleration. At any time after the principal of the Parity Debt has 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 (or other representative of the holders of Parity Debt), moneys sufficient to pay all matured installments of interest and interest on unpaid installments of interest and principal and interest and principal or redemption prices then due (other than the principal then due only because of such declaration) of all Parity Debt 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 Agreement and under any Supplemental Agreement has been paid or a sum sufficient to pay the same has been deposited with the Master Trustee or other representative of the holders of Parity Indebtedness; and (iv) every Event of Default (other than a default in the payment of the principal of such Parity Indebtedness then due only because of such declaration) has been remedied, then the Master Trustee will annul such declaration and its consequences with respect to any Parity Debt or portions thereof not then due by its terms. No such annulment will extend to or affect any subsequent Event of Default or impair any right consequent thereon.

Rights as to Gross Receipts by Master Trustee. The Master Trustee may, and upon the written request of the Holders of not less than 25% in aggregate principal amount of the Parity Debt Outstanding together with the indemnification of the Master Trustee to its satisfaction therefor, must, exercise all of the rights and remedies of a secured party, under the UCC or otherwise, with respect to the security interest in Gross Receipts as described under the caption "Security Interest in Gross Receipts." Without limiting the generality of the foregoing, to the extent permitted by law, the Master Trustee may realize upon such security interest by any one or more of the following actions: (i) enter the Property and take possession of the financial books and records of the Obligated Group relating to the Gross Receipts and of all checks or other orders for payment of money and cash in the possession of the Obligated Group representing Gross Receipts or proceeds thereof and request of the Obligated Group a list of account holders; (ii) notify account debtors obligated on any Gross Receipts to make payment directly to the order of the Master Trustee; (iii) collect, compromise, settle, compound or extend Gross Receipts which are in the form of Accounts Receivable or contract rights from the Obligated Group's account debtors by suit or other means and give a full acquittance therefor and receipt therefor in the name of the Obligated Group, whether or not the full amount of any such account receivable or contract right owing shall be paid to the Master Trustee; (iv) require the Obligated Group to deposit all cash, money and checks or other orders for the payment of money which represents Gross Receipts within five Business Days after receipt of written notice of such requirement, and thereafter as received, into a fund or account to be established for such purpose by the Master Trustee, provided, however, that the requirement to make such deposits shall cease, and the balance of such fund or account shall be paid to the Obligated Group, when all Events of Default have been cured; (v) forbid the Obligated Group to extend, compromise, compound or settle any accounts receivable or contract rights which represent Gross Receipts, or release, wholly or partly, any Person liable for the payment thereof (except upon receipt of the full amount due) or allow any credit or discount thereon; and (vi) endorse in the name of the Obligated Group any checks or other orders for the payment of money representing Gross Receipts or the proceeds thereof.

Court Proceedings; Mortgage. Upon the occurrence of any Event of Default, the Master Trustee may, and upon written request of holders of not less than 25% in aggregate principal amount of the Parity Debt Outstanding, together with any indemnification of the Master Trustee to its reasonable satisfaction therefor, must, proceed forthwith to protect and enforce its rights and the rights of such Holders by such suits, actions or proceedings as the Master Trustee, being advised by counsel, deems expedient, including but not limited to: (i) enforcement of the right of such holders to collect and enforce the payment of amounts due or becoming due under the Parity Debt; (ii) suit upon all or any part of the Parity Debt; (iii) civil action to enjoin any acts or things, which may be unlawful or in violation of the rights of the Holders of Parity Debt; and (iv) enforcement of any other right of such holders of Parity Debt conferred by law or by the Master Agreement.

Upon occurrence of any Event of Default as defined in the Mortgage, the Master Trustee may, and upon written request of holders of not less than 25% in aggregate principal amount of the Parity Debt, together with indemnification of the Master Trustee to its reasonable satisfaction therefor, must proceed to exercise such remedies under the Mortgage as directed by such holders or, in the absence of such direction, as the Master Trustee, being advised by counsel, deems expedient.

Notwithstanding anything in the Master Agreement to the contrary, the Master Trustee has no obligation to institute or conduct any proceedings to realize on the Mortgage, to take any action regarding any activity or condition on the Mortgaged Property, or to exercises any remedy provided for or described in the Master Agreement or in the Mortgage upon the occurrence of any Event of Default if the Master Trustee, after investigation, reasonably determines that to do so may expose the Master Trustee to the risk of liability under any federal, state or local law, regulation or requirement now or hereafter in effect relating to human health or safety, or the protection of the environment. Such investigation does not constitute active participation in any activity or condition on the Mortgaged Property. Failure to exercise any remedy provided for or described in the Master Agreement will not waive the authority of the Master Trustee to exercise such remedy in its discretion at a later time.

Payment of Parity Debt on Default. Each Member of the Obligated Group covenants in the Master Agreement that in case any Event of Default under the Master Agreement described in paragraphs (a), (b), (c), (d) or (e) under the caption "Default by the Obligated Group" in this Appendix C occurs, upon demand of the Master Trustee, it will pay to the Master Trustee, for the benefit of the holders of the Parity Debt, the whole amount that then has become due and payable on all such Parity Debt for principal or interest, or both, as the case may be, with interest upon the overdue principal and installments of interest (to the extent permitted by law) at the rate of interest provided in the applicable Parity Debt; and, in addition thereto, such further amount (to the extent permitted by law) as is sufficient to cover the costs and expenses of collection, including a reasonable compensation to the Master Trustee, its agents, attorneys and counsel, and any expenses incurred by the Master Trustee other than as a result of its negligence or bad faith.

Application of Moneys after Default. Proceeds from the exercise of the rights and remedies of the Master Trustee described under the subcaptions "Rights as to Gross Receipts by Master Trustee" and "Court Proceedings; Mortgage," after payment or reimbursement of the reasonable fees and expenses of the Master Trustee and the Authority in connection therewith, including reasonable attorneys' fees, will be applied (without consideration of application of any debt service reserve fund or any other security for a particular series of Parity Debt) as follows:

(a) Subject to the provisions of the Master Agreement described in (d) below, unless the principal of all Outstanding Parity Debt and any holders of Permitted Encumbrances which by their terms are on a parity with the holders of Parity Debt (collectively "Permitted Parity Obligations") has 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 Permitted Parity Obligations in the order of the maturity of such installments, and, if the amount available will not be sufficient to pay in full any installment or installments maturing 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 Permitted Parity Obligations which has become due, whether at maturity or by call for redemption, in the order of their due dates, and if the amounts available will not be sufficient to pay in full all Permitted Parity Obligations due on any date, then to the payment thereof ratably, according to the amounts of principal installments due on such date, to the persons entitled thereto, without any discrimination or preference.

(b) Subject the provisions of the Master Agreement described in (d) below, if the principal of all Outstanding Permitted Parity Obligations shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon Permitted Parity Obligations without preference or priority of principal over interest or of interest over principal, or of any installment of interest, or of any Permitted Parity Obligations over any other Permitted Parity Obligations, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference.

(c) If the principal of all Outstanding Permitted Parity Obligations has been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provisions of the Master Agreement described under the caption "Remedies Upon Events of Default" in this Appendix C, then, subject to the provisions of the Master Agreement described in paragraph (b) under this caption in the event that the principal of all Outstanding Permitted Parity Obligations shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions of the Master Agreement described in paragraph (a) under this caption.

(d) Notwithstanding the provisions of the Master Agreement described in paragraphs (a) and (b) above, the payment of the Permitted Parity Obligations is subject, as provided in the provisions of the Master Agreement described in this paragraph (d), to the rights of holders of Liens on the Collateral that are prior to the Liens of the Permitted Parity Obligations. If the Master Trustee reasonably believes that prior Liens exist (without regard to whether such prior Liens constitute Permitted Encumbrances), the Master Trustee may withhold payments until the relative rights of the claimants are determined. If the rights to Collateral of holders of Liens that do not constitute Permitted Encumbrances intervene in priority between the Liens and rights of the holders of the Permitted Parity Obligations granted under the Master Agreement or the documents creating Collateral, then the Master Trustee will: (i) calculate the ratio (the "Distribution Ratio") of (I) the aggregate amount payable on the Permitted Parity Obligations in accordance with the provisions of the Master Agreement described in paragraph (a) or (b) above, as applicable, to (II) the proceeds then available for distribution with respect to the Permitted Parity Obligations and the amount available for distribution (by the Master Trustee or otherwise) to the holders of intervening prior Liens known to the Master Trustee; and (ii) distribute such proceeds as follows: (A) first, the Holders of the Permitted Parity Obligations whose Lien or right to Collateral is superior to the intervening Liens shall be paid a sum determined by multiplying the amount calculated in accordance with the provisions of the Master Agreement described in paragraph (a) or (b) above, as applicable, times the Distribution Ratio; (A) second, the Holders of the Permitted Parity Obligations whose Liens or rights are inferior to intervening prior Liens shall be paid the difference between the sum determined by multiplying the amount calculated in accordance with the provisions of the Master Agreement described in paragraph (a) or (b) above, as applicable, times the Distribution Ratio, less the amount payable to holders of intervening prior Liens subject to any order of a court entered against the Master Trustee.

If the intervening Lien constitutes a Permitted Encumbrance that pursuant to the provisions of the Master Agreement described above under the caption "Limitations on Creation of Liens" in this Appendix C may be prior to rights of Holders of all Parity Debt, then the Master Trustee will distribute such proceeds as follows: (A) first, the Master Trustee will calculate the Distribution Ratio using only the aggregate proceeds available for distribution to the holders of Parity Debt, and (B) second, the Holders of all Parity Debt shall be paid an amount equal to the aggregate proceeds available to Holders of Parity Debt and, multiplied by the Distribution Ratio calculated in accordance with (A).

Remedies Cumulative. The rights and remedies under the Master Agreement will be cumulative and will not exclude any other rights and remedies allowed by law, provided there is no duplication of recovery. The failure to insist upon a strict performance of any of the obligations of the Obligated Group or of the Authority or to exercise any remedy for any violation thereof will not be taken as a waiver for the future of the right to insist upon strict performance or of the right to exercise any remedy for the violation.

Performance of the Obligated Group's Obligations. If the Obligated Group shall fail to pay or perform any obligation under the Master Agreement as they apply to Parity Debt, the Master Trustee may pay or perform such obligation in its own name or in the Obligated Group's name. Unless an Event of Default exists, the Master Trustee will give at least five Business Days' notice to the Obligated Group before taking action under the Master Agreement as described under this caption, except that in the case of emergency as reasonably determined by the Master Trustee, it may act on lesser notice or give the notice promptly after rather than before taking the action. The reasonable cost of any action by the Master Trustee will be paid or reimbursed by the Obligated Group with interest at the interest rate publicly announced by the Master Trustee as its prime rate.

Control of Proceedings By Holders. If an Event of Default has occurred and is continuing, notwithstanding anything in the Master Agreement to the contrary, the Holders of at least 25% in aggregate principal amount of Parity Debt, in the case of proceedings involving Gross Receipts or in the case of proceedings involving the Mortgage, have the right, at any time, by an instrument in writing executed and delivered to the Master Trustee, to direct the time, method and place of conducting, any proceeding to be taken in connection with the enforcement of the terms and conditions of the Master Agreement or, to the extent permitted by law, for the appointment of a receiver or any other proceedings under the Master Agreement, provided that such direction is not in conflict with any applicable law or the provisions of the Master Agreement (including indemnity to the Master Trustee as provided herein) and provided further that nothing in this paragraph impairs the right of the Master Trustee in its discretion to take any other action under the Master Agreement which it may deem proper and which is not inconsistent with such direction by Holders of the Parity Debt.

Amendments to the Master Agreement

The Master Agreement may be amended by the parties but without Holder consent for any of the following purposes: (a) to add to the covenants and agreements of the Obligated Group or to surrender or limit any right or power of the Obligated Group; (b) to cure any ambiguity or defect, or to add provisions which are not inconsistent therewith and which do not, in judgment of the Master Trustee, impair the security for the Parity Debt; (c) to provide for the issuance and establish the terms and provisions of additional Parity Debt, and provide for all other matters in connection with the issuance of such additional Parity Debt, including, without limitation, provisions relating to, or required by the issuer of, any Credit Facility applicable to Parity Debt, provided that no such amendment has a material adverse effect upon the security for the Parity Debt other than that implicit in the authorization of additional Parity Debt and will not affect the restrictions applicable to the issuance of additional Parity Debt under the Master Agreement; (d) to permit the Master Trustee to comply with any duties imposed upon it by law; (e) to achieve compliance of the Master Agreement with any applicable federal securities or tax laws; (f) to provide for the appointment of a successor trustee or co-trustee; and (g) to maintain or obtain a rating on Parity Debt from Moody's or S&P.

In addition, the Master Agreement may be amended by the parties but without Holder consent to modify, amend, change or remove any covenant, agreement, term or provision of the Master Agreement other than a modification of the type described in the following paragraph requiring the unanimous written consent of the affected Bondholders; provided that: (1) at the time of the proposed amendment the Parity Bonds are rated by S&P or Moody's, and written notice of the substance of such proposed amendment is given by the Obligated Group Agent not less than thirty days prior to the date such amendment is to take effect to any such rating agency that has rated the Parity Bonds, and (2) the Obligated Group Agent provides (i) evidence satisfactory to the Master Trustee that the ratings on the Parity Bonds will not be lowered or withdrawn by either S&P or Moody's as a result of such proposed amendment; or (ii) if the Parity Bonds are then rated by either S&P or Moody's in one of their three highest rating categories, that the ratings on the Parity Bonds will not be lowered to a rating category less than one of the three highest categories as a result of such proposed amendment; or (iii) with respect to the Parity Bonds, if after written notice has been given to S&P and Moody's, and neither S&P nor Moody's has responded to such notice within thirty days of delivery, then (A) a Consultant's opinion or report is delivered to the Master Trustee prior to the date such amendment is to take effect, to the effect that the proposed amendment is consistent with then current industry standards for comparable institutions and demonstrating that the ratio of Aggregate Income Available for Debt Service for the Historic Test Period to projected Maximum Annual Debt Service for the full Fiscal Year immediately after the effective date of such proposed amendment is not less than 1.30, assuming the maximum implementation (or such lower implementation certified to the Master Trustee by the Obligated Group Agent as being a reasonable basis for assumption) by the Obligated Group of the proposed amendment if the proposed amendment or supplement is to a provision of the Master Agreement that contains a quantitative restriction or covenant; or (B) a Consultant's opinion or report is delivered to the Master Trustee prior to the date such amendment is to take effect, to the effect that the proposed amendment is consistent with then current industry standards for comparable institutions and demonstrating that the average of the projected Long-Term Indebtedness Service Coverage Ratios for the two full Fiscal Years immediately after the effective date of such proposed amendment or supplement will be greater than the average of the Long-Term Indebtedness Service Coverage Ratios for such period had the proposed amendment not been implemented assuming the maximum implementation (or such lower implementation certified to the Master Trustee by the Obligated Group Agent as being a reasonable basis for assumption) by the Obligated Group of the proposed amendment if the proposed amendment is to a provision of the Master Agreement that contains a quantitative restriction or covenant; or (C) a Consultant's opinion or report is delivered to the Master Trustee prior to the date such amendment is to take effect that the proposed amendment is consistent with then current industry standards for comparable institutions and demonstrating that (1) the average of the projected Long-Term Indebtedness Service Coverage Ratios for the two full Fiscal Years immediately after the effective date of such proposed amendment will not be less than 1.25, and (2) the average of the projected Long-Term Indebtedness Service Coverage Ratios for the two full Fiscal Years immediately after the effective date of such proposed amendment will not be more than thirty-five percent lower than the average of the Long-Term Indebtedness Service Coverage Ratios had the proposed amendment not been implemented, assuming with respect to the projections made under (1) and (2) the maximum implementation (or such lower implementation certified to the Master Trustee by the Obligated Group Agent as being a reasonable basis for assumption) by the Obligated Group of the proposed amendment if the proposed amendment is to a provision of the Master Agreement that contains a quantitative restriction or covenant. No amendment of the Master Agreement may be made pursuant to the provisions thereof as described in this paragraph unless there also is delivered to the Master Trustee an Opinion of Bond Counsel to the effect that under then existing law the execution of the amendment then contemplated in, in and of itself, would not adversely affect the validity of the Parity Bonds or the exclusion from gross income under Section 103 of the Code of interest paid on the Parity Bonds. No amendment may be made in accordance with the provisions of the Master Agreement as described in this paragraph unless the Parity Bonds are rated by S&P or Moody's at the time such amendment is sought to be made. If the requirements of the Master Agreement as described in this paragraph have been met, neither the Master Trustee nor the Authority will withhold their consent to an amendment requested by the Obligated Group Agent; however, the Authority, acting through its Board of Directors, and Master Trustee may withhold their consent to any amendment which they reasonably determine affects the rights or responsibilities of the Authority and Master Trustee.

Except as provided in the provisions of the Master Agreement described in the two immediately preceding paragraphs, the Master Agreement may be amended only with the written consent of the Holders of a majority in principal amount of the affected Outstanding Parity Debt; provided, however, that no amendment of the Master Agreement may be made without the unanimous written consent of the affected Bondholders for any of the following purposes: (1) to create a preference or priority of any Parity Bond over any other Parity Bond; or (2) to reduce the percentage of the Parity Bonds required to be represented by the Holders giving their consent to any amendment.

SUMMARY OF THE BOND INDENTURE

The following is a summary of certain provisions of the Bond Indenture not described elsewhere in this Official Statement. This summary should not be considered a full statement of the Bond Indenture. Reference is made to the Bond Indenture for complete details of the Bond Indenture and the security for the Series 2016 Bonds. The Bond Indenture sets forth the terms of the Series 2016 Bonds authorized thereunder, the application of such Series 2016 Bond proceeds, the nature and extent of the security for the Series 2016 Bonds, various rights of the Bondholders, rights, duties and immunities of the Bond Trustee and the rights and obligations of the Authority. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Bond Indenture.

Definitions of Certain Terms

Capitalized terms used in this section describing the Bond Indenture, but not defined herein, have the meaning set forth in the Master Agreement. See "SUMMARY OF THE MASTER AGREEMENT – Definitions of Certain Terms" in this Appendix C.

"Additional Payments" means the payments so designated and required to be made by the Association pursuant to the Loan Agreement.

"Administrative Fees and Expenses" means any application, commitment, financing or similar fee charged, or reimbursement for administrative or other expenses incurred, by the Authority or the Bond Trustee.

"Beneficial Owner" means any Person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Bondholder," "Holder," "Owner" or "Registered Owner" whenever used herein with respect to a Series 2016 Bond, means the Person in whose name such Series 2016 Bond is registered.

"Bond Trustee" means Wells Fargo Bank, National Association, a national banking association, having its designated corporate trust office in Los Angeles, California, or its successor, as Bond Trustee as provided under the Bond Indenture.

"Business Day" means a day of the year other than (a) a Saturday or a Sunday, (b) a day on which banks located in each of the cities in which the principal and administrative offices of the Bond Trustee are located are required or authorized by law or other governmental action to be closed, and (c) a day on which the New York Stock Exchange or the Securities Depository is closed.

"Continuing Disclosure Agreement" means the Continuing Disclosure Undertaking, dated the date of original issuance and delivery of the Series 2016 Bonds, between the Association and Digital Assurance Certification, L.L.C., as dissemination agent, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

"Event of Default" has the meaning given such term under the heading "SUMMARY OF THE BOND INDENTURE — Events of Default" in this Appendix C.

"Government Obligations" means (1) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) or obligations the timely payment of the principal of and interest on which are fully and unconditionally guaranteed by the United States of America; (2) obligations issued or guaranteed by any agency, department or instrumentality of the United States of America if the obligations issued or guaranteed by such entity are rated in one of the two highest Rating Categories of a Rating Agency; (3) certificates which evidence ownership of the right to the payment of the principal of and interest on obligations described in clauses (1) and/or (2), provided that such obligations are held in the custody of a bank or trust company in a special account separate from the general assets of such custodian; and (4) obligations the interest on which is excluded from gross income for purposes of federal income taxation pursuant to Section 103 of the Code and the timely payment of the principal of and interest on which is fully provided for by the deposit in trust of cash and/or obligations described in clauses (1), (2) and/or (3).

"Interest Account" means the account by that name in the Revenue Fund established pursuant to the Bond Indenture.

"Interest Payment Date" means the first day of every February and August commencing February 1, 2017, provided that if such day is not a Business Day, any payment due on such date may be made on the next Business Day without additional interest and with the same force and effect as if made on the specified date for such payment.

"Loan Default Event" means any of the events specified in the Loan Agreement.

"Loan Repayments" means the payments so designated and required to be made by the Association pursuant to the Loan Agreement.

"Optional Redemption Account" means the account by that name in the Redemption Fund established pursuant to the Bond Indenture.

"Outstanding," when used as of any particular time with reference to the Series 2016 Bonds, means (subject to the provisions of the Bond Indenture) all Series 2016 Bonds theretofore, or thereupon being, authenticated and delivered by the Bond Trustee under the Bond Indenture except (1) Series 2016 Bonds theretofore canceled by the Bond Trustee or surrendered to the Bond Trustee for cancellation; (2) Series 2016 Bonds with respect to which all liability of the Authority shall have been discharged in accordance the Bond Indenture, including Series 2016 Bonds (or portions thereof) referred to in the Bond Indenture; and (3) Series 2016 Bonds for the transfer or exchange of or in lieu of or in substitution for which other Series 2016 Bonds shall have been authenticated and delivered by the Bond Trustee pursuant to the Bond Indenture.

"Permitted Investments" means any of the following:

(a) Government Obligations;

(b) Federal Housing Administration debentures;

(c) bonds, debentures, or other evidences of indebtedness issued or guaranteed by the following United States government sponsored agencies: Federal Home Loan Mortgage Corporation, Farm Credit System, Federal Home Loan Banks, Federal National Mortgage Association, Student Loan Marketing Association, Financing Corporation, Resolution Trust Corporation, Resolution Funding Corporation or any other government-sponsored agencies which are not backed by the full faith and credit of the U.S. government which has been or may hereafter be created pursuant to an Act of Congress as an agency or instrumentality of the United State of America;

(d) unsecured certificates of deposit, time deposits, and bankers' acceptances of any bank the short-term obligations of which are rated, at the time of purchase, in one of the three highest Rating Categories by a Rating Agency (without regard to any credit enhancement) (a "Required Rating");

(e) deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC), in banks which have capital and surplus of at least $5 million;

(f) commercial paper (having original maturities of not more than 270 days) rated at the time of their purchase in at least two highest Rating Categories by a Rating Agency;

(g) money market funds having at the time of purchase a Required Rating, including any money market fund maintained by the Master Trustee in its capacity as a commercial bank;

(h) pre-refunded municipal obligations rated at the time of their purchase in the highest Rating Category by a Rating Agency and meeting the following requirements: (i) the municipal obligations are (A) not subject to redemption prior to maturity or (B) the trustee for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the Authority of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions; (ii) the municipal obligations are secured by cash or Government Obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations; (iii) the principal of and interest on the Government Obligations (plus any cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on the municipal obligations ("Verification"); (iv) the cash or Government Obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for owners of the municipal obligations; (v) no substitution of a Government Obligation will be permitted except with another Government Obligation and upon delivery of a new Verification; and (vi) the cash or Government Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent.

(i) obligations of any state of the United States of America or any political subdivision of any state of the United States of America or any agency or instrumentality of any such state or political subdivision, which has at the time of their purchase a Required Rating;

(j) certificates that evidence ownership of the right of payments of principal or interest on obligations described in clauses (a) to (i), provided that such obligations will be held in custody by a bank or trust company or a national banking association having capital stock, surplus and undivided earnings aggregating at least $50,000,000;

(k) any repurchase agreements collateralized by securities described in clauses (a) to (j) above with any registered broker/dealer subject to the Securities Investors' Protection Corporation jurisdiction or any commercial bank, if such broker/dealer or bank has uninsured, unsecured and unguaranteed obligations with Required Rating at the time of purchase, provided (i) a specific written agreement governs the transaction; (ii) the securities are held by a depository acting solely as agent for the Master Trustee, and such third party is (A) a Federal Reserve Bank, or (B) a bank which is a member of the Federal Deposit Insurance Corporation and with combined capital, surplus and undivided profits of not less than $25 million, and the Master Trustee has received written confirmation from such third party that it holds such securities; (iii) a perfected first security interest under the Uniform Commercial Code, or book-entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of the Master Trustee; (iv) the repurchase agreement has a term of 1 year or less, or the collateral securities will be valued no less frequently than monthly and will be liquidated if any deficiency in the required collateral percentage is not restored within two Business Days of such valuation; (v) the repurchase agreement matures at least ten days (or other appropriate liquidation period) prior to an interest payment date; and (vi) the fair market value of the securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 100%;

(l) investment agreements which represent the unconditional obligation of one or more banks, insurance companies or other financial institutions, or are guaranteed by a financial institution, in either case that has, as of its date of execution, an unsecured Required Rating, or which agreement itself has a Required Rating; and

(m) any other investment which is permitted by a Rating Agency in order to maintain a Required Rating on the Series 2016 Bonds.

"Principal Account" means the account by that name in the Revenue Fund established pursuant to the Bond Indenture.

"Principal Payment Date" means any date on which principal of the Bonds is due and payable, whether at maturity, by proceedings for redemption, by declaration of acceleration or otherwise.

"Rating Agency" means any nationally recognized rating agency then providing a rating on any of the Series 2016 Bonds.

"Rating Category" means a rating category without reference to any refinement or gradation of the category by numerical modifier or otherwise.

"Rebate Fund" means the fund by that name established pursuant to the Bond Indenture.

"Redemption Fund" means the fund by that name established pursuant to Section 5.01.

"Redemption Price" means, with respect to any Series 2016 Bond (or portion thereof), the principal amount of such Series 2016 Bond (or portion), plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Series 2016 Bond and the Bond Indenture.

"Revenue Fund" means the fund by that name established pursuant to the Bond Indenture.

"Revenues" means all amounts received by the Authority or the Bond Trustee pursuant or with respect to the Loan Agreement, including, without limiting the generality of the foregoing, Loan Repayments (including both timely and delinquent payments and any late charges, and whether paid from any source), prepayments, insurance proceeds, condemnation proceeds, and all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Bond Indenture, but not including any administrative fees and expense to the extent payable to the Authority, the Unassigned Rights or any moneys required to be deposited in the Rebate Fund.

"Securities Depository" means The Depository Trust Company and its successors and assigns, or any other securities depository selected as set forth in the Bond Indenture, which agrees to follow the procedures required to be followed by such securities depository in connection with the Series 2016 Bonds.

"Series 2016 Bonds" means The Industrial Development Authority of the County of Yavapai, Hospital Revenue Refunding Bonds (Yavapai Regional Medical Center), Series 2016, authorized by and at any time Outstanding pursuant to the Bond Indenture.

"Supplemental Agreement" means any indenture hereafter duly authorized and entered into between the Authority and the Bond Trustee, supplementing, modifying or amending the Bond Indenture; but only if and to the extent that such Supplemental Agreement is specifically authorized thereunder.

"Tax Agreement" means the Tax Certificate and Agreement, including attachments, delivered by the Authority and the Association at the time of issuance and delivery of the Series 2016 Bonds, as the same may be amended or supplemented in accordance with its terms.

"Unassigned Rights" means the Authority's rights to inspect books and records, to give or receive notices, approvals, consents, requests, and other communications, to receive payment or reimbursement for fees or expenses, limitation of liability, and indemnification from liability by the Association.

Pledge and Assignment; Revenue Fund

Subject only to the provisions of the Bond Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, the Authority pledges and assigns to the Bond Trustee all of the Revenues and any other amounts (including proceeds of the sale of the Series 2016 Bonds) held in any fund or account established pursuant to the Bond Indenture, except the Rebate Fund, to secure the payment of the principal and Redemption Price of and interest on the Series 2016 Bonds in accordance with their terms and the provisions of the Bond Indenture. Said pledge constitutes a first lien on and security interest in such assets and will attach, be perfected and be valid and binding from and after delivery by the Bond Trustee of the Series 2016 Bonds, without any physical delivery thereof or further act.

Under the Bond Indenture, the Authority transfers in trust, grants a security interest in and assigns to the Bond Trustee for the benefit of the Holders from time to time of the Series 2016 Bonds, all of the Revenues and other assets pledged as described in the paragraph above and all of the right, title and interest of the Authority in the Loan Agreement (except for the right to receive any Administrative Fees and Expenses to the extent payable to the Authority and except for any other Unassigned Rights). The Bond Trustee is entitled to and will collect and receive all of the Revenues, and any Revenues collected or received by the Authority will be deemed to be held, and to have been collected or received, by the Authority as the agent of the Bond Trustee and will be paid by the Authority to the Bond Trustee. The Bond Trustee also will be entitled to and will take all steps, actions and proceedings reasonably necessary in its judgment to enforce all of the rights of the Authority and all of the obligations of the Association under the Loan Agreement and all of the obligations of the Obligated Group under the Master Agreement.

All Revenues will be promptly deposited by the Bond Trustee upon receipt thereof in a special fund designated as the "Revenue Fund" which the Bond Trustee will establish, maintain and hold in trust, except as otherwise provided in the Bond Indenture and except that all moneys received by the Bond Trustee and required by the Loan Agreement to be deposited in the Redemption Fund will be promptly deposited in the Redemption Fund, which the Bond Trustee will establish, maintain and hold in trust. All Revenues deposited with the Bond Trustee will be held, disbursed, allocated and applied by the Bond Trustee only as provided in the Bond Indenture.

If on any Interest Payment Date or Principal Payment Date, the Bond Trustee has not received Revenues sufficient to make the transfers required by the Bond Indenture, the Bond Trustee will immediately notify the Association of such insufficiency by telephone or telegram or successful facsimile transmission and confirm such notification by written notice.

Allocation of Revenues

On or before the Business Day immediately preceding each Interest Payment Date (with respect to payments of interest) and each Principal Payment Date (with respect to payments of principal), the Bond Trustee will transfer from the Revenue Fund and deposit into the following respective accounts (each of which the Bond Trustee is directed under the Bond Indenture to establish and maintain within the Revenue Fund) the following amounts, in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

First: to the Interest Account, an amount sufficient to bring the amount on deposit up to the aggregate amount of interest becoming due and payable on the Outstanding Series 2016 Bonds on the next succeeding Interest Payment Date; and

Second: to the Principal Account, an amount sufficient to bring the amount on deposit up to the aggregate amount of principal becoming due and payable on the Outstanding Series 2016 Bonds on the next succeeding Principal Payment Date.

Upon request of the Association, any moneys remaining in the Revenue Fund after the foregoing transfers will be transferred to the Association.

Application of Interest Account

All amounts in the Interest Account will be used and withdrawn by the Bond Trustee solely for the purpose of paying interest on the Series 2016 Bonds as it becomes due and payable (including accrued interest on any Series 2016 Bonds purchased or redeemed prior to maturity as described in the Bond Indenture).

Application of Principal Account

All amounts in the Principal Account must be used and withdrawn by the Bond Trustee solely for the purpose of paying the principal of the Series 2016 Bonds when due and payable.

Application of Redemption Fund

The Bond Trustee must establish and maintain within the Redemption Fund a separate Optional Redemption Account and a separate Special Redemption Account. All amounts deposited in the Optional Redemption Account and in the Special Redemption Account will be used and withdrawn by the Bond Trustee solely for the purpose of redeeming the Series 2016 Bonds, in the manner and upon the terms and conditions specified in the Bond Indenture and described under the caption "THE SERIES 2016 BONDS — Redemption" in the forepart of this Official Statement, at the next succeeding date of redemption for which notice has been given and at the Redemption Prices then applicable to redemptions from the Optional Redemption Account and the Special Redemption Account, respectively; provided that, at any time prior to giving such notice of redemption, the Bond Trustee may apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) directed by the Association, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to such Bonds (or, if such Bonds are not then subject to redemption, the par amount of such Bonds); and provided further that in the case of the Optional Redemption Account, in lieu of redemption at such next succeeding date of redemption or in combination therewith, amounts in such account may be transferred to the Revenue Fund and credited against Loan Repayments in order of their due date as set forth in a Request of the Association.

Investment of Moneys in Funds and Accounts

All moneys in any of the funds and accounts established pursuant to the Bond Indenture must be invested solely in Permitted Investments, as directed by the Association. Permitted Investments may be purchased at such prices as may be directed by the Association. All Permitted Investments must be acquired subject to the limitations as to maturities set forth in the Bond Indenture and such additional limitations or requirements consistent with the Bond Indenture as may be established by written request of the Association.

Rebate Fund

The Bond Trustee must establish and maintain a fund separate from any other fund established and maintained under the Bond Indenture designated as the Rebate Fund.

All money at any time deposited in the Rebate Fund will be held by the Bond Trustee in trust, to the extent required to satisfy the Rebate Amount (as defined in the Tax Agreement), for payment to the federal government of the United States of America, and no other person will have any rights in or claim to such money.

Payment of Principal, Redemption Price and Interest

Under the Bond Indenture the Authority covenants that it will promptly pay or cause to be paid the principal and Redemption Price of and interest on the Series 2016 Bonds issued under the Bond Indenture at the place, on the dates and in the manner provided in the Series 2016 Bond Indenture and in said Bonds according to the true intent and meaning thereof. The principal and Redemption Price of and interest on the Series 2016 Bonds are payable solely from Revenues and any other amounts (including proceeds of the sale of the Series 2016 Bonds) held in any fund or account established pursuant to the Bond Indenture (other than the Rebate Fund), amounts realized pursuant to the Master Agreement and the Mortgage, and certain income from the temporary investment of any of the foregoing.

Tax Covenants

The Authority must at all times do and perform all acts and things which are necessary or desirable in order to assure that interest paid on the Series 2016 Bonds will be excluded from gross income for federal income tax purposes and will not take any action that would result in such interest not being so excluded. Without limiting the generality of the foregoing, the Authority agrees in the Bond Indenture to comply with the provisions of the Tax Agreement. This covenant under the Bond Indenture survives payment in full or defeasance of the Series 2016 Bonds.

Continuing Disclosure

As described in the Loan Agreement, the Association has undertaken all responsibility for compliance with continuing disclosure requirements, and the Authority will have no liability to the Holders of the Series 2016 Bonds or any other Person with respect to Securities and Exchange Commission Rule 15c2-12. Notwithstanding any other provision of the Bond Indenture, failure of the Association to comply with the Continuing Disclosure Agreement will not be considered an Event of Default under the Bond Indenture; however, the Bond Trustee, upon being indemnified to its satisfaction, may (and, at the request of any Participating Underwriter (as defined in the Continuing Disclosure Agreement) or the Holders of at least 25% in aggregate principal amount of Outstanding Series 2016 Bonds, will) or any Bondholder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Association to comply with its disclosure obligations under the Loan Agreement.

Events of Default

Events of Default under the Bond Indenture include: (A) default in the due and punctual payment of the principal or Redemption Price of any Series 2016 Bond when and as the same becomes due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise; (B) default in the due and punctual payment of any installment of interest on any Series 2016 Bond when and as such interest installment becomes due and payable; (C) declaration by the Master

Trustee of the entire principal amount of all Parity Debt Outstanding and the interest accrued thereon to be immediately due and payable; (D) default by the Authority in the observance of any of the covenants, agreements or conditions on its part in the Bond Indenture or in the Series 2016 Bonds, if such default has continued for a period of 60 days after written notice thereof, specifying such default and requiring the same to be remedied, has been given to the Authority and the Association by the Bond Trustee, or to the Authority, the Bond Trustee and the Association by the Holders of not less than 25% in aggregate principal amount of the Series 2016 Bonds at the time Outstanding; or (E) a Loan Default Event.

Upon actual knowledge of the existence of any Event of Default under the Bond Indenture, the Bond Trustee will notify the Association, the Authority and the Master Trustee in writing as soon as practicable. Within five days of actual knowledge of the existence of any Event of Default under the Bond Indenture, the Bond Trustee will notify the Holders.

Relationship with the Master Agreement

Notwithstanding anything in the Bond Indenture to the contrary, prior to exercising any remedies under the Bond Indenture, upon the occurrence of an Event of Default under the Bond Indenture, the Bond Trustee will provide written notice of the occurrence of an Event of Default under the Bond Indenture to the Master Trustee. The foregoing will not be construed as imposing any limitation or restriction on the ability of the Bond Trustee to take any remedy or action with respect to enforcing its rights under the Loan Agreement or under the Bond Indenture, including, without limitation, the Bond Trustee's right to accelerate the Series 2016 Bonds as set forth the Bond Indenture.

The Series 2016 Bonds are secured on a parity with the Parity Debt and any Additional Parity Indebtedness by (i) the security interest in the Collateral granted by the Obligated Group in the Master Agreement and (ii) the Mortgage to the Master Trustee. Under and pursuant to the terms of the Master Agreement and the Mortgage, the Master Trustee will exercise all remedies with respect to Gross Receipts and the Mortgaged Property (as defined in the Master Agreement) on behalf of the holders of the Series 2016 Bonds, Parity Debt and any Additional Parity Indebtedness.

If an "Event of Default" under the Master Agreement occurs and is continuing, the Master Trustee, pursuant to the Master Agreement, may, and upon receipt of written direction from the holders of not less than 25% in aggregate principal amount of the Parity Debt Outstanding must, by written notice to the Association, the Authority and the holders of such Parity Debt, declare immediately due and payable the principal amount of all Outstanding Parity Debt (including the Series 2016 Bonds) and the payments to be made by the Obligated Group therefor, and accrued interest on the foregoing, whereupon the same, including, without limitation, the Series 2016 Bonds, will become immediately due and payable without any further notice or action. Such acceleration will be automatic upon the occurrence of the Event of Default described in the Master Agreement. At any time after the principal of Parity Debt has been so declared to be due and payable by the Master Trustee, if the conditions set forth in the Master Agreement have been satisfied, the Master Trustee will annul such declaration, as provided in the Master Agreement.

Upon the occurrence of any Event of Default under the Bond Indenture, the Bond Trustee may take whatever action at law or in equity it deems necessary or desirable (i) to collect any amounts then due under the Bond Indenture, the Series 2016 Bonds, or the Loan Agreement, (ii) to enforce performance of any obligation, agreement or covenant of the Authority under the Bond Indenture or the Series 2016 Bonds and of the Association under the Loan Agreement, the Master Agreement, the Mortgage, the Tax Agreement and the Continuing Disclosure Agreement; or (iii) to otherwise enforce any of its rights; provided, however, those rights which are granted under the Master Agreement to the Master Trustee for the benefit and security of the holders of all Parity Debt will be enforced by the Master Trustee (and not by the Bond Trustee) on behalf of holders of all Parity Debt.

In the event that the Master Trustee is pursuing its available remedies under the Master Agreement or the Mortgage, the Bond Trustee, without waiving any Event of Default under the Bond Indenture or Loan Default Event under the Loan Agreement, agrees not to pursue its available remedies under the Bond Indenture or the Loan Agreement in a manner that would hinder or frustrate the pursuit by the Master Trustee of its remedies under the Master Agreement or the Mortgage.

Acceleration of Maturities

In the case of an Event of Default of the type described in clauses (A) , (B) or (C) under "Events of Default" above, the Bond Trustee will declare the principal of all the Series 2016 Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately. See "SUMMARY OF THE MASTER AGREEMENT — Remedies upon Events of Default" in this Appendix C to this Official Statement.

In the case of an Event of Default of the type described in clause (D) under "Events of Default" above, the Bond Trustee may take whatever action at law or in equity is necessary or desirable to enforce the performance, observance or compliance by the Authority with any covenant, agreement or condition by the Authority under the Bond Indenture. In addition, if an Event of Default described in clause (D) occurs, the Bond Trustee may and, upon the written request of Holders of not less than 25% in aggregate principal amount of the Series 2016 Bonds then Outstanding, must declare the principal of all the Series 2016 Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately. See "SUMMARY THE MASTER AGREEMENT — Remedies upon Events of Default" in this Appendix C to this Official Statement.

In the case of an Event of Default of the type described in clause (E) under "Events of Default" above, the Bond Trustee may take whatever action the Authority would be entitled to take and will take whatever action the Authority would be required to take pursuant to the Loan Agreement in order to remedy the Loan Default Event. In addition, if an Event of Default described in clause (E) occurs, the Bond Trustee may and, upon the written request of Holders of not less than 25% in aggregate principal amount of the Series 2016 Bonds then Outstanding, will declare the principal of all the Series 2016 Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately. See "SUMMARY OF THE MASTER AGREEMENT — Remedies upon the Events of Default" in this Appendix C to this Official Statement

Upon the declaration by the Bond Trustee of the principal of all the Series 2016 Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, the principal of all the Series 2016 Bonds then Outstanding, and the interest accrued thereon, will be immediately due and payable, anything in the Bond Indenture to the contrary notwithstanding. The Bond Trustee must give or cause to be given notice of acceleration of the Series 2016 Bonds by first class mail to the Bondholders and of such date for payment upon acceleration at least eight days before such date for payment. The Bond Trustee is not required to make payment to any Bondholder until the Series 2016 Bonds are presented to the Bond Trustee for appropriate endorsement or for cancellation if fully paid.

Any such declaration is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due has been obtained or entered, the Authority (but only out of Revenues received from or on behalf of the Association) or the Association deposits with the Bond Trustee a sum sufficient to pay all the principal or Redemption Price of and installments of interest on the Series 2016 Bonds payment of which is overdue, with interest on such overdue principal at the rate borne by the respective Series 2016 Bonds, and the reasonable charges and expenses of the Bond Trustee, and if any and all other defaults known to the Bond Trustee (other than in the payment of principal of and interest on the Series 2016 Bonds due and payable solely by reason of such declaration) has been made good or cured to the satisfaction of the Bond Trustee or provision deemed by the Bond Trustee to be adequate has been made therefor, then the Bond Trustee will, by written notice to the Authority, the Association and the Bond Trustee, on behalf of the Holders of all of the Series 2016 Bonds, rescind and annul such declaration and its consequences and waive such default; but no such rescission and annulment extends to or affects any subsequent default, or impairs or exhaust any right or power consequent thereon.

Immediately after any acceleration under the Bond Indenture, the Bond Trustee, to the extent it has not already done so, must notify in writing to the Master Trustee, the Authority and the Association of the occurrence of such acceleration.

Application of Revenues and Other Funds After Default

If an Event of Default occurs and is continuing, notwithstanding the provisions of the Bond Indenture described under the captions "SUMMARY OF THE BOND INDENTURE — Allocation of Revenues," "— Application of Interest Account," "— Application of Principal Account" and "— Application of Redemption Fund" herein, all Revenues and any other funds then held or thereafter received by the Bond Trustee under any of the provisions of the Bond Indenture (subject to the provisions regarding Series 2016 Bonds for which money is held by the Bond Trustee for the payment of interest, principal or Redemption Price due on any date) will be applied by the Bond Trustee as follows and in the following order:

(1) To the payment of any expenses necessary in the opinion of the Bond Trustee to protect the interests of the Holders of the Series 2016 Bonds and payment of reasonable fees and expenses of the Bond Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Bond Indenture; and

(2) To the payment of the principal or Redemption Price of and interest then due on the Series 2016 Bonds (upon presentation of the Series 2016 Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Bond Indenture, as follows:

(i) Unless the principal of all of the Series 2016 Bonds 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 in the order of the maturity of such installments, and, if the amount available is not sufficient to pay in full any installment or installments maturing 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 or Redemption Price of any Series 2016 Bonds which have become due, whether at maturity or by call for redemption, in the order of their due dates, with interest on the overdue principal at the rate borne by the respective Series 2016 Bonds, and, if the amount available is not sufficient to pay in full all the Series 2016 Bonds due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date to the persons entitled thereto, without any discrimination or preference.

(ii) If the principal of all of the Series 2016 Bonds has become or has been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Series 2016 Bonds, with interest on the overdue principal at the rate borne by the respective Series 2016 Bonds, and, if the amount available will not be sufficient to pay in full the whole amount so due and unpaid, then to the payment thereof ratably, 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 Series 2016 Bond over any other Series 2016 Bond, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference.

Bond Trustee to Represent Bondholders

As described in the Bond Indenture, the Bond Trustee is irrevocably appointed (and the successive respective Holders of the Series 2016 Bonds, by taking and holding the same, will be conclusively deemed to have so appointed the Bond Trustee) as trustee and true and lawful attorney-in-fact of the Holders of the Series 2016 Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Holders under the provisions of the Series 2016 Bonds, the Bond Indenture, the Loan Agreement, the Act and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Bond Trustee to represent the Bondholders, the Bond Trustee in its discretion may, and upon the written request of the Holders of not less than 25% in aggregate principal amount of the Series 2016 Bonds then Outstanding and upon being indemnified to its satisfaction therefor, will, proceed to protect or enforce its rights or the rights of such Holders by such appropriate action, suit, mandamus or other proceedings as it deems most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Bond Indenture, or in aid of the execution of any power granted in the Bond Indenture, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Bond Trustee or in such Holders under the Bond Indenture, the Loan Agreement, the Act or any other law; and upon instituting such proceeding, the Bond Trustee will be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other assets pledged under the Bond Indenture, pending such proceedings. All rights of action under the Bond Indenture or the Series 2016 Bonds or otherwise may be prosecuted and enforced by the Bond Trustee without the possession of any of the Series 2016 Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Bond Trustee will be brought in the name of the Bond Trustee for the benefit and protection of all the Holders of such Series 2016 Bonds, subject to the provisions of the Bond Indenture.

Bondholders' Direction of Proceedings

Anything in the Bond Indenture to the contrary notwithstanding, the Holders of not less than 25% in aggregate principal amount of the Series 2016 Bonds then Outstanding will have the right, by an instrument or concurrent instruments in writing executed and delivered to the Bond Trustee, to direct the method of conducting all remedial proceedings taken by the Bond Trustee under the Bond Indenture, provided that such direction must be in accordance with law and the provisions of the Bond Indenture, and that the Bond Trustee has the right to decline to follow any such direction which in the opinion of the Bond Trustee would be unjustly prejudicial to Bondholders not parties to such direction and that the Bond Trustee will decline to follow any such direction if Holders of not less than a majority in aggregate principal amount of the Series 2016 Bonds, by an instrument or concurrent instruments in writing delivered to the Bond Trustee, provide a contrary direction. For the avoidance of doubt, anything in the Bond Indenture to the contrary notwithstanding, if (a) the Holders of not less than 25% in aggregate principal amount of the Series 2016 Bonds then Outstanding shall have obtained a right, pursuant to the Bond Indenture, to direct the method of conducting remedial proceedings taken by the Bond Trustee under the Bond Indenture, by delivering an instrument or concurrent instruments in writing to the Bond Trustee and (b) the Holders of not less than a majority in aggregate principal amount of the Series 2016 Bonds then Outstanding shall have delivered to the Bond Trustee a contrary direction within two Business Days of receipt by the Bond Trustee of the direction by Holders of not less than 25% in aggregate principal amount of the Series 2016 Bonds then Outstanding, then the Bond Trustee shall follow the direction of the Holders of a majority in aggregate principal amount of the Series 2016 Bonds then Outstanding. A contrary direction by Holders of not less than a majority in aggregate principal amount of the Series 2016 Bonds then Outstanding, which direction is received by the Bond Trustee more than two Business Days after the Bond Trustee receives the direction by Holders of not less than 25% in aggregate principal amount of the Series 2016 Bonds then Outstanding, will be of no force and effect.

Limitation on Bondholders' Right to Sue

No Holder of any Series 2016 Bond will have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Bond Indenture, the Loan Agreement, the Act, or any other applicable law with respect to such Series 2016 Bond, unless (1) such Holder has given to the Bond Trustee written notice of the occurrence of an Event of Default; (2) subject to the provisions of the Bond Indenture described above in this "SUMMARY OF THE BOND INDENTURE" under the heading "Bondholders' Direction of Proceedings," the Holders of not less than 25% in aggregate principal amount of the Series 2016 Bonds then Outstanding have made written request upon the Bond Trustee to exercise the powers granted in the Bond Indenture or to institute such suit, action or proceeding in its own name; (3) such Holder or said Holders have tendered to the Bond Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Bond Trustee has refused or failed to comply with such request for a period of 60 days after such written request has been received by, and said tender of indemnity has been made to, the Bond Trustee.

The Bond Indenture declares each such notification, request, tender of indemnity and refusal or omission, in every case, to be conditions precedent to the exercise by any Holder of the Series 2016 Bonds of any remedy under the Bond Indenture or under law; it being understood and intended that no one or more Holders of the Series 2016 Bonds will have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Bond Indenture or the rights of any other Holders of the Series 2016 Bonds, or to enforce any right under the Bond Indenture, the Loan Agreement, the Act or other applicable law with respect to the Series 2016 Bonds, except in the manner provided in the Bond Indenture, and that all proceedings at law or in equity to enforce any such right will be instituted and maintained in the manner provided in the Bond Indenture and for the benefit and protection of all Holders of the Outstanding Series 2016 Bonds, subject to the provisions of the Bond Indenture.

Termination of Proceedings

In case any proceedings taken by the Bond Trustee or any one or more Bondholders on account of any Event of Default has been discontinued or abandoned for any reason or has been determined adversely to the Bond Trustee or the Bondholders, then in every such case the Authority, the Bond Trustee and the Bondholders, subject to any determination in such proceedings, will be restored to their former positions and rights under the Bond Indenture, severally and respectively, and all rights, remedies, powers and duties of the Authority, the Bond Trustee, and the Bondholders will continue as though no such proceedings had been taken.

Remedies Not Exclusive

No remedy conferred upon or reserved to the Bond Trustee or to the Holders of the Series 2016 Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, will be cumulative and in addition to any other remedy given under the Bond Indenture or now or hereafter existing at law or in equity or otherwise.

No Waiver of Default

No delay or omission of the Bond Trustee or of any Holder of the Series 2016 Bonds to exercise any right or power arising upon the occurrence of any default impairs any such right or power or will be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by the Bond Indenture to the Bond Trustee or to the Holders of the Series 2016 Bonds may be exercised from time to time and as often as may be deemed expedient.

Remedies Subject to Provisions of Law

All rights, remedies and powers provided by the Bond Indenture may be exercised only to the extent that the exercise thereof does not violate any applicable provision of the law in the premises, and all of such provisions of the Bond Indenture are intended to be subject to all applicable mandatory provisions of the law in the premises which may be controlling and to be limited to the extent necessary so that they will not render the Bond Indenture invalid or unenforceable under the provisions of any applicable law.

Modification or Amendment of the Bond Indenture

(A) The Bond Indenture and the rights and obligations of the Authority and of the Holders of the Series 2016 Bonds and of the Bond Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental thereto, which the Authority and the Bond Trustee may enter into when the written consents of the Holders of a majority in aggregate principal amount of the Series 2016 Bonds then Outstanding have been filed with the Bond Trustee. If such modification or amendment will, by its terms, not take effect so long as any Series 2016 Bonds of any particular maturity remain Outstanding, the consent of the Holders of such Bonds will not be required and such Bonds will not be deemed to be Outstanding for the purpose of any calculation of Series 2016 Bonds Outstanding under the Bond Indenture. No modification or amendment of the Bond Indenture will (1) extend the fixed maturity of any Series 2016 Bond, or reduce the amount of principal thereof, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the Holder of each Series 2016 Bond so affected, or (2) reduce the aforesaid percentage of Series 2016 Bonds the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Bond Indenture prior to or on a parity with the lien created by the Bond Indenture, or deprive the Holders of the Series 2016 Bonds of the lien created by the Bond Indenture on such Revenues and other assets (except as expressly provided in the Bond Indenture), without the consent of the Holders of all Series 2016 Bonds then Outstanding. It will not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Agreement, but it will be sufficient if such consent approves the substance thereof. Promptly after the execution by the Authority and the Bond Trustee of any Supplemental Agreement as described in this paragraph, the Bond Trustee will mail a notice, setting forth in general terms the substance of such Supplemental Agreement to the Bondholders at the addresses shown on the registration books maintained by the Bond Trustee, unless the affected Bondholders, in their consent, have waived any right to receive notice. Any failure to give such notice, or any defect therein, will not, however, in any way impair or affect the validity of any such Supplemental Agreement.

(B) The Bond Indenture and the rights and obligations of the Authority, of the Bond Trustee and of the Holders of the Series 2016 Bonds may also be modified or amended from time to time and at any time, without the consent of any Series 2016 Bondholders, by an indenture or indentures supplemental thereto, which the Authority and the Bond Trustee may enter into to the extent permitted by law, but only for any one or more of the following purposes: (1) to add to the covenants and agreements of the Authority contained in the Bond Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Series 2016 Bonds (or any portion thereof), or to surrender any right or power reserved to or conferred upon the Authority in the Bond Indenture, provided, that no such covenant, agreement, pledge, assignment or surrender will materially adversely affect the interests of the Holders of the Series 2016 Bonds; (2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Bond Indenture, or in regard to matters or questions arising under the Bond Indenture, as the Authority or the Bond Trustee may deem necessary or desirable, and which will not materially adversely affect the interests of the Holders of the Series 2016 Bonds; (3) to modify, amend or supplement the Bond Indenture in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which will not materially adversely affect the interests of the Holders of the Series 2016 Bonds; (4) to preserve the exclusion of interest on the Series 2016 Bonds from gross income for federal income purposes; (5) to facilitate (i) the transfer of the Series 2016 Bonds from one Securities Depository to another in the succession of Securities Depositories, or (ii) the withdrawal from a Securities Depository of Series 2016 Bonds held in a book-entry system and the issuance of replacement Series 2016 Bonds in fully registered form to Persons other than a Securities Depository; (6) to make any amendments, appropriate or necessary to provide for any insurance policy, letter of credit, guaranty, surety bond, line of credit, revolving credit agreement, standby bond purchase agreement or other agreement or security device delivered to the Bond Trustee and providing for payment of the principal and Redemption Price of and interest on the Series 2016 Bonds or a portion thereof; or (7) to make any changes required by a Rating Agency in order to obtain or maintain a rating for the Series 2016 Bonds.

(C) If the Bond Trustee receives one or more documents purporting to be executed by the Holders of the Series 2016 Bonds of the required percentage of the affected Outstanding Series 2016 Bonds, the Bond Trustee will execute and deliver a Supplemental Agreement in a form that substantially conforms to the notice of modification or amendment to be provided to Holders as pursuant to the provisions of the Bond Indenture described in clause (A) immediately above. As an alternative method of evidencing consent of Holders to any modification or amendment of the Bond Indenture, the purchasers of Series 2016 Bonds that are sold following a purchase in lieu of redemption pursuant to the Bond Indenture and that are sold pursuant to a disclosure document (as described below in this paragraph) will be deemed, upon their purchase of such Series 2016 Bonds, to have received notice of the proposed modification or amendment to the Bond Indenture and to have provided their consent to such modification or amendment and no written consent is required to be provided by such purchasers. Any disclosure document for such Series 2016 Bonds must (i) describe the substance of the proposed Supplemental Agreement and the modification or amendment set forth therein and state that copies of the draft Supplemental Agreement are available from the Bond Trustee upon written request to the Bond Trustee and (B) state that the purchasers of such Series 2016 Bonds, by their purchase of such Series 2016 Bonds, are deemed to have consented to such Supplemental Agreement and the modification or amendment to the Bond Indenture.

Promptly after the consent of Holders of the Series 2016 Bonds of the required percentage of the affected Outstanding Series 2016 Bonds has been obtained or deemed given, the Bond Trustee will file with the Authority a written notice confirming that the Holders of the required percentage of the affected Outstanding Series 2016 Bonds have given their consents as required by the provisions of the Bond

Indenture summarized in this subsection (the "Notice of Consent"), and such Notice of Consent will be conclusive evidence that the consents have been given in accordance with the provisions of the Bond Indenture. Any consent provided in accordance with the provisions of the Bond Indenture summarized in this subsection will be binding upon the Holder giving the consent and, anything in the Bond Indenture to the contrary notwithstanding, upon any subsequent Holder of that Series 2016 Bond and of any Series 2016 Bond issued in exchange therefor (regardless of whether the subsequent Holder received notice of such consent to the Supplemental Agreement).

(D) As a condition to the effectiveness of any Supplemental Agreement, there will be filed with the Bond Trustee and the Authority an Opinion of Bond Counsel to the effect that such Supplemental Agreement (i) will not adversely affect the exclusion of interest on the interest on the Series 2016 Bonds from gross income for federal income tax purposes or the exemption of interest on the Series 2016 Bonds from State income taxation and (ii) complies with the provisions of the Bond Indenture.

Enforcement of Loan Agreement; Amendment of Loan Agreement

The Authority agrees that the Bond Trustee in its own name or in the name of the Authority may enforce all rights of the Authority and all obligations of the Association under and as described in the Loan Agreement for and on behalf of the Bondholders (other than Unassigned Rights), whether or not the Authority is in default under the Bond Indenture.

The Authority cannot amend, modify or terminate any of the terms of the Loan Agreement or consent to any such amendment, modification or termination without the written consent of the Bond Trustee. The Bond Trustee will give such written consent only if (1) in the Opinion of Bond Counsel, such amendment is necessary to preserve the exclusion of interest on the Series 2016 Bonds from gross income for purposes of federal income taxation or the exemption of interest on the Series 2016 Bonds from State income taxation; (2) in the Opinion of Counsel, such amendment, modification or termination will not materially adversely affect the interests of the Bondholders or result in any material impairment of the security given for the payment of the Series 2016 Bonds; or (3) the Holders of a majority in principal amount of the Series 2016 Bonds then Outstanding consent in writing to such amendment, modification or termination. No amendment, modification or termination of the Loan Agreement will reduce the amount of Loan Repayments to be made to the Authority or the Bond Trustee by the Association pursuant to the Loan Agreement, or extend the time for making such payments, without the written consent of all of the Holders of the Series 2016 Bonds then Outstanding.

The Bond Trustee will promptly collect all amounts due from the Association pursuant to the Loan Agreement, perform all duties imposed upon it as described in the Loan Agreement and diligently enforce, and take all steps, actions and proceedings reasonably necessary for the enforcement of all of the rights of the Authority (other than the right of the Authority to receive Administrative Fees and Expenses, as such term is defined in the Bond Indenture, and the other Unassigned Rights) and all of the obligations of the Association under the Loan Agreement.

Discharge of Bond Indenture

The Series 2016 Bonds may be paid by the Authority or the Bond Trustee on behalf of the Authority in any of the following ways: (a) by paying or causing to be paid the principal or Redemption Price of and interest on all Series 2016 Bonds Outstanding, as and when the same become due and payable; (b) by depositing with the Bond Trustee, in trust, at or before maturity, moneys or securities in the necessary amount (as described below under "Deposit of Money or Securities with Bond Trustee") to pay when due or redeem all Series 2016 Bonds then Outstanding; or (c) by delivering to the Bond Trustee, for cancellation by it, all Series 2016 Bonds then Outstanding.

Discharge of Liability on Bonds

Upon the deposit with the Bond Trustee, in trust, at or before maturity, of money or securities in the necessary amount to pay or redeem any Outstanding Series 2016 Bond (whether upon or prior to its maturity or the redemption date of such Series 2016 Bond), provided that, if any Series 2016 Bond is to be redeemed prior to maturity, notice of such redemption has been given as provided in the Bond Indenture or provision satisfactory to the Bond Trustee has been made for the giving of such notice, then all liability of the Authority in respect of such Bond has cease, terminate and be completely discharged, except only that thereafter the Holder thereof will be entitled to payment of the principal of and interest on such Series 2016 Bond by the Authority, and the Authority will remain liable for such payment, but only out of such money or securities deposited with the Bond Trustee as aforesaid for their payment, subject, however, to the provisions of the Bond Indenture described below under the caption "Rights Retained After Discharge."

The Authority or the Association may at any time surrender to the Bond Trustee for cancellation by it any Series 2016 Bonds previously issued and delivered, which the Authority or the Association may have acquired in any manner whatsoever, and such Series 2016 Bonds, upon such surrender and cancellation, will be deemed to be paid and retired.

Deposit of Money or Securities with Bond Trustee

Whenever in the Bond Indenture it is provided or permitted that there be deposited with or held in trust by the Bond Trustee money or securities in the necessary amount to pay or redeem any of the Series 2016 Bonds, the money or securities to be so deposited or held may include money or securities held by the Bond Trustee in the funds and accounts established pursuant to the Bond Indenture and will be:

(a) lawful money of the United States of America in an amount equal to the principal amount of such Series 2016 Bonds and all unpaid interest thereon to maturity, except that, in the case of the Series 2016 Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption has been given as provided in the Bond Indenture or provision satisfactory to the Bond Trustee has been made for the giving of such notice, the amount to be deposited or held must be the principal amount or Redemption Price of such Series 2016 Bonds and all unpaid interest thereon to the redemption date; or

(b) Government Obligations (not callable by the issuer thereof prior to maturity), the principal of and interest on which when due (without any income from the reinvestment thereof) will provide money sufficient to pay the principal or Redemption Price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Series 2016 Bonds to be paid or redeemed, as such principal or Redemption Price and interest become due, as certified in a written report of a firm nationally recognized for providing verification services; provided that, in the case of the Series 2016 Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption has been given as provided in the Bond Indenture or provision satisfactory to the Bond Trustee has been made for the giving of such notice; provided, in each case, that the Bond Trustee has been irrevocably instructed (by the terms of the Bond Indenture or by written request of the Authority) to apply such money to the payment of such principal or Redemption Price and interest with respect to such Series 2016 Bonds.

Rights Retained After Discharge

Notwithstanding the satisfaction and discharge of the Bond Indenture, the Bond Trustee will retain such rights, powers and duties under the Bond Indenture as may be necessary and convenient for the payment of amounts due or to become due on the Series 2016 Bonds and the registration, transfer and exchange of Series 2016 Bonds as provided in the Bond Indenture.

Notwithstanding any provisions of the Bond Indenture to the contrary, any moneys held by the Bond Trustee in trust for the payment of the principal and Redemption price, as applicable, of or interest on, any Series 2016 Bonds and remaining unclaimed for three years (or, if shorter, one day before such moneys would escheat to the State under then applicable law) after such principal or interest, as the case may be, has become due and payable (whether at maturity or upon call for redemption or by acceleration as provided in the Bond Indenture), if such moneys were so held at such date, or three years (or, if shorter, one day before such moneys would escheat to the State under then applicable law) after the date of deposit of such moneys if deposited after said date when all of the Series 2016 Bonds became due and payable, will be repaid to the Association free from the trusts created by the Bond Indenture upon receipt of an indemnification agreement acceptable to the Authority and the Bond Trustee indemnifying the Authority and the Bond Trustee with respect to claims of Holders of Series 2016 Bonds which have not yet been paid and containing the agreement of the Association to remain liable for the amount so repaid to the Association, and all liability of the Authority and the Bond Trustee with respect to such moneys will thereupon cease; provided, however, that before the repayment of such moneys to the Association as aforesaid, the Bond Trustee may (at the cost of the Association) first mail to the Holders of Series 2016 Bonds which have not yet been paid, at the addresses shown on the registration books maintained by the Bond Trustee, a notice, in such form as may be deemed appropriate by the Bond Trustee with respect to the Series 2016 Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Association of the moneys held for the payment thereof.

Cancellation

To the extent required by the provisions of Arizona Revised Statutes Section 38-511, as amended, notice is given under the Bond Indenture that the State, its political subdivisions (including the Authority) or any department or agency of either may, within three years after its execution, cancel any contract, without penalty or further obligation, made by the State, its political subdivisions, or any of the departments or agencies of either if any person significantly involved in initiating, negotiating, securing, drafting or creating the contract on behalf of the State, its political subdivisions, or any of the departments or agencies of either is, at any time while the contract or any extension of the contract is in effect, an employee or agent of any other party to the contract in any capacity or a consultant to any other party of the contract with respect to the subject matter of the contract. The State, its political subdivisions or any department or agency of either may recoup any fee or commission paid or due to any person significantly involved in initiating, negotiating, securing, drafting or creating the contract on behalf of the State, its political subdivisions or any department or agency of either from any other party to the contract arising as the result of the contract. The Authority agrees to use its best efforts not to create an event that could lead to the Authority having the right to cancel the Bond Indenture pursuant to Section 38-511 of the Arizona Revised Statutes.

Security Interest

In addition to the assignment and transfer in trust by the Authority to the Bond Trustee pursuant to the Bond Indenture, the Bond Indenture also states that the Authority grants to the Bond Trustee a security interest in certain property. Arizona Revised Statutes Section 47-9109.D.14 provides that Article 9 of the Uniform Commercial Code as enacted in the State does not apply to a transfer, pledge, assignment, grant or similar action by the State or a governmental unit of the State such as the Authority. The Authority nevertheless agrees to cooperate with the Bond Trustee in the filing of financing statements only in an attempt to provide public notice of the interests granted by the Authority to the Bond Trustee by the Bond Indenture.

SUMMARY OF THE LOAN AGREEMENT

The following is a summary of certain provisions of the Loan Agreement not described elsewhere in this Official Statement. This summary should not be considered as a full statement of the Loan Agreement. Reference is made to the Loan Agreement for complete details of the Loan Agreement and the obligation of the Association to make Loan Repayments (as defined below). This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Loan Agreement. Capitalized terms used in this section describing the Loan Agreement, but not defined herein, have the meaning set forth in the Bond Indenture. See "SUMMARY OF THE BOND INDENTURE – Definitions of Certain Terms" in this Appendix C.

Issuance of the Series 2016 Bonds; Loan of Proceeds

Pursuant to the Bond Indenture, the Authority has authorized the issuance of the Series 2016 Bonds. Under the Loan Agreement, the Authority agrees to lend and advance to the Association and the Association agrees to borrow and accept from the Authority (solely from the proceeds of the sale of the Series 2016 Bonds) said principal amount, to be applied under the terms and conditions of the Loan Agreement and the Bond Indenture. Pursuant to the Loan Agreement, the Association agrees to approves the Bond Indenture, the assignment thereunder to the Bond Trustee of the right, title and interest of the Authority (with certain exceptions) in the Loan Agreement, and the issuance by the Authority of the Series 2016 Bonds.

Payments of Principal, Redemption Price and Interest

In consideration of the issuance of the Series 2016 Bonds by the Authority and the loan of the proceeds thereof to the Association, under the Loan Agreement the Association will agree that, on or before 10:00 a.m., Arizona time, it will pay to the Bond Trustee, for the account of the Authority, for deposit in the Revenue Fund (i) one Business Day immediately preceding each Interest Payment Date, commencing with the first Interest Payment Date, such amount as is required for the Bond Trustee to make the transfers and deposits required under the Bond Indenture, and (ii) one Business Day immediately preceding each Principal Payment Date, the amount required for the Bond Trustee to make the transfers and deposits required under the Bond Indenture for the payment of principal of the Bonds (whether by maturity or by redemption) (collectively, "Loan Repayments"). Notwithstanding the foregoing, the Association will agree to make payments, or cause payments to be made, to the Bond Trustee at the times and in the amounts required to be paid as principal or Redemption Price of and interest on the Series 2016 Bonds from time to time Outstanding under the Bond Indenture and other amounts required to be paid under the Bond Indenture, as the same becomes due whether at maturity, upon redemption, by declaration of acceleration or otherwise.

Except as otherwise expressly provided in the Loan Agreement, all amounts payable under the Loan Agreement by the Association to the Authority will be paid to the Bond Trustee, as assignee of the Authority under the Loan Agreement, and all right, title and interest of the Authority in any such payments are assigned and pledged to the Bond Trustee so long as any Series 2016 Bonds remain Outstanding.

Each payment by the Association to the Bond Trustee under the Loan Agreement will be in lawful money of the United States of America and paid to the Bond Trustee at its designated corporate trust office and held, invested, disbursed and applied as provided in the Bond Indenture.

Credits for Payments

The Association will receive credit against Loan Repayments required under the Loan Agreement, in addition to any credits resulting from payment or repayment from other sources, as follows:

(a) On installments of interest in an amount equal to moneys deposited in the Interest Account which amounts are available to pay interest on the Series 2016 Bonds and to the extent such amounts have not previously been credited against such payments;

(b) On installments of principal in an amount equal to moneys deposited in the Principal Account which amounts are available to pay principal of the Series 2016 Bonds and to the extent such amounts have not previously been credited against such payments;

(c) On installments of principal and interest in an amount equal to the principal amount of the Series 2016 Bonds for the redemption or payment of which sufficient amounts (as determined by the provisions of the Bond Indenture), in cash or Government Obligations are on deposit as provided in the Bond Indenture to the extent such amounts have not previously been credited against such payments, and the interest on such Series 2016 Bonds from and after the date interest has been paid thereon to the date fixed for payment at maturity or redemption thereof. Such credits must be made against the installments of principal and interest which would have been used, but for such call for payment or redemption, to pay principal of and interest on such Series 2016 Bonds when due; and

(d) On installments of principal and interest in an amount equal to the principal amount of Series 2016 Bonds acquired by the Association and surrendered to the Bond Trustee for cancellation or purchased by the Bond Trustee and canceled, and the interest on such Series 2016 Bonds from and after the date interest thereon has been paid prior to cancellation. Such credits will be made against the installments of principal and interest which would have been used, but for such cancellation, to pay principal of and interest on such Series 2016 Bonds when due.

Prepayment

The Association has the right, so long as all amounts which have become due under the Loan Agreement have been paid, at any time or from time to time to prepay all or any part of its obligations under the Loan Agreement, and the Authority agrees that the Bond Trustee will accept such prepayments when the same are tendered. Prepayments may be made by payments of cash or surrender of the Series 2016 Bonds, as contemplated by the Loan Agreement. All such prepayments will be deposited upon receipt in the Optional Redemption Account and, at the request of and as determined by the Association, credited against payments due under the Loan Agreement or used for the redemption or purchase of Outstanding Series 2016 Bonds in the manner and subject to the terms and conditions set forth in the Bond Indenture. Notwithstanding any such prepayment or surrender of the Series 2016 Bonds, as long as any the Series 2016 Bonds remain Outstanding or any Additional Payments required to be made under the Loan Agreement remain unpaid, the Association will not be relieved of its obligations under the Loan Agreement.

The Association may also prepay all of its obligations under the Loan Agreement by providing for the payment of the Series 2016 Bonds in accordance with the provisions of the Bond Indenture. See “SUMMARY OF THE BOND INDENTURE — Discharge of Bond Indenture,” “— Deposit of Moneys and Securities with the Bond Trustee,” and “— Discharge of Liability on Bonds” in this Appendix C.

If the Association is not in default in the payment of any payments required to be made under the Loan Agreement, the Authority, at the request of the Association, at any time that there is on deposit with the Bond Trustee moneys or Government Obligations in the amount necessary to pay or redeem all Series 2016 Bonds Outstanding (as provided in the Bond Indenture, see "SUMMARY OF THE BOND INDENTURE — Deposit of Money or Securities with Bond Trustee" in this "Appendix C"), shall forthwith take all steps that may be necessary to discharge the entire indebtedness on all Series 2016 Bonds Outstanding.

The Association may also prepay all or any part of its obligations under the Loan Agreement by depositing insurance proceeds, condemnation awards or sale proceeds from sales consummated under threat of condemnation received with respect to its facilities or the facilities of the Members in the Special Redemption Account.

Obligations Unconditional

The obligations of the Association under the Loan Agreement, including the payment obligation of the Association under the Loan Agreement, are absolute and unconditional, notwithstanding any other provision of the Loan Agreement, the Bond Indenture or the Master Agreement. Until the Loan Agreement is terminated and all payments under the Loan Agreement are made, the Association: (a) will pay all amounts required under the Loan Agreement without abatement, deduction or set-off except as otherwise expressly provided in the Loan Agreement; (b) will not suspend or discontinue any payments due under the Loan Agreement for any reason whatsoever, including, without limitation, any right of set-off or counterclaim; (c) will perform and observe all its other agreements contained in the Loan Agreement; and (d) except as provided in the Loan Agreement, will not terminate the Loan Agreement for any cause including, without limiting the generality of the foregoing, damage, destruction or condemnation of the Association's facilities or any part thereof, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State, or any political subdivision of either, or any failure of the Authority to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Loan Agreement. Nothing contained in the Loan Agreement and described in this paragraph should be construed to release the Authority from the performance of any of the agreements on its part contained in the Loan Agreement as described under this caption; and in the event the Authority should fail to perform any such agreement on its part, the Association may institute such action against the Authority as the Association may deem necessary to compel performance.

The rights of the Bond Trustee or any party or parties on behalf of whom the Bond Trustee is acting are not subject to any defense, set-off counterclaim or recoupment whatsoever, whether arising out of any breach of any duty or obligation of the Authority, the Master Trustee or the Bond Trustee owing to the Association, or by reason of any other indebtedness or liability at any time owing by the Authority, the Master Trustee or by the Bond Trustee to the Association.

Particular Covenants

Consent to Assignment of Loan Agreement Rights to the Bond Trustee. Pursuant to the Loan Agreement, the Association acknowledges and consents to the pledge and assignment of the Loan Agreement and payments to be made under the Loan Agreement (excluding Unassigned Rights), and of the Authority's rights under the Loan Agreement to the Bond Trustee pursuant to the Bond Indenture to secure payment of the Series 2016 Bonds and agrees that the Bond Trustee may, on behalf of the owners of the Series 2016 Bonds, enforce the rights, remedies and privileges granted to the Authority under the Loan Agreement, other than the Unassigned Rights.

Tax Covenants. Under the Loan Agreement, the Association covenants and agrees that it will at all times do and perform all acts and things permitted by law and the Loan Agreement which are necessary in order to assure that interest paid on the Series 2016 Bonds (or any of them) will be excluded from gross income for federal income tax purposes and will take no action that would result in such interest not being so excluded. Without limiting the generality of the foregoing, the Association agrees to comply with the provisions of the Tax Agreement. This covenant within the Loan Agreement survives payment in full or defeasance of the Series 2016 Bonds.

Continuing Disclosure. Pursuant to the Loan Agreement, the Association covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Loan Agreement, failure of the Association to comply with the Continuing Disclosure Agreement will not be considered a Loan Default Event (as defined in "Loan Default Events" herein below); however, the Bond Trustee, upon being indemnified to its satisfaction therefor, may (and, at the request of any Participating Underwriter (as defined in the Continuing Disclosure Agreement) or the Holders of at least 25% in aggregate principal amount in Outstanding Series 2016 Bonds, must) or any Series 2016 Bondholder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Association to comply with its obligations under the Loan Agreement described in this paragraph.

Authority's Right to Perform the Association's Covenants

If the Association fails to make any payment or perform any act required by the Loan Agreement, the Master Agreement, the Mortgage, the Tax Agreement, the Continuing Disclosure Agreement (collectively, the "Association's Documents"), or the Series 2016 Bonds (unless the payment or performance is one which the Loan Agreement or any other of the Association's Documents permits the Association to contest and the Association is contesting it by diligently pursuing appropriate proceedings), then the Authority or the Bond Trustee, upon not less than 10 days' prior written notice to the Association, may (but is not obligated to) remedy the default for the account of the Association and make advances for that purpose. No remedy by the Authority or the Bond Trustee operates to release the Association from its default. Any money advanced by the Authority or the Bond Trustee in the discharge of an obligation of the Association under the Loan Agreement are additional obligations of the Association to the party making the advance, are due from the Association in immediately available funds on demand and bear interest at the then-existing interest rate on the Series 2016 Bonds plus 2.0% from the date of the advance until paid.

Loan Default Events

The following events constitute "Loan Default Events" under the Loan Agreement:

(a) Failure by the Association to pay in full any payment required under the Loan Agreement when due or otherwise pursuant to the terms of the Loan Agreement;

(b) If any material representation or warranty made by the Association in the Loan Agreement or made by the Association or any Member in any of the Association's Documents or in any other document, instrument or certificate furnished to the Bond Trustee or the Authority in connection with the issuance of the Series 2016 Bonds proves at any time to have been materially incorrect in any respect as of the time made;

(c) If the Association fails to observe or perform any covenant, condition, agreement or provision in the Loan Agreement on its part to be observed or performed, other than as described in the paragraph titled "Continuing Disclosure" under this Caption "SUMMARY OF THE LOAN AGREEMENT" (which will be governed by its terms) and as referred to in subsection (a) or (b) above, for a period of 60 days after written notice, specifying such failure or breach and requesting that it be remedied, has been given to the Association by the Authority or the Bond Trustee; except that, if such failure or breach can be remedied but not within such 60 day period and if the Association has taken all action reasonably possible to remedy such failure or breach within such 60 day period, such failure or breach will not become a Loan Default Event for so long as the Association diligently proceeds to remedy such failure or breach;

(d) The Association (i) admits in writing its inability to pay its debts generally, (ii) makes a general assignment for the benefit of creditors, (iii) institutes any proceeding or voluntary case (A) seeking to adjudicate it bankrupt or insolvent, (B) seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief or protection of debtors, or (C) seeking the entry of an order for relief or the appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its property, (iv) takes any action to authorize any of the actions described above in this clause (d), or (v) has instituted against it any proceeding (A) seeking to adjudicate it bankrupt or insolvent, (B) seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief or protection of debtors or (C) seeking the entry of an order for relief or the appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its property, and, if such proceeding is being contested by the Association in good faith, such proceeding remains undismissed or unstayed for a period of 60 days;

(e) Any Event of Default as defined in and under the Bond Indenture; or

(f) Any Event of Default as defined in and under the Master Agreement.

Upon having actual notice of the existence of a Loan Default Event, the Bond Trustee will serve written notice thereof upon the Association and the Master Trustee unless the Association has expressly acknowledged the existence of such Loan Default Event in writing (i) delivered by the Association to the Bond Trustee and the Master Trustee or (ii) filed by the Association in any court.

Remedies in General

Upon the occurrence and during the continuance of any Loan Default Event, the Bond Trustee, on behalf of the Authority, but subject to the limitations in the Bond Indenture as to the enforcement of remedies, will have under the Loan Agreement the following rights and remedies in addition to any other remedies available at law or in equity:

(a) Declare all Loan Repayments and Additional Payments to be immediately due and payable;

(b) Exercise any or all rights and remedies given by or available under the Loan Agreement or given by or available under any other instrument of any kind securing the Association's performance under the Loan Agreement; and

(c) Take any action at law or in equity to collect the payment required under the Loan Agreement then due, whether on the stated due date or by declaration of acceleration or otherwise, for damages or for specific performance or otherwise to enforce performance and observance of any obligation, agreement or covenant of the Association under the Loan Agreement.

Notwithstanding any right, power or other remedy permitted under the Loan Agreement, if the Bond Trustee will have declared the principal of all the Series 2016 Bonds then Outstanding and the interest accrued thereon to be due and payable immediately pursuant to the Bond Indenture, as described herein under the caption "SUMMARY OF THE BOND INDENTURE — Acceleration of Maturities" above, then the Bond Trustee, on behalf of the Authority, is to declare all Loan Repayments and Additional Payments to be immediately due and payable.

Remedies Not Exclusive; No Waiver of Rights

No remedy in the Loan Agreement conferred upon or reserved to the Authority or the Bond Trustee is intended to be exclusive of any other available remedy or remedies, but each and every such remedy, to the extent permitted by law, will be cumulative and will be in addition to every other remedy given under the Loan Agreement or now as of the date of the authentication of the Series 2016 Bonds or thereafter existing at law or in equity or otherwise. To the extent permitted by law, in order to entitle the Authority or the Bond Trustee to exercise any remedy under the Loan Agreement, it is not necessary to give any notice, other than such notice as may be expressly required in the Loan Agreement. Such rights and remedies as are given to the Authority under the Loan Agreement also extend to the Bond Trustee, and the Bond Trustee may exercise any rights of the Authority under the Loan Agreement, and the Bond Trustee and the Holders of the Series 2016 Bonds will be deemed third party beneficiaries of all covenants and conditions contained in the Loan Agreement.

No delay in exercising or omitting to exercise any right or power accruing upon any default will impair any such right or power or be construed to be a waiver of any such default or an acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

Amendment of Agreement

The Loan Agreement represents the entire contract between the parties. The Loan Agreement may not be effectively amended, changed, modified, altered or terminated except by the written agreement of the Association and the Authority and the concurring written consent of the Bond Trustee, given in accordance with the Bond Indenture. See "SUMMARY OF THE BOND INDENTURE — Enforcement of Loan Agreement; Amendment of Loan Agreement" herein.

Governing Law; Venue.

The Loan Agreement is be governed by and construed in accordance with and governed by the Constitution and laws of the State, and any action filed to enforce the Loan Agreement must be filed in Yavapai County, Arizona, unless waived by the Authority in writing.

Cancellation

To the extent required by the provisions of Arizona Revised Statutes Section 38-511, as amended, notice is given under the Loan Agreement that the State, its political subdivisions (including the Authority) or any department of agency of either may, within three years after its execution, cancel any contract, without penalty or further obligation, made by the State, its political subdivisions, or any of the departments or agencies of either if any person significantly involved in initiating, negotiating, securing, drafting or creating the contract on behalf of the State, its political subdivisions, or any of the departments or agencies of either is, at any time while the contract or any extension of the contract is in effect, an employee or agent of any other party to the contract in any capacity or a consultant to any other party of the contract with respect to the subject matter of the contract. The State, its political subdivisions or any department or agency of either may recoup any fee or commission paid or due to any person significantly involved in initiating, negotiating, securing, drafting or creating the contract on behalf of the State, its political subdivisions or any department or agency of either from any other party to the contract arising as the result of the contract. The Authority agrees to use its best efforts not to create an event that could lead to the Authority having the right to cancel the Loan Agreement pursuant to Section 38-511 of the Arizona Revised Statutes.

SUMMARY OF THE MORTGAGE

The following summarizes certain provisions of the Mortgage; however, it is not a comprehensive description, and reference is made to the full text of the Mortgage for a complete recital of its terms. Capitalized terms used in this section describing the Mortgage, but not defined herein, have the meaning set forth in the Master Agreement. See "SUMMARY OF THE MASTER AGREEMENT – Definitions of Certain Terms" in this Appendix C.

Lien on Mortgaged Property

The Parity Debt is secured under the Mortgage by a lien, subject to Permitted Encumbrances, (1) on the buildings constituting the Association's outpatient facility located in Prescott Valley, Arizona, and on the real property directly underlying such facilities, and (2) on the real property directly underlying the Association's hospital located in Prescott Valley, Arizona together with the facilities constructed thereon (the "Mortgaged Property"). The Mortgage provides security for the Association's payment obligations relating to Parity Debt and its obligations to perform all non-monetary obligations and covenants related thereto.

All personal property and all other Property of the Obligated Group not encompassed by the definition of Mortgaged Property are not subject to the Mortgage.

Covenants of the Association

The Association may sell, transfer or dispose of the Mortgaged Property in accordance with, and only in accordance with, the provisions of the Master Agreement governing sale, transfer and disposition of Property. The Association is required to maintain insurance on, pay all taxes against, and maintain in good repair and operating condition, the Mortgaged Property, to the extent required by the Master

Agreement. The Association will not create any Liens on the Mortgaged Property except for Permitted Encumbrances and otherwise as permitted by the Master Agreement.

Events of Default and Remedies

The occurrence of any of the following events constitutes an event of default under the Mortgage: (i) any Event of Default under the Master Agreement and any other instrument given to evidence or further secure Parity Debt; (ii) the Association fails to observe or perform any of its agreements, covenants or obligations under the Mortgage and does not remedy such failure according to the provisions set forth in the Mortgage; (iii) the Association abandons any material part of the Mortgaged Property for more than 120 consecutive days; or (iv) the foreclosure of any Lien on the Mortgaged Property which is not stayed or discharged within 30 days.

The remedies which may be exercised by the Mortgage Trustee upon the occurrence of an event of default under the Mortgage include foreclosure, lawsuits, entry on Mortgaged Property, and appointment of a receiver, all in accordance with the provisions of the Mortgage. However, the Mortgage Trustee does not have an obligation to institute or conduct any proceeding to realize on the Mortgaged Property or exercise any remedy provided for in the Mortgage upon the occurrence of any event of default under the Mortgage if the Mortgage Trustee reasonably believes that to do so would expose it to any risk of liability under any federal, state or local law, regulation or requirement, including liability relating to environmental matters. Moneys derived from the exercise of remedies will be applied by the Master Trustee as described under "SUMMARY OF MASTER AGREEMENT — Remedies Upon Event of Default — Application Of Moneys After Default."

Amendment

The Mortgage may be amended by the Mortgage Trustee and the Association substantially on the same terms as the Master Agreement may be amended.

SUMMARY OF THE LEASE AGREEMENT

The following summarizes certain provisions of the Lease Agreement; however, it is not a comprehensive description, and reference is made to the full text of the Lease Agreement for a complete recital of its terms. Capitalized terms used in this section describing the Lease Agreement, but not defined herein, have the meaning set forth in the Master Agreement. See "SUMMARY OF THE MASTER AGREEMENT – Definitions of Certain Terms" in this Appendix C.

The Association leases the hospital facilities it operates in the City of Prescott, Arizona (the "Leased Property") from the District, pursuant to the Lease Agreement. The Termination Date of the Lease Agreement is a date 15 days after the latter of (i) the final maturity date of the Parity Debt, or (ii) the final maturity date of any subsequent indebtedness of the Association for which (1) the Association desires an extension of the Termination Date and (2) the District gives its written consent (collectively, the "Subsequent Hospital Debt") or (iii) the date at which the Association's Parity Debt and any Subsequent Hospital Debt are no longer outstanding in accordance with their terms.

The Association pays, as rent for the Leased Property, the amounts necessary to meet the expenses of the District. The Association has agreed with the District to maintain and insure the Leased Property and to comply with other covenants in the Lease Agreement.

Upon the occurrence of any event of default under the Lease Agreement, the District may pursue any remedy or remedies provided by law; provided, however, that for the benefit of the holders of the

Parity Debt and Subsequent Hospital Debt prior to instituting any legal proceedings against the Association following an event of default under the Lease Agreement, the District must deliver written notice to the trustees for (or other representatives of the holders of) the Parity Debt and Subsequent Hospital Debt and will permit such trustees (or such representatives) 30 days to cure such event of default, provided that if the default is of a nature that it can be cured but not within such 30 days, then, so long as such trustees (and such representatives) are diligently proceeding to cure such event of default, such trustees (and such representatives) will have such time as is necessary to cure such event of default and the District will accept the performance by such trustees (and such representatives) as satisfying the requirements of the Lease Agreement.

The District further covenants and agrees, for the benefit of the holders of the Parity Debt and Subsequent Hospital Debt, that the District will not take any action to terminate the Lease Agreement, and there will be no termination of the Lease Agreement as a result of the District's exercise of any remedies after an event of default, unless and until the District has paid, or provided for the payment of, the Parity Debt and Subsequent Hospital Debt in accordance with their terms.

APPENDIX D

FORM OF OPINION OF BOND COUNSEL

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APPENDIX D

FORM OPINION OF BOND COUNSEL

November __, 2016

To: The Industrial Development Authority of the County of Yavapai
Prescott, Arizona

Yavapai Community Hospital Association
Prescott, Arizona

Wells Fargo Bank, National Association
San Francisco, California

We have served as bond counsel to our client Yavapai Community Hospital Association (the "Association") and not as counsel to any other person in connection with the issuance by The Industrial Development Authority of the County of Yavapai (the "Authority") of its $44,585,000 Hospital Revenue Refunding Bonds (Yavapai Regional Medical Center), Series 2016 (the "Bonds"), dated the date of this letter.

The Bonds are issued pursuant to Title 35, Chapter 5, Arizona Revised Statutes, as amended from time to time, and the Bond Indenture, dated as of November 1, 2016 (the "Bond Indenture"), between the Authority and Wells Fargo Bank, National Association, as trustee. Proceeds from the sale of the Bonds have been loaned to the Association pursuant to the Loan Agreement, dated as of November 1, 2016 (the "Loan Agreement"), between the Authority and the Association. Capitalized terms not otherwise defined in this letter are used as defined in the Bond Indenture.

In our capacity as bond counsel, we have examined the transcript of proceedings relating to the issuance of the Bonds, the Bond Indenture, the Loan Agreement and such other documents, matters and law as we deem necessary to render the opinions set forth in this letter.

Based on that examination and subject to the limitations stated below, we are of the opinion that under existing law:

1. The Bonds, the Bond Indenture and the Loan Agreement are valid and binding obligations of the Authority, enforceable in accordance with their respective terms.

2. The Bonds constitute special limited obligations of the Authority, and the principal of and the interest on (collectively, "debt service") the Bonds are payable solely from the Revenues and other amounts pledged and assigned by the Authority under the Bond Indenture, including the payments required to be made

by the Association under the Loan Agreement. The Bonds and the payment of debt service on the Bonds are not secured by an obligation or pledge of any moneys raised by taxation, and the Bonds do not represent or constitute a general obligation or a pledge of the Authority or Yavapai County, Arizona.

3. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, portions of the interest on the Bonds earned by certain corporations may be subject to a corporate alternative minimum tax. Further, interest on the Bonds is exempt from Arizona state income taxes. We express no opinion as to any other tax consequences regarding the Bonds

The opinions stated above are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. In rendering all such opinions, we assume, without independent verification, and rely upon (i) the accuracy of the factual matters represented, warranted or certified in the proceedings and documents we have examined, (ii) the due and legal authorization, execution and delivery of those documents by, and the valid, binding and enforceable nature of those documents upon, any parties other than the Authority, and (iii) the correctness of the legal conclusions contained in the legal opinion letter of Boyle, Pecharich, Cline, Whittington & Stallings, P.L.L.C., counsel to the Association, and of Boyle, Pecharich, Cline, Whittington & Stallings, P.L.L.C., counsel to the Authority.

In rendering those opinions with respect to the treatment of the interest on the Bonds under the federal tax laws, we further assume and rely upon compliance with the covenants in the proceedings and documents we have examined, including those of the Authority and the Association. Failure to comply with certain of those covenants subsequent to issuance of the Bonds may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to their date of issuance.

In addition, in rendering those opinions with respect to the treatment of the interest on the Bonds under the federal tax laws, we also further assume the correctness of and rely on the opinion of Boyle, Pecharich, Cline, Whittington & Stallings P.L.L.C., counsel to the Association, regarding the current qualification of the Association as an organization described in Section 501(c)(3) of the Code and the use of the facilities refinanced with the Bonds in activities that are not considered "unrelated trade or business" activities of the Association, as defined in Section 513(a) of the Code, which opinion is subject to a number of qualifications and limitations. Failure of the Association to maintain its qualification as an organization described in Section 501(c)(3) of the Code or to use the facilities refinanced by the Bonds in a manner that is substantially related to the Association's exempt purpose under Section 513(a) of the Code may cause interest on the Bonds to be included in gross income retroactively to the date of the issuance of the Bonds.

The rights of the owners of the Bonds and the enforceability of the Bonds, the Bond Indenture and the Loan Agreement are subject to bankruptcy, insolvency, arrangement, fraudulent conveyance or transfer, reorganization, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion, and to limitations on legal remedies against public entities.

We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the Bonds, the Bond Indenture or the Loan Agreement. Furthermore, we express no opinion with respect to the status or quality of title to or interest in any of the real, personal or intangible property and other assets described in or subject to the pledge or lien granted in the Bond Indenture or the Loan Agreement, or the accuracy or sufficiency of the description contained therein of, or the priority of, or the remedies available to enforce any pledge or lien on any such assets.

The opinions rendered in this letter are stated only as of this date, and no other opinion shall be implied or inferred as a result of anything contained in or omitted from this letter. Our engagement as bond counsel with respect to the Bonds has concluded on this date.

Respectfully submitted,

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APPENDIX E

FORM OF CONTINUING DISCLOSURE UNDERTAKING

FORM OF CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (this *"Undertaking"*) is executed and delivered by the Obligated Group (as defined below) in connection with the offering of $44,585,000 The Industrial Development Authority of the County of Yavapai Hospital Revenue Refunding Bonds (Yavapai Regional Medical Center) Series 2016 (the *"Series 2016 Bonds"*). The Series 2016 Bonds are issued and secured under the provisions of a Bond Indenture, dated as of October 1, 2016 (the *"Bond Indenture"*), between The Industrial Development Authority of the County of Yavapai (the *"Authority"*) and Wells Fargo Bank, N.A., as trustee. The proceeds of the Series 2016 Bonds are being loaned by the Authority to Yavapai Community Hospital Association, doing business as Yavapai Regional Medical Center (*"YRMC"*), pursuant to a Loan Agreement, dated as of October 1, 2016 (the *"Loan Agreement"*), between the Authority and YRMC. As of the date of the issuance of the Series 2016 Bonds, YRMC is the sole member of the obligated group (the *"Obligated Group"*) created under that certain Loan and Trust Agreement, dated as of June 1, 1997, as amended supplemented to date (the *"Master Agreement"*), among the Authority, YRMC, and Wells Fargo Bank, N.A. as successor master trustee. The Obligated Group covenants and agrees as follows:

SECTION 1. PURPOSE OF THE UNDERTAKING.

This Undertaking is being executed and delivered by YRMC for the benefit of the Holders and Beneficial Owners of the Series 2016 Bonds and in order to assist the Participating Underwriter in complying with the Rule (defined below). YRMC 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 Series 2016 Bonds, with respect to the Rule.

SECTION 2. DEFINITIONS.

In addition to the definitions set forth in the Bond Indenture, 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 YRMC pursuant to, and as described in, Sections 3 and 4 of this Undertaking.

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Series 2016 Bonds (including persons holding Series 2016 Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Series 2016 Bonds for federal income tax purposes.

"Dissemination Agent" shall mean any dissemination agent, or any alternate or successor dissemination agent, designated in writing by YRMC, initially Digital Assurance Certification, L.L.C.

"Listed Event" shall mean any of the events listed in Section 5 of this Undertaking.

"MSRB" shall mean the Municipal Securities Rulemaking Board, through its Electronic Municipal Market Access (*"EMMA"*) website located at http://emma.msrb.org, or any other entity designated or authorized by the Securities and Exchange Commission.

"Official Statement" shall mean the Official Statement relating to the Series 2016 Bonds, dated October 19, 2016.

"Participating Underwriter" shall mean the underwriter of the Series 2016 Bonds required to comply with the Rule in connection with the offering of the Series 2016 Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. PROVISION OF ANNUAL AND QUARTERLY REPORTS.

(a) YRMC shall, or shall cause the Dissemination Agent to, not later than 150 days after the end of the Obligated Group's fiscal year (presently such fiscal year ends December 31), commencing with the report for the fiscal year ending December 31, 2016, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Undertaking. The Annual Report shall be submitted in accordance with the requirements of the MSRB, and may cross-reference other information as provided in Section 4 of this Undertaking, *provided* that the audited combined financial statements of the Obligated Group may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Obligated Group's fiscal year changes, then it shall give notice of such change in the same manner as for a Listed Event under Section 5.

(b) Not later than 15 Business Days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, YRMC shall provide the Annual Report to the Dissemination Agent (if other than YRMC), which shall be accompanied by a written representation addressed to the Dissemination Agent to the effect that such submission is the Annual Report required by this Undertaking and that such submission complies with the applicable requirements of this Undertaking, and which shall include the CUSIP numbers of the Series 2016 Bonds. If YRMC is unable to provide to the MSRB an Annual Report by 10:00 a.m. Eastern time on the date required in subsection (a), then YRMC hereby irrevocably directs the Dissemination Agent to immediately send a notice to the MSRB in substantially the form attached as Exhibit A.

(c) In addition to the Annual Report required to be filed pursuant to subsection (a), YRMC shall, or shall cause the Dissemination Agent to, provide to MSRB not later than 60 days after the end of each quarter of the Obligated Group's fiscal year, beginning with the fourth fiscal quarter of 2016, unaudited combined financial information for the Obligated Group and the District for such fiscal quarter, including a balance sheet, a cash flow statement and a combined statement of operations. In addition, YRMC shall provide to any Beneficial Owner that submits a written request for such information to YRMC at least two Business Days prior to the end of such fiscal quarter, or shall cause the Dissemination Agent to provide by electronic mail to any Beneficial Owner whose email address has been provided to the Dissemination Agent for such purposes at least two Business Days prior to the end of such fiscal quarter, the information to be provided to the MSRB pursuant to this subsection (c).

(d) The Dissemination Agent shall:

(i) determine each year, within five Business Days of the date for providing the Annual Report, the delivery requirement of the MSRB, if any; and

(ii) if the Dissemination Agent is other than YRMC, file a report with YRMC certifying that the Annual Report has been provided pursuant to this Undertaking, stating the date it was provided, which report shall be by means of the DAC system, for so long as Digital Assurance Certification, L.L.C. is the Dissemination Agent under this Undertaking.

SECTION 4. CONTENT OF ANNUAL REPORTS.

The Annual Report shall contain or incorporate by reference the following:

(a) The audited combined financial statements of the Obligated Group for the prior fiscal year, prepared in accordance with generally accepted accounting principles. If such audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) A list of the members of the Obligated Group (if any in addition to YRMC as of the end of the preceding fiscal year) and an update of the financial information and operating data with respect to the Obligated Group for the prior fiscal year of the type included in the following tables in Appendix A of the Official Statement (to the extent not included in the audited financial statements described in subsection (a) above):

(i) Medical Staff Composition, but only the information under the column "Admitting Staff"

(ii) Trends in Full-Time Employees Equivalent

(iii) Trends in Selected Utilization Statistics for YRMC (West and East Medical Centers Combined)

(iv) Trends in Revenue and Expenses

(v) Sources of Net Patient Revenue

(vi) Historic Coverage of Principal and Interest Requirements

(vii) Historic and Pro Forma Capitalization, but only as it relates to Historic Capitalization

(viii) Historic Cash, Investments and Days Cash on Hand

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Obligated Group or related public entities, which are available to the public on the MSRB's internet web site or filed with the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. YRMC shall clearly identify each such other document so included by reference.

SECTION 5. REPORTING OF SIGNIFICANT EVENTS.

(a) YRMC agrees to provide, or cause to be provided, to the MSRB notice of the occurrence of any of the following events with respect to the Series 2016 Bonds not later than 10 Business Days after the occurrence of the event:

(i) Principal and interest payment delinquencies;

(ii) Unscheduled draws on any debt service reserves reflecting financial difficulties;

(iii) Unscheduled draws on any credit enhancements reflecting financial difficulties;

(iv) Substitution of credit or liquidity providers, or their failure to perform;

(v) Adverse tax opinions, the issuance by the Internal Revenue Service of a proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);

(vi) Tender offers;

(vii) Defeasances;

(viii) Rating changes; or

(ix) Bankruptcy, insolvency, receivership or similar event of any Member of the Obligated Group.

For purposes of item (ix) above, the described event shall be deemed to occur when any of the following shall occur: the appointment of a receiver, fiscal agent or similar officer for a Member of the Obligated Group in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of a Member of the Obligated Group, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or other governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of a Member of the Obligated Group.

(b) YRMC shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2016 Bonds, if material, not later than 10 Business Days after the occurrence of the event:

(i) Unless described in Section 5(a)(v), other material notices or determinations with respect to the tax status of the Series 2016 Bonds, or other material events affecting the tax status of the Series 2016 Bonds;

(ii) Modifications to rights to bondholders;

(iii) Bond calls;

(iv) Release, substitution or sale of property securing repayment of the Series 2016 Bonds;

(v) Non-payment related defaults;

(vi) The consummation of a merger, consolidation, or acquisition involving a Member of the Obligated Group or the sale of all or substantially all of the assets of a Member of the Obligated Group, 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; or

(vii) Appointment of a successor or additional trustee or the change of name of a trustee.

(c) Whenever YRMC obtains knowledge of the occurrence of a Listed Event described in Section 5(a) hereof, or determines that knowledge of a Listed Event described in Section 5(b) hereof would be material under applicable federal securities laws, YRMC shall within 10 Business Days of occurrence file or cause to be filed a notice of such occurrence with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsections (a)(vii) or (b)(iii) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Series 2016 Bonds pursuant to the Bond Indenture. For so long as Digital Assurance Certification, L.L.C. is the Dissemination Agent under this Undertaking, any notice of a Listed Event received by the Dissemination Agent before 10:00 a.m. Eastern time on any business day, accompanied by a written representation addressed to the Dissemination Agent identifying the type of Listed Event and including the CUSIP numbers of the Series 2016 Bonds, will be filed by the Dissemination Agent with the MSRB no later than 11:59 p.m. Eastern time on the same business day; *provided, however,* the Dissemination Agent shall have no liability for any delay in filing with the MSRB if such delay is caused by a force majeure event provided that the Dissemination Agent uses reasonable efforts to make any such filing as soon as possible.

(d) YRMC shall give, or cause to be given, in a timely manner, notice of a failure to provide the annual financial information required by Section 3 hereof on or before the date specified in Section 3(a) hereof, as provided in Section 3(b) hereof.

SECTION 6. FORMAT OF SUBMISSIONS.

Any report or filing under the terms hereof shall comply with the format, if any, prescribed by the MSRB, whether or not in electronic form.

SECTION 7. TERMINATION OF REPORTING OBLIGATION.

YRMC's obligations under this Undertaking shall terminate when no Member of the Obligated is an obligated person with respect to the Series 2016 Bonds, as provided in the Rule, or upon the legal defeasance, prior redemption or payment in full of all of the Series 2016 Bonds. If such termination occurs prior to the final maturity of the Series 2016 Bonds, YRMC shall give notice of such termination in the same manner as for a Listed Event under Section 5.

SECTION 8. DISSEMINATION AGENT.

YRMC may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Undertaking and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, YRMC shall be the Dissemination Agent. The Dissemination Agent (if other than YRMC) shall not be responsible in any manner for the content of any notice or report prepared by YRMC pursuant to this Undertaking.

SECTION 9. AMENDMENT; WAIVER.

The provisions of this Undertaking may be amended by YRMC from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations or businesses of the Members of the Obligated Group, but only if (1) the provisions of this Undertaking, as so amended, would have permitted an underwriter to purchase or sell Series 2016 Bonds in the primary offering of the Series 2016 Bonds in compliance with the Rule, taking into account any amendments and interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (2) either (a) the Holders of a majority in aggregate principal amount of the Outstanding Series 2016 Bonds consent to such amendment or (b) a Person that is unaffiliated with the Members of the Obligated Group (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interests of the Holders and beneficial owners of the Series 2016 Bonds. If YRMC so amends the provisions of this Undertaking, YRMC shall include with any amended financial information or operating data next provided in accordance with this Undertaking an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information or operating data so provided. The Dissemination Agent may rely conclusively on any determination as provided by this Section 9, and shall have no duty to determine or liability for failing to determine whether any amendment made pursuant to this Section 9 is consistent with guidance provided by the Securities and Exchange Commission with regard to permitted amendments, or the manner of effecting such amendments, under the Rule.

SECTION 10. ADDITIONAL INFORMATION.

Nothing in this Undertaking shall be deemed to prevent YRMC 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 YRMC 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, YRMC shall have no obligation under this Undertaking to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 11. DEFAULT.

In the event of a failure of YRMC to comply with any provision of this Undertaking, any Holder or Beneficial Owner of the Series 2016 Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause YRMC to comply with its obligations under this Undertaking. A default under this Undertaking shall not be deemed an Event of Default under the Bond Indenture, the Loan Agreement or the Master Agreement, and the sole remedy under this Undertaking in the event of any failure of YRMC to comply with this Undertaking shall be an action to compel performance, *provided* such action is taken in the federal or state court located in Phoenix, Arizona, and *provided further* that no remedy other than substantial performance may be sought or granted against YRMC.

No Holder or Beneficial Owner may institute such action, suit or proceeding to compel performance unless they shall have first delivered to YRMC satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and YRMC shall have refused to comply therewith within a reasonable time.

SECTION 12. DUTIES, IMMUNITIES AND LIABILITIES OF DISSEMINATION AGENT.

The Dissemination Agent shall have only such duties as are specifically set forth in this Undertaking, and YRMC agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of YRMC under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Series 2016 Bonds.

The Dissemination Agent's obligation to deliver the information at the times and with the contents described in this Undertaking shall be limited to the extent YRMC has provided such information to the Dissemination Agent as required by this Undertaking. The Dissemination Agent shall have no duty with respect to the content of any disclosures or notice made pursuant to the terms hereof. The Dissemination Agent shall have no duty or obligation to review or verify any information, disclosures or notices provided to it by YRMC and shall not be deemed to be acting in any fiduciary capacity for YRMC, any future member of the Obligated Group, the Authority, any Holder or Beneficial Owner of the Series 2016 Bonds, the Participating Underwriter or any other party. The Dissemination Agent shall have no responsibility for

YRMC's failure to report to the Dissemination Agent a Listed Event or a duty to determine the materiality thereof. The Dissemination Agent shall have no duty to determine or liability for failing to determine whether YRMC or any future member of the Obligated Group has complied with this Undertaking. The Dissemination Agent may conclusively rely upon certifications of YRMC at all times. YRMC AND EACH FUTURE MEMBER OF THE OBLIGATED GROUP AGREE TO INDEMNIFY AND SAVE THE DISSEMINATION AGENT AND ITS RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES AND AGENTS, HARMLESS AGAINST ANY LOSS, EXPENSE AND LIABILITIES WHICH THEY MAY INCUR ARISING OUT OF OR IN THE EXERCISE OR PERFORMANCE OF THEIR POWERS AND DUTIES HEREUNDER, INCLUDING THE COSTS AND EXPENSES (INCLUDING ATTORNEYS FEES) OF DEFENDING AGAINST ANY CLAIM OF LIABILITY, BUT EXCLUDING LIABILITIES DUE TO THE DISSEMINATION AGENT'S NEGLIGENCE OR WILLFUL MISCONDUCT. Notwithstanding any other provision of this Undertaking, the obligations of YRMC and any future member of the Obligated Group under this paragraph shall survive resignation or removal of the Dissemination Agent and defeasance, redemption or payment of the Series 2016 Bonds.

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SECTION 13. BENEFICIARIES.

This Undertaking shall inure solely to the benefit of YRMC, the Authority, the Dissemination Agent, the Participating Underwriter, the Holders and Beneficial Owners from time to time of the Series 2016 Bonds, and shall create no rights in any other person or entity.

Dated: November 3, 2016

YAVAPAI COMMUNITY HOSPITAL ASSOCIATION,
dba YAVAPAI REGIONAL MEDICAL CENTER

By: ____
Authorized Officer

DIGITAL ASSURANCE CERTIFICATION LLC,
as Dissemination Agent

By: ____
Authorized Officer

[Signature Page to Continuing Disclosure Undertaking]

EXHIBIT A

NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: The Industrial Development Authority of the County of Yavapai

Names of Bond Issue: Hospital Revenue Refunding Bonds (Yavapai Regional Medical Center) Series 2016

Date of Issuance: November 3, 2016

NOTICE IS HEREBY GIVEN that Yavapai Community Hospital Association, dba Yavapai Regional Medical Center (*"YRMC"*) has not provided an Annual Report with respect to the above-named Series 2016 Bonds as required by the Continuing Disclosure Undertaking executed by YRMC in connection with the issuance of the Series 2016 Bonds on November 3, 2016. YRMC anticipates that the Annual Report will be filed by ______________, 20__.

Dated: _______________

DIGITAL ASSURANCE CERTIFICATION LLC,
as Dissemination Agent

By: _______________________________________
Authorized Officer

APPENDIX F

BOOK-ENTRY SYSTEM

1. The Depository Trust Company (*"DTC"*), New York, New York, will act as securities depository for the Series 2016 Bonds. The Series 2016 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 certificate will be issued for each maturity of the Series 2016 Bonds, in the aggregate principal amount of such maturity of the Series 2016 Bonds, and will be deposited with DTC.

2. 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.

3. Purchases of the Series 2016 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2016 Bonds on DTC's records. The ownership interest of each actual purchaser of a Series 2016 Bond (a *"Beneficial Owner"*) is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2016 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 Series 2016 Bonds, except in the event that use of the book-entry system for the Series 2016 Bonds is discontinued.

4. To facilitate subsequent transfers, all Series 2016 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2016 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 Series 2016 Bonds. DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2016 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.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2016 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2016 Bonds, such as redemptions, defaults, and proposed amendments to the bond documents. For example, Beneficial Owners of Series 2016 Bonds may wish to ascertain that the nominee holding the Series 2016 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 Bond Trustee and request that copies of notices be provided directly to them.

6. Redemption notices will be sent to DTC. If less than all of the Series 2016 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2016 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an "Omnibus Proxy" to the Authority as soon as possible after the record date. The "Omnibus Proxy" assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2016 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Principal of, interest on, and redemption price of the Series 2016 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Bond Trustee on each 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, interest, and redemption price 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.

9. DTC may discontinue providing its services as depository with respect to the Series 2016 Bonds at any time by giving reasonable notice to the Authority or the Bond Trustee. Under such

circumstances, in the event that a successor depository is not obtained, Series 2016 Bond certificates are required to be printed and delivered.

10. 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, Series 2016 Bond certificates will be printed and delivered to DTC.

11. The information in this Appendix concerning DTC and DTC's book-entry system has been obtained from sources that the Authority and YRMC believe to be reliable, but neither the Authority nor YRMC take responsibility for the accuracy thereof.

For so long as the Series 2016 Bonds are registered in the name of DTC or its nominee, Cede & Co., YRMC, the Authority and the Bond Trustee will recognize only DTC or its nominee, Cede & Co., as the Registered Owner of the Series 2016 Bonds for all purposes, including payments, notices and voting. Payments made by the Bond Trustee to DTC or its nominee will satisfy YRMC's and the Authority's obligations, whether or not such payments are credited to Beneficial Owners.

None of YRMC, the Authority or the Bond Trustee will have any responsibility or obligation with respect to: (i) the accuracy of the records of DTC, its nominee or any Direct Participant or Indirect Participant with respect to any beneficial ownership interest in any Series 2016 Bonds; (ii) the delivery to any Direct Participant or Indirect Participant or any other Person, other than a Registered Owner, of any notice or other document, including, without limitation, any notice of redemption with respect to any Series 2016 Bond; (iii) the payment to any Direct Participant or Indirect Participant or any other Person, other than a Registered Owner, of any amount with respect to the principal of, premium, if any, interest on, or redemption price of, any Series 2016 Bond; (iv) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Series 2016 Bonds; or (v) any consent given or other action taken by DTC as Registered Owner.

Prior to any discontinuation of the book-entry system with respect to the Series 2016 Bonds, YRMC, the Authority and the Bond Trustee may treat DTC as, and deem DTC to be, the absolute owner of the Series 2016 Bonds for all purposes whatsoever, including, without limitation, (i) the payment of principal, premium, if any, and interest on and the redemption price for Series 2016 Bonds; (ii) giving notices of redemption and other matters with respect to the Series 2016 Bonds; (iii) registering transfers with respect to the Series 2016 Bonds; (iv) the selection of Series 2016 Bonds for redemption; and (v) giving consents of or directions from Registered Owners pursuant to the Bond Indenture.

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THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE COUNTY OF YAVAPAI • Hospital Revenue Refunding Bonds (Yavapai Regional Medical Center), Series 2016

YAVAPAI REGIONAL
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