

NORTH CAROLINA DEPARTMENT OF HEALTH AND HUMAN SERVICES

**The North Carolina Medical Care Commission
809 Ruggles Drive
Raleigh, North Carolina**

MINUTES

**CALLED MEETING OF THE EXECUTIVE COMMITTEE
CONFERENCE TELEPHONE MEETING ORIGINATING FROM THE
COMMISSION'S OFFICE
SEPTEMBER 28, 2012
2:00 P.M.**

Members of the Executive Committee Present:

Lucy Hancock Bode, Chairman
Joseph D. Crocker, Vice-Chairman
Dr. George Binder
George H.V. Cecil
Mary L. Piepenbring

Members of the Executive Committee Absent:

Albert F. Lockamy
Dr. Carl Rust

Members of Staff Present:

Drexdal R. Pratt, DHSR Director/MCC Secretary
Christopher B. Taylor, CPA, Assistant Secretary
Alice S. Creech, Bond Program Assistant

Others Present:

Roger Ciokan, Penick Village
Kevin Dougherty, McGuire Woods, LLP
Jeff Hutchins, Penick Village
Brandon Lofton, Robinson Bradshaw & Hinson, PA
Jon Mize, Womble Carlyle Sandridge & Rice, PLLC
Jeff Poley, Parker Poe Adams & Bernstein, LLP
Allen K. Robertson, Robinson Bradshaw & Hinson, PA

1. **Purpose of Meeting**

To authorize the sale of bonds, the proceeds of which are to be loaned to FirstHealth of the Carolinas, Inc. and to consider a resolution authorizing an amendment to the Entrance Fee Escrow Agreement and an amendment to a Trust Agreement for Penick Village. To consider a resolution approving an amendment to a Loan Agreement or Transylvania Community Hospitals, Inc. To discuss a Material Event Notice related to the Failure of the Trustee to make a Sinking Fund Redemption payment on the 2002 Southeastern Regional Hospital Bonds.

2. **Resolution of the North Carolina Medical Care Commission Authorizing the Issuance of \$28,435,000 North Carolina Medical Care Commission Variable Rate Health Care Facilities Revenue Refunding Bonds (FirstHealth of the Carolinas Project), Series 2012B (the “Bonds”)** - Remarks were made by Allen Robertson

Executive Committee Action: A motion was made by Mr. Joe Crocker, seconded by Dr. George Binder and unanimously approved with Mr. George Cecil abstaining from the vote.

WHEREAS, the North Carolina Medical Care Commission (the “Commission”) is a commission of the Department of Health and Human Services of the State of North Carolina and is authorized under Chapter 131A of the General Statutes of North Carolina, as amended (the “Act”), to borrow money and to issue in evidence thereof bonds and notes for the purpose of providing funds to pay all or any part of the cost of financing or refinancing health care facilities and to refund bonds previously issued by the Commission; and

WHEREAS, FirstHealth of the Carolinas, Inc. (the “Corporation”) is a nonprofit corporation duly incorporated and validly existing under and by virtue of the laws of the State of North Carolina and is a “non-profit agency” within the meaning of the Act; and

WHEREAS, the Corporation has made application to the Commission for a loan for the purpose of providing funds to (1) refund all of the \$28,235,000 outstanding principal amount of the Commission’s Variable Rate Demand Health Care Facilities Revenue Bonds (FirstHealth of the Carolinas Project), Series 2002 (the “Refunded Bonds”) and (2) pay, or reimburse the Corporation for paying, certain expenses incurred in connection with the issuance of the Bonds by the Commission; and

WHEREAS, the Commission has determined that the public will best be served by the proposed refunding and, by resolution adopted by the Commission on March 13, 2012, has approved the issuance of the Bonds (as defined below), subject to compliance by the Corporation with the conditions set forth in such resolution, and the Corporation has complied with such conditions to the satisfaction of the Commission; and

WHEREAS, there have been presented at this meeting draft copies of the following documents relating to the issuance of the Bonds:

(a) a Contract of Purchase, dated October 3, 2012 (the “Purchase Contract”), between the Local Government Commission of North Carolina and Wells Fargo Municipal Capital Strategies, LLC (the “Bank”) and approved by the Commission and the Corporation, pursuant to which the Bank has agreed to purchase the Bonds on the terms and conditions set forth therein and in the Trust Agreement (as defined below);

(b) a Trust Agreement, dated as of October 1, 2012 (the “Trust Agreement”), between the Commission and The Bank of New York Mellon Trust Company, N.A., as bond trustee (the “Bond Trustee”), the provisions of which relate to the issuance of and security for the Bonds and includes the form of the Bonds;

(c) a Loan Agreement, dated as of October 1, 2012 (the “Loan Agreement”), between the Commission and the Corporation pursuant to which the Commission will lend the proceeds of the Bonds to the Corporation;

(d) a Supplemental Master Trust Indenture No. 22, dated as of October 1, 2012 (“Supplement No. 22”), between the Corporation and The Bank of New York Mellon Trust Company, N.A., as master trustee (the “Master Trustee”) under the Second Amended and Restated Master Trust Indenture, dated as of February 1, 1998, between the Corporation and First Union National Bank, succeeded by The Bank of New York Mellon Trust Company, N.A., as master trustee, which includes the form of Master Obligation, Series 2012B, to be dated as of the date of delivery of the Bonds, to be issued by the Corporation to the Commission (“Master Obligation, Series 2012B”);

(e) a Supplemental Master Trust Indenture No. 23, dated as of October 1, 2012 (“Supplement No. 23” and together with Supplement No. 22, the “Supplements”), between the Corporation and the Master Trustee, which includes the form of Master Obligation, Series 2012B-2, to be dated as of the date of delivery of the Bonds, to be issued by the Corporation to the Bank (“Master Obligation, Series 2012B-2” and together with Master Obligation, Series 2012B, the “Master Obligations”); and

(f) a Continuing Covenant Agreement dated as of October 1, 2012 (the “Continuing Covenant Agreement”), between the Corporation and the Bank.

WHEREAS, the Commission has determined that the Corporation is financially responsible and capable of fulfilling its obligations under the Loan Agreement, the Master Indenture, the Supplements and the Master Obligations; and

WHEREAS, the Commission has determined that adequate provision has been made for the payment of the principal of, redemption premium, if any, and interest on the Bonds;

NOW, THEREFORE, THE NORTH CAROLINA MEDICAL CARE COMMISSION DOES HEREBY RESOLVE, as follows:

Section 1. Capitalized words and terms used in this Series Resolution and not defined herein shall have the same meanings in this Series Resolution as such words and terms are given in the Master Indenture, the Trust Agreement and the Loan Agreement.

Section 2. Pursuant to the authority granted to it by the Act, the Commission hereby authorizes the issuance of North Carolina Medical Care Commission Variable Rate Health Care Facilities Revenue Refunding Bonds (FirstHealth of the Carolinas Project), Series 2012B (the "Bonds"), in the aggregate principal amount of \$28,435,000. The Bonds shall mature on October 1, 2032 and shall bear interest at such rates determined in accordance with the Trust Agreement. The Bonds shall be subject to the Sinking Fund Requirements set forth in Schedule 1 hereto. The Bonds shall initially bear interest at an Index Interest Rate. During the initial, approximately six-year Index Interest Rate Period (the "Initial Period"), the Bonds will bear interest at 70% of one-month LIBOR plus 0.77%, subject to adjustment under certain circumstances. The Bonds shall be subject to mandatory tender at the end of the Initial Period, October 1, 2018, unless earlier converted to another Interest Rate Period.

The Bonds shall be issued as fully registered bonds in (i) denominations of \$5,000 or any integral multiple thereof during any Long-Term Interest Rate Period, (ii) \$250,000 or any integral multiple of \$5,000 in excess of \$250,000 during any Index Interest Rate Period, and (iii) \$100,000 or any integral multiple of \$5,000 in excess of \$100,000 during any period not described in either of the preceding clauses (i) or (ii). While bearing interest at any rate other than the Index Interest Rate, the Bonds shall be issuable in book-entry form as provided in the Trust Agreement. Interest on the Bonds shall be paid at the times and at the rates determined as specified in the Trust Agreement. Payments of principal of and interest on the Bonds shall be forwarded by the Bond Trustee to the registered owners of the Bonds in such manner as is set forth in the Trust Agreement.

Section 3. The Bonds shall be subject to (i) optional, mandatory and extraordinary redemption, (ii) during any Daily Interest Rate Period or Weekly Interest Rate Period, optional tender for purchase, and (iii) mandatory tender for purchase, at all times, upon the terms and conditions, and at the prices set forth in the Trust Agreement.

Section 4. The proceeds of the Bonds shall be applied as provided in Section 2.08 of the Trust Agreement. The Commission hereby finds that the use of the proceeds of the Bonds for a loan to refund the Refunded Bonds and pay costs of issuing the Bonds will accomplish the public purposes set forth in the Act.

Section 5. The forms, terms and provisions of the Trust Agreement and the Loan Agreement are hereby approved in all respects, and the Chairman or Vice Chairman (or any member of the Commission designated by the Chairman) and the Secretary or any Assistant Secretary of the Commission are hereby authorized and directed to execute and deliver the Trust Agreement and the Loan Agreement in substantially the forms presented at this meeting, together with such changes, modifications and deletions as they, with the advice of counsel, may deem necessary and appropriate, and such execution and delivery shall be conclusive evidence of the approval and authorization thereof by the Commission.

Section 6. The form, terms and provisions of the Purchase Contract are hereby approved in all respects, and the Chairman, Vice Chairman, Secretary or any Assistant Secretary of the Commission (or any member of the Commission designated by the Chairman) is hereby authorized and directed to execute and deliver the Purchase Contract in substantially the form presented at this meeting, together with such changes, modifications, insertions and deletions as they, with the advice of counsel, may deem necessary and appropriate, and such execution and delivery shall be conclusive evidence of the approval and authorization thereof by the Commission.

Section 7. The form of the Bonds set forth in the Trust Agreement is hereby approved in all respects, and the Chairman or Vice Chairman (or any member of the Commission designated by the Chairman) and the Secretary or any Assistant Secretary of the Commission are hereby authorized and directed to execute, by manual or facsimile signature as provided in such form of the Bonds, and to deliver to the Bond Trustee for authentication on behalf of the Commission, the Bonds in definitive form, which shall be in substantially the form presented at this meeting, together with such changes, modifications and deletions as they, with the advice of counsel, may deem necessary, appropriate and consistent with the Trust Agreement, and such execution and delivery shall be conclusive evidence of the approval and authorization thereof by the Commission.

Section 8. The forms, terms and provisions of the Supplements, the Master Obligations and the Continuing Covenant Agreement are hereby approved in substantially the forms presented to this meeting, together with such changes, modifications, insertions and deletions as the Chairman or Vice Chairman (or any member of the Commission designated by the Chairman) and the Secretary or any Assistant Secretary of the Commission, with the advice of counsel may deem necessary and appropriate; and the execution and delivery of the Trust Agreement as provided in Section 5 of this Series Resolution shall be conclusive evidence of the approval of the documents listed in this Section by the Commission.

Section 9. The Commission hereby approves the action of the Local Government Commission in awarding the Bonds to the Bank at the purchase price of \$28,435,000.

Section 10. Upon their execution in the form and manner set forth in the Trust Agreement, the Bonds shall be deposited with the Bond Trustee for authentication, and the Bond Trustee is hereby authorized and directed to authenticate the Bonds and, upon the satisfaction of the conditions set forth in Section 2.08 of the Trust Agreement, the Bond Trustee shall deliver the Bonds to the Bank against payment therefor.

Section 11. The Bank of New York Mellon Trust Company, N.A. is hereby appointed as the initial Bond Trustee for the Bonds.

Section 12. If the Bonds are ever converted to an interest rate other than the Index Interest Rate, the Depository Trust Company, New York, New York is hereby appointed as the initial Securities Depository for the Bonds, with Cede & Co., a nominee thereof, being the initial Securities Depository Nominee and registered owner of the Bonds.

Section 13. Drexdal R. Pratt, Secretary of the Commission, Christopher B. Taylor, C.P.A., Assistant Secretary of the Commission and Kathy C. Larrison, Auditor of the Commission, are each hereby appointed a Commission Representative as that term is defined in the Loan Agreement, with full power to carry out the duties set forth therein.

Section 14. The Chairman, Vice Chairman, Secretary, and any Assistant Secretary of the Commission (or any member of the Commission designated by the Chairman) are each hereby authorized and directed (without limitation except as may be expressly set forth herein) to take such action and to execute and deliver any such documents, certificates, undertakings, agreements or other instruments as they, with the advice of counsel, may deem necessary or appropriate to effect the transactions contemplated by the Trust Agreement, the Loan Agreement, the Continuing Covenant Agreement and the Purchase Contract.

Section 15. This Series Resolution shall take effect immediately upon its passage.

Schedule 1

Required Redemption of the Bonds

| <u>Year</u> | <u>Amount</u> |
|-------------|---------------|
| 2030 | \$9,165,000 |
| 2031 | 9,475,000 |
| 2032* | 9,795,000 |

*Maturity

Professional Fees Comparison for
FirstHealth of the Carolinas, Inc.

| <u>Professional</u> | <u>Fees Estimated In Preliminary Approval Resolution</u> | <u>Actual Fees</u> |
|------------------------|--|--------------------|
| Bank Purchaser Counsel | \$35,000 | \$35,000 |
| Bond Counsel | 50,000 | 50,000 |
| Corporation Counsel | 35,000 | 27,000 |
| Financial advisor | 55,000 | 57,000 |

3. **Resolution of the North Carolina Medical Care Commission Authorizing the Execution and Delivery of an Amendment to Entrance Fee Escrow Agreement relating to Commission bonds and other debt of Penick Village** - Remarks were made by Jeff Poley

Executive Committee Action: A motion was made by Ms. Piepenbring, seconded Mr. Joe Crocker and unanimously approved.

WHEREAS, the North Carolina Medical Care Commission (the “*Commission*”) is a commission of the Department of Health and Human Services of the State of North Carolina and is authorized under Chapter 131A of the General Statutes of North Carolina, as amended (the “*Act*”), to borrow money and to issue in evidence thereof bonds and notes for the purpose of providing funds to pay all or any part of the cost of financing or refinancing health care facilities and to refund bonds previously issued by the Commission; and

WHEREAS, The Episcopal Home for the Ageing in the Diocese of North Carolina, doing business as “Penick Village” (the “*Corporation*”) is a nonprofit corporation duly incorporated and validly existing under and by virtue of the laws of the State of North Carolina and is a “non-profit agency” within the meaning of the Act; and

WHEREAS, the Commission has previously issued its Health Care Facilities First Mortgage Revenue Refunding Bonds (Penick Village), Series 2004B (the “*Series 2004B Bonds*”), its Health Care Facilities First Mortgage Revenue Bonds (Penick Village), Series 2010A (the “*Series 2010A Bonds*”) and its Health Care Facilities First Mortgage Revenue Bonds (Penick Village), Series 2010B (the “*Series 2010B Bonds*”) for the benefit of the Corporation; and

WHEREAS, the Series 2004B Bonds are presently outstanding in an aggregate principal amount of \$2,470,000; and

WHEREAS, Branch Banking and Trust Company (“BB&T”) has made a \$2,500,000 taxable loan to the Corporation on September 25, 2012 to enable the Series 2004B Bonds to be called in full on October 1, 2012 (such loan being the “*2012A Taxable Loan*”); and

WHEREAS, the Series 2010A Bonds are presently outstanding in an aggregate principal amount of \$2,120,859.51; and

WHEREAS, BB&T has committed to make a \$2,400,000 taxable loan to the Corporation before December 31, 2012 to enable the Series 2010A Bonds to be paid in full at maturity on January 1, 2013 (such loan being the “*2012B Taxable Loan*”, and, together with the 2012A Taxable Loan, the “*Taxable Loans*”); and

WHEREAS, the Series 2010B Bonds are presently outstanding in the aggregate principal amount of \$19,425,000; and

WHEREAS, after the redemption of the Series 2004B Bonds, the payment at maturity of the Series 2010A Bonds and the incurrence of the Taxable Loans, there will be outstanding \$4,900,000 in Taxable Loans and \$19,425,000 of the tax-exempt Series 2010B Bonds; and

WHEREAS, at the time of issuance of the Series 2010A Bonds and the Series 2010B Bonds, the Corporation, the Commission, BB&T and U.S. Bank, National Association, as bond trustee (“*U.S. Bank*”), entered into an Entrance Fee Escrow Agreement (the “Original Entrance Fee Agreement”) to establish a priority of payment of certain designated entrance fees among certain previous taxable loans from BB&T to the Corporation and the Series 2010A Bonds and the Series 2010B Bonds; and

WHEREAS, the Corporation has requested the Commission to amend the Original Entrance Fee Agreement to allow the Corporation to use such designated entrance fees to more quickly pay the 2012A Taxable Loan and the 2012B Taxable Loan than would have been possible under the Original Entrance Fee Agreement because such quicker payment of the 2012A Taxable Loan and the 2012B Taxable Loan vis-à-vis the tax-exempt Series 2010B Bonds will reduce interest costs to the Corporation; and

WHEREAS, staff of the Corporation and agents of the Corporation have discussed amending the Original Entrance Fee Agreement as set forth above with the staff of the Commission; and

WHEREAS, upon redemption of the Series 2004B Bonds on October 1, 2012, BB&T will be the sole owner of all the debt relating to the Corporation; and

WHEREAS, BB&T has consented to and has requested this change to amendment as set forth above; and

WHEREAS, there has been presented at this meeting an Amendment to Entrance Fee Agreement, to be dated the date of delivery thereof (the “Amended Entrance Fee Agreement”), among the Commission, the Corporation, BB&T and U.S. Bank; and

WHEREAS, the draft Amended Entrance Fee Agreement provides that 50% of the each designated entrance fee will be used to pay down the Taxable Loans and the remaining 50% will be used to pay down the Series 2010B Bonds; and

WHEREAS, the Commission has determined that the Corporation is financially responsible and capable of fulfilling its obligations relating to the Taxable Loans and the Series 2010B Bonds; and

NOW, THEREFORE, THE EXECUTIVE COMMITTEE OF THE NORTH CAROLINA MEDICAL CARE COMMISSION DOES HEREBY RESOLVE, as follows:

Section 1. The forms, terms and provisions of the Amended Entrance Fee Agreement are hereby approved in all respects, and the Chairman or Vice Chairman (or any member of the Commission designated by the Chairman) and the Secretary or any Assistant Secretary of the Commission are hereby authorized and directed to execute and deliver the Amended Entrance Fee Agreement in substantially the forms presented at this meeting, together with such changes,

modifications and deletions as they, with the advice of counsel, may deem necessary and appropriate, and such execution and delivery shall be conclusive evidence of the approval and authorization thereof by the Commission.

Section 2. Because BB&T, as sole holder of the Corporation's debt, including without limitation, the Series 2010A Bonds and the Series 2010B Bonds, is providing the Taxable Loans and thus allowing the Corporation to incur Indebtedness under the Corporation's Master Trust Indenture, the Commission waives compliance by the Corporation of an incurrence parameters in the Corporations Master Trust Indenture in connection with the Taxable Loans.

Section 3. The Chairman, Vice Chairman, Secretary, and any Assistant Secretary of the Commission (or any member of the Commission designated by the Chairman) are each hereby authorized and directed (without limitation except as may be expressly set forth herein) to take such action and to execute and deliver any such documents, certificates, undertakings, agreements or other instruments as they, with the advice of counsel, may deem necessary or appropriate to effect the transactions contemplated by this Resolution.

Section 4. This Resolution shall take effect immediately upon its passage.

4. Resolution Approving a First Amendment to Loan Agreement Relating to the North Carolina Medical Care Commission Variable Rate Demand Health System Refunding Revenue Bonds (Transylvania Regional Hospital), Series 2011 and Certain Other Matters Related Thereto – Remarks were made by Jon Mize.

Executive Committee Action: A motion was made by Mr. Joe Crocker, seconded by Ms. Mary Piepenbring, and unanimously approved with Mr. George Cecil abstaining from the vote.

WHEREAS, the North Carolina Medical Care Commission (the "Commission") is a commission of the Department of Health and Human Services of the State of North Carolina and is authorized under Chapter 131A of the General Statutes of North Carolina, as amended (the "Act"), to borrow money and to issue in evidence thereof bonds and notes for the purpose of providing funds to pay all or any part of the cost of financing or refinancing health care facilities; and

WHEREAS, the Commission has heretofore issued its Variable Rate Demand Health System Refunding Revenue Bonds (Transylvania Regional Hospital), Series 2011, dated as of August 24, 2011, in the aggregate principal amount of \$14,655,000 (the "Bonds"), and loaned the proceeds thereof to Transylvania Community Hospital, Inc. (the "Corporation"), which is a North Carolina nonprofit and a "non-profit agency" within the meaning and intent of the Act, which operates, by itself and through its affiliates, various health care facilities; and

WHEREAS, pursuant to a Guaranty Agreement, dated as of August 1, 2011 (the "Guaranty Agreement"), between Mission Health System, Inc. ("Mission Health") and Wells Fargo Bank, National Association, as the initial holder and purchaser of the Bonds ("Wells Fargo"), Mission Health agreed to guarantee certain obligations of the Corporation with respect to the Bonds; and

WHEREAS, the Corporation has previously granted a lien on certain of its real and personal property in favor of Mission Health to secure its reimbursement obligations to Mission Health (the "Reimbursement Obligations") with respect to the Guaranty Agreement pursuant to a Security Agreement, dated August 24, 2011 (the "Security Agreement"), between the Corporation and Mission Health, and a Deed of Trust, dated August 24, 2011 (the "Deed of Trust"), from the Corporation to the deed of trust trustee named therein for the benefit of Mission Health; and

WHEREAS, the Corporation proposes to enter into a Guaranty Agreement, dated as of the date of delivery thereof (the "THS Guaranty Agreement"), between the Corporation and Mission Health, pursuant to which the Corporation will provide a guaranty with respect to certain loan repayment obligations of Transylvania Health System, Inc. to Mission Health; and

WHEREAS, the Corporation desires to amend the Security Agreement and the Deed of Trust to secure its obligations to Mission Health under the THS Guaranty Agreement on the same terms as the Reimbursement Obligations; and

WHEREAS, the Corporation must satisfy the conditions of Section 5.05 of the Loan Agreement, dated as of August 1, 2011 (the "Loan Agreement"), between the Commission and the Corporation to incur Long-Term Indebtedness, and the Corporation's obligations under the THS Guaranty Agreement constitute a Guaranty and Long-Term Indebtedness (as such terms are defined in the Loan Agreement); and

WHEREAS, it is necessary for the Commission and the Corporation to amend the definition of Permitted Liens set forth in Section 5.04(b) of the Loan Agreement to include the lien in favor of Mission Health with respect to the Corporation's obligations under the THS Guaranty Agreement as a Permitted Lien under the Loan Agreement and to amend Section 5.05 of the Loan Agreement to provide that the Corporation may enter into the THS Guaranty Agreement without satisfying the conditions related to the incurrence of Indebtedness (as defined in the Original Agreement); and

WHEREAS, the Commission and the Corporation will effect such amendments pursuant to a First Amendment to Loan Agreement, to be dated as of October 1, 2012 or such other mutually agreeable date (the "First Amendment"), between the Commission and the Corporation, as consented to by Wells Fargo, as the holder of the Bonds; and

WHEREAS, a draft form of the First Amendment has been presented at this meeting; and

WHEREAS, Wells Fargo Bank, National Association will be required to consent to such amendment as the sole Holder of the Bonds; and

WHEREAS, the Commission has determined that the Corporation and Mission Health are financially responsible and capable of fulfilling their obligations under the proposed transaction;

NOW THEREFORE, BE IT RESOLVED by the Executive Committee of the North Carolina Medical Care Commission as follows:

Section 1. The form, terms and provisions of the First Amendment are hereby authorized and approved in all respects, and each of the Chairman, the Vice Chairman and the Secretary or any Assistant Secretary of the Commission (the "Authorized Officers") are each hereby authorized to execute and deliver on behalf of the Commission the First Amendment in substantially the form presented at this meeting, together with such additions, deletions or other modifications not

inconsistent with the general tenor of said document as the Authorized Officer executing such document, with the advice of counsel, may deem necessary or appropriate, such execution and delivery to be conclusive evidence of the authorization and approval thereof by the Commission.

Section 2. The Authorized Officers are hereby authorized and directed to take such action and to execute and deliver any and all certificates, undertakings, agreements or other instruments as they, with the advice of counsel, may deem necessary or appropriate to effect the transactions contemplated by this resolution and the documents described in this resolution.

Section 3. This resolution shall take effect immediately upon its passage and shall supersede and replace in its entirety the resolution adopted by the Executive Committee of the Commission on June 14, 2012 relating to the First Amendment.

5. Material Event Notice (Southeastern Regional Medical Center) – Chris Taylor & Kevin Dougherty

On August 14, 2002, the North Carolina Medical Care Commission (the “Commission”) issued its \$48,980,000 Hospital Revenue Bonds (Southeastern Regional Medical Center), Series 2002 (the “Bonds”) pursuant to a Trust Agreement, dated as of August 1, 2002 (the “Trust Agreement”), between the Commission and U.S. Bank National Association, as bond trustee (the “Bond Trustee”). The proceeds of the Bonds were loaned to Southeastern Regional Medical Center, a North Carolina nonprofit corporation (“SRMC”), pursuant to a Loan Agreement, dated as of August 1, 2002 (the “Loan Agreement”), between the Commission and SRMC.

A mandatory sinking fund redemption in the principal amount of \$775,000 (the “Sinking Fund Redemption”) was required to be made on June 1, 2012 in accordance with the Sinking Fund Requirements for the Term Bonds maturing on June 1, 2015 (the “2015 Term Bonds”). The Sinking Fund Redemption was not made on June 1, 2012. The failure to make the Sinking Fund Redemption on June 1, 2012 is an Event of Default under the terms and provisions of the Trust Agreement.

The Bond Trustee is required by the Trust Agreement to give thirty (30) days’ prior written notice to the Holders of Bonds to be called pursuant to a mandatory sinking fund redemption. The Bond Trustee did not give notice to the Holders of the 2015 Term Bonds of the Sinking Fund Redemption on June 1, 2012 as required by the Trust Agreement.

Neither the Commission nor the Bond Trustee is required by the Loan Agreement to give notice to SRMC of the date when Loan Repayments are due or the amount of such Loan Repayments. A Loan Repayment in an amount equal to \$775,000 was required to be made by SRMC on May 25, 2012 in connection with the Sinking Fund Redemption. This Loan Repayment was not made by SRMC on May 25, 2012, but it was not due to any unwillingness or inability on the part of SRMC to make such Loan Repayment on time. Since this Loan Repayment was not made on May 25, 2012, the Bond Trustee was required by the Trust Agreement to give notice to SRMC, by not later than the close of business on May 29, 2012, of

the amount of the deficiency in the Sinking Fund Account for the payment of the Sinking Fund Redemption for the 2015 Term Bonds on June 1, 2012. This notice was not given by the Bond

Trustee to SRMC. Upon notification, SRMC would have been required to deliver to the Bond Trustee, by not later than the next Business Day, funds in an amount sufficient to cure the deficiency, and SRMC had the willingness and ability to transfer funds in an amount sufficient to cure the deficiency on time. If the Bond Trustee had delivered notification of a deficiency in the Sinking Fund Account and the deficiency in the Sinking Fund Account had not been timely cured, the Bond Trustee then would have been required by the Trust Agreement to draw on the Debt Service Reserve Fund to effect the Sinking Fund Redemption of the 2015 Term Bonds on June 1, 2012. No such draw was made on the Debt Service Reserve Fund to effect the Sinking Fund Redemption of the 2015 Term Bonds on June 1, 2012 since the earlier required steps under the Trust Agreement were not taken.

October 31, 2012 has been established as the new mandatory sinking fund redemption date for \$775,000 in aggregate principal amount of the 2015 Term Bonds. The Bond Trustee will give the Holders of the 2015 Term Bonds subject to such Sinking Fund Redemption 30 days' prior written notice of the new mandatory sinking fund redemption date (October 31, 2012). SRMC has deposited with the Bond Trustee funds equal to the amount required to retire \$775,000 of the 2015 Term Bonds to be called by mandatory redemption on October 31, 2012, plus accrued interest to the redemption date.

All capitalized terms used in this notice but not otherwise defined herein have the meanings given to them in the Trust Agreement and the Loan Agreement.

6. Adjournment

There being no further business, the meeting was adjourned at 2:45 p.m.

Respectfully submitted,

Christopher B. Taylor
Assistant Secretary