

**NORTH CAROLINA DEPARTMENT OF HEALTH AND HUMAN SERVICES**

**The North Carolina Medical Care Commission  
701 Barbour Drive  
Raleigh, North Carolina**

**MINUTES**

**CALLED MEETING OF THE EXECUTIVE COMMITTEE  
CONFERENCE TELEPHONE MEETING ORIGINATING  
FROM THE COMMISSION'S OFFICE  
MAY 5, 2011  
2:00 P.M.**

**Members of the Executive Committee Present:**

Lucy Hancock Bode, Chairman  
Joseph D. Crocker, Vice-Chairman  
Dr. George Binder  
Gerald P. Cox  
Charles T. Frock  
Dr. Carl K. Rust

**Members of the Executive Committee Absent:**

Dr. Robert E. Schaaf

**Members of Staff Present:**

Christopher B. Taylor, CPA, Assistant Secretary  
Alice S. Creech, Bond Program Assistant

**Others Present:**

Fred Karnap, CFO, Iredell Memorial Hospital  
Steve Cordell, McGuire Woods, LLP  
Kurt Powell, Bank of America Merrill Lynch  
John Franklin, BB&T Capital Markets  
Jeff Poley, Parker Poe Adams & Bernstein

**1. Purpose of Meeting**

1) To consider preliminary approval to a project for Iredell Memorial Hospital to provide funds, to be used together with other available funds, to effect a refunding/conversion of the \$39,465,000 North Carolina Medical Care Commission Variable Rate Demand Hospital Revenue Bonds, Series 2007, (2) To consider the sale of bonds which the proceeds will be loaned to Cleveland Healthcare System and (3) To consider a resolution for the execution and delivery of a direction to redeem the \$24,770,000 North Carolina Medical Care Commission FHA Insured Mortgage Revenue Bonds (Betsy Johnson Regional Hospital) Series 2003 Bonds and a Notice of Optional Redemption for Betsy Johnson Regional Hospital Bonds.

**2. Series Resolution Authorizing the Issuance of \$39,560,000 - North Carolina Medical Care Commission Health Care Facilities Revenue and Refunding Revenue Bonds (Cleveland County HealthCare System), Series 2011A (the “Bonds”) - Remarks were made by Kurt Powell and Steve Cordell**

**Executive Committee Action:** A motion was made by Mr. Joe Crocker, seconded by Mr. Charles Frock and unanimously approved with Mrs. Lucy Bode, Mr. Gerald Cox and Dr. Carl Rust 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**, Cleveland County HealthCare System (the “Corporation”) is a private, nonprofit organization duly organized and validly existing under and by virtue of the laws of the State of North Carolina, which owns and operates acute care hospitals and other health care facilities located in Cleveland County, North Carolina; and

**WHEREAS**, the Corporation has made an application to the Commission for a loan for the purposes of providing funds, with other available funds, to (a) pay, or reimburse the Corporation for paying, a portion of the cost of the Project (as defined in the Loan Agreement hereinafter mentioned), (b) refund the outstanding principal amount of the Medical Care Commission’s Variable Rate Health Care Facilities Revenue Bonds (Cleveland County HealthCare System Project) Series 2001 and (c) pay fees and expenses incurred in connection with the issuance of the Bonds; and

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

(a) the Contract of Purchase, dated May 5, 2011 (the “Purchase Agreement”), by and among Merrill Lynch, Pierce, Fenner & Smith Incorporated and BB&T Capital Markets, a division of Scott & Stringfellow, LLC, as underwriters (the “Underwriters”),

(b) the Trust Agreement, dated as of May 1, 2011 (the “Trust Agreement”), by and 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;

(c) the Loan Agreement, dated as of May 1, 2011 (the “Loan Agreement”), by and between the Commission and the Corporation, pursuant to which the Commission will lend the proceeds of the Bonds to the Corporation;

(d) Supplemental Indenture for Obligation No. 5, dated as of May 1, 2011 (“Supplement No. 5”), by and between the Corporation and the Master Trustee named therein;

(e) Obligation No. 5 of the Corporation, dated as of the date of delivery thereof, to be issued by the Corporation to the Commission; and

(f) the Preliminary Official Statement of the Commission, dated April 19, 2011, relating to the Bonds (the “Preliminary Official Statement”).

**WHEREAS**, the Commission has determined that the Corporation is financially responsible and capable of fulfilling its obligations under the foregoing documents, including the Loan Agreement, Obligation No. 5 and Supplement No. 5; and

**WHEREAS**, the Commission has determined that the public interest will be served by the proposed financing and 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 EXECUTIVE COMMITTEE OF 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 Trust Agreement or the Loan Agreement.

**Section 2.** Pursuant to the authority granted to it by the Act, the Commission hereby authorizes the issuance of its Health Care Facilities Revenue and Refunding Revenue Bonds (Cleveland County HealthCare System), Series 2011A, in the aggregate principal amount of \$39,560,000 (the “Bonds”). The Bonds shall mature in such amounts and at such times and shall bear interest at such rates as are set forth in Schedule 1 hereto attached.

**Section 3.** The Bonds shall be issued as fully registered bonds in the denomination of \$5,000 or any whole multiple thereof. Interest on the Bonds shall be payable on January 1, 2012, and thereafter semiannually on each July 1 and January 1 until the Bonds are fully paid. 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 4.** The Bonds shall be subject to optional, extraordinary optional and mandatory redemption at the times, upon the terms and conditions, and at the prices set forth in the Trust Agreement.

**Section 5.** The proceeds of the Bonds shall be applied as provided in Section 208 of the Trust Agreement. The Commission hereby finds that the use of the proceeds of the Bonds for a loan to the Corporation to be used in the manner set forth in the Loan Agreement and the Trust Agreement will accomplish the public purposes set forth in the Act.

**Section 6.** The forms, terms and provisions of the Trust Agreement and the Loan Agreement are hereby approved in all respects, and the Chairman, Vice Chairman or any other member of the Commission designated in writing 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 to this meeting, together with such changes, modifications and deletions as any of such persons, with the advice of counsel, may deem necessary and appropriate, including but not limited to changes, modifications and deletions necessary to incorporate the final terms of the Bonds as shall be set forth in the Purchase Agreement; and such execution and delivery shall be conclusive evidence of the approval and authorization thereof by the Commission.

**Section 7.** The form, terms and provisions of the Purchase Agreement, including any and all certificates, exhibits and other documents attached or related thereto, are hereby approved in all respects, and the Chairman, Vice Chairman or any other member of the Commission designated in writing by the Chairman, is hereby authorized and directed to approve, by execution and delivery, the Purchase Agreement and such related certificates, exhibits and documents in substantially the form presented to this meeting together with such changes, modifications, insertions and deletions as any of such persons, 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 8.** The form of the Bonds set forth in the Trust Agreement is hereby approved in all respects, and the Chairman, Vice Chairman or any other member of the Commission designated in writing 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 to this meeting together with such changes, modifications and deletions as any of such persons, 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 9.** The forms, terms and provisions of Supplement No. 5 and Obligation No. 5 are hereby approved in substantially the forms presented to this meeting, together with such changes, modifications and deletions as the Chairman, Vice Chairman or any other member of the Commission designated in writing by the Chairman, with the advice of counsel, may deem necessary and appropriate; and the execution and delivery of the Trust Agreement pursuant to Section 6 of this Series Resolution shall be conclusive evidence of the approval of Supplement No. 5 and Obligation No. 5 by the Commission.

**Section 10.** The Commission hereby approves the action of the Local Government Commission in awarding the Bonds to the Underwriters at the price of \$38,990,158.20 (which price represents the \$39,560,000 principal amount of the Bonds, less net original issue discount of \$243,076.20, and less underwriters' discount of \$326,765.60).

**Section 11.** 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 due and valid execution of the Purchase Agreement, the Trust Agreement, the Loan Agreement, Supplement No. 5 and Obligation No. 5 by the parties thereto, the Bond Trustee shall deliver the Bonds to the Underwriters against payment therefor, subject to the provisions of Section 208 of the Trust Agreement.

**Section 12.** The Commission hereby ratifies the use and distribution of the Preliminary Official Statement in connection with the sale of the Bonds, and the Official Statement (the "Official Statement"), in substantially the form of the Preliminary Official Statement presented at this meeting, with such changes as are necessary to reflect the maturities, sinking fund requirements, redemption provisions, insurance provisions and interest rates of the Bonds, is hereby approved, and the Chairman, Vice Chairman or any other member of the Commission designated in writing by the Chairman is hereby authorized to execute, on behalf of the Commission, the Official Statement in substantially such form, together with such changes, modifications and deletions as any of such persons, with the advice of counsel, may deem appropriate; and such execution shall be conclusive evidence of the approval thereof by the Commission, and the Commission hereby approves and authorizes the distribution and use of copies of the Official Statement, the Trust Agreement, the Loan Agreement, Supplement No. 5 and Obligation No. 5 by the Underwriters in connection with such sale.

**Section 13.** The Depository Trust Company ("DTC"), New York, New York, is hereby appointed as the initial Securities Depository for the Bonds, with Cede & Co., as nominee of DTC, being the initial Securities Depository Nominee and initial registered owner of the Bonds.

**Section 14.** Drexal Pratt, Secretary of the Commission, Christopher B. Taylor, C.P.A., Assistant Secretary of the Commission, Steven C. Lewis, Chief of the Construction Section of the Division of Health Services Regulation and Kathy C. Larrison, Auditor of the Commission, are each hereby appointed a Commission Representative as that term is defined in the Trust Agreement and the Loan Agreement, with full power to carry out the duties set forth therein. The Assistant Secretary of the Commission is authorized to execute and deliver the Tax Certificate and Form 8038 in such form as he, with the advice of counsel, may deem necessary or appropriate to effect the transactions contemplated by the Trust Agreement, the Loan Agreement, the Purchase Agreement and the Official Statement, and such execution and delivery shall be conclusive evidence of the approval and authorization thereof by the Commission.

**Section 15.** The Commission hereby recommends that the Governor of the State of North Carolina approve the issuance of the Bonds pursuant to Section 147(f) of the Internal Revenue Code of 1986, as amended, and hereby requests such approval.

**Section 16.** A comparison of the professional fees as set forth in the resolution adopted by the Commission granting preliminary approval of this financing with the current estimate of professional fees incurred in connection with the financing is set forth in Schedule 2 attached hereto and made a part hereof. Final professional fees paid from proceeds of the Bonds will not exceed the current estimates of professional fees set forth in Schedule 2.

**Section 17.** The Chairman, Vice Chairman or any other member of the Commission designated in writing by the Chairman and the Secretary and any Assistant Secretary of the Commission are 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 any of such persons, with the advice of counsel, may deem necessary or appropriate to effect the transactions contemplated by the Trust Agreement, the Loan Agreement, the Purchase Agreement and the Official Statement.

**Section 18.** The Commission hereby approves and consents to the appointment by the Corporation of The Bank of New York Mellon Trust Company, N.A. as successor master trustee to The Bank of New York.

**Section 19.** This Series Resolution shall take effect immediately upon its passage.

**MATURITY SCHEDULE****\$11,190,000 Serial Bonds**

<b><u>Due January 1</u></b>	<b><u>Principal Amount</u></b>	<b><u>Interest Rate</u></b>
2012	\$ 715,000	2.50%
2013	1,005,000	3.00
2014	1,035,000	3.00
2015	1,065,000	3.00
2016	1,095,000	3.25
2017	1,145,000	5.00
2018	1,200,000	5.00
2019	1,255,000	4.00
2020	1,310,000	4.00
2021	1,365,000	4.25

**\$2,905,000 4.375% Term Bonds due January 1, 2023**

<b><u>Due January 1</u></b>	<b><u>Sinking Fund Requirement</u></b>
2022	\$1,415,000
2023*	1,490,000
<hr/>	
*Maturity	

**\$4,925,000 5.00% Term Bonds due January 1, 2026**

<b><u>Due January 1</u></b>	<b><u>Sinking Fund Requirement</u></b>
2024	\$1,560,000
2025	1,640,000
2026*	1,725,000
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*Maturity	

**\$10,135,000 5.375% Term Bonds due January 1, 2031**

<b><u>Due January 1</u></b>	<b><u>Sinking Fund Requirement</u></b>
2027	\$1,815,000
2028	1,915,000
2029	2,020,000
2030	2,135,000
2031*	2,250,000
<hr/>	
*Maturity	

**\$10,405,000 5.75% Term Bonds due January 1, 2035**

<u>Due January 1</u>	<u>Sinking Fund Requirement</u>
2032	\$2,385,000
2033	2,520,000
2034	2,670,000
2035*	2,830,000
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*Maturity	

Professional Fees Comparison  
Health Care Facilities Revenue and Refunding Revenue Bonds  
(Cleveland County HealthCare System) Series 2011A

<u>Professional</u>	Fees Estimated In Preliminary Approval <u>Resolution</u>	<u>Current Estimate of Fees</u>
Underwriters' Counsel	\$40,000	\$40,000
Corporation Counsel	\$60,000	\$60,000
Bond Counsel	\$75,000	\$62,500
Accountants	\$20,000	\$30,000
Feasibility	\$17,500	\$17,500

**3. Iredell Memorial Hospital, Incorporated – Statesville, NC - Christopher B. Taylor & Fred Karnap**

**Executive Committee Action:** A motion was made by Mr. Joe Crocker, seconded by Mr. Gerald Cox and unanimously approved.

**Resolution:** The Commission grants preliminary approval to a project for Iredell Memorial Hospital to provide funds, to be used together with other available funds, to effect a refunding/conversion of the \$39,465,000 North Carolina Medical Care Commission Variable Rate Demand Hospital Revenue Bonds (Iredell Memorial Hospital) Series 2007 outstanding in the amount of \$35 million to a tax-exempt nonbank qualified bond mode. The Bonds will be purchased by Wells Fargo and will result in a reduction of overall borrowing costs by the conversion from the Letter of Credit Backed Variable Rate Mode. The existing Trust Indenture for the Series 2007 Bonds will be amended to add the nonbank qualified mode. The project is in accordance with an application received as follows:

### ESTIMATED SOURCES OF FUNDS

Principal amount of Bonds to be refunded/converted	35,000,000
Equity contribution for Iredell	<u>108,500</u>
<b>Total Sources</b>	<b>\$35,108,500</b>

### ESTIMATED USES OF FUNDS

Refunding/conversion of Series 2007	35,000,000
Bond Counsel	50,000
Corporation Counsel	25,000
Bank counsel	20,000
Trustee fee	5,000
Local Government Commission fee	<u>8,500</u>
<b>Total Uses</b>	<b>\$35,108,500</b>

Tentative approval is given with the understanding that the governing board of The Iredell Memorial Hospital, Inc. accepts the following conditions:

1. The project will continue to be developed pursuant to the applicable Medical Care Commission guidelines.
2. Any required certificate of need must be in effect at the time of the issuance of the bonds or notes.
3. Financial feasibility must be determined prior to the issuance of bonds.
4. The project must, in all respects, meet requirements of §G.S. 131A (Health Care Facilities Finance Act).
5. The Executive Committee of the Commission is delegated the authority to approve the issuance of bonds for this project and may approve the issuance of such greater principal amount of the loan as shall be necessary to finance the project; provided, however, that the amount set forth above shall not be increased by more than ten percent (10%).
6. The bonds or notes shall be sold in such a manner and upon such terms and conditions as will, in the sole judgment of the Executive Committee of the Commission, result in the lowest cost to the facility and its patients.

7. The borrower will provide the Commission annually a copy of the Advocacy Needs Data Initiative (ANDI) form it files with the North Carolina Hospital Association (NCHA) in accordance with a resolution passed by the Commission on February 9, 2007 adopting the NCHA Community Benefits reporting format and methodology for hospitals reporting to the Commission.
8. All health care facilities and services directly or indirectly owned or controlled by the health care organization, including physician practices, shall be available to Medicare and Medicaid patients with no limitations imposed as a result of the source of reimbursement.
9. If public approval of the bonds is required for the purpose of Section 147(f) of the Internal Revenue Code of 1986, as amended (“Section 147(f)”), this tentative approval shall constitute the recommendation of the Commission that the Governor of the State of North Carolina (the “Governor”) approve the issuance of such bonds, subject to the satisfaction of the requirements of Section 147(f) concerning the holding of a public hearing prior to the submission of such recommendation to the Governor.

Based on information furnished by applicant, the project is -

- |  |                                     |     |                          |    |                                     |     |
|--|-------------------------------------|-----|--------------------------|----|-------------------------------------|-----|
| 1. Financially feasible                          | <input checked="" type="checkbox"/> | Yes | <input type="checkbox"/> | No | <input type="checkbox"/>            | N/A |
| 2. Construction and related costs are reasonable | <input type="checkbox"/>            | Yes | <input type="checkbox"/> | No | <input checked="" type="checkbox"/> | N/A |

Notes:

Operating income	FYE September 30, 2010	\$1,024,099
Increase (decrease in unrestricted Net Assets)		\$6,563,461
Increase (decrease) in net assets		\$6,563,461
Net cash provided by operating activities		\$8,198,554
Net increase (decrease) in cash and cash equivalents		\$201,037

Long term debt service coverage ratios

Actual Forecast	09/30/2010	x	4.11
	09/30/2011	x	4.73
	09/30/2012	x	5.15
	09/30/2013	x	4.45
	09/30/2014	x	7.01

Community Benefits Per ANDI Report –FYE 9/30/2010	\$25,321,721
Bad Debt Costs Per ANDI Report FYE 9/30/10	<u>6,721,403</u>
Total	\$32,043,124

4. **Resolution Approving Certain Matters Relating to the North Carolina Medical Care Commission’s FHA Insured Mortgage Revenue Bonds (Betsy Johnson Regional Hospital Project), Series 2003** – Remarks were made by Jeff Poley and John Franklin

**Executive Committee Action:** A motion was made by Mr. Joe Crocker, seconded by Mr. Charles Frock and unanimously approved with Dr. Rust, Dr. Binder, and Mr. Cox 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 has previously issued its North Carolina Medical Care Commission FHA Insured Mortgage Revenue Bonds (Betsy Johnson Regional Hospital Project), Series 2003 (the “*Bonds to be Refunded*”) in the original principal amount of \$24,770,000; and

**WHEREAS**, the Commission loaned the proceeds of the Bonds to be Refunded to Betsy Johnson Health Care Systems, Incorporated, now Harnett Health System, Inc. (the “*Corporation*”); and

**WHEREAS**, the Corporation desires to refund the Bonds to be Refunded; and

**WHEREAS**, there have been presented at this meeting draft copies of the following documents relating to the refunding of the Bonds to be Refunded:

**Section 1.01** *a Direction to Redeem and Notice of Optional Redemption (the “Direction to Redeem”) to be executed by the Commission and the Corporation and delivered to U.S. Bank National Association, as trustee for the Bonds to be Refunded;*

**Section 1.02** *an Escrow Deposit Agreement, dated as of April 1, 2011 (the “Escrow Agreement”), by and between the Corporation and U.S. Bank National Association, as escrow agent; and*

**Section 1.03** *a draft copy of the verification report of The Arbitrage Group, Inc. verifying the amounts deposited into the Escrow Agreement, together with other funds, are sufficient to defease the Bonds to be Refunded.*

**WHEREAS**, the Corporation has requested the Commission’s execution of the Direction to Redeem in order to expedite the process of refunding the Bonds to be Refunded and the Commission desires to refund the Bonds to be Refunded;

**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 Direction to Redeem are hereby approved in all respects, and the Chairman, Vice Chairman or any other member of the Commission designated in writing by the Chairman and the Secretary or any Assistant Secretary of the Commission are hereby authorized and directed to execute and deliver such Direction to Redeem in substantially the form presented to this meeting, together with such changes, modifications and deletions as any of such persons, with the advice of counsel, may deem necessary and appropriate, including but not limited to changes, modifications and deletions necessary to incorporate the final terms of the refunding as shall be necessary; and such execution and delivery shall be conclusive evidence of the approval and authorization thereof by the Commission.

Section 2. The forms, terms and provisions of Escrow Agreement is hereby approved in substantially the forms presented to this meeting, together with such changes, modifications and deletions as the Chairman, Vice Chairman or any other member of the Commission designated in writing 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 Direction to Redeem pursuant to Section 1 hereof shall be conclusive evidence of the approval of the Escrow Agreement by the Commission.

Section 3. The Chairman, Vice Chairman or any other member of the Commission designated in writing by the Chairman and the Secretary and any Assistant Secretary of the Commission are 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 any of such persons, with the advice of counsel, may deem necessary or appropriate to effect the refunding of the Bonds to be Refunded.

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

**5. ADJOURNMENT**

There being no further business, the meeting was adjourned at 2:30 p.m.

Respectfully Submitted,

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Christopher B. Taylor, C.P.A.  
Assistant Secretary

May 5, 2011