

\$222,645,000

**THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(NORTH CAROLINA)**



**Doing Business as
Carolinas HealthCare System
Health Care Refunding Revenue Bonds
Series 2009A**

- Our Business:** Carolinas HealthCare System is the largest healthcare system in North and South Carolina and is the third largest public, multi-hospital system in the nation.
- Purpose:** We will use the proceeds of the 2009A Bonds to (1) refund certain of our outstanding bonds and (2) pay certain expenses of issuing the 2009A Bonds. See "Plan of Refunding" on page 25.
- Security:** The 2009A Bonds are limited obligations payable solely from (1) our Revenues, (2) payments from, or Revenues of, other members of the obligated group, and (3) the money and securities held by the trustee in the funds and accounts for the 2009A Bonds created by our bond order and the series resolution. See "Security and Sources of Payment" on page 6.
- Tax Exemption:** In the opinion of bond counsel, interest on the 2009A Bonds is (1) excludable from the gross income of the owners thereof for federal income tax purposes, (2) not an item of tax preference for purposes of the federal alternative minimum tax and (3) exempt from State of North Carolina income taxes. See "Tax Treatment" on page 34.
- Dated:** Date of delivery.
- Delivery Date:** On or about August 27, 2009.
- Denominations:** \$5,000 or any multiple thereof.
- Interest Payment Dates:** January 15 and July 15 of each year, commencing January 15, 2010.
- Due:** January 15, as shown on the inside cover.
- Redemption:** The 2009A Bonds are subject to optional, extraordinary and mandatory redemption prior to maturity. See "Description of the 2009A Bonds—Redemption" on page 21.
- Bond Counsel:** Robinson, Bradshaw & Hinson, P.A., Charlotte, North Carolina.
- Underwriters' Counsel:** McGuireWoods LLP, Charlotte, North Carolina.
- Authority's Counsel:** Keith A. Smith, Esq., General Counsel of the Authority.
- Limited Information:** Only selected information is presented on this cover. You should read this official statement in its entirety to make an informed decision regarding the 2009A Bonds.

**Merrill Lynch & Co.
BB&T Capital Markets**

**J.P. Morgan
Wells Fargo Securities**

The Charlotte-Mecklenburg Hospital Authority
 (North Carolina)
 Doing Business as
 Carolinas HealthCare System

\$222,645,000
 Health Care Refunding Revenue Bonds
 Series 2009A

MATURITY SCHEDULE

\$87,565,000 Serial Bonds

<u>Year</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
2010	\$7,895,000	2.00%	0.80%
2011	6,800,000	3.00	1.48
2012	2,800,000	3.00	2.07
2013	1,185,000	3.00	2.43
2013	1,740,000	4.00	2.43
2014	3,025,000	3.25	2.89
2015	3,140,000	3.50	3.22
2016	515,000	3.75	3.51
2016	1,755,000	5.00	3.51
2017	1,815,000	4.00	3.78
2017	1,555,000	5.00	3.78
2018	3,530,000	4.00	4.03
2019	3,650,000	4.125	4.23
2020	3,750,000	5.00	4.44*
2021	1,335,000	4.50	4.56
2021	2,675,000	5.00	4.56*
2022	4,225,000	5.00	4.69*
2023	1,345,000	4.75	4.80
2023	3,095,000	5.25	4.80*
2024	4,610,000	5.25	4.91*
2025	4,915,000	5.00	5.00
2026	5,175,000	5.00	5.04
2027	5,410,000	5.00	5.09
2028	5,635,000	5.00	5.13
2029	5,990,000	5.125	5.20
\$5,000,000	5.25%	Term Bonds maturing January 15, 2034	Yield 5.46%
\$65,650,000	5.25%	Term Bonds maturing January 15, 2034	Yield 5.46%
\$64,430,000	5.25%	Term Bonds maturing January 15, 2039	Yield 5.49%

*Yield to first optional redemption date, January 15, 2019, at 100%.

You should rely only on the information contained in this official statement. The Local Government Commission of North Carolina and we have not, and the underwriters have not, authorized any person who offers or sells the 2009A Bonds to provide you with information in addition to or inconsistent with the information contained in this official statement, or to represent anything else about us or the 2009A Bonds. If anyone provides you with additional or inconsistent information, you should not rely on it.

Unless we specify an earlier date, the information appearing in this official statement is current as of the date of this official statement shown on the front cover. Our business, financial condition, results of operations or prospects may have changed since that date.

The underwriters have provided the following sentence for inclusion in this official statement. The underwriters have reviewed the information in this official statement in accordance with, and as part of, their respective responsibilities to you under the federal securities laws as applied to the facts and circumstances of this transaction, but the underwriters do not guarantee the accuracy or completeness of such information.

We are not, and the underwriters are not, offering to sell the 2009A Bonds or soliciting an offer to buy the 2009A Bonds in any jurisdiction where the offer or sale of the 2009A Bonds is not permitted.

In reliance upon exemptions, we are not (1) registering the 2009A Bonds under the Securities Act of 1933, as amended, or any state securities laws or (2) qualifying our bond order or the series resolution under the Trust Indenture Act of 1939. Neither the Securities and Exchange Commission nor any other federal or state securities commission or regulatory authority has recommended, approved or disapproved the 2009A Bonds or determined if this official statement is adequate, accurate or complete. Any representation to the contrary is a criminal offense.

In connection with this offering, the underwriters may overallocate or effect transactions which stabilize or maintain the market price of the 2009A Bonds at a level above that which might otherwise prevail in the open market. The underwriters may discontinue any such stabilizing at any time.

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JANET COWELL
TREASURER

State of North Carolina Department of State Treasurer

*State and Local Government Finance Division
and the Local Government Commission*

OFFICIAL STATEMENT

\$222,645,000

**The Charlotte-Mecklenburg Hospital Authority
(North Carolina)
Doing Business as
Carolinas HealthCare System
Health Care Refunding Revenue Bonds
Series 2009A**

INTRODUCTION AND SUMMARY

This introduction and summary highlights selected information appearing elsewhere in this official statement and may not contain all of the information that is important to you. You should carefully read this official statement, including the appendices, before making an investment decision.

In this official statement, the terms “we,” “our” and “us” generally mean The Charlotte-Mecklenburg Hospital Authority and certain affiliates that are obligated directly or indirectly under our bond order to pay the 2009A Bonds. The terms “we,” “our” and “us” mean only The Charlotte-Mecklenburg Hospital Authority when describing the issuer of the 2009A Bonds and when the context otherwise requires.

Our Business

We do business directly and through our affiliates as Carolinas HealthCare System. Carolinas HealthCare System is the largest healthcare system in North and South Carolina and is the third largest public, multi-hospital system in the nation.

Please read Appendix A for more information about us, including our governance and management, facilities, services and operations and certain financial information.

Obligated Group; Designated Affiliates; Combined Group

We and certain of our affiliates have formed an obligated group under our bond order. You can find a complete list of the members of the obligated group in Appendix A. Members of the obligated group are jointly and severally liable for payment of the 2009A Bonds and the other bonds and obligations secured by our bond order.

Our bond order also authorizes the creation of a combined group, which consists of the members of the obligated group and any affiliates designated by us. Designated affiliates are not directly obligated to pay the 2009A Bonds or any other bonds or obligations secured by our bond order, but we have agreed to cause them to pay, loan or otherwise transfer funds to us to pay the 2009A Bonds and any other bonds and obligations secured by our bond order. Because we have no designated affiliates at this time, the members of the obligated group are the only members of the combined group.

Only the members of the combined group have a direct or indirect obligation to pay amounts due with respect to the 2009A Bonds and any other bonds and obligations secured by our bond order.

If our long-term debt service coverage ratio for our most recently ended year for which financial statements are available is at least 2.0, our bond order permits the other members of the combined group to withdraw from the combined group. If a member of the combined group withdraws from the combined group, then it is no longer directly or indirectly obligated to pay the 2009A Bonds or any other bonds or obligations secured by our bond order.

As the issuer of the 2009A Bonds, we are obligated to pay the 2009A Bonds even if all of the other members of the combined group withdraw from the combined group.

Use of Proceeds

We will use the proceeds of the 2009A Bonds to:

- refund our outstanding 1997A Bonds, 2007J Bonds, 2007K Bonds and 2007L Bonds, which we describe in more detail under the heading “PLAN OF REFUNDING,” and
- pay certain expenses of issuing the 2009A Bonds, including a portion of the termination payment on a swap agreement related to our 2007L Bonds.

Issuance of the 2009A Bonds

We are issuing the 2009A Bonds under:

- The State and Local Government Revenue Bond Act, Article 5 of Chapter 159 of the North Carolina General Statutes, as amended,
- our second amended and restated bond order, which we adopted in 1997 and amended in 2001, 2002 and 2007, and which we refer to as our “bond order,” and
- a series resolution we adopted pursuant to our bond order on July 21, 2009, which we refer to as the “series resolution.”

You should review the information under the heading “DESCRIPTION OF THE 2009A BONDS” for a description of certain provisions of the 2009A Bonds.

Our Outstanding Bonds; Additional Bonds

All bonds we issue under our bond order, including the 2009A Bonds, are secured equally by the pledge of our Revenues under our bond order and the joint and several obligations of the other members of the obligated group to pay under their member guaranty agreements or member security agreements. Each series of bonds, however, is separately secured by the funds and accounts for such series of bonds established under our bond order and the series resolution for that series.

We have previously issued the following series of bonds under our bond order:

<u>Name of Bonds</u>	<u>Current Outstanding Principal Amount</u>	<u>We refer to these bonds as:</u>
Health Care Refunding Revenue Bonds, Series 2008A	\$310,500,000	2008A Bonds
Health Care Revenue and Refunding Revenue Bonds, Series 2007A	\$204,605,000	2007A Bonds
Variable Rate Health Care Refunding Revenue Bonds, Series 2007B	\$87,750,000	2007B Bonds
Variable Rate Health Care Refunding Revenue Bonds, Series 2007C	\$87,635,000	2007C Bonds
Variable Rate Health Care Revenue Bonds, Series 2007D	\$67,140,000	2007D Bonds
Variable Rate Health Care Revenue Bonds, Series 2007E	\$77,220,000	2007E Bonds
Variable Rate Health Care Revenue Bonds, Series 2007F	\$57,055,000	2007F Bonds
Variable Rate Health Care Revenue Bonds, Series 2007G	\$113,825,000	2007G Bonds
Variable Rate (Auction Rate) Health Care Revenue Bonds, Series 2007H	\$166,050,000	2007H Bonds
Variable Rate Health Care Revenue Bonds, Series 2007J	\$76,075,000	2007J Bonds
Variable Rate Health Care Revenue Bonds, Series 2007K	\$78,225,000	2007K Bonds
Variable Rate Health Care Refunding Revenue Bonds, Series 2007L	\$50,365,000	2007L Bonds
Variable Rate Health Care Refunding Revenue Bonds, Series 2005B, Series 2005C and Series 2005D	\$84,380,000	2005 Variable Rate Bonds
Health Care Revenue Bonds, Series 2001A	\$88,535,000	2001A Bonds
Health Care Revenue Bonds, Series 1997A	\$7,810,000	1997A Bonds

We will use the proceeds of the 2009A Bonds to refund all of our outstanding 1997A Bonds, 2007J Bonds, 2007K Bonds and 2007L Bonds, as more specifically described under “PLAN OF REFUNDING.”

Under our bond order we can incur obligations other than bonds and secure such obligations equally with our bonds. Our bond order does not limit the amount of bonds or other obligations we can incur. Subject to certain limits contained in our bond order, we can pledge collateral to secure a particular series of bonds or other obligations without pledging such collateral as security for the 2009A Bonds.

Security and Sources of Payment for Our Bonds

The 2009A Bonds are payable solely from (1) our Revenues, (2) payments from, or Revenues of, the other members of the obligated group, and (3) money and securities held by the trustee in the funds and accounts for the 2009A Bonds created by our bond order and the series resolution. Before you invest in the 2009A Bonds, you should carefully review the discussion under the heading “SECURITY AND SOURCES OF PAYMENT.”

We have no taxing power. The 2009A Bonds are not secured by any mortgage on or security interest in any of our other property or assets. The 2009A Bonds are not secured by a pledge of the faith and credit of the State of North Carolina or any political subdivision of the State of North Carolina, including the City of Charlotte or Mecklenburg County.

Bondholders’ Risks

Before you invest in the 2009A Bonds, you should carefully review the discussion of certain risks associated with our business and the 2009A Bonds under the heading “BONDHOLDERS’ RISKS.”

Trustee

U.S. Bank National Association serves as the trustee under our bond order for all of our bonds.

Financial Statements

You should review the basic financial statements of The Charlotte-Mecklenburg Hospital Authority d/b/a Carolinas HealthCare System as of and for the years ended December 31, 2008 and 2007, which are included in Appendix B. These financial statements have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing in Appendix B.

Appendix A contains summary financial information for the combined group derived from the audited financial statements included in Appendix B.

Continuing Disclosure

We have agreed to provide certain information on an ongoing basis as required by Rule 15c2-12 of the Securities and Exchange Commission. Our agreement to provide continuing disclosure is described in more detail under the heading “CONTINUING DISCLOSURE.”

Role of the Local Government Commission of North Carolina

The Local Government Commission of North Carolina is an agency of the State of North Carolina and a division of the Department of State Treasurer. The Local Government Commission

supervises the issuance of bonds by all North Carolina units of local government and most public authorities and provides assistance in the area of fiscal management.

The Local Government Commission has the statutory authority to require our governing board to allocate revenues in an amount sufficient to pay all our debt when due. The Local Government Commission also may order the implementation of a plan to raise the necessary revenues to pay such debt by any legally available means. If our governing board fails to comply with the Local Government Commission's order within ten days, the order becomes effective and is implemented as if adopted by our governing board. Any officer or member of our governing board who fails or refuses to comply with a Local Government Commission order is deemed to forfeit his office or position.

The Local Government Commission acts on our behalf to sell our bonds to the underwriters. Because of this role, this official statement is prepared on the letterhead of the Local Government Commission and signed by an authorized officer of the Local Government Commission.

Definitions

Many terms used in this official statement, whether capitalized or not, are defined in our bond order and the series resolution. You can find complete definitions of those terms in Appendix C under the heading "DEFINITIONS OF CERTAIN TERMS."

Limitation of Summaries; Obtaining Copies of Documents

This official statement summarizes certain provisions of the 2009A Bonds, our bond order, the series resolution and the member guaranty agreements and member security agreements that have been executed or may be executed in the future. We have not included or summarized all of the provisions of those documents in this official statement. You should read those documents if you want to understand all of their provisions, which define your rights if you purchase a 2009A Bond. You can obtain copies of our bond order and the series resolution and the forms of a member guaranty agreement and a member security agreement from us, any of the underwriters shown on the front page of this official statement, or the trustee.

SECURITY AND SOURCES OF PAYMENT

The following summary of certain provisions of our bond order and the series resolution does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all the provisions of our bond order and the series resolution.

This summary should be read together with the discussion of the “Risks Relating to Our Bonds” under the heading “BONDHOLDERS’ RISKS.”

Limited Obligation; Revenue Pledge

Our obligation to pay the 2009A Bonds is limited. Under our bond order, the 2009A Bonds are payable by us only from our “Revenues,” which means:

- revenues, income and other money we earn and receive from or in connection with all facilities directly owned by us at which health care or medical services are provided,
- investment income and proceeds we receive from the liquidation or sale of securities held by us or on our behalf,
- insurance proceeds we receive,
- gifts, grants, bequests, contributions and donations we receive unless otherwise restricted, and
- payments we receive from any designated affiliates for the payment of bonds or other obligations secured by our bond order.

“Revenues” do not include (1) proceeds of any borrowings which may not be used to pay bonds and other obligations secured by our bond order, (2) any unrealized gains or losses with respect to any property, plant or equipment and (3) any revenues generated by residential real property or medical office buildings.

The only other sources of payment for the 2009A Bonds are:

- amounts paid by other members of the obligated group under member guaranty agreements,
- Revenues pledged by other members of the obligated group under member security agreements, and
- the money and securities held by the trustee in the funds and accounts for the 2009A Bonds created by our bond order and the series resolution.

We have no taxing power. The 2009A Bonds are not secured by any mortgage on or security interest in any of our other property or assets. The 2009A Bonds are not secured by a pledge of the faith and credit of the State of North Carolina or any political subdivision of the State of North Carolina, including the City of Charlotte or Mecklenburg County.

Under our bond order, we have pledged our Revenues equally as security for the 2009A Bonds and all other bonds or obligations secured by our bond order. Our bond order does not limit the amount of bonds or other obligations we can incur.

We are required to deposit our Revenues with the trustee on a daily basis only if:

- an event of default occurs under our bond order or any series resolution or
- our long-term debt service coverage ratio is less than 1.10 for two consecutive years for which financial statements are available.

If we are required to deposit our Revenues with the trustee, then the trustee will distribute our Revenues, based on a management consultant's report, to do any of the following:

- pay all necessary expenses of operating and maintaining the facilities directly owned by any member of the obligated group at which health care or medical services are provided,
- make the required deposits pro rata to each of the bond funds and accounts as prescribed in our bond order, and
- pay any other obligation secured under our bond order.

The Obligated Group

We and certain of our affiliates have formed an obligated group under our bond order. Members of the obligated group are jointly and severally liable for the payment of the 2009A Bonds and the other bonds and obligations secured by our bond order.

To become jointly and severally liable, a new member of the obligated group must sign a member guaranty agreement or a member security agreement. As of the date of this official statement, all of our affiliates who have joined the obligated group have signed member guaranty agreements, except The Carolinas HealthCare Foundation, Inc., which has signed a member security agreement.

Under a member guaranty agreement, a member of the obligated group jointly and severally guarantees the payment and performance of all bonds and other obligations secured by our bond order. A member guaranty agreement is a general unsecured obligation of the member of the obligated group who signs it.

Under a member security agreement, a member of the obligated group also jointly and severally guarantees the payment and performance of all bonds and other obligations secured by our bond order, but only from its Revenues, which are pledged. If we default on the 2009A Bonds and are required to deposit our Revenues with the trustee, then each member of the obligated group who has signed a member security agreement also is required to deposit its Revenues with the trustee for distribution pursuant to our bond order.

A new member of the obligated group is not required to comply with certain provisions of our bond order or its member guaranty agreement or member security agreement if compliance with such provisions:

- is prohibited under an agreement binding on such member of the obligated group when it joins the obligated group, or
- would breach or constitute an event of default under an agreement binding on such member of the obligated group when it joins the obligated group.

If our long-term debt service coverage ratio for our most recently ended year for which financial statements are available is at least 2.0, our bond order does not limit admission to or withdrawal from the obligated group. If a member of the obligated group withdraws from the obligated group, then it is no longer jointly and severally liable for the payment of the 2009A Bonds or any other bonds or obligations secured by our bond order.

As the issuer of the 2009A Bonds, we cannot withdraw from the obligated group and we remain obligated to pay the 2009A Bonds even if all of the other members of the obligated group withdraw from the obligated group.

The provisions of our bond order regarding admission to and withdrawal from the obligated group are discussed in Appendix C under the heading “SUMMARY OF THE BOND ORDER AND THE SERIES RESOLUTION—Entry Into and Withdrawal from Obligated Group.”

Designated Affiliates; Combined Group

Our bond order also authorizes the creation of a combined group, which consists of the members of the obligated group and affiliates designated by us. As of the date of this official statement, we have no designated affiliates; therefore, the members of the obligated group are the only members of the combined group.

Designated affiliates are not directly obligated to pay the 2009A Bonds or any other bonds or obligations secured by our bond order. Instead, we have agreed to cause each designated affiliate to pay, loan or otherwise transfer to us:

- amounts needed to pay debt service on bonds or to pay other obligations secured by our bond order if the proceeds of such bonds or obligations were made available to or benefited that designated affiliate, and
- amounts needed to pay debt service on all other bonds and to pay other obligations secured by our bond order.

A designated affiliate is not obligated to pay amounts due on bonds or other obligations secured by our bond order greater than the amount of proceeds of such bonds or obligations used by or for such designated affiliate if any such additional payment obligation would:

- be avoidable as a fraudulent transfer or fraudulent conveyance under applicable bankruptcy, insolvency or similar laws or
- cause such designated affiliate to violate any law restricting the purposes for which their assets may be used if such additional payment were made.

Additionally, designated affiliates are not directly obligated to comply with provisions of our bond order unrelated to payment of bonds or other obligations; however, we have agreed to cause each

designated affiliate to comply with the covenants and restrictions in our bond order that are applicable to it. For example, we must cause any designated affiliates to charge fees and rates for their services sufficient to maintain the required long-term debt service coverage ratio of at least 1.10.

In order for a person to become a designated affiliate:

- we must submit a request in writing to the trustee and include a resolution of such person's governing body, and
- we must either:
 - control such designated affiliate in the manner described below, or
 - have entered into an agreement with such designated affiliate that, in the judgment of our counsel, is sufficient to assure us that such designated affiliate will be required to comply with the terms and conditions of our bond order applicable to it.

Under our bond order, "control" means the power to direct the management, policies and disposition of assets and actions of a person, directly or indirectly, to the extent required to cause a designated affiliate to comply with the terms and conditions of our bond order. Such control can be exercised through the ownership of voting securities, by contract, partnership interest, membership, reserved powers or the power to appoint members, trustees or directors or otherwise.

If our long-term debt service coverage ratio for our most recently ended year for which financial statements are available is at least 2.0, our bond order does not limit our ability to designate or remove affiliates from the combined group. If a designated affiliate ceases to be a member of the combined group, then it is no longer indirectly liable for the payment of the 2009A Bonds or any other bonds or obligations secured by our bond order.

The provisions of our bond order regarding designation or removal of designated affiliates are discussed in Appendix C under the heading "SUMMARY OF THE BOND ORDER AND THE SERIES RESOLUTION—Designation as a Designated Affiliate; Removal of a Designated Affiliate."

Limitation on Liens; Negative Pledge

Except as provided in our bond order, we may not create, incur, assume or allow to exist any mortgage on, pledge of, or other lien or encumbrance on:

- the facilities directly owned by any member of the obligated group at which health care or medical services are provided (which we refer to as the "obligated health care system"),
- property owned by a designated affiliate, or
- our Revenues.

We are permitted to pledge all or a portion of the obligated health care system or property owned by a designated affiliate to secure a particular series of bonds or other obligations without pledging such collateral as security for the 2009A Bonds if such pledge is a "permitted encumbrance" under our bond order. One example of a permitted encumbrance is liens that do not exceed the greater of 25% of the "Base Value" of our property, plant and equipment or 25% of the "Base Value" of our unrestricted net

assets. The property subject to such liens could consist in part or in whole of cash, marketable securities or accounts receivable. “Base Value” means, at our option, either (1) the cost basis of property, net of accumulated depreciation, as shown on our financial statements for the most recently ended year for which such statements are available, or (2) the appraised value of property as determined within the preceding two years by an appraiser selected by us and acceptable to the trustee.

To learn more about permitted encumbrances, you should read the complete definition of “permitted encumbrances” in Appendix C under the heading “DEFINITIONS OF CERTAIN TERMS” and the information in Appendix C under the heading “SUMMARY OF THE BOND ORDER AND THE SERIES RESOLUTION—Liens and Encumbrances.”

We also are permitted to pledge all or a portion of the obligated health care system, property owned by a designated affiliate or our Revenues to secure other obligations if all bonds and obligations secured by our bond order are equally secured by such pledge.

Assumption and Replacement of Bond Order

A person may assume all of our obligations under our bond order by entering into a new or existing bond indenture, bond resolution, bond order, series resolution or other comparable instrument (which we refer to as a “replacement bond order”). Before a replacement bond order can become effective, the following conditions must be satisfied:

- We and the trustee must receive an opinion of counsel addressed to us and the trustee stating that:
 - the replacement bond order has been duly authorized, executed and delivered by the person(s) purported to be bound by the replacement bond order, and is the legal, valid and binding obligation of each such person, subject in each case to customary exceptions,
 - the assumption of our obligations under our bond order is permitted under the terms of the replacement bond order and all requirements and conditions specified therein to the assumption of our obligations under our bond order have been complied with and satisfied, and
 - the assumption and replacement of our bond order with the replacement bond order will not require registration of the replacement bond order under the Securities Act of 1933, as amended.
- The trustee under the replacement bond order is an independent corporate trustee that meets the eligibility requirements for a successor trustee under our bond order.
- The replacement bond order must be approved by the Local Government Commission, if deemed applicable by the Local Government Commission.
- The trustee must receive an officer’s certificate certifying that, after giving effect to the assumption and replacement bond order, the person(s) obligated under the replacement bond order would continue to have at least a 1.10 long-term debt service coverage ratio determined in accordance with our bond order on a pro forma basis for the immediately preceding year for which financial statements are available.

- We and the trustee must receive an opinion of bond counsel stating that the assumption of our obligations under our bond order and the replacement of our bond order with the replacement bond order will not adversely affect the validity or federal tax-exempt status of the 2009A Bonds.
- We and the trustee must receive an original executed counterpart of the assumption and the replacement bond order.
- If required by the terms of the replacement bond order, the pledge of our Revenues under our bond order and the Revenues of any other member of the obligated group pledged under a member security agreement to secure the 2009A Bonds will be released and all such Revenues will secure all obligations entitled thereto under the replacement bond order.
- The trustee must receive evidence, reasonably satisfactory to the trustee, that
 - we have given written notice of the assumption and a copy of the replacement bond order to each rating agency then rating the 2009A Bonds and
 - the then current rating on the 2009A Bonds will not be withdrawn or reduced below the then current rating category after the assumption of the 2009A Bonds under the replacement bond order.
- We and the trustee must receive other customary opinions and certificates and reasonable indemnities as we and the trustee may reasonably require and request.

A replacement bond order, however, cannot:

- without the consent of the registered owner of the 2009A Bond to be affected,
 - change the times, amounts or currency of payment of the principal of, premium, if any, and interest on any 2009A Bond or
 - reduce the principal amount of any 2009A Bond or the redemption premium or the rate of interest on any 2009A Bond, or
- without the consent of the registered owners of all bonds then outstanding under our bond order, permit a preference or priority of any bond or bonds over any other bond or bonds.

If a replacement bond order becomes effective, then all bonds outstanding under our bond order, including the 2009A Bonds, will after that time be deemed issued and outstanding under the terms and provisions of such replacement bond order. Additionally, the trustee may transfer any member guaranty agreements and member security agreements to the trustee under such replacement bond order.

Our bond order does not restrict when the substitution of a replacement bond order may occur. In addition, a replacement bond order is not required to contain any specific terms, conditions and covenants.

BONDHOLDERS' RISKS

Before you invest in our bonds, you should carefully review the following discussion of the risks involved and the information contained elsewhere in this official statement.

Risks Relating to Our Bonds

Because the 2009A Bonds are payable by us only from our Revenues, your remedies against us are limited if we default.

The 2009A Bonds are payable by us only from our Revenues. If we default on the 2009A Bonds, we are required to deposit our Revenues with the trustee, who will use them to pay our operating expenses, to pay debt service on the 2009A Bonds and the other bonds secured by our bond order and to pay other obligations secured by our bond order, based on a report of a management consultant. We cannot assure you that our Revenues will be sufficient to pay our operating expenses, the debt service on our bonds and any other obligations secured by our bond order. Except for collecting and applying our Revenues, neither the trustee nor you will have any other remedy against us.

We have not pledged any of our other real or personal property, such as land, buildings, equipment or investments, to secure payment of the 2009A Bonds and the other bonds and obligations secured by our bond order. If we default on the 2009A Bonds, neither the trustee nor you will be able to cause us to forfeit any of our land, buildings, equipment or investments.

Only the members of the combined group have a direct or indirect obligation to pay the 2009A Bonds.

Our bond order authorizes the creation of a combined group, which consists of the members of the obligated group and affiliates designated by us.

Members of the obligated group are jointly and severally liable for the payment of the 2009A Bonds and the other bonds and obligations secured by our bond order. To become jointly and severally liable, members of the obligated group must sign a member guaranty agreement or a member security agreement.

A member guaranty agreement is a general unsecured obligation of the member of the obligated group who signs it. If the member of the obligated group who signs a member guaranty agreement fails to pay any amount due under the member guaranty agreement, the trustee can sue such member of the obligated group to collect. If the trustee obtains a money judgment against such member of the obligated group, the trustee, with the assistance of the court and the sheriff, could attempt to levy and foreclose on the property of such member of the obligated group to satisfy the judgment.

A member security agreement is a limited obligation of the member of the obligated group who signs it, payable solely from and secured by the Revenues of such member of the obligated group. If we default on the 2009A Bonds, such member of the obligated group is required to deposit its Revenues with the trustee, who will use them to pay our operating expenses, to pay debt service on the 2009A Bonds and the other bonds secured by our bond order and to pay other obligations secured by our bond order, based on a report of a management consultant. Except for collecting and applying its Revenues, neither the trustee nor you will have any other remedy against such member of the obligated group.

Designated affiliates are not directly liable for the payment of the 2009A Bonds and the other bonds and obligations secured by our bond order. Instead, we have agreed to cause our designated affiliates to pay money to us that we will use to pay the 2009A Bonds and other bonds and obligations secured by our bond order. Neither the trustee nor you will have any claim against any designated affiliate. The filing of a bankruptcy case by or against a designated affiliate is not an event of default under our bond order or the series resolution. Moreover, unless a designated affiliate has a contractual obligation to pay money to us that we can use to pay the 2009A Bonds and other bonds and obligations secured by our bond order, we will have no claim against such designated affiliate in a bankruptcy case filed by or against such designated affiliate.

We have certain affiliates who are not members of the combined group. These affiliates are not directly or indirectly obligated to pay the 2009A Bonds. Under our bond order only the members of the combined group are directly or indirectly obligated to pay the 2009A Bonds.

Bankruptcy or other applicable law may limit your ability to collect from the other members of the combined group.

As a practical matter, bankruptcy or other applicable law may limit your ability to collect from the other members of the combined group. For example, a creditor or the trustee in a bankruptcy case of a member of the combined group could ask a court to declare that the obligations of such member of the combined group with respect to the 2009A Bonds are not enforceable because they represent a “fraudulent conveyance.” It is possible that a court would agree. Federal and state fraudulent conveyance law provides that an obligation incurred by a guarantor may be avoided if, for example, (1) the guarantor did not receive “fair consideration” or “reasonably equivalent value” in exchange for the guaranty and (2) the guaranty renders the guarantor insolvent.

An action to enforce a charitable trust and to see to the application of its funds could be brought against any member of the combined group that is a charitable nonprofit corporation if honoring its obligations with respect to the 2009A Bonds would result in:

- such member of the combined group not having sufficient assets to carry out its charitable purposes, or
- cessation or discontinuation of any material portion of the health care or related services previously provided by such member of the combined group.

An action to enforce a charitable trust could arise on a court’s own motion or pursuant to a petition of the state attorney general or such other persons who have interests different from those of the general public.

The obligations of a member of the combined group also may not be enforceable to the extent that payments with respect to such obligations are:

- requested to be made from assets which are donor-restricted or which are subject to a direct, express or charitable trust which does not permit the use of such assets for such payments, or
- made with respect to an obligation which is not consistent with the governmental purposes of such member of the combined group or was incurred for the benefit of an entity that is not governmental or tax-exempt.

Even though the obligations of a member of the combined group with respect to the 2009A Bonds may not be enforceable for the reasons discussed above, the accounts of all members of the combined group will be combined for financial reporting purposes and will be used to determine whether we meet various covenants and tests contained in our bond order.

Our bond order does not limit the amount of obligations we can incur.

Our bond order does not limit the amount of obligations we can incur. Under our bond order, we can issue additional bonds and incur other obligations that are secured equally under our bond order with our bonds. Under our bond order, we also can incur debt or other obligations that are not secured under our bond order. We can pledge collateral, however, to secure only a specific series of bonds or other specific obligations if the pledge of such collateral is permitted under our bond order.

If our long-term debt service coverage ratio for our most recently ended year for which financial statements are available is at least 2.0, our bond order does not limit our ability to transfer assets, to merge or to change the membership of the combined group.

If our long-term debt service coverage ratio for our most recently ended year for which financial statements are available is at least 2.0, then our bond order does not restrict our ability to:

- transfer property, plant and equipment, cash and investments and receivables,
- merge (except for certain nonfinancial conditions), or
- change the membership of the combined group.

Because this test is based on our past financial performance, we could take these actions even if they would lead to a payment default or cause our long-term debt service coverage ratio during the then-current year to be less than the 1.10 minimum required under our bond order.

Even if our long-term debt service coverage ratio for our most recently ended year for which financial statements are available is less than 2.0, we can merge (subject to certain nonfinancial conditions) or change the membership of the combined group if:

- the 2009A Bonds and all other debt secured under our bond order is rated investment grade, or
- the Local Government Commission approves the transaction.

Such transactions could have a material adverse effect on our financial condition, including a reduction in the ratings of the 2009A Bonds.

Our bond order does not limit our ability to make acquisitions or engage in joint ventures.

We regularly evaluate and pursue potential acquisitions and joint ventures as part of our overall strategic planning and development process. Our bond order does not limit our ability to make acquisitions or engage in joint ventures. Such transactions could have a material adverse effect on our financial condition, including a reduction in the ratings of the 2009A Bonds.

Our bond order can be replaced with a new bond order that may be substantially different.

Our bond order provides that, if certain conditions are met, it can be replaced with a new bond order. One of those conditions is that the ratings on the 2009A Bonds at the time the replacement bond order becomes effective would not be reduced below the then current rating category. Another one of those conditions is that, if deemed applicable, the Local Government Commission must approve the replacement bond order. You should read the information above under the heading “SECURITY AND SOURCES OF PAYMENT—Assumption and Replacement of Bond Order” for a more complete discussion of those conditions.

If the conditions in our bond order are satisfied, a replacement bond order is not required to contain any specific terms, conditions and covenants. A replacement bond order could change any or all of the provisions of our bond order, including the provisions relating to security and covenants relating to insurance, the rate covenant, restrictions on liens, sales of accounts or disposition of cash and other assets, the restrictions on joining or withdrawing from the obligated group, the designation and removal of designated affiliates and the rights and remedies of the trustee upon a default.

Risks Relating to Our Business

We receive almost all of our revenues from government and managed care payers who are likely to continue to seek to reduce what they pay us.

We strive to be paid appropriately for the services we provide, but third-party payers continue to require or ask us to accept lower rates of payment even as medical costs continue to rise.

We receive a substantial portion of our revenues from the Medicare and Medicaid programs. For example, 46.6% of our 2008 total gross patient revenue came from Medicare and Medicaid. Medicare is a federal program that provides certain hospital and medical insurance benefits primarily to persons age 65 and older. Medicaid is a joint federal-state program administered by the states that provides hospital and medical benefits to qualifying individuals who are unable to afford health care.

Because the federal government funds the Medicare program and participates in the Medicaid program, the rapidly rising cost of health care has put pressure on the federal budget. In recent years there have been numerous federal legislative and administrative actions that have reduced the rate of increase in Medicare payments to hospitals and other health care providers, including physicians. The federal government also has reduced the share of federal matching payments made to the states to subsidize the cost of their Medicaid programs. The federal government is currently proposing to reform the healthcare system through a variety of mechanisms, including but not limited to redesigning the healthcare system to reduce inefficiency and waste and improve health care quality, and requiring full transparency of provider quality and costs. While the scope of reforms that will be adopted remains unknown at this time, we believe the federal government is likely to implement reductions in Medicare and Medicaid funding through reform and other initiatives.

In recent years, the State of North Carolina has cut or failed to increase Medicaid reimbursement to hospitals. We believe that the State of North Carolina will continue to be under pressure to limit its Medicaid expenditures.

Before investing in our bonds, you should consider whether it is likely that the federal government and the State of North Carolina will continue to provide reasonable levels of reimbursement to health systems to cover the costs of providing care to Medicare and Medicaid patients.

Before investing in the Bonds, you also should consider the impact that reductions in government reimbursement to other health care providers, such as physicians, may have on us. For example, more physicians are now competing for services with hospitals in such areas as imaging and ambulatory surgery to offset reductions they are experiencing from third-party payers. Reductions in physician reimbursement also could make the predicted nationwide shortage of physicians discussed below worse, which could result in decreased use of programs and services at our facilities.

We also receive a substantial portion of our revenues from managed care programs. For example, 39.3% of our 2008 total gross patient revenue came from managed care payers. Insurance and managed care companies and employers also are increasing their efforts to control health care costs. For example, purchasers are shifting more costs to patients and limiting what costs are covered. We believe this trend will continue and that payment increases may not keep up with costs and increased use of our facilities. Our operating income (our total revenues minus our operating expenses) could be significantly reduced if increases in managed care payments do not keep up with costs.

Further increases in our volume of indigent care and uninsured and underinsured patients could adversely affect our financial condition.

In recent years we have increased our provision for uncollectible accounts because of higher volumes of indigent care and uninsured and underinsured patients. We believe this trend is due to a combination of broad economic factors, including higher unemployment levels, lack of adequate increases in state Medicaid budgets, increasing numbers of individuals and employers who choose not to purchase insurance and insurers requiring patients to pay higher co-payments and deductibles. Additionally, many of these patients are being admitted through our hospitals' emergency departments and often require more costly care, resulting in higher billings, which are the least collectible of all accounts.

We provide a disproportionately high level of the indigent care to residents of Mecklenburg County, North Carolina, our home county. We receive funds from Mecklenburg County for the operating deficits we incur at outpatient indigent clinics and for other indigent care we provide to Mecklenburg County residents; however, the volume of indigent patients cared for continues to grow. Although we have a long history of working with Mecklenburg County to strengthen the overall health of our community, we cannot assure you that Mecklenburg County will continue or provide needed increases to its funding for indigent care as volume and costs grow.

We receive reimbursement under the Medicaid program for care provided to many, but not all, of our indigent patients. Medicaid is designed to reimburse healthcare providers such as us at less than actual cost and has not kept pace in recent years with the industry's rapidly rising cost of personnel, supplies and technology.

Because we serve a disproportionate share of low income patients with special needs, we have historically received additional Medicaid reimbursement payments under the State of North Carolina's "Medicaid Reimbursement Initiative." Under this program, we are eligible for additional reimbursement payments based on the cost deficits and treatment of a disproportionate share of indigent patients. The reimbursement payments are subject to final settlement based upon upper payment limits for Medicaid and uncompensated care. Elimination of, or reductions in the amount of, the Medicaid Reimbursement Initiative payments we have received historically could adversely affect our results of operations.

We also provide care, without charge or at discounted rates, to all uninsured patients who meet certain criteria under our charity care and uninsured discount policies. Key elements used to determine eligibility include a patient's demonstrated inability to pay based upon family size and household income

relative to federal income poverty guidelines. In addition, our policies provide discounts for any patient who experiences catastrophic related illnesses or injury.

Notwithstanding the substantial amount of charity care provided by us and many other public and nonprofit hospitals, in recent years more than 70 federal class action lawsuits have been filed against hospitals nationally alleging that they provide insufficient charity care, overcharge uninsured patients and use improper debt collection practices against uninsured patients. No class has been certified, and many of the federal suits have been dismissed. We cannot predict the effect that success of any of these federal lawsuits would have on our financial condition.

Our business and financial results could be adversely affected by violations of the extensive and complex regulations that apply to our business.

The healthcare industry is subject to extensive federal, state and local laws and regulations. These laws and regulations require that hospitals meet various requirements, including those relating to the adequacy of medical care, equipment, personnel, operating policies and procedures, billing patients for services, filing of Medicare and Medicaid reports, payments for services and supplies, maintenance of adequate records, privacy, building codes and environmental protection.

These laws and regulations are extremely complex and subject to interpretation. We often find there is little or no regulatory or judicial interpretation of these laws and regulations to guide us.

If we fail to comply with applicable laws and regulations, we could be subject to civil or criminal penalties, including the loss of our licenses to operate our hospitals and our ability to participate in the Medicare and Medicaid programs.

A determination that we have violated these laws, or even a public announcement that we are being investigated for possible violations of these laws, could harm our business reputation and materially adversely affect our business, financial condition, or results of operations.

In the future, different interpretations or enforcement of these laws and regulations could result in allegations that some of our current practices are improper or illegal or could require us to make changes in our facilities, equipment, personnel, services, capital expenditure programs or operating expenses.

The healthcare industry is subject to regular and ongoing federal and state civil and criminal enforcement efforts.

The hospital industry is subject to regular, ongoing inquiries, audits and investigations relating to issues such as referrals of patients, physician recruiting practices, Medicare and Medicaid cost reporting, coding and billing practices, physician ownership and joint ventures involving hospitals. This includes the Medicare Recovery Audit Contractor Program (“RAC”) implemented by the Centers for Medicare and Medicaid Services to use recovery audit contractors to identify improper payments for services provided to Medicaid beneficiaries by various providers, including hospitals, since October 2007.

Federal and state government agencies have engaged in coordinated civil and criminal enforcement efforts. In addition, the Office of Inspector General of the United States Department of Health and Human Services, which is responsible for investigating fraud and abuse, and the United States Department of Justice periodically establish enforcement initiatives focusing on specific patient billing practices or other suspected areas of abuse. To the extent that these enforcement activities are part of the overall effort by federal and state governments to control and reduce health care costs, we expect these enforcement activities will take on additional importance and may become more intense.

We regularly cooperate with audits, inquiries and investigations and have received requests for information relating to a variety of subjects because of these enforcement activities. As a result of these audits, inquiries and investigations, claims and lawsuits may be brought against us from time to time. We cannot predict the results of any such claims and lawsuits. The ultimate resolution of these claims and lawsuits, individually or in the aggregate, may have a material adverse effect on our business (both in the near and long term), financial position, results of operations or cash flows.

Our business could be adversely affected by the rising cost and decreasing availability of malpractice and general liability insurance.

In recent years, the dollar amounts being sought and recovered in malpractice and general liability suits have increased nationwide, resulting in substantial increases in malpractice and general liability insurance premiums. Our insurance costs have increased over the past several years.

We self-insure portions of our professional and general liability coverage and maintain excess loss policies for professional and general liability coverage. We fund our self-insurance program annually based upon actuarial estimates. These estimates are based on a number of factors, including amount and timing of historical payments, severity of individual cases, anticipated volume of services provided and discount rates for future cash flows. Changes in these factors resulting in increases in these estimates could adversely affect our business.

The excess professional and general liability insurance we purchase is subject to policy aggregate limitations. If such policy aggregate limitations are partially or fully exhausted in the future, or actual payments of claims materially exceed projected estimates of claims, our business, financial position, results of operations or cash flows could be materially adversely affected.

Physicians, including those who practice at our hospitals, face significant and sometimes prohibitive increases in malpractice insurance premiums and limitations on availability, which could cause those physicians to limit their practices. That, in turn, could reduce use of programs and services at our hospitals.

The nationwide shortage of nurses and other skilled technicians and the predicted future shortage of physicians could adversely affect our costs and our ability to operate our business.

In recent years, the hospital industry has suffered from an increasing scarcity of nurses and some skilled clinicians to staff its facilities. Factors underlying this industry trend include an increase in the proportion of the population that is elderly, higher turnover rates for health professionals and the inability of educational institutions to meet the increasing demand in the number of nurses and other health professionals needed by the industry. These factors may intensify in years to come, aggravating the shortage of skilled personnel.

Because of this nationwide shortage of nurses and skilled technicians, we have been forced to pay higher than anticipated salaries to such personnel or to hire such personnel on a temporary basis through outside agencies at a higher cost. As competition for such employees intensifies, staffing shortages could have the continued effect of significantly increasing our personnel costs. While we have achieved adequate nurse and skilled technician staffing levels to date, this shortage could adversely affect our ability to sustain staffing levels necessary to maintain our existing levels of services.

Over the next fifteen to twenty years, a nationwide shortage of physicians is expected to emerge as a result of several factors, including increases in the general population, the additional amount of health care needed for an aging population (particularly the so-called “baby boomers”), and more physicians reaching retirement age. Medical schools across the country are being encouraged to increase enrollment to combat this expected shortage. A future shortage of physicians in our service area could reduce use of programs and services at our facilities and materially adversely affect our financial condition.

We may not be able to offer new services, facilities or equipment without a certificate of need.

The State of North Carolina has adopted a certificate of need law that regulates various types of activities and expenditures made by or on behalf of health facilities including hospitals. The purpose of the certificate of need law is to prevent unnecessary duplication of expensive health care services and equipment in an effort to contain health care costs.

Before undertaking certain types of activities or expenditures, we are required to obtain a certificate of need. We cannot assure you that we will receive certificates of need for future activities. The failure to receive certificates of need could have an adverse effect on our business.

Although the certificate of need law limits our ability to offer new services, facilities or equipment, it also limits the ability of other healthcare providers to do so. If the certificate of need law were repealed and all healthcare providers were free to offer new services, facilities or equipment without regard to need or cost and without being required to treat all patients regardless of ability to pay, our business could be adversely affected.

Our variable rate demand bonds expose us to interest rate risk and bank renewal risk.

After the issuance of the 2009A Bonds and the resulting redemption of our outstanding 2007J Bonds, 2007K Bonds and 2007L Bonds, we will have approximately \$750 million in outstanding variable rate demand bonds, representing about 48% of our total outstanding debt.

The interest rate on our variable rate demand bonds is reset either weekly or daily by the remarketing agents at the lowest rate necessary to cause the bonds to trade at par. Based on market conditions, however, the interest rate on our variable rate demand bonds can increase to a maximum of 12% per annum.

Investors in our variable rate demand bonds have the right to tender their bonds for purchase on very short notice (e.g., weekly or daily). To obtain the most favorable interest rates on our variable rate demand bonds, we obtained, and must maintain, liquidity facilities from highly-rated third-party banks whereby those banks agree to pay the purchase price of tendered bonds if they cannot be remarketed to new investors.

Because our bank liquidity facilities generally have terms of three years or less, we must regularly renew or replace our liquidity facilities. In the current economic environment, liquidity facilities have become more scarce, more costly and often have more restrictive terms than was the case in the recent past. If we cannot renew or replace our liquidity facilities on reasonable terms, we may be required to refinance more of our variable rate debt with fixed rate debt, which has historically had higher annual debt service, or provide self-liquidity for some of our variable rate debt. We cannot assure you that we will be able to renew or replace our liquidity facilities on reasonable terms, refinance our variable rate debt or provide self-liquidity.

If the credit ratings of our liquidity facility providers are downgraded (or, in some cases, further downgraded), the interest rate on our variable rate demand bonds is likely to increase, if they can be successfully remarketed to investors at all. If our variable rate demand bonds cannot be successfully remarketed and must be purchased by one of our liquidity facility providers, the bonds will become “bank bonds” that bear interest at a taxable interest rate which is intended to be higher than the tax-exempt rate the bonds are expected to bear. Unless “bank bonds” can be successfully remarketed or refinanced, they are subject to an accelerated principal repayment schedule (e.g., three to seven years) referred to as a “term out.” We cannot assure you that “bank bonds” will be successfully remarketed or refinanced.

Almost all of our variable rate bonds are hedged with interest rate swaps, which expose us to additional risks.

After the issuance of the 2009A Bonds and the resulting redemption of our outstanding 2007J Bonds, 2007K Bonds and 2007L Bonds, all of our variable rate demand bonds, except for approximately \$5 million of the bonds issued for the benefit of Carolinas Medical Center – Lincoln, will be hedged with interest rate swaps. Our interest rate swaps and the related risks to which they expose us are described in more detail in Note 6 of our financial statements included in Appendix B.

We entered into our interest rate swaps to attempt to manage the interest rate risk on our variable rate demand bonds; however, being a party to these swap agreements has and may continue to expose us to basis risk resulting from credit rating downgrades or further downgrades of bond insurers and banks who insure or provide liquidity support for our variable rate bonds. These downgrades have caused, and future downgrades may cause, the interest rate we pay on our variable rate bonds to exceed the floating rate payments we receive under the related swaps.

As of the date of this Official Statement, all of our interest rate swaps have a negative fair value, which means that we would be required to make a payment to the swap providers if those agreements terminate. To reduce the interest rate risk and bank renewal risk associated with our variable rate demand bonds described above, we may desire to refinance all or some of our variable rate debt with fixed rate debt. Our ability to restructure our variable rate demand bonds, however, may be limited if the interest rate swaps continue to have a negative fair value that would require us to make substantial swap termination payments.

DESCRIPTION OF THE 2009A BONDS

The following summary of certain provisions of our bond order and the series resolution does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all the provisions of our bond order and the series resolution.

Denominations, Principal, Maturity and Interest

We will issue the 2009A Bonds as registered bonds in denominations of \$5,000 or any multiple thereof.

The 2009A Bonds will be dated the date of original delivery thereof. Interest will accrue from that original delivery date or, if interest has already been paid when the trustee authenticates a 2009A Bond, from the date it was most recently paid.

The 2009A Bonds will mature (subject to prior redemption) on the dates and in the aggregate principal amounts, and will bear interest at the rates, set forth in the maturity schedule on the cover page of this official statement.

We will pay interest on the 2009A Bonds semiannually in arrears on January 15 and July 15 of each year, beginning January 15, 2010. We will make each interest payment to the registered owners of the 2009A Bonds as of the close of business on each preceding January 1 and July 1 (each of which we refer to as a “regular record date”). Any interest that is not paid or duly provided for on time will cease to be payable to the registered owner as of a regular record date. Such defaulted interest will be paid to the person in whose name the 2009A Bond is registered as of a special record date or in any other lawful manner determined by us in accordance with the series resolution.

You should review Appendix E for information about payment of principal of, premium, if any, and interest on the 2009A Bonds while the book-entry only system is in effect. If the book-entry only system is ever discontinued, payment of the principal or redemption price of the 2009A Bonds will be payable upon presentation and surrender thereof at the principal corporate trust office of the trustee and interest will be paid by check or draft mailed by first class mail to the registered owners of the 2009A Bonds as of the regular record date.

Redemption

Mandatory Sinking Fund Redemption. We must redeem the \$5,000,000 2009A Term Bonds maturing on January 15, 2034 in part by lot on January 15 of each of the years and in the principal amounts shown below at 100% of the principal amount of the 2009A Term Bonds being redeemed, plus accrued interest to the date of redemption:

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2030	\$ 895,000	2033	\$1,050,000
2031	945,000	2034*	1,110,000
2032	1,000,000		

*Final maturity.

We must redeem the \$65,650,000 2009A Term Bonds maturing on January 15, 2034 in part by lot on January 15 of each of the years and in the principal amounts shown below at 100% of the principal amount of the 2009A Term Bonds being redeemed, plus accrued interest to the date of redemption:

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2030	\$ 5,415,000	2033	\$25,725,000
2031	5,705,000	2034*	14,115,000
2032	14,690,000		

*Final maturity.

We must redeem the \$64,430,000 2009A Term Bonds maturing on January 15, 2039 in part by lot on January 15 of each of the years and in the principal amounts shown below at 100% of the principal amount of the 2009A Term Bonds being redeemed, plus accrued interest to the date of redemption:

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2035	\$16,050,000	2038	\$10,470,000
2036	16,945,000	2039*	11,030,000
2037	9,935,000		

*Final maturity.

Before the 45th day preceding each January 15, the trustee may apply the amounts accumulated for each mandatory sinking fund redemption of 2009A Bonds to the purchase of such 2009A Bonds at a price not exceeding the principal amount thereof plus accrued interest to the date of purchase. If the amount of 2009A Bonds purchased exceeds the amount of 2009A Bonds required to be redeemed on the following January 15, future sinking fund payments may be reduced by the amount of such excess in the years and amounts we designate.

Optional Redemption. On or after January 15, 2014, we may choose to redeem the \$5,000,000 2009A Term Bonds maturing on January 15, 2034 before their stated maturity in whole or in part on any date, at 100% of the principal amount of the 2009A Bonds being redeemed, plus accrued interest to the date of redemption.

On or after January 15, 2019, we may choose to redeem the 2009A Bonds (other than the \$5,000,000 2009A Term Bonds maturing on January 15, 2034) maturing on and after January 15, 2020 before their stated maturity in whole or in part on any date, at 100% of the principal amount of the 2009A Bonds being redeemed, plus accrued interest to the date of redemption.

In the case of a partial redemption, selection of the 2009A Bonds will be made by lot within a maturity as selected by the trustee, subject to the procedures of The Depository Trust Company (which we refer to as "DTC").

Extraordinary Optional Redemption.

Insurance and Eminent Domain Proceeds.

We may choose to redeem the 2009A Bonds, in whole or in part on any date before their stated maturity at 100% of the principal amount of the 2009A Bonds being redeemed plus accrued interest to the date of redemption, within 12 months after determining the loss resulting from the occurrence of either of the following events:

- all or any portion of the facilities directly owned by any member of the obligated group at which health care or medical services are provided sustain damage or destruction resulting in the receipt of net insurance proceeds in an amount greater than or equal to 10% of the Base Value of our property, plant and equipment; or
- all or any portion of the facilities directly owned by any member of the obligated group at which health care or medical services are provided is condemned, or title to all or a portion of such facilities is lost, resulting in the receipt of net proceeds in an amount greater than or equal to 10% of the Base Value of our property, plant and equipment.

“Base Value” means, at our option (which we may exercise with respect to all or any one or more items of property, plant and equipment), either (1) the cost basis of property, plant and equipment, net of accumulated depreciation, as shown on our financial statements for the most recently ended year for which financial statements are available, or (2) the appraised value of such property, plant and equipment as determined within the preceding two years by an appraiser selected by us and acceptable to the trustee.

We can use only the net proceeds received from the events described above that have been deposited in the redemption fund to redeem the 2009A Bonds in the manner described under this heading. In the case of a partial redemption, we will select the maturities and amounts of maturities of the 2009A Bonds to be redeemed and the trustee will select by lot within a maturity the 2009A Bonds to be redeemed, subject to the procedures of DTC.

You should also read “SUMMARY OF THE BOND ORDER AND THE SERIES RESOLUTION—Insurance and Eminent Domain Proceeds” in Appendix C.

Certain Dispositions of Financed Property.

We may choose to redeem the 2009A Bonds, in whole or in part, at 102% of the principal amount thereof to be redeemed plus accrued interest to the date of redemption on the earliest practicable date if:

- we determine in good faith that operation of any property (or portion thereof) financed or refinanced with the proceeds of the 2009A Bonds is not financially feasible or is otherwise not to our advantage;
- as a result thereof, we sell, lease or otherwise dispose of all or a portion of such property to an unrelated person; and
- bond counsel states in writing to us and the trustee that such bond counsel will be unable to render an unqualified opinion that the sale, lease or other disposition of all or a portion of such property will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the 2009A Bonds *unless* the 2009A Bonds are redeemed or retired in the amount specified in such written statement before or concurrently with such sale, lease or other disposition, or on a subsequent date before the first date upon which the 2009A Bonds are subject to redemption, without premium.

Notice of Redemption. The trustee will give notice of any redemption to all registered owners of 2009A Bonds being redeemed at least 30 days, and no more than 60 days, before the redemption date. The trustee will not mail a redemption notice if sufficient funds are not available to the trustee to pay the

redemption price of the 2009A Bonds being redeemed, unless such redemption relates to a refunding of the 2009A Bonds. Failure to send a redemption notice to any registered owner or any defect in any notice mailed will not affect the redemption of the 2009A Bonds of any other registered owner. While the book-entry only system is in effect, all redemption notices will be sent to DTC as discussed in Appendix E.

Effect of Redemption. From and after the redemption date, if the trustee or any paying agents hold a combination of money or “Defeasance Obligations” sufficient to pay the redemption price of the 2009A Bonds to be redeemed, then the 2009A Bonds called for redemption will cease to accrue interest and will no longer be secured under our bond order and the series resolution. Furthermore, the registered owners of such 2009A Bonds will have no rights with respect to the 2009A Bonds except to receive payment of the redemption price plus accrued interest to the redemption date. “Defeasance Obligations” are limited to certain types of investments as described in Appendix C under the heading “DEFINITIONS OF CERTAIN TERMS.”

Revocation of Redemption Notice. We can revoke our election to redeem 2009A Bonds if we notify the trustee in writing of our choice to do so at least five business days before the proposed redemption date. If we do revoke our election to redeem, then the 2009A Bonds will not be redeemed and any notice of redemption mailed will be null and void. The trustee will mail notice of such revocation to all registered owners of 2009A Bonds that had been called for redemption within five business days after receiving our notice of revocation.

Registration, Transfer and Exchange

If the book-entry only system is in effect, transfers and exchanges will occur as described in Appendix E.

If the book-entry only system is not in effect, a registered owner may transfer or exchange 2009A Bonds in accordance with our bond order and the series resolution. A registered owner must furnish an appropriate assignment to the trustee in connection with any transfer or exchange. We and the trustee may require the registered owner of a 2009A Bond to pay a sum sufficient to cover any tax or other governmental charge in connection with any transfer or exchange.

We are not required to transfer or exchange 2009A Bonds that have been selected for redemption in whole or in part. Moreover, we are not required to transfer or exchange 2009A Bonds within 15 days before the date of mailing a notice of redemption of such 2009A Bonds.

Acceleration

The principal of and accrued interest on the 2009A Bonds may be accelerated if certain events of default under our bond order or the series resolution occur, including our failure to pay the principal of or interest on the outstanding 2009A Bonds when due and payable. For a description of the events of default and the circumstances under which acceleration may occur and other remedies available to the trustee and the registered owners of the 2009A Bonds, you should read “SUMMARY OF THE BOND ORDER AND THE SERIES RESOLUTION—Events of Default and Remedies” in Appendix C.

PLAN OF REFUNDING

General

Bonds to be Refunded

We will use a portion of the proceeds of the 2009A Bonds to:

- refund all \$7,810,000 aggregate principal amount of our outstanding 1997A Bonds,
- refund all \$76,075,000 aggregate principal amount of our outstanding 2007J Bonds,
- refund all \$78,225,000 aggregate principal amount of our outstanding 2007K Bonds,
- refund all \$50,365,000 aggregate principal amount of our outstanding 2007L Bonds, and
- pay certain expenses of issuing the 2009A Bonds.

Timing of Redemption and Redemption Prices

We will call the 1997A Bonds, the 2007J Bonds, the 2007K Bonds and the 2007L Bonds for redemption on September 3, 2009 at a redemption price of 100% of their principal amount, plus accrued interest to the date of redemption.

When we issue the 2009A Bonds, we will deposit with the trustee sufficient cash to pay the principal of and interest on the 1997A Bonds, the 2007J Bonds, the 2007K Bonds and the 2007L Bonds to and including the applicable redemption dates.

After we deposit the proceeds of the 2009A Bonds with the trustee as described above, the 1997A Bonds, the 2007J Bonds, the 2007K Bonds and the 2007L Bonds will no longer be deemed to be outstanding under our bond order.

Termination of Interest Rate Swap

We have previously entered into a swap related to our 2007L Bonds that will be terminated in connection with the refunding of the 2007L Bonds. We will use a portion of the proceeds of the 2009A Bonds to pay a portion of the termination payment that will be due upon termination of that swap.

Restructuring of Bonds

During 2008, in response to the collapse of the auction rate securities market and other general financial market dislocation, we restructured our debt portfolio to eliminate all of our auction rate debt, removing bond insurance where necessary and converting some variable rate debt to fixed rate debt. We discuss our 2008 restructuring process in more detail in Note 6 to our financial statements in Appendix B.

We are continuing to restructure our debt portfolio. In June 2009 we removed the bond insurance on our 2007H Bonds and converted the liquidity facility for those bonds into a letter of credit.

By issuing the 2009A Bonds and using the proceeds to refund our outstanding 2007J Bonds, 2007K Bonds and 2007L Bonds, we are continuing to reduce our exposure to variable rate debt and the risks associated with it discussed above under the heading "BONDHOLDERS' RISKS."

Credit rating downgrades of some of our existing liquidity facility providers are causing a substantial portion of our other outstanding variable rate bonds to trade at elevated interest rates. To attempt to reduce these interest rates back to expected levels, we intend to substitute more highly-rated banks for some of our existing liquidity facility providers.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds of the 2009A Bonds in connection with the plan of refunding are as follows:

Sources

Par Amount of 2009A Bonds	\$222,645,000
Less net original issue discount	<u>(3,195,425)</u>
TOTAL SOURCES OF FUNDS	<u>\$219,449,575</u>

Uses

Refunding of outstanding bonds	\$212,475,000
Costs of Issuance ¹	<u>6,974,575</u>
TOTAL USES OF FUNDS	<u>\$219,449,575</u>

¹ Includes underwriters' compensation, legal, financial and consulting fees, rating agency fees, printing fees, swap termination payment and other costs of issuance of the 2009A Bonds.

ANNUAL DEBT SERVICE REQUIREMENTS

The following table sets forth, for each year ending December 31, the amounts required in such year for the payment of the principal of (whether at maturity or pursuant to sinking fund redemption) and interest on the 2009A Bonds and our other long-term debt that will be outstanding after we issue the 2009A Bonds and refund the 1997A Bonds, the 2007J Bonds, the 2007K Bonds and the 2007L Bonds. For purposes of the table below, (i) interest on variable rate long-term debt that is hedged is assumed to bear interest at the fixed payment rate under the related swap agreement¹ and (ii) interest on variable rate long-term debt that is not hedged (one-half of the 1996 CMC-Lincoln Bonds and the 1985 CMC-Lincoln Pool Loan) is assumed to bear interest at 3.05%, which is the 20-year average of the SIFMA Index.²

Year Ending December 31,	<u>2009A Bonds</u>		<u>2008A Bonds</u>		<u>2007A Bonds</u>		<u>2007B Bonds</u>		<u>2007C Bonds</u>	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 7,895,000	\$ 9,483,001	\$ 1,220,000	\$ 15,151,750	\$ 4,330,000	\$ 9,945,963	\$ 815,000	\$ 3,791,500	-	\$ 3,836,222
2011	6,800,000	10,564,950	1,095,000	15,116,341	5,270,000	9,730,506	200,000	3,780,551	-	3,836,222
2012	2,800,000	10,420,950	1,190,000	15,079,150	9,010,000	9,409,063	850,000	3,745,869	-	3,836,222
2013	2,925,000	10,326,375	1,230,000	15,037,544	9,660,000	8,974,872	850,000	3,708,827	-	3,836,222
2014	3,025,000	10,224,644	1,305,000	14,992,366	10,480,000	8,487,888	775,000	3,674,781	-	3,836,222
2015	3,140,000	10,120,538	1,350,000	14,943,400	12,595,000	7,926,750	725,000	3,643,005	-	3,836,222
2016	2,270,000	10,012,056	-	14,918,088	18,520,000	7,160,538	900,000	3,604,419	-	3,836,222
2017	3,370,000	9,883,350	1,325,000	14,891,588	13,500,000	6,373,650	875,000	3,566,197	-	3,836,222
2018	3,530,000	9,737,575	1,530,000	14,832,575	14,075,000	5,695,919	850,000	3,529,064	-	3,836,222
2019	3,650,000	9,591,694	1,380,000	14,769,875	14,980,000	4,971,544	950,000	3,488,027	-	3,836,222
2020	3,750,000	9,422,662	1,600,000	14,704,688	15,535,000	4,210,088	1,050,000	3,442,632	-	3,836,222
2021	4,010,000	9,232,000	1,555,000	14,634,700	13,445,000	3,486,563	4,150,000	3,273,037	-	3,836,222
2022	4,225,000	9,029,462	1,780,000	14,559,663	24,405,000	2,542,506	625,000	3,232,999	-	3,836,222
2023	4,440,000	8,810,650	5,200,000	14,402,613	14,000,000	1,586,988	1,800,000	3,158,824	-	3,836,222
2024	4,610,000	8,576,450	22,040,000	13,707,063	-	1,240,000	-	3,152,287	-	3,836,222
2025	4,915,000	8,332,563	23,140,000	12,607,863	-	1,240,000	-	3,152,287	-	3,836,222
2026	5,175,000	8,080,312	24,210,000	11,527,356	-	1,240,000	-	3,152,287	-	3,836,222
2027	5,410,000	7,815,688	2,920,000	10,894,500	-	1,240,000	520,000	3,131,514	\$ 8,035,000	3,513,801
2028	5,635,000	7,539,562	3,110,000	10,743,750	6,200,000	1,085,000	-	3,129,626	2,615,000	3,379,558
2029	5,990,000	7,245,194	3,350,000	10,582,250	6,200,000	775,000	-	3,129,626	3,005,000	3,249,437
2030	6,310,000	6,926,062	3,445,000	10,412,375	6,200,000	465,000	-	3,129,626	3,500,000	3,098,030
2031	6,650,000	6,585,863	3,545,000	10,237,625	6,200,000	155,000	-	3,129,626	4,040,000	2,923,149
2032	15,690,000	5,999,437	9,755,000	9,905,125	-	-	6,870,000	2,855,187	9,915,000	2,510,551
2033	26,775,000	4,884,731	35,000	9,660,375	-	-	7,185,000	2,543,216	10,365,000	2,058,465
2034	15,225,000	3,782,231	12,995,000	9,334,625	-	-	7,510,000	2,217,118	10,845,000	1,585,476
2035	16,050,000	2,961,263	13,690,000	8,667,500	-	-	7,850,000	1,876,257	11,335,000	1,091,074
2036	16,945,000	2,095,144	14,280,000	7,968,250	-	-	8,210,000	1,519,781	11,850,000	574,219
2037	9,935,000	1,389,544	15,030,000	7,235,500	-	-	16,680,000	823,643	12,130,000	44,249
2038	10,470,000	853,912	15,665,000	6,468,125	-	-	17,510,000	63,589	-	-
2039	11,030,000	289,538	16,435,000	5,665,625	-	-	-	-	-	-
2040	-	-	16,700,000	4,837,250	-	-	-	-	-	-
2041	-	-	1,910,000	4,372,000	-	-	-	-	-	-
2042	-	-	2,015,000	4,273,875	-	-	-	-	-	-
2043	-	-	2,205,000	4,168,375	-	-	-	-	-	-
2044	-	-	2,250,000	4,057,000	-	-	-	-	-	-
2045	-	-	68,615,000	2,285,375	-	-	-	-	-	-
2046	-	-	6,830,000	399,250	-	-	-	-	-	-
2047	-	-	4,570,000	114,250	-	-	-	-	-	-
	<u>\$222,645,000</u>	<u>\$220,217,401</u>	<u>\$310,500,000</u>	<u>\$388,159,623</u>	<u>\$204,605,000</u>	<u>\$97,942,838</u>	<u>\$87,750,000</u>	<u>\$86,645,402</u>	<u>\$87,635,000</u>	<u>\$89,243,783</u>

¹ See Note 6 in Appendix B for a brief discussion of our swap agreements.

² The ten year average of the SIFMA Index is 2.40%.

Year Ending December 31,	<u>2007D Bonds</u>		<u>2007E Bonds</u>		<u>2007F Bonds</u>		<u>2007G Bonds</u>		<u>2007H Bonds</u>	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2010	-	\$ 2,605,032	-	\$ 3,003,858	-	\$ 2,224,004	-	\$ 4,439,175	-	\$ 6,446,891
2011	-	2,605,032	-	3,003,858	-	2,224,004	-	4,439,175	-	6,446,891
2012	-	2,605,032	-	3,003,858	-	2,224,004	-	4,439,175	-	6,446,891
2013	-	2,605,032	-	3,003,858	-	2,224,004	-	4,439,175	-	6,446,891
2014	-	2,605,032	-	3,003,858	-	2,224,004	-	4,439,175	-	6,446,891
2015	-	2,605,032	-	3,003,858	-	2,224,004	-	4,439,175	-	6,446,891
2016	-	2,605,032	-	3,003,858	-	2,224,004	-	4,439,175	-	6,446,891
2017	-	2,605,032	-	3,003,858	-	2,224,004	-	4,439,175	-	6,446,891
2018	-	2,605,032	-	3,003,858	-	2,224,004	-	4,439,175	-	6,446,891
2019	-	2,605,032	-	3,003,858	-	2,224,004	-	4,439,175	-	6,446,891
2020	-	2,605,032	-	3,003,858	-	2,224,004	-	4,439,175	-	6,446,891
2021	-	2,605,032	-	3,003,858	-	2,224,004	-	4,439,175	-	6,446,891
2022	-	2,605,032	-	3,003,858	-	2,224,004	-	4,439,175	-	6,446,891
2023	-	2,605,032	-	3,003,858	-	2,224,004	-	4,439,175	-	6,446,891
2024	-	2,605,032	-	3,003,858	-	2,224,004	-	4,439,175	-	6,446,891
2025	-	2,605,032	-	3,003,858	-	2,224,004	-	4,439,175	-	6,446,891
2026	-	2,605,032	-	3,003,858	-	2,224,004	-	4,439,175	-	6,446,891
2027	-	2,605,032	-	3,003,858	-	2,224,004	-	4,439,175	\$ 7,175,000	6,191,536
2028	-	2,605,032	-	3,003,858	-	2,224,004	-	4,439,175	7,450,000	5,903,179
2029	-	2,605,032	-	3,003,858	-	2,224,004	-	4,439,175	7,725,000	5,604,146
2030	-	2,605,032	-	3,003,858	\$ 1,900,000	2,156,113	-	4,439,175	6,175,000	5,359,387
2031	-	2,605,032	-	3,003,858	-	2,149,942	\$ 1,625,000	4,381,081	6,800,000	5,097,399
2032	-	2,605,032	-	3,003,858	-	2,149,942	1,525,000	4,321,281	7,125,000	4,821,822
2033	-	2,605,032	-	3,003,858	-	2,149,942	1,825,000	4,251,081	7,225,000	4,541,635
2034	-	2,605,032	-	3,003,858	-	2,149,942	1,875,000	4,178,118	7,550,000	4,249,558
2035	-	2,605,032	-	3,003,858	-	2,149,942	1,950,000	4,102,313	7,825,000	3,946,642
2036	-	2,605,032	-	3,003,858	-	2,149,942	2,000,000	4,024,475	8,200,000	3,629,490
2037	-	2,605,032	-	3,003,858	-	2,149,942	1,925,000	3,949,156	8,900,000	3,286,213
2038	-	2,605,032	-	3,003,858	-	2,149,942	2,150,000	3,866,038	21,800,000	2,481,565
2039	-	2,605,032	-	3,003,858	-	2,149,942	34,450,000	2,627,463	8,725,000	2,100,513
2040	-	2,605,032	-	3,003,858	-	2,149,942	35,700,000	1,239,225	9,800,000	1,723,506
2041	\$ 6,830,000	2,362,112	\$17,380,000	2,384,116	-	2,149,942	28,800,000	93,600	10,150,000	1,330,565
2042	-	2,340,028	-	2,327,776	55,155,000	179,161	-	-	10,550,000	922,256
2043	60,310,000	195,002	-	2,327,776	-	-	-	-	7,950,000	605,185
2044	-	-	59,840,000	193,981	-	-	-	-	8,100,000	291,188
2045	-	-	-	-	-	-	-	-	6,825,000	22,082
2046	-	-	-	-	-	-	-	-	-	-
2047	-	-	-	-	-	-	-	-	-	-
	<u>\$67,140,000</u>	<u>\$85,653,134</u>	<u>\$77,220,000</u>	<u>\$100,353,247</u>	<u>\$57,055,000</u>	<u>\$70,464,716</u>	<u>\$113,825,000</u>	<u>\$130,256,506</u>	<u>\$166,050,000</u>	<u>\$171,705,014</u>

Year Ending December 31,	<u>2005 Variable Rate Bonds</u>		<u>2001A Bonds</u>		<u>1996 CMC-Lincoln Bonds</u>		<u>1985 CMC-Lincoln Pool Loan</u>		Total Debt Service Requirements
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2010	\$ 3,530,000	\$ 4,488,361	-	\$ 4,426,750	\$ 900,000	\$ 231,296	\$ 354,683	\$ 34,177	\$ 89,152,663
2011	3,730,000	4,283,741	-	4,426,750	1,000,000	199,341	380,323	22,836	89,155,521
2012	3,940,000	4,090,041	-	4,426,750	1,000,000	166,807	407,816	10,728	89,102,356
2013	4,170,000	3,827,011	-	4,426,750	1,100,000	131,032	214,834	2,172	89,139,599
2014	4,415,000	3,586,148	-	4,426,750	1,100,000	94,677	-	-	89,142,436
2015	3,050,000	3,419,100	-	4,426,750	1,200,000	56,113	-	-	89,150,838
2016	-	3,398,515	-	4,426,750	1,300,000	14,361	-	-	89,079,909
2017	5,245,000	3,144,285	-	4,426,750	-	-	-	-	89,156,002
2018	5,550,000	2,855,442	-	4,426,750	-	-	-	-	89,167,507
2019	5,870,000	2,509,206	-	4,426,750	-	-	-	-	89,142,278
2020	6,205,000	2,170,628	-	4,426,750	-	-	-	-	89,072,630
2021	6,560,000	1,817,664	-	4,426,750	-	-	-	-	89,145,896
2022	-	1,773,390	-	4,426,750	-	-	-	-	89,154,952
2023	7,355,000	1,416,887	-	4,426,750	-	-	-	-	89,152,894
2024	7,785,000	992,505	-	4,426,750	-	-	-	-	89,085,237
2025	8,245,000	535,113	-	4,426,750	-	-	-	-	89,149,758
2026	8,730,000	58,920	-	4,426,750	-	-	-	-	89,155,807
2027	-	-	\$15,980,000	4,027,250	-	-	-	-	89,126,358
2028	-	-	16,800,000	3,207,750	-	-	-	-	89,070,494
2029	-	-	17,665,000	2,346,125	-	-	-	-	89,138,847
2030	-	-	18,570,000	1,440,250	-	-	-	-	89,134,908
2031	-	-	19,520,000	488,000	-	-	-	-	89,136,575
2032	-	-	-	-	-	-	-	-	89,052,235
2033	-	-	-	-	-	-	-	-	89,108,335
2034	-	-	-	-	-	-	-	-	89,105,958
2035	-	-	-	-	-	-	-	-	89,103,881
2036	-	-	-	-	-	-	-	-	89,055,191
2037	-	-	-	-	-	-	-	-	89,087,137
2038	-	-	-	-	-	-	-	-	89,087,061
2039	-	-	-	-	-	-	-	-	89,081,971
2040	-	-	-	-	-	-	-	-	77,758,813
2041	-	-	-	-	-	-	-	-	77,762,335
2042	-	-	-	-	-	-	-	-	77,763,096
2043	-	-	-	-	-	-	-	-	77,761,338
2044	-	-	-	-	-	-	-	-	74,732,169
2045	-	-	-	-	-	-	-	-	77,747,457
2046	-	-	-	-	-	-	-	-	7,229,250
2047	-	-	-	-	-	-	-	-	4,684,250
	<u>\$84,380,000</u>	<u>\$44,366,957</u>	<u>\$88,535,000</u>	<u>\$86,764,125</u>	<u>\$7,600,000</u>	<u>\$ 893,627</u>	<u>\$1,357,656</u>	<u>\$ 69,913</u>	<u>\$3,149,033,942</u>

CONTINUING DISCLOSURE

This section summarizes certain provisions of the series resolution and does not purport to be complete. It is subject to, and is qualified in its entirety by reference to, all the provisions of the series resolution.

Annual Information

For the benefit of the beneficial owners of the 2009A Bonds, we have agreed to provide the following:

- Within seven months after the end of each fiscal year (currently December 31), to the Municipal Securities Rulemaking Board, our audited financial statements (accompanied, if required under the terms of our bond order, by the financial statements of the combined group). If our audited financial statements are not available by seven months after the end of such fiscal year, we will send our unaudited financial statements for such fiscal year to be replaced by our audited financial statements within 15 days after our audited financial statements become available for distribution.
- Within seven months after the end of each fiscal year, to the Municipal Securities Rulemaking Board, the financial and statistical data as of a date not earlier than the end of the preceding fiscal year for the type of information included under the following headings in Appendix A to this official statement:
 - The portion of the table relating to the combined group appearing under the caption “SYSTEM COMPONENTS—Summary of System Facilities”;
 - The table entitled “Combined Group Facilities Summary Utilization Information” under the caption “FINANCIAL AND UTILIZATION INFORMATION OF THE COMBINED GROUP—Summary of Historical Utilization Information”;
 - The table entitled “Combined Group Summary Financial Information” under the caption “FINANCIAL AND UTILIZATION INFORMATION OF THE COMBINED GROUP—Summary of Historical Financial and Operating Results”;
 - The information under the caption “FINANCIAL AND UTILIZATION INFORMATION OF THE COMBINED GROUP—Management’s Discussion of the Summary of Historical Revenues and Expenses of the Combined Group”; and
 - The table appearing under the caption “FINANCIAL AND UTILIZATION INFORMATION OF THE COMBINED GROUP—Third Party Reimbursement and Sources of Payment.”
- Within seven months after the end of each fiscal year, to the Municipal Securities Rulemaking Board, a calculation of the long-term debt service coverage ratio for such fiscal year.

Material Event Notices

For the benefit of the beneficial owners of the 2009A Bonds, we have also agreed to provide the following:

- In a timely manner, to the Municipal Securities Rulemaking Board, notice of any of the following events with respect to the 2009A Bonds, if material:
 - principal and interest payment delinquencies;
 - non-payment related defaults;
 - unscheduled draws on debt service reserves reflecting financial difficulties;
 - unscheduled draws on credit enhancements reflecting financial difficulties;
 - substitution of any credit or liquidity providers, or their failure to perform;
 - adverse tax opinions or events affecting the tax-exempt status of the 2009A Bonds;
 - modification to the rights of the beneficial owners of the 2009A Bonds;
 - 2009A Bond calls, other than pursuant to mandatory sinking fund redemption provisions;
 - defeasance of any 2009A Bonds;
 - release, substitution or sale of any property securing repayment of the 2009A Bonds; and
 - rating changes.
- In a timely manner, to the Municipal Securities Rulemaking Board, notice of our failure to provide the required audited financial statements and other annual financial and statistical information described above on or before the date specified.

Filing Alternatives

We may discharge our undertakings described above by:

- transmitting those documents, accompanied by identifying information, electronically directly to the Municipal Securities Rulemaking Board; or
- transmitting those documents or notices in such other manner as may subsequently be permitted by the Securities and Exchange Commission.

Failure to Comply

If we fail to comply with the undertaking described above, any beneficial owner of the 2009A Bonds may take action to protect and enforce the rights of all beneficial owners with respect to such undertaking, including an action for specific performance. Our failure to comply with such undertaking,

however, will not be an event of default and will not result in any acceleration of payment of the 2009A Bonds.

Termination of Undertaking

The undertaking described above will terminate upon payment, or provision having been made for payment, in a manner consistent with Rule 15c2-12, in full of the principal of and interest on all of the 2009A Bonds.

Modification of Undertaking

We have reserved the right to modify from time to time the information to be provided to the extent necessary or appropriate in our judgment, provided that:

- any such modification may only be made in connection with a change in circumstances that arises from a:
 - change in legal requirements,
 - change in law, or
 - change in our identity, nature, or status;
- the information to be provided, as modified, would have complied with the requirements of Rule 15c2-12 issued under the Securities Exchange Act of 1934 (which we refer to as “Rule 15c2-12”) as of the date of this official statement, after taking into account any amendments or interpretations of Rule 15c2-12 by the Securities and Exchange Commission, as well as any changes in circumstances; and
- any such modification does not materially impair the interests of the beneficial owners of the 2009A Bonds, as determined either by parties unaffiliated with us (such as bond counsel), or by the approving vote of the owners of a majority in principal amount of outstanding 2009A Bonds in accordance with the terms of our bond order.

If any of our annual financial information contains modified operating data or financial information, we must explain, in narrative form, the reasons for the modification and the impact of the change in the type of operating data or financial information being provided.

Quarterly Information

Additionally, we have agreed to mail or otherwise make available quarterly reports to each beneficial owner of at least \$1,000,000 of 2009A Bonds if properly requested by such beneficial owners in accordance with the definition in the series resolution of “Interested Beneficial Owner,” which you can find in Appendix C. The quarterly reports consist of our unaudited balance sheet, statement of operations and statement of cash flows and include a financial highlights discussion on such unaudited financial statements.

LITIGATION

There is no action, suit, proceeding, or investigation at law or in equity before or by any court, public board or body, pending or, to our knowledge, threatened, against or affecting us,

- challenging the validity of our bond order, the series resolution or the purchase agreement or the transactions contemplated by those documents,
- challenging the accuracy or completeness of this official statement or the validity of the transactions described in this official statement,
- in which any liability of ours is not adequately covered by insurance or any self-insurance reserves reasonably established by us, or
- in which any judgment or order would have a material adverse effect on our condition (financial or otherwise) or operations, our existence or authority to do business or our performance of our obligations under our bond order, the series resolution, any member guaranty agreements, any member security agreements or the purchase agreement.

We are defendants in a number of malpractice and other legal actions. Based upon the opinions of our respective counsel representing us in those cases, we believe that our exposure for uninsured damages in those suits would be in an amount which would not have a material adverse effect on our financial condition.

There is no litigation or any other proceeding before any court or governmental body or agency pending or, to the knowledge of the Local Government Commission, threatened against or involving the Local Government Commission to restrain or enjoin the issuance or delivery of the 2009A Bonds or the execution or delivery by the Local Government Commission of the purchase agreement and the performance of its obligations under the purchase agreement.

LEGAL MATTERS

Robinson, Bradshaw & Hinson, P.A., Charlotte, North Carolina, bond counsel, will pass upon the authorization and validity of the 2009A Bonds. You can find the proposed form of such approving opinion in Appendix D.

Certain legal matters relating to this offering, other than the validity of the 2009A Bonds, will be passed upon

- for us by Keith A. Smith, Esq., our Senior Vice President and General Counsel, Charlotte, North Carolina, and
- for the underwriters by McGuireWoods LLP, Charlotte, North Carolina.

TAX TREATMENT

Opinion of Bond Counsel

The opinion of bond counsel will state that under existing law interest on the 2009A Bonds

- is excludable from gross income for federal income tax purposes;
- is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; and
- is exempt from State of North Carolina income taxes.

The Internal Revenue Code of 1986, as amended (which we refer to as the “Code”), and the regulations promulgated under the Code contain a number of requirements that must be satisfied after the issuance of the 2009A Bonds in order for interest on the 2009A Bonds to be and remain excludable from gross income for purposes of federal income taxation. Examples include:

- the requirement that we rebate certain excess earnings on proceeds and amounts treated as proceeds of the 2009A Bonds to the United States Treasury;
- restrictions on investment of such proceeds and other amounts; and
- restrictions on the ownership and use of the facilities financed with proceeds of the 2009A Bonds.

The foregoing is not intended to be an exhaustive listing of the post-issuance tax compliance requirements of the Code, but is illustrative of the requirements that must be satisfied by us after the issuance of the 2009A Bonds to maintain the exclusion of interest on the 2009A Bonds from income for federal income taxation purposes. Failure to comply with certain of such requirements may cause interest on the 2009A Bonds to be included in gross income retroactively to the date of issuance of the 2009A Bonds. We have agreed to comply with these requirements. The opinion of bond counsel delivered on the date of issuance of the 2009A Bonds will be conditioned on the compliance with such requirements, and bond counsel has not been retained to monitor compliance with requirements such as those described above after the issuance of the 2009A Bonds.

Bond counsel’s opinions are based on existing law, which is subject to change. Such opinions are further based on factual representations made to bond counsel as of the date of such opinion. Bond counsel assumes no duty to revise or supplement its opinions to reflect any facts or circumstances that may thereafter come to bond counsel’s attention or to reflect any changes in law that may thereafter occur or become effective. Moreover, bond counsel’s opinions are not a guarantee of a particular result and are not binding on the Internal Revenue Service or the courts; rather, such opinions represent bond counsel’s professional judgment based on its review of existing law and in reliance on the representations and covenants that it deems relevant to such opinions.

Other Tax Consequences

You should be aware that ownership of the 2009A Bonds may result in collateral federal, state or local tax consequences to certain taxpayers, including financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S

corporations with “excess net passive income,” foreign corporations subject to the branch profits tax, life insurance companies and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry or have paid or incurred certain expenses allocable to the 2009A Bonds. Bond counsel expresses no opinion regarding any such collateral tax consequences. You should consult your tax advisors regarding collateral tax consequences.

Original Issue Discount

The original issue discount in the selling price of the 2009A Bonds maturing on January 15 in the years 2018 and 2019, the 2009A Bonds bearing interest at 4.50% and maturing on January 15, 2021, the 2009A Bonds bearing interest at 4.75% and maturing on January 15, 2023, the 2009A Bonds maturing on January 15 in the years 2026 through 2029 and the 2009A Bonds maturing on January 15 in the years 2034 and 2039, to the extent properly allocable to each owner of such 2009A Bond, is excludable from gross income for federal income tax purposes with respect to such owner. The original issue discount is the excess of the stated redemption price at maturity of such 2009A Bond over its initial offering price to the public, excluding underwriters and other intermediaries, at which price a substantial amount of the 2009A Bonds of such maturity were sold.

Under Section 1288 of the Code, original issue discount on tax-exempt bonds accrues on a compound basis. The amount of original issue discount that accrues to any owner of a 2009A Bond during any accrual period generally equals (1) the issue price of such 2009A Bond plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (2) the yield to maturity of such 2009A Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), minus (3) any interest payable on such 2009A Bond during such accrual period. The amount of original issue discount so accrued in a particular accrual period will

- be considered to be received ratably on each day of the accrual period;
- be excludable from gross income for federal income tax purposes; and
- increase the owner’s tax basis in such 2009A Bond.

If you purchase a 2009A Bond at an original issue discount, you should consult your tax advisors regarding the determination and treatment of original issue discount for federal income tax purposes and with respect to state and local tax consequences of owning such 2009A Bond.

Premium

The 2009A Bonds maturing on January 15 in the years 2010 through 2017, the 2009A Bonds maturing on January 15, 2020, the 2009A Bonds bearing interest at 5.00% and maturing on January 15, 2021, the 2009A Bonds maturing on January 15, 2022, the 2009A Bonds bearing interest at 5.25% and maturing on January 15, 2023 and the 2009A Bonds maturing on January 15, 2024 have been sold at initial public offering prices that are in excess of the amount payable at maturity. An amount equal to the excess of the purchase price of a 2009A Bond over its stated redemption price at maturity constitutes premium on such 2009A Bond. You must amortize any premium over such 2009A Bond’s term using constant yield principles, based on the 2009A Bond’s yield to maturity. As premium is amortized, your basis in such 2009A Bond and the amount of tax-exempt interest received will be reduced by the amount of amortizable premium properly allocable to you. This will result in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes on sale or disposition of such 2009A Bond prior to its maturity. Even though your basis is reduced, no federal income tax deduction is allowed. If you purchase a 2009A Bond at a premium, whether at the time of initial issuance or after initial issuance,

you should consult your tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning such 2009A Bond.

UNDERWRITING

The Local Government Commission, with our approval, has entered into a purchase agreement with Merrill Lynch, Pierce, Fenner & Smith Incorporated, on its own behalf and as representative of the various underwriters shown on the cover page of this official statement. Pursuant to that purchase agreement, the underwriters have agreed to purchase the 2009A Bonds at a price of \$217,485,349.60, which equals the aggregate principal amount of the 2009A Bonds, less underwriters' compensation of \$1,964,225.75 and net original issue discount of \$3,195,424.65. The underwriters must purchase all of the 2009A Bonds if any of the 2009A Bonds are purchased. The initial public offering prices set forth on the cover page of this official statement may be changed by the underwriters.

The underwriters may offer and sell the 2009A Bonds to certain dealers (including dealer banks and dealers depositing the 2009A Bonds into investment trusts) and others at prices lower than the public offering price set forth on the cover page of this official statement.

J.P. Morgan Securities Inc., one of the underwriters of the 2009A Bonds, has entered into an agreement (the "Distribution Agreement") with UBS Financial Services Inc. for the retail distribution of certain municipal securities offerings at the original issue prices. Pursuant to the Distribution Agreement (if applicable for this transaction), J.P. Morgan Securities Inc. will share a portion of its underwriting compensation with respect to the 2009A Bonds with UBS Financial Services Inc.

Wells Fargo Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wachovia Bank, National Association.

RATINGS

Moody's Investors Service, Inc. (which we refer to as "Moody's") has assigned a rating of "Aa3" with a stable outlook to the 2009A Bonds. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies (which we refer to as "S&P"), has assigned a rating of "AA-" with a stable outlook to the 2009A Bonds. These ratings reflect the views of Moody's and S&P. You should contact Moody's and S&P to obtain an explanation of the significance of these ratings.

We cannot assure you that these ratings will remain in effect for any given period of time. Moody's or S&P may lower, suspend or withdraw its rating. The underwriters are not obligated to notify you if Moody's or S&P revises, suspends or withdraws its rating. If Moody's or S&P lowers, suspends or withdraws its rating, the market price of the 2009A Bonds could be adversely affected.

CERTAIN RELATIONSHIPS

You should be aware of the following relationships between us and members of our financing team:

- *Robinson, Bradshaw & Hinson, P.A.*, bond counsel, also represents us in matters unrelated to the 2009A Bonds. Keith A. Smith, our Senior Vice President and General Counsel, is married to a shareholder of Robinson, Bradshaw & Hinson, P.A.
- *McGuireWoods, LLP*, counsel for the underwriters and the trustee, represents us in matters unrelated to the 2009A Bonds.

MISCELLANEOUS

Any statements in this official statement involving matters of opinion, whether or not expressly stated as an opinion, are intended to be opinions and not facts.

The Local Government Commission has authorized the execution and distribution of this official statement. The Local Government Commission and its staff assume no responsibility for the accuracy or completeness of any representation or statement in this official statement except for material with respect to it included under the caption "LITIGATION."

We have supplied the information contained in this official statement relating to us and have supplied or reviewed the summaries of all documents to which we are parties. We have duly approved the execution and delivery of this official statement.

LOCAL GOVERNMENT COMMISSION OF NORTH CAROLINA

By: /s/ T. Vance Holloman
T. Vance Holloman
Secretary

**THE CHARLOTTE-MECKLENBURG
HOSPITAL AUTHORITY**, on its own
behalf and on behalf of the other
members of the combined group

By: /s/ Greg A. Gombar
Greg A. Gombar
Executive Vice President
and Chief Financial Officer

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APPENDIX A

Information Concerning

**THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
AND ITS AFFILIATES, DOING BUSINESS AS
CAROLINAS HEALTHCARE SYSTEM, INCLUDING
THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
COMBINED GROUP**

**The information contained herein as Appendix A
to this Official Statement has been obtained from
The Charlotte-Mecklenburg Hospital Authority.**

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THE AUTHORITY

The Charlotte-Mecklenburg Hospital Authority (the “Authority”) was organized in 1943 under the North Carolina Hospital Authorities Act. The Authority has its headquarters in Charlotte, Mecklenburg County, North Carolina. The Authority is a public body and a body corporate and politic which is authorized to construct and operate health care and hospital facilities, borrow money through the issuance of bonds, and secure such bonds by a pledge of its revenues.

THE SYSTEM

The Authority, directly and through its affiliates, does business as Carolinas HealthCare System (the “System”), which is the largest healthcare system in North and South Carolina and the third largest public, multi-hospital system in the nation. The System includes quaternary, tertiary, acute care, rehabilitation, mental health and long-term care facilities and an integrated primary and specialty physician practice network.

For financial reporting purposes, the System is divided into a “Primary Enterprise” and “Component Units.” The Primary Enterprise consists of the Authority and all affiliates whose assets and income the Authority controls without limitation. The Component Units consist of (1) affiliates that lease their facilities from third parties or are prohibited under existing contractual arrangements from distributing all of their net revenues to the Authority and (2) a foundation that raises and holds economic resources for the direct benefit of the Authority. Although the System includes certain healthcare facilities in the region managed by the Authority or its affiliates pursuant to a management agreement (the “Managed Facilities”), only the management fees or network development contributions earned by the System, not the financial position or changes in net assets of those facilities, are reflected in the combined financial statements of the System. (See Appendix B.)

THE COMBINED GROUP

The Authority’s Second Amended and Restated Bond Order adopted as of September 9, 1997, as amended by a First Amendment thereto dated as of November 1, 2001, a Second Amendment thereto dated as of June 1, 2002 and a Third Amendment thereto dated as of September 11, 2007 (as amended, the “Bond Order”), authorizes the creation of a Combined Group, which consists of the Obligated Group and Designated Affiliates. Only the Combined Group has a direct or indirect obligation to pay amounts due with respect to the 2009A Bonds. (See “**SECURITY AND SOURCES OF PAYMENT**” in the forepart of this Official Statement.)

As of the date of this Official Statement, the primary members of the Obligated Group are the Authority, Mercy Hospital, Inc., Lincoln Health System d/b/a Carolinas Medical Center – Lincoln, Carolinas Physicians Network, Inc., Managed Health Resources, Inc. and The Carolinas HealthCare Foundation, Inc.¹

Because none of the members of the Obligated Group have Designated Affiliates at this time, the only members of the Combined Group are the members of the Obligated Group.

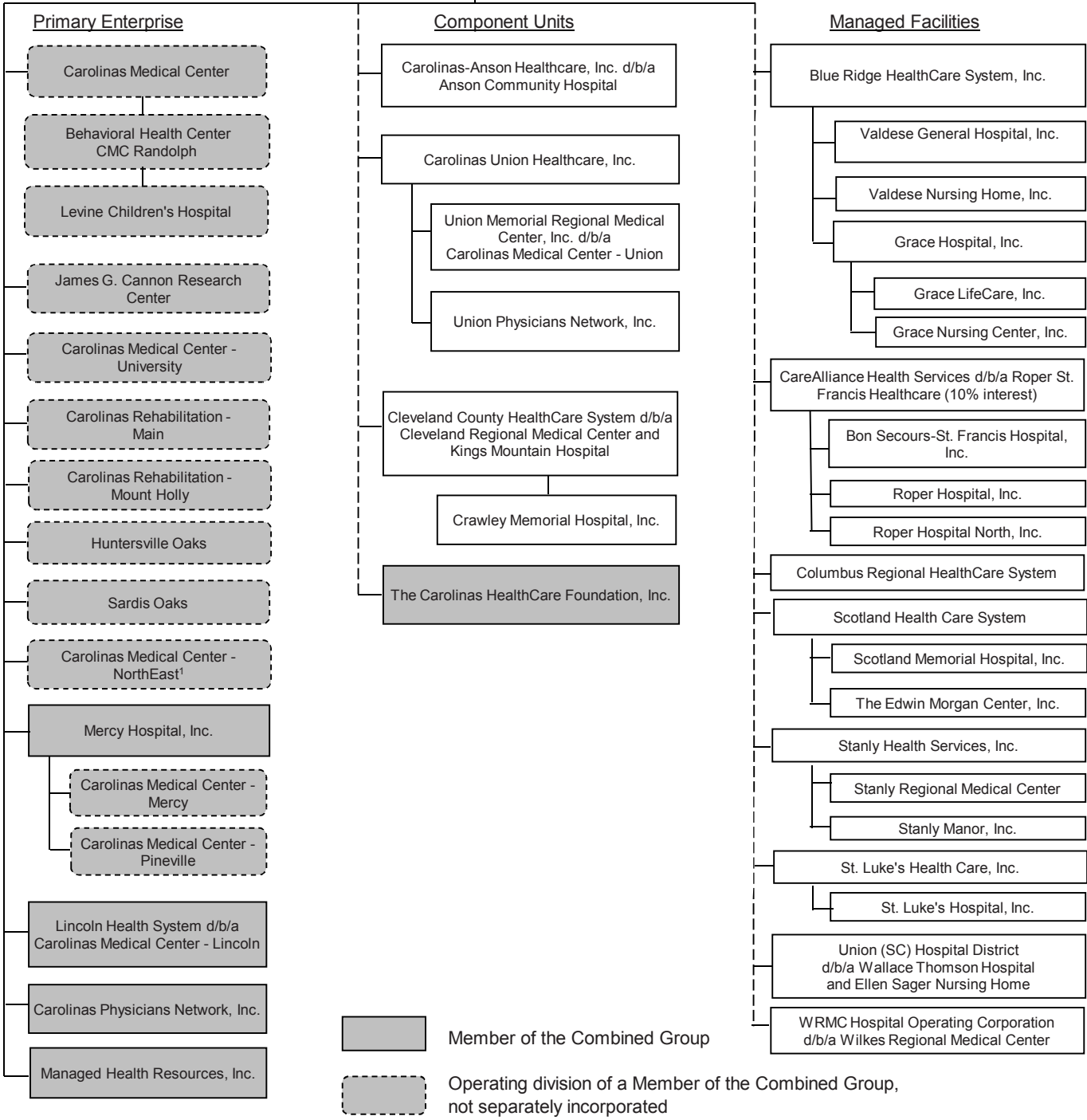
Except for The Carolinas HealthCare Foundation, Inc., the Authority controls, directly or indirectly, each of the members of the Obligated Group, including the members identified in the footnote

¹ As of the date hereof, the other members of the Obligated Group are: Carolinas College of Health Sciences, Carolinas Health Network, Inc., Functional Rehab Equipment, Inc., Mercy Health Services, Inc. and Mercy Equipment Corporation. None of these entities are shown in the organizational chart on page A-3 hereof because their function and operation are not material in describing and understanding the Combined Group or the System.

above. Each of the members of the Combined Group, except Functional Rehab Equipment, Inc. (which is inactive), is a governmental entity or nonprofit corporation whose income is exempt from federal and State of North Carolina income taxation.

An organizational chart of the System, showing the primary members of the Combined Group, is shown on page A-3 hereof.

The Charlotte-Mecklenburg Hospital Authority
d/b/a Carolinas HealthCare System



¹ Effective January 1, 2009, CMC-NorthEast, Inc. was merged into the Authority and, therefore, Carolinas Medical Center - NorthEast is now an operating division of the Authority.

SYSTEM COMPONENTS

Summary of System Facilities

The following table describes the number of licensed beds, beds in service, level of care and location of the System's principal inpatient facilities and physicians network as of May 31, 2009:

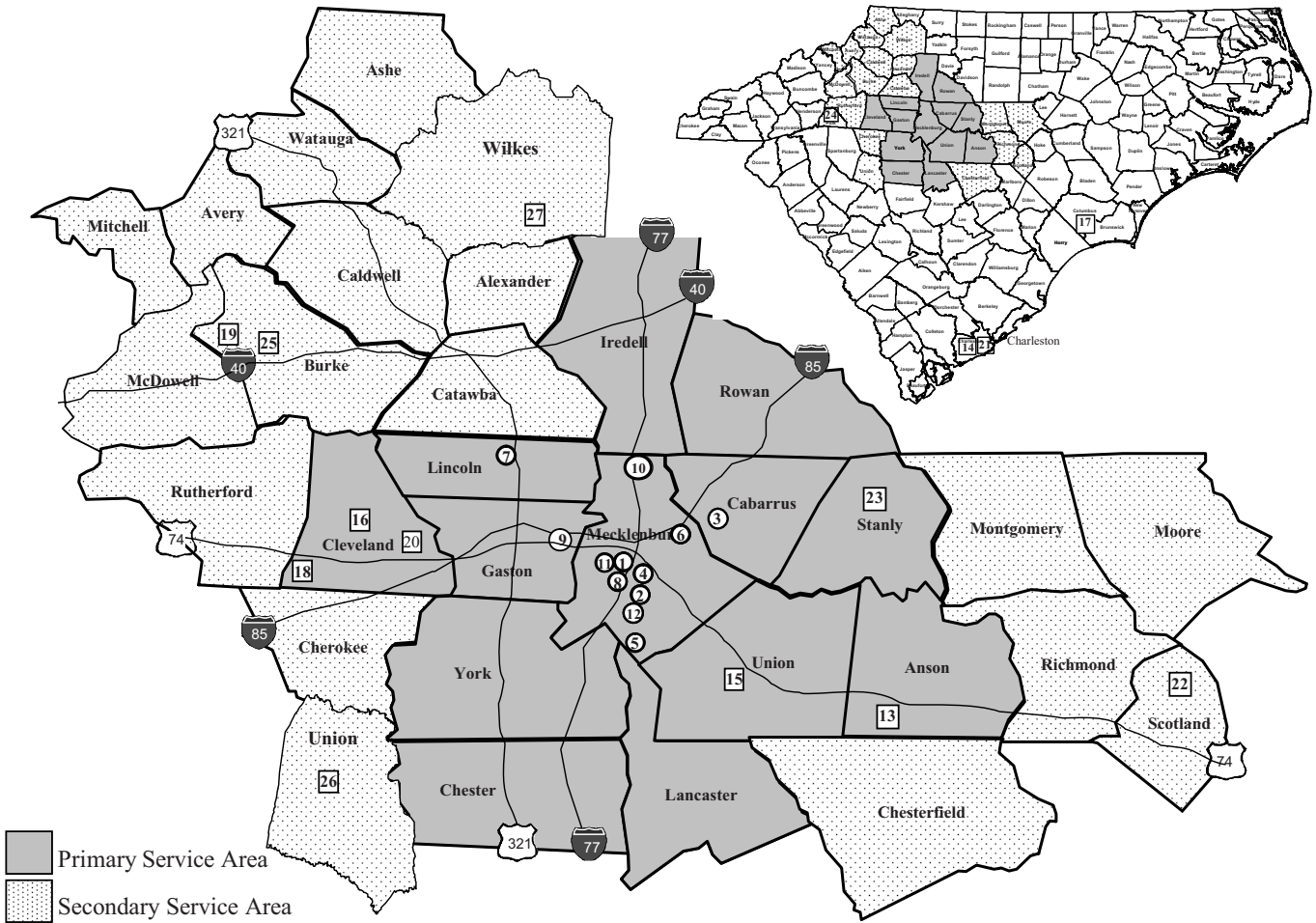
	Licensed Beds	Beds In Service	Level of Care	Location
Combined Group:				
Carolinas Medical Center	610	610	Tertiary/Quaternary	Charlotte, NC
Behavioral Health Center CMC Randolph	66	66	Mental Health	Charlotte, NC
Levine Children's Hospital	198	198	Tertiary/Quaternary	Charlotte, NC
Carolinas Medical Center – NorthEast	457	416	Tertiary/Acute	Concord, NC
Carolinas Medical Center – Mercy ⁽¹⁾	196	169	Tertiary/Acute	Charlotte, NC
Carolinas Medical Center – Pineville ⁽¹⁾	109	108	Acute	Pineville, NC
Carolinas Medical Center – University ⁽¹⁾	130	130	Acute	Charlotte, NC
Carolinas Medical Center – Lincoln	101	85	Acute	Lincolnton, NC
Carolinas Rehabilitation – Main	119	119	Rehabilitative	Charlotte, NC
Carolinas Rehabilitation – Mount Holly	40	40	Rehabilitative	Mount Holly, NC
Huntersville Oaks ⁽²⁾	168	168	Long-Term	Huntersville, NC
Sardis Oaks	124	116	Long-Term	Charlotte, NC
Physicians Network ⁽³⁾	--	--	Primary and Specialty Physician Care	Throughout the Region
Subtotals	2,318	2,225		
Component Units:				
Anson Community Hospital	52	30	Acute/Swing	Wadesboro, NC
	95	95	Long-Term	Wadesboro, NC
Carolinas Medical Center – Union	157	141	Acute	Monroe, NC
	70	70	Long-Term	Monroe, NC
	20	20	Chemical Dependency	Monroe, NC
<i>Cleveland County HealthCare System</i>				
Cleveland Regional Medical Center	241	171	Acute	Shelby, NC
	120	120	Long-Term	Shelby, NC
Crawley Memorial Hospital ⁽⁴⁾	50	50	Acute/Swing	Boiling Springs, NC
	10	10	Long-Term	Boiling Springs, NC
Kings Mountain Hospital	72	42	Acute/Swing	Kings Mountain, NC
	10	10	Long-Term	Kings Mountain, NC
	14	14	Mental Health	Kings Mountain, NC
	6	6	Chemical Dependency	Kings Mountain, NC
Subtotals	917	779		
Managed Facilities⁽⁵⁾:				
<i>Blue Ridge HealthCare System</i>				
Grace Hospital	162	95	Acute	Morganton, NC
	22	22	Mental Health	Morganton, NC
Grace Heights Health and Rehabilitation Center	120	120	Long-Term	Morganton, NC
Grace Ridge Retirement Community	25	25	Long-Term	Morganton, NC
	35	35	Assisted Living	Morganton, NC
	12	12	Special Care	Morganton, NC
Valdese Hospital	131	51	Acute	Valdese, NC
College Pines Health and Rehabilitation Center	112	112	Long-Term	Valdese, NC
Columbus Regional Healthcare System	154	126	Acute	Whiteville, NC
<i>Roper St. Francis Healthcare⁽⁶⁾</i>				
Roper Hospital	440	331	Tertiary/Acute	Charleston, SC
Bon Secours-St. Francis Hospital	204	165	Acute	Charleston, SC
<i>Scotland Health Care System</i>				
Scotland Memorial Hospital	97	97	Acute	Laurinburg, NC
	7	7	Rehabilitative	Laurinburg, NC
Edwin Morgan Center	50	50	Long-Term	Laurinburg, NC
Hospice of Scotland County	10	10	Hospice	Laurinburg, NC
<i>Stanly Health Services</i>				
Stanley Regional Medical Center	97	80	Acute	Albemarle, NC
	10	10	Rehabilitative	Albemarle, NC
	12	12	Mental Health	Albemarle, NC
Stanly Manor	100	100	Long-Term	Albemarle, NC
St. Luke's Hospital	55	25	Acute	Columbus, NC
	10	10	Special Care	Columbus, NC
<i>Union (SC) Hospital District</i>				
Wallace Thomson Hospital	143	74	Acute	Union, SC
Ellen Sagar Nursing Home	113	113	Long-Term	Union, SC
Wilkes Regional Medical Center	120	101	Acute	North Wilkesboro, NC
	10	10	Long-Term	North Wilkesboro, NC
Subtotals	2,251	1,793		
TOTALS	5,486	4,797		

- (1) In connection with the planned renovation and expansion of Carolinas Medical Center – Pineville, beds from Carolinas Medical Center – Mercy and Carolinas Medical Center – University will be transferred to Carolinas Medical Center – Pineville. When all such transfers are complete, which is expected to occur by the first quarter of 2012, Carolinas Medical Center – Mercy will have 135 licensed beds, Carolinas Medical Center – Pineville will have 206 licensed beds and Carolinas Medical Center – University will have 94 licensed beds.
- (2) On October 1, 2007, a new 168-bed facility opened in Huntersville and 102 beds were transferred to a company, in which the Authority has a 10% membership interest, that intends to operate the beds in a new facility it will construct in northern Mecklenburg County.
- (3) Includes physicians practices of Carolinas Physicians Network and NorthEast Physicians Network.
- (4) Crawley Memorial Hospital has leased 50 acute care beds to Acuity Healthcare to operate as a long-term acute care hospital with an anticipated conversion date of January 1, 2010.
- (5) On August 5, 2009, the Authority entered into an affiliation services agreement with AnMed Health to provide managerial oversight that becomes effective on October 1, 2009. The agreement also includes Cannon Memorial Hospital because of a recent affiliation agreement between AnMed Health and Cannon Memorial Hospital, both of which are located in South Carolina. These organizations are licensed to operate a total of 628 beds, consisting of 588 acute care beds and 40 rehabilitation beds. Statistical and financial information for AnMed Health has not been included in Appendix A because the transaction does not become effective until October 1, 2009.

In the fourth quarter of 2009, the Authority expects to enter into a management contract with a joint operating company being formed to operate Haywood Regional Medical Center located in Clyde, North Carolina and WestCare Health System located in Sylva, North Carolina. These organizations are licensed to operate a total of 304 acute care beds.
- (6) Roper St. Francis Healthcare has received a certificate of need from the State of South Carolina to construct a new, 85-bed community hospital in Mount Pleasant, South Carolina. Construction is expected to be completed in late 2010.

The locations of the principal inpatient facilities of the System are shown on the map located on page A-6 hereof.

Carolinas HealthCare System



Combined Group Facilities

- ① Carolinas Medical Center
- ② Behavioral Health Center CMC – Randolph
- ③ Carolinas Medical Center – NorthEast
- ④ Carolinas Medical Center – Mercy
- ⑤ Carolinas Medical Center – Pineville
- ⑥ Carolinas Medical Center – University
- ⑦ Carolinas Medical Center – Lincoln
- ⑧ Carolinas Rehabilitation – Main
- ⑨ Carolinas Rehabilitation – Mount Holly
- ⑩ Huntersville Oaks
- ⑪ Levine Children’s Hospital
- ⑫ Sardis Oaks

Component Unit and Managed Facilities

- 13 Anson Community Hospital
- 14 Bon Secours-St. Francis Hospital
- 15 Carolinas Medical Center - Union
- 16 Cleveland Regional Medical Center
- 17 Columbus Regional Healthcare System
- 18 Crawley Memorial Hospital
- 19 Grace Hospital
- 20 Kings Mountain Hospital
- 21 Roper Hospital
- 22 Scotland Memorial Hospital
- 23 Stanly Regional Medical Center
- 24 St. Luke’s Hospital
- 25 Valdese Hospital
- 26 Wallace Thomson Hospital
- 27 Wilkes Regional Medical Center

Combined Group Inpatient Facilities, Research Center and Physicians Network

Carolinas Medical Center. Carolinas Medical Center is one of the largest tertiary and quaternary hospitals in the Carolinas, operating 874 inpatient beds, including 198 licensed pediatric beds at Levine Children’s Hospital and 66 licensed psychiatric beds at Behavioral Health Center CMC Randolph. Carolinas Medical Center is the regional referral center for the Piedmont area of North Carolina and treats a significant number of patients from South Carolina and other parts of the southeastern United States. Annually, Carolinas Medical Center has over 41,000 inpatient admissions, delivers over 6,500 newborns and performs approximately 30,000 surgical procedures. For the eleventh year, Carolinas Medical Center received Charlotte’s Consumer Choice Award as having the highest quality and image. This award, presented by *National Research Corporation*, is part of the nation’s largest and most comprehensive independent study of its kind, covering 180 markets throughout the United States. Additionally, in 2008, Carolinas Medical Center received the J.D. Power and Associates Award for Inpatient Services. Being one of only five medical centers in North Carolina designated as an Academic Medical Center Teaching Hospital and a Level I Trauma Center, Carolinas Medical Center provides, among other services, the following specialized services:

- The Sanger Heart and Vascular Institute (“SHVI”), a newly formed operating unit combining Sanger Clinic, Charlotte Cardiology Associates and Carolinas Heart and Vascular Institute, serves 16 counties throughout North and South Carolina and has a presence within four Charlotte-area System hospitals. More than 70 physicians of SHVI account for over 800 open heart surgeries and 14,000 cardiac catheterizations per year. This represents one of the largest cardiac and vascular programs in the Southeast and one of the largest transplant centers in the Carolinas, for both adult and pediatric patients. SHVI operates a multidisciplinary Heart Failure Clinic, five accredited Chest Pain Centers, a comprehensive cardiovascular rehabilitation program, and an advanced clinical research program. It is currently one of three institutions in North Carolina to receive Joint Commission certification in Congestive Heart Failure.
- The 198-bed Levine Children’s Hospital is currently the largest children’s hospital between Atlanta and Washington, D.C. and offers comprehensive pediatric services in over 30 pediatric subspecialty areas. Levine Children’s Hospital serves as the regional children’s hospital for the System’s thirty-one county service area. Pediatric services include inpatient general pediatrics, intensive care services for pediatric and neonatal patients, the only Commission on Accreditation of Rehabilitation Facilities accredited acute inpatient pediatric rehabilitative care in North Carolina, outpatient services focusing on subspecialty ambulatory care and procedural services, and 24/7 emergency care. Levine Children’s Hospital also provides quaternary services, including pediatric interventional cardiology, pediatric cardiovascular surgery, complex pediatric hematology oncology, pediatric hemodialysis, peritoneal dialysis and pediatric transplants. Levine Children’s Hospital has a regional network of outpatient pediatric specialty centers to provide access to pediatric specialists. A family-centered care approach transcends the various services.
- Blumenthal Cancer Center at Carolinas Medical Center, part of the Accredited Network Cancer Program by the American College of Surgeons Commission on Cancer, offers a multi-disciplinary team approach to the treatment of cancer in adults and children. Blumenthal Cancer Center’s Gynecological Oncology program is the largest such program in North Carolina. Carolinas Medical Center was the first hospital in the region to develop an Immunotherapy Program for kidney cancer and melanoma patients. In addition, Blumenthal Cancer Center has one of the largest breast and melanoma cancer

programs in North and South Carolina. In 2008, Blue Cross and Blue Shield of North Carolina named Carolinas Medical Center a Blue Distinction Center for Complex and Rare Cancers.

- The Neurosciences and Spine Institute has been ranked for multiple years as one of the best neuroscience programs in the country by NeuroSource. It leads the region in advanced neurosurgical and neurological care with treatment, research, rehabilitation, and sub-specialty options including but not limited to ALS/MDA neuromuscular disease, brain tumor surgery and minimally invasive spine surgery. The Neurosciences and Spine Institute's Stroke Program has been recognized nationally including designation as a Stroke Center of Excellence by NeuStrategy, Advance Certification in Stroke as a Primary Stroke Center from The Joint Commission, and in 2009, it received the Silver Award for Stroke Care Performance by the American Heart/Stroke Association.
- The Transplant Center at Carolinas Medical Center is a United Network for Organ Sharing and Medicare-approved center for transplantation of the kidney, heart, liver, and pancreas for adults, transplantation of heart, liver, and bone marrow for children and live kidney donor transplants for both adults and children. Quality patient care is delivered following a continuum of care beginning with identification of patients and continuing through early intervention, evaluation, comprehensive treatment, transplantation, life long follow-up, patient/family and professional education and research. In 2008, the Transplant Center transplanted over 200 solid organs.
- The Women's Center and Maternity Center offers comprehensive obstetrical services in a home-like environment and includes full-term and high-risk deliveries, postpartum and high-risk ante partum units, lactation services and obstetrical education and a gynecological oncology unit. Carolinas Medical Center is the region's High Risk Obstetrical Referral Center with maternal fetal medicine specialists. Women's and Maternity Center services also include the only Extracorporeal Membrane Oxygenation service in the area and an Assisted Reproductive Technology Unit assists couples with reproductive difficulties. In 2008, the Maternity Center received a J.D. Power Award for Outstanding Maternity Experience.
- The Carolinas Medical Center's Radiology Service offers the most complete array of treatment capabilities available in the region, including the regions first PET imaging facility, five MRI units, Charlotte's first "3.0 Tesla" magnet and five multi-slice CT scanners with 16 to 64-slice capabilities.
- The Carolinas Laparoscopic and Advanced Surgery Program ("CLASP"), led by the Department of General Surgery, has pioneered minimally invasive surgical techniques. CLASP is a multi-disciplinary center, which encompasses urology, transplantation, trauma, surgical oncology, gynecology, thoracic surgery and orthopedic surgery. CLASP continues to be recognized nationally and internationally as a leader in minimally invasive surgery.
- Other services provided to Carolinas Medical Center's primary service area and beyond include:
 - MED-1, the mobile disaster recovery team.
 - The Carolinas Poison Center, the official Poison Control Center for North Carolina.

- The largest medical air ambulance service in the Carolinas, with seven aircraft (three rotor aircraft, two jet airplanes and two turbo prop planes) and nine mobile intensive care units.
- Serving as the official healthcare provider for the Carolina Panthers, Lowe’s Motor Speedway, Charlotte Knights Baseball, the PGA TOUR Quail Hollow Championship and the U.S. National Whitewater Center.
- Comprehensive Community Health and Wellness programs offered in twelve area YMCAs through a strategic alliance with the YMCA of Greater Charlotte.
- Behavioral Health Center CMC Randolph (the “Behavioral Health Center”), a subprovider of Carolinas Medical Center and a 66-licensed bed acute psychiatric facility with a comprehensive outpatient continuum of care for both inpatients and outpatients suffering from mental and emotional illnesses. Carolinas Medical Center leases the physical facilities from Mecklenburg County. (See “**FINANCIAL AND UTILIZATION INFORMATION OF THE COMBINED GROUP – Relationship with Mecklenburg County**” herein.)

James G. Cannon Research Center. Located on the campus of Carolinas Medical Center is the James G. Cannon Research Center (the “Research Center”), the largest hospital-affiliated research facility for basic, clinical and translational research in the region. Dedicated in 1992, the 58,000 square-foot Research Center houses basic science research laboratories and an accredited vivarium facility with over 800 studies underway. The primary research focus is translational research with a goal of moving new technology into clinical practice within 5 years. The Research Center includes a transmission electron microscope, a confocal microscope, a laser capture microdissection microscope, a DNA sequencer and ultracentrifuges as well as the following facilities: a biospecimen repository equipped with biospecimen management system, BSI-II, molecular biology, microarray, tissue culture, histology and a state-of-the-art mass spectroscopy and proteomics facility.

Carolinas Medical Center – NorthEast. Carolinas Medical Center – NorthEast (formerly known as NorthEast Medical Center) opened in 1937 and includes a 457 licensed-bed acute care hospital that provides tertiary medical and surgical services for Cabarrus and surrounding counties. Carolinas Medical Center – NorthEast’s 70-acre campus includes the following specialized facilities and services:

- The Cannon Heart Center provides a comprehensive array of cardiac services, including diagnostic and interventional cardiology, cardiac surgery and electrophysiology. Healthgrades, a national healthcare quality organization, recently rated Cannon Heart Center as “Best in the Region” for Cardiac Surgery.
- The Jeff Gordon Children’s Hospital, a hospital-within-a hospital that opened in 2006, offers comprehensive subspecialty care to patients in a multi-county region. The facility features the Child Advocacy Center and Neonatal and Perinatal Intensive Care Unit. Located nearby, the Jeff Gordon Children’s Hospital Pediatric Pavilion provides a collection of pediatric subspecialty services.
- Batte Cancer Center is the only Comprehensive Community Cancer Center in the North Charlotte region to receive an accreditation commendation by the American College of Surgeons. Batte Cancer Center has advanced robotic technologies such as the daVinci® Surgical System and is the first hospital in the region to offer CyberKnife® treatment options.

- The Surgery Center, nationally recognized for excellence in Cardiac Surgery, provides a wide-range of surgical services including laparoscopic and robotic surgeries like the daVinci® Surgical System. The NorthEast Surgical Weight Loss Program is recognized by the American Society for Bariatric Surgery as a Bariatric Surgery Center of Excellence.
- Carolinas Medical Center – NorthEast Outpatient Center-Copperfield houses the Outpatient Surgery Center, Diagnostic Imaging Center and the Breast Health Center. The NorthEast Pain Management Center, located in the Outpatient Center at Copperfield, is available to patients who have pain that persists longer than anticipated or that does not respond to conventional treatment.
- The Hayes Family Center offers a wide spectrum of women’s services, including mother/baby birthing suites, massage therapy, a Perinatology Clinic and Urodynamics Clinic as well as a fifteen-bed Level IV neonatal intensive care unit. Carolinas Medical Center – NorthEast has received the J.D. Power and Associates Award in “Patient Experience” for its excellence in Maternity Services.
- Carolinas Medical Center – NorthEast is a Level III Trauma Center. The Emergency Care Center has specially trained staff and offers a 24-hour Chest Pain Center, stroke care and sexual assault and forensic nursing personnel.
- The Diagnostic Imaging Center has the latest technology including a 64-Slice CT scanner and a 1.5T open MRI scanner. The Breast Health Center provides digital mammography both on-site and in its mobile Mammography Van.
- Neuroscience Services includes 24-hour EEG monitoring, epilepsy treatment, sleep medicine and stroke care.
- NorthEast Rehabilitation is the only Comprehensive Outpatient Rehabilitation Center in Cabarrus County.
- ASK FIRST is Carolinas Medical Center – NorthEast’s 24-hour call center that provides access to a nurse, health topic advice lines and physician referrals.
- Carolinas Medical Center – NorthEast has been awarded a five-star Professional Research Consultants, Inc. (“PRC”) award for Overall Quality of Care in 2008 for the following departments: Cardiac Catheterization Lab, Radiation Oncology, Ultrasound, PCCU, Mammogram, Interventional Radiology and Medical/Surgical. The Outpatient Department, which includes surgery, endocrinology, cardiac catheterization lab, outpatient labs, physical therapy, private referral and radiology, received the four-star PRC Award for Overall Quality of Care in 2008.

Carolinas Medical Center – Mercy. Carolinas Medical Center – Mercy, located near downtown Charlotte and Carolinas Medical Center, is a clinically advanced medical center serving as an adult family medicine teaching hospital and destination center for patient-centered care, comprehensive orthopedics care, and select medical and surgical programs of excellence. Licensed for 196 beds, Carolinas Medical Center – Mercy’s 19-acre campus provides a full-range of services which include:

- Inpatient medical, surgical, and intensive care services.

- Comprehensive outpatient services including outpatient surgical services.
- Horizons, an inpatient medical detoxification program.
- 24-hour emergency care in an Emergency Department that has been recognized for service excellence by J.D. Power and Associates for two consecutive years.
- The Department of Family Medicine at Carolinas Medical Center – Mercy providing education and training for residents and medical students studying the specialty of Family Medicine.
- The Heart Center at Carolinas Medical Center – Mercy, providing treatment of adult cardiac emergencies, catheterization, surgery and cardiac interventions.
- The Foot and Ankle Institute, a team of several of the nation’s leading specialists, with access to a comprehensive array of the latest diagnostic and treatment technologies, research and educational leadership in foot and ankle surgery.
- The Hip and Knee Center, employing state-of-the art technology to provide total joint replacements for hip and knee fracture.
- The Bariatrics Center, which has been designated by North Carolina Blue Cross and Blue Shield as a “Center of Excellence.”

Carolinas Medical Center – Pineville. Carolinas Medical Center – Pineville opened in 1987 in the rapidly growing Charlotte suburb of Pineville, North Carolina. Carolinas Medical Center – Pineville is licensed for 109 acute care beds. Located on approximately 37 acres near the North Carolina and South Carolina border, it serves patients from Charlotte and Mecklenburg County in North Carolina, as well as patients from Lancaster and York Counties in South Carolina. Carolinas Medical Center – Pineville has received numerous national top performer awards by Professional Research Consultants for excellent customer service (including physician satisfaction), as well as recognition by J.D. Powers and Associates for healthcare consumer satisfaction. Carolinas Medical Center – Pineville provides a wide range of services, including a 24-hour emergency department on its main campus and a freestanding eight room emergency department in the Steele Creek area scheduled to open in November 2009, comprehensive outpatient diagnostic and treatment services, ultrasound, cardiac catheterization, nuclear medicine, computerized axial tomographic, magnetic resonance imaging and angiography services, a sleep center, comprehensive surgical services, an intensive care unit, radiation oncology in the Blumenthal Cancer Center at Pineville (which opened in January 2009), the Maternity Center and a neonatal intensive care unit.

Carolinas Medical Center – University. Carolinas Medical Center – University is a 130 licensed-bed acute care hospital that serves northern Mecklenburg, southern Iredell and western Cabarrus Counties in North Carolina, one of the fastest growing areas in the region. Carolinas Medical Center – University opened in 1985 and provides a wide range of services, including a 24-hour emergency department, comprehensive outpatient diagnostic and treatment services, ultrasound, cardiac catheterization, nuclear medicine, computerized axial tomographic, magnetic resonance imaging and angiography services, two sleep center locations, comprehensive surgical services (utilizing, where appropriate, the daVinci® Surgical System), a separate outpatient surgery center, two Pain Center locations, an intensive coronary care unit and obstetric and gynecology services. Carolinas Medical Center – University has the second busiest emergency department in Mecklenburg County. The adjacent

University Medical Park houses a wide variety of physician groups, with over 195,000 square feet of office space and an imaging center operated by Carolinas Medical Center – University.

Carolinas Medical Center – Lincoln. Carolinas Medical Center – Lincoln is a 101 licensed-bed acute care hospital situated in the northwest quadrant of the Charlotte metro area, serving patients from Lincoln County, North Carolina, including the fast-growing eastern portion of the county, as well as northern Gaston and southern Catawba Counties in North Carolina. Carolinas Medical Center – Lincoln provides a wide range of services, including a 24-hour emergency department, comprehensive outpatient diagnostic treatment services, ultrasound, nuclear medicine, computerized axial tomographic, magnetic resonance imaging, a sleep center, comprehensive surgical services, an intensive care unit, obstetric and gynecology services, a separate outpatient imaging center, satellite physical therapy clinics and a hospital based ambulatory surgery center in eastern Lincoln County which opened in January 2009. A replacement facility for Carolinas Medical Center – Lincoln is now under construction in Lincolnton and is scheduled to open in July 2010.

Carolinas Rehabilitation – Main and Mount Holly. Carolinas Rehabilitation – Main is a free standing rehabilitation hospital licensed for 119 beds and located on the campus of Carolinas Medical Center in Charlotte, North Carolina. In October 2007, Carolinas Rehabilitation opened a new 40-bed rehabilitation facility in Mount Holly, North Carolina. This new campus is an extension of Carolinas Rehabilitation’s existing main campus. Collectively, they serve the Southeast, routinely admitting patients from across North and South Carolina and are the only rehabilitation facilities in the region serving the catastrophically injured. Additionally, Carolinas Rehabilitation manages the 10-bed rehabilitation unit at Stanly Regional Medical Center located in Albemarle, North Carolina.

Carolinas Rehabilitation provides inpatient and outpatient programs in traumatic brain injury, spinal cord injury, orthopedic, stroke and other neurological impairments, and oncology. These services are delivered by a comprehensive team of specially trained physicians and clinicians, rehabilitation nurses, therapists, neuropsychologists, social workers, and vocational specialists. Recently ranked as the largest academic not-for-profit rehabilitation hospital in the nation by *Modern Healthcare*, Carolinas Rehabilitation provides comprehensive rehabilitative care for children and adults disabled by spinal cord injury, brain injury, stroke, cancer, multiple trauma and other diseases. Carolinas Rehabilitation is also a teaching hospital that supports a residency program with 10 physical medicine and rehabilitation residents and one brain injury fellowship. Outpatient physician clinics provide services in several specialty areas including lymphedema, neuro-rehabilitation, spasticity management, musculoskeletal/interventional therapies for acute pain/dysfunction, acupuncture, sports medicine, post-polio, multiple sclerosis and post-concussive syndrome. Outpatient facilities are staffed by accredited specialists using advanced equipment and techniques.

In addition to being accredited by The Joint Commission, Carolinas Rehabilitation has more programs accredited by the Commission on Accreditation of Rehabilitation Facilities than any other facility in the region.

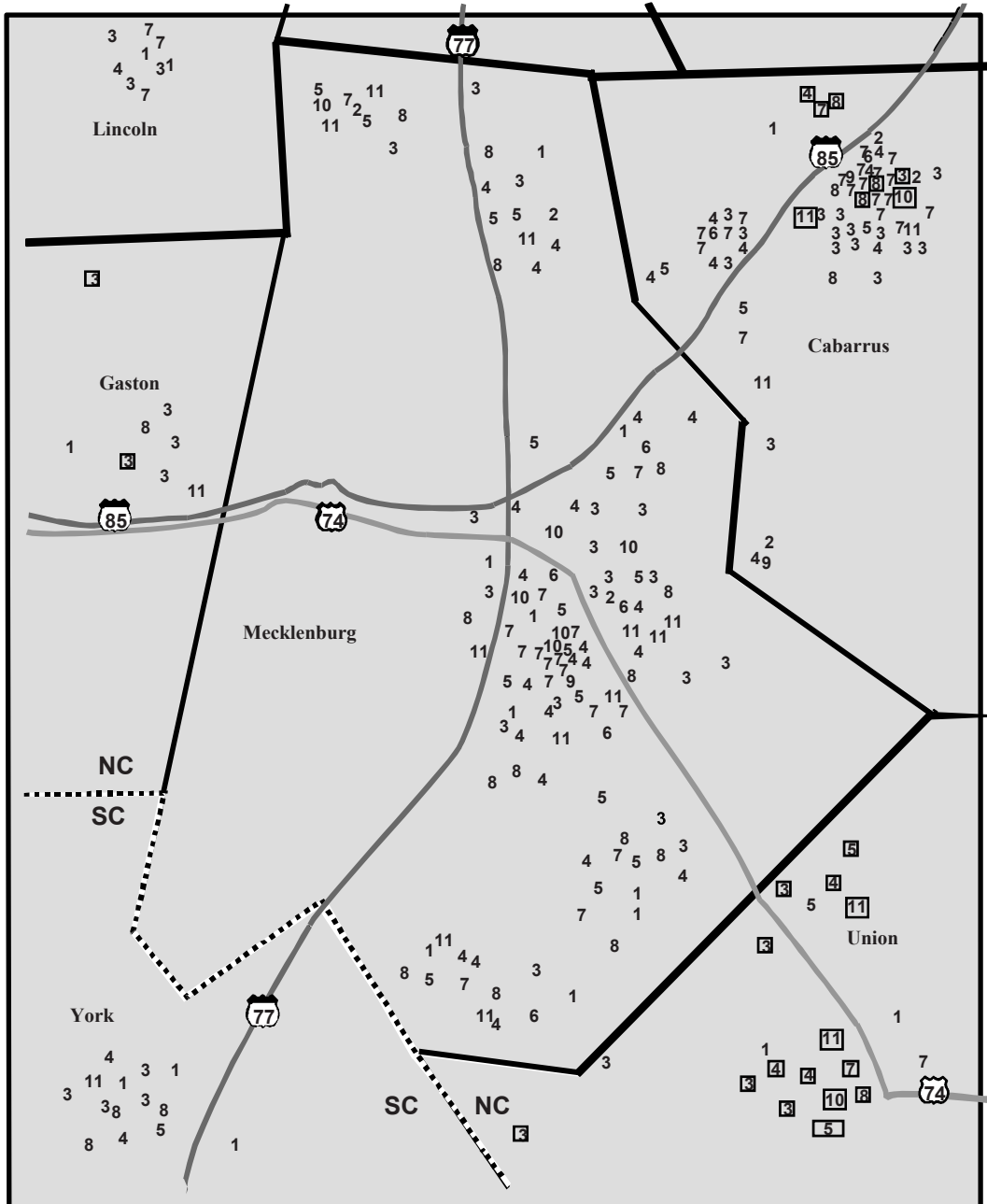
Huntersville Oaks. Huntersville Oaks, located in northern Mecklenburg County, provides skilled nursing care and rehabilitation services to a wide range of individuals. The facility is licensed for 168 nursing facility beds.

Sardis Oaks. Sardis Oaks, located in southeast Charlotte, provides skilled nursing care and rehabilitation services with a total of 124 licensed nursing facility beds.

Physicians Network. As of May 31, 2009, the System had 1,063 primary care and specialty physicians located in twenty-one North Carolina and South Carolina counties. Carolinas Physicians Network, Inc., the System's physician services arm, employs 641 of these physicians. These physicians' practices, operating in 190 locations in North Carolina and South Carolina, help to complete the broad continuum of care offered by the System. Approximately 73% of the Carolinas Physicians Network physicians are community-based, primary care physicians. Carolinas Physicians Network accounts for one third of all the National Committee for Quality Assurance recognitions in North Carolina.

The remaining 422 physicians consist of faculty at Carolinas Medical Center (252), primary care and specialty physicians at Carolinas Medical Center – NorthEast that make up the NorthEast Physicians Network (122) and various other physicians employed by the System (48). (See the map on page A-14 for the 190 locations of the practices owned, partially owned or managed by the Carolinas Physicians Network, along with 80 locations of other System physician practices.)

Carolinas HealthCare System Physician Practice Locations



- | | |
|----------------------|--|
| 1. Cardiology | 7. Other |
| 2. Endocrinology | 8. Pediatrics |
| 3. Family Practice | 9. Psychiatric |
| 4. Internal Medicine | 10. Surgery |
| 5. OB/GYN | 11. Urgent Care |
| 6. Oncology | <input type="checkbox"/> Not owned by Member of Combined Group |

Fifteen practice locations that are owned by Members of the Combined Group and sixteen practice locations that are not owned by Members of the Combined Group are outside of the map boundaries and are thus not shown.

Component Units

Anson Community Hospital. The Authority, through one of its affiliates, owns a 52 licensed-bed acute care facility known as “Anson Community Hospital”. Anson Community Hospital owns a 95 licensed-bed nursing home known as the Lillie Bennett Nursing Center. Both facilities are located in Wadesboro, North Carolina.

Carolinas Medical Center – Union. The Authority, through one of its affiliates, is the sole member of Union Memorial Regional Medical Center, Inc., which leases Carolinas Medical Center – Union from Union County, North Carolina pursuant to a lease that currently extends through the year 2020. Carolinas Medical Center – Union is a 157 licensed-bed acute care facility with an adjacent 70 licensed-bed nursing home that opened in 1953. Carolinas Medical Center – Union is also licensed for 20 chemical dependency beds. Carolinas Medical Center – Union is located in Union County, which is adjacent to Mecklenburg County, both of which are among the fastest growing counties in North Carolina. The System also manages Union County’s Emergency Medical Service, which provides ambulance services for Union County.

Cleveland County HealthCare System. The Authority, through one of its affiliates, is the sole member of Cleveland County HealthCare System, which leases Cleveland Regional Medical Center and Kings Mountain Hospital from Cleveland County, North Carolina pursuant to a lease that currently extends through the year 2035. Cleveland Regional Medical Center is located in Shelby, North Carolina and was established in 1923. Cleveland Regional Medical Center is a 241 licensed-bed acute care facility that also operates a 120 licensed-bed nursing home. Kings Mountain Hospital, which opened in 1951, is licensed for 102 acute care, mental health, chemical dependency and nursing home beds. Kings Mountain Hospital is located on the eastern border of Cleveland County. Cleveland County HealthCare System is the sole member of Crawley Memorial Hospital, Inc., which is licensed for 60 acute care, swing and nursing home beds and located in Cleveland County. Crawley Memorial Hospital, Inc. has leased 50 acute care beds to Acuity Healthcare to operate as a long-term acute care hospital with an anticipated conversion date of January 1, 2010.

Carolinas HealthCare Foundation. The Carolinas HealthCare Foundation, Inc. (the “Foundation”), a member of the Combined Group, is a legally separate foundation operated to, among other things, solicit funds from individuals, organizations, corporations, foundations and various other agencies for the promotion and support of medical care, education, and research. In the absence of specific donor restrictions, the Board of Directors of the Foundation has discretionary control over the amount of funds distributed. Additionally, the Board of Directors of the Foundation has the power to direct the actions and policies of the Foundation separately from the System. Funds received by the System from the Foundation are categorized as “other revenue” in the combined financial statements of the System. Since its inception, substantially all of the Foundation’s grants have been made to, and in support of, the Combined Group. The articles of incorporation of the Foundation provide that upon dissolution, its assets shall be distributed to the Authority. (See Note 1 in the audited financial statements for the years ended December 31, 2008 and 2007 in Appendix B.)

Managed Facilities

Blue Ridge HealthCare System. In 1999, the Authority, Valdese General Hospital, Inc. and Grace Hospital, Inc. formed a joint operating company, Blue Ridge HealthCare System, Inc., to financially and operationally integrate the facilities owned by Valdese General Hospital, Inc. and the facilities comprising the Grace Healthcare System. The Authority, through one of its affiliates, is the sole member of Valdese General Hospital, Inc. Valdese General Hospital, Inc. owns a 131 licensed-bed acute care facility known as Valdese Hospital, located in Valdese, Burke County, North Carolina. Valdese

General Hospital, Inc. also owns a 112 licensed-bed nursing home known as College Pines Health and Rehabilitation Center, located in eastern Burke County. Grace Healthcare System consists of the 184 licensed-bed Grace Hospital, the 72 licensed-bed Grace Ridge Retirement Community, the 120 licensed-bed Grace Heights Health and Rehabilitation Center, Blue Ridge Home Health Care and the Phifer Wellness Center, all of which are located in Morganton, Burke County, North Carolina. In 2002, the governing bodies of Blue Ridge HealthCare System, Inc., Valdese General Hospital, Inc. and Grace Hospital, Inc. were restructured, resulting in the legal integration of the facilities owned by Valdese General Hospital, Inc. and the Grace Healthcare System facilities. The System manages Blue Ridge HealthCare System, Inc.

Columbus Regional Healthcare System. In 2007, the Authority entered into a management contract with Columbus Regional Healthcare System to manage the Columbus Regional Healthcare System in Whiteville, Columbus County, North Carolina. Columbus Regional Healthcare System is a full service, 154 licensed-bed community hospital owned by the County of Columbus and leased to Columbus Regional Healthcare System under the terms of a long-term lease.

Roper St. Francis Healthcare. In 1998, the Authority, The Medical Society of South Carolina and Bon Secours Health System, Inc. founded RBC Health System, Inc., which is now incorporated as CareAlliance Health Services and operates as Roper St. Francis Healthcare. The System owns a 10% membership interest in and manages Roper St. Francis Healthcare. Roper St. Francis Healthcare consists primarily of Roper Hospital and Bon Secours-St. Francis Hospital. Roper Hospital is an integrated tertiary hospital with 440 licensed beds, several diagnostic centers and ambulatory care centers, two freestanding surgery centers, two remote, free-standing emergency departments, a 39-bed rehabilitation unit and a variety of other ancillary facilities serving the low country region of South Carolina. Bon Secours-St. Francis Hospital is a community hospital located in the West Ashley area of Charleston, South Carolina and is currently licensed for 204 beds. Roper St. Francis Healthcare has received a certificate of need from the State of South Carolina to construct a new, 85-bed community hospital in Mount Pleasant, South Carolina. Construction began in the second quarter of 2008, and the hospital is scheduled to open in late 2010.

Scotland Health Care System. In April 2009, the Authority entered into a management contract with Scotland Health Care System in Laurinburg, Scotland County, North Carolina. Scotland Health Care System includes Scotland Memorial Hospital, a full service 104 licensed-bed community hospital (including seven rehabilitative beds), and a 50 licensed-bed nursing home known as the Edwin Morgan Center.

Stanly Health Services. In March 2009, the Authority entered into a management contract with Stanly Health Services, Inc. to manage Stanly Regional Medical Center, a full-service 119 licensed-bed community hospital (including 10 rehabilitative beds and 12 mental health beds), and a 100 licensed-bed nursing home known as Stanly Manor, both located in Albemarle, Stanly County, North Carolina. Previously, the Authority had entered into a joint development agreement with Stanly Regional Medical Center to form a strategic alliance to expand healthcare services in the fast-growing western end of Stanly County.

St. Luke's Hospital. In 2008, the Authority entered into a management contract with St. Luke's Health Care, Inc. in Columbus, Polk County, North Carolina to manage St. Luke's Hospital. St. Luke's Hospital is a 55 licensed-bed facility, currently operating 25 beds under federally designated "critical access" status. The facility also operates 10 licensed psychiatric beds and offers primary medical services and surgical services.

Union (SC) Hospital District. In 2006, the Authority entered into a management contract with Union Hospital District to manage 143 licensed-bed Wallace Thomson Hospital and 113 licensed-bed Ellen Sagar Nursing Home, both owned by Union Hospital District and located in Union, Union County, South Carolina. The hospital offers primary medical services and surgical services.

Wilkes Regional Medical Center. In 2007, the Authority entered into a management contract with WRMC Hospital Operating Corporation to manage Wilkes Regional Medical Center in North Wilkesboro, Wilkes County, North Carolina. Wilkes Regional Medical Center is a full service, 130 licensed-bed community hospital owned by the Town of North Wilkesboro and leased to WRMC Hospital Operating Corporation under the terms of a long-term lease. North Carolina Baptist Hospital entered into an affiliation agreement with WRMC Hospital Operating Corporation to develop clinical programs and recruit and retain physicians in specialty areas simultaneously with the execution and delivery of the management contract.

Other Entities

Joint ventures. The Authority and a large neurosurgical physician practice each own a 50% membership interest in an ambulatory surgery center, Carolina Center for Specialty Surgery, that specializes in minimally invasive spine surgery and related neurological pain procedures, as well as plastic and gynecologic surgery.

The Authority owns a 60% membership interest in a joint venture with a gastroenterology group. The joint venture, Carolinas Endoscopy Centers, operates six endoscopy suites in Charlotte, North Carolina.

The Authority also owns a 77% membership interest in a joint venture with Cleveland County Health Care System that became effective on July 1, 2009. The joint venture, operating as *Healthy@Home*, offers Medicare certified skilled nursing, physical therapy, occupational therapy and speech therapy, supported by in-home aide and social work services, and a full range of home medical equipment, home infusion products and in-home monitoring.

The Authority is also currently a participant in several other joint ventures that provide imaging, radiation therapy and primary care services in the region.

Recent and Future Affiliations. On August 5, 2009, the Authority entered into an affiliation services agreement with AnMed Health to provide managerial oversight that becomes effective on October 1, 2009. The agreement also includes Cannon Memorial Hospital because of a recent affiliation agreement between AnMed Health and Cannon Memorial Hospital. AnMed Health is based in Anderson, South Carolina and operates a 461 licensed-bed acute care facility known as AnMed Health Medical Center, a 72 licensed-bed hospital known as the Women's and Children's Hospital, a 40 licensed-bed rehabilitation hospital and various other health care facilities. Cannon Memorial Hospital is a 55-licensed bed acute care facility located in Pickens, South Carolina.

In April 2009, Haywood Regional Medical Center and WestCare Health System announced plans to integrate the two health systems under a joint operating company to be managed by the Authority. Haywood Regional Medical Center is a 170 licensed-bed community hospital located in Haywood County, North Carolina. WestCare Health System owns and operates Harris Regional Hospital, an 86 licensed-bed hospital located in Jackson County, North Carolina, and Swain County Hospital, a 48 licensed-bed hospital located in Swain County, North Carolina that is currently operating under federally designated "critical access" status. The Authority will assist in the formation of the

integrated health system but a management contract will not be in effect until after the integration is completed, which is expected to take place before the end of 2009.

Certain Summary Financial Information for the Component Units and the Managed Facilities

The following table summarizes certain financial information, derived from financial statements, for the Component Units and the Managed Facilities. Except for The Carolinas HealthCare Foundation, Inc., none of the Component Units or the Managed Facilities are members of the Combined Group. The information set forth below is as of the year ended December 31, 2008 unless otherwise stated. The financial information included in this table (other than with respect to The Carolinas HealthCare Foundation, Inc.) is not included in the information set forth under the caption “FINANCIAL AND UTILIZATION INFORMATION OF THE COMBINED GROUP.”

	Total Assets	Unrestricted Net Assets	Total Revenues	Operating Income (Loss)	Revenues Over (Under) Expenses ⁽¹⁾
(In thousands of dollars)					
Component Units:					
Anson Community Hospital	\$ 18,849	\$ 4,418	\$ 23,262	\$ (629)	\$ (1,478)
Carolinas Medical Center – Union	186,288	71,513	164,055	2,167	(9,072)
Cleveland County HealthCare System	247,811	101,037	199,694	2,260	(18,290)
The Carolinas HealthCare Foundation, Inc.	282,323	68,270	7,324	(24,463)	(121,851)
Subtotal	<u>\$735,271</u>	<u>\$245,238</u>	<u>\$394,335</u>	<u>\$(20,665)</u>	<u>\$(150,691)</u>
Managed Facilities:					
Blue Ridge HealthCare System	\$ 294,757	\$146,277	\$ 201,528	\$ (2,918)	\$ (9,322)
Columbus Regional Healthcare System ⁽²⁾	84,403	41,256	65,676	315	2,434
Roper St. Francis Healthcare	769,538	239,690	618,016	34,009	(29,529)
Scotland Health Care System ⁽²⁾⁽³⁾	124,344	79,308	109,677	(1,850)	(1,850)
Stanly Health Services ⁽²⁾⁽³⁾	113,981	70,490	111,150	(2,070)	(6,086)
St. Luke’s Hospital ⁽²⁾	21,138	12,258	27,805	(675)	(2,195)
Union (SC) Hospital District ⁽²⁾	34,393	6,800	43,277	(683)	608
Wilkes Regional Medical Center ⁽²⁾	61,523	10,907	65,444	(2,877)	(1,749)
Subtotal	<u>\$1,504,077</u>	<u>\$606,986</u>	<u>\$1,242,573</u>	<u>\$ 23,251</u>	<u>\$ (47,689)</u>
Total	<u>\$2,239,348</u>	<u>\$852,224</u>	<u>\$1,636,908</u>	<u>\$ 2,586</u>	<u>\$(198,380)</u>

(1) Unfavorable investment returns, including significant unrealized losses, is the primary reason why expenses exceed revenues for the Component Units and most of the Managed Facilities. If such unfavorable investment returns were excluded, revenues would have exceeded expenses for Carolinas Medical Center – Union, Cleveland County HealthCare System and Roper St. Francis Healthcare.

(2) Fiscal year ended September 30, 2008.

(3) Became a Managed Facility in Spring 2009.

The Authority has guaranteed certain obligations of the Component Units, including operating lease payments owed to Cleveland County, North Carolina and Union County, North Carolina. As of the date of this Official Statement, the Component Units have generated sufficient revenues and cash flow to pay their respective operating expenses, debt service and network development contributions owed to the System. The network development contributions are recorded as “Other Contributions” in the combined statements of revenues, expenses, and changes in net assets of the System. As of the date of this Official Statement, based on the historical financial performance of the Component Units, management of the System expects that the Component Units will be able to make all payments on their obligations when due.

The Authority does not currently guarantee any of the obligations of the Managed Facilities. As of the date of this Official Statement, the Managed Facilities have generated sufficient revenues and cash flow to pay their respective operating expenses, debt service, management fees and network development contributions owed to the System. The management fees are recorded as “Other Revenue” in the combined statements of revenues, expenses, and changes in net assets of the System. Because the Authority, through one of its affiliates, is the sole member of Valdese General Hospital, Inc., the System receives a network development contribution from Valdese General Hospital, Inc. rather than a management fee. The network development contribution is included in “Other Contributions” in the combined statements of revenues, expenses, and changes in net assets of the System.

Combined Group Medical and Dental Staff

The medical and dental staff of the Members of the Combined Group includes practitioners in 22 clinical specialties. The average age of the members of the medical and dental staff is approximately 47. As of May 31, 2009, the staff consisted of 2,526 physicians and dentists, 2,385 (or approximately 94%) of whom are board-certified.

The following table summarizes certain information concerning the Combined Group’s medical and dental staffs as of May 31, 2009:

<u>Specialty</u>	<u>Average Age</u>	<u>Physicians</u>	<u>Board Certified</u>
Anesthesiology	48	100	93
Dentistry	35	68	63
Dermatology	43	46	46
Emergency Medicine	41	196	186
Family Medicine	44	188	182
General Surgery	51	119	109
Internal Medicine	46	540	525
Neurology	48	35	32
Neurosurgery	49	55	54
Obstetrics and Gynecology	48	169	153
Ophthalmology	49	54	50
Oral and Maxillofacial Surgery	56	24	21
Orthopedics	50	121	98
Otolaryngology – Head and Neck Surgery	48	61	59
Pathology	50	37	37
Pediatrics	47	304	293
Physical Medicine and Rehabilitation	40	42	34
Plastic Surgery	50	34	31
Psychiatry	46	55	53
Radiology	48	202	194
Thoracic and Cardiovascular Surgery	50	16	16
Urology	55	60	56
Totals	47	2,526	2,385

Future Plans for the Combined Group

The System plans for, evaluates and pursues potential merger and affiliation candidates as part of its overall strategic planning and development process. As part of its ongoing planning and property management functions, the System reviews the use, compatibility and business viability of many of the Combined Group's operations and, from time to time, the Combined Group may pursue changes in the use of, or disposition of, its facilities. In addition, discussions with respect to affiliation, merger, acquisition, disposition or change of use, including those that may affect the Combined Group, are held from time to time with other parties and may include the execution of non-binding letters of intent. These may be conducted with other providers and may relate to potential affiliation with the Combined Group. As a result, it is possible that the organizations and assets that currently constitute the Combined Group may change from time to time.

GOVERNANCE

Corporate Relationships

Other than The Carolinas HealthCare Foundation, Inc., the Authority controls, directly or indirectly, each of the other Members of the Combined Group, and has the power, directly or indirectly, to appoint and remove the members of the board of directors of each of the other Members of the Combined Group.

Board of Commissioners of the Authority

The Authority is governed by the Board of Commissioners (the "Board"), comprised of 6 to 25 members (the "Commissioners"), who are appointed by the Chairman of the Board of County Commissioners of Mecklenburg County from nominees submitted by the Authority's Board. Commissioners are appointed for staggered three-year terms and may succeed themselves. The Board meets at least once per calendar quarter. The officers of the Board are the Chairman, two Vice Chairmen and the Secretary. The officers are elected by the Board from among the Commissioners for one-year terms. The officers of the Board, the Chairperson of its Finance and Compliance Committee and such other Commissioners as may be appointed by the Board serve as the Executive Committee of the Board. The Executive Committee is authorized to act for the Board when the Board is not in session. The standing committees of the Board are: the Executive Committee, which meets as necessary; the Finance and Compliance Committee and the Quality Care and Comfort Committee, each of which meets four times per year; the Strategic Planning Committee, which meets at least two times per year; the Retirement Committee, which meets twice each year; and the Nominating and Governance Committee, which meets at least once each year.

The Board proactively adopts best practices pertaining to governance, including conflict of interest policies and annual disclosures, restrictions on use of external auditors, committee charters, senior management certification of interim financial statements and Board Committee oversight of external auditors. Additionally, certain members of the Board serve with certain members of the Board of Directors of the Foundation on an Investment Oversight Committee that oversees the Combined Group's various long-term investments.

The Commissioners, the officers of the Board, the expiration dates of their terms and their occupations are as follows:

<u>Board Members</u>	<u>Term Expires</u>	<u>Occupation</u>
James E.S. Hynes ⁽¹⁾ Chairman	12/31/10	Former Chairman, Hynes Inc.
William C. Cannon, Jr. ⁽¹⁾ Vice Chairman	12/31/10	President, The Cannon Foundation, Inc.
Malcolm E. Everett III ⁽¹⁾ Vice Chairman	12/31/10	Retired, Director, Corporate & Community Affairs, Wachovia Corporation
G. Kennedy Thompson ⁽¹⁾ Secretary	12/31/11	Senior Advisor, Aquiline Capital Partners LLC
Ralph A. Barnhardt	12/31/09	Retired, Executive Vice President, Central Carolina Bank
George E. Battle, Jr. ⁽¹⁾	12/31/11	Bishop, AME Zion Church
Thomas M. Belk, Jr.	12/31/11	Chairman & CEO, Belk Inc.
Amy Woods Brinkley ⁽¹⁾	12/31/09	Retired, Executive, Bank of America, N.A.
Edward J. Brown III ⁽¹⁾	12/31/10	Retired, President, Global Corporate and Investment Banking, Bank of America, N.A.
James W. Cannon	12/31/10	Self-employed, Commercial Real Estate & Development
Gracie Coleman	12/31/09	Retired executive
Rush S. Dickson III	12/31/11	President, Metro Marketing
Willis Frank Dowd IV	12/31/11	Chairman and CEO, Charlotte Pipe & Foundry Company
May Beverly Hemby	12/31/11	Homemaker and Civic Leader
J. Knox Hillman, Jr.	12/31/11	President, Shuford Insurance Agency, Inc.
Todd W. Mansfield	12/31/09	CEO, Crosland
Albert L. McAulay, Jr.	12/31/10	President, The McAulay Firm – Executive Search Firm
Thomas C. Nelson	12/31/09	CEO, National Gypsum Company
Laurence H. Polsky	12/31/11	Principal, L&J Associates- Executive Search Firm
E.K. (Toby) Prewitt, Jr.	12/31/10	Retired, Senior Vice President, SunTrust Bank
Felix S. Sabates, Jr.	12/31/09	Chairman, FSS Holdings, Inc.
Vicki S. Sutton ⁽¹⁾	12/31/10	Former President, Paramount Parks, Civic Leader and Private Investor
Ronald H. Wrenn	12/31/09	President, Starboard/Fresher than Fresh

⁽¹⁾ Member of the Executive Committee.

Management

Principal management personnel of the System are as follows:

MICHAEL C. TARWATER (age 55), Chief Executive Officer. Mr. Tarwater came to the System in June 1981 from the University of Alabama Hospitals in Birmingham, Alabama, where he was Assistant Administrator. He has 32 years' experience in hospital administration. He holds a bachelor of science degree from the University of West Florida and a master of science degree in hospital and health administration from the University of Alabama at Birmingham.

JOSEPH G. PIEMONT (age 54), President and Chief Operating Officer. Mr. Piemont oversees all of the major clinical and operational areas of the System as well as business planning, administration, medical educational and research affairs, and general oversight for hospitals, outpatient centers, physician groups and regional facilities located throughout North and South Carolina. Mr. Piemont came to the System in March 1997. He had previously served as President and Chief Executive Officer of Coastal Physician Group, Inc. and as General Counsel for AMRESCO, Inc. Mr. Piemont obtained a bachelor of arts degree in economics from the University of North Carolina at Charlotte and a juris doctor degree from Emory University School of Law.

GREG A. GOMBAR (age 54), Executive Vice President and Chief Financial Officer. Mr. Gombar is the senior executive responsible for financial services and governmental relations. Mr. Gombar came to the System in March 1984 and has 29 years' experience in the health care industry. He previously served as an audit manager and health care consultant with Arthur Andersen LLP. Mr. Gombar holds a bachelor of arts degree in accounting and management science from Duke University and is a certified public accountant.

PAUL S. FRANZ (age 54), Executive Vice President, the Physicians Services Group. Mr. Franz has responsibility for the System's Physicians Network consisting of more than 800 primary care and specialty physicians located in twenty-one North Carolina and South Carolina counties, and the medical education and research activities of the System. Mr. Franz came to the System in December 1983 from Memorial Medical Center in Springfield, Illinois, where he was an Assistant Vice President of Professional Services. Mr. Franz has 30 years' experience in hospital administration. He holds a bachelor of science degree in economics from Allegheny College and a master of health administration degree from Duke University.

RUSSELL C. GUERIN (age 53), Executive Vice President, Business Development and Planning. Mr. Guerin is responsible for implementing the marketing, public relations, managed care, strategic planning, business development strategies and community relations for the System. Mr. Guerin came to the System in March 1987 as Vice President, Financial Services and has held multiple positions in the organization. He had previously served as a senior manager with the accounting and consulting firm of Deloitte & Touche. Mr. Guerin holds a bachelor of science degree in accounting from the University of Illinois and a masters degree of health systems management from Rush University. Mr. Guerin has 27 years' experience in the health care industry and is a fellow in the American College of Healthcare Executives.

LAURENCE C. HINSDALE (53), Executive Vice President, Regional Group. Mr. Hinsdale directs the strategic development and operating activities of the System's Regional Facilities, including Roper St. Francis HealthCare, Blue Ridge HealthCare System, Cleveland County HealthCare System, Wilkes Regional Medical Center, Union Hospital District, St. Luke's Hospital, Columbus Regional Healthcare System, Stanly Regional Medical Center and Scotland Health Care System. Having served as Chief Executive Officer of NorthEast Medical Center since 1998, Mr. Hinsdale came to the System in 2007 when NorthEast Medical Center joined the System. Mr. Hinsdale has 27 years' experience in the

health care industry. He holds a bachelors degree in political science from the University of North Carolina at Chapel Hill and a master of health administration degree from Duke University.

JOHN J. KNOX, III (age 48), Executive Vice President and Chief Administrative Officer. Mr. Knox is responsible for information services, construction, real estate, security, dietary, environmental services, plant operations and maintenance, architecture, materials resource management, transcription, clinical engineering, human resources and the Carolinas Laboratory Network. Prior to joining the System in 1996, Mr. Knox was a senior executive with Andersen Consulting for eight years, focusing exclusively on health care industry information technology and business strategy and operations. Mr. Knox was a practicing occupational therapist for several years. Mr. Knox holds bachelor of science degrees in psychology and occupational therapy and a master of hospital and health services administration from Ohio State University.

DENNIS J. PHILLIPS (age 57), Executive Vice President, Metro Group. Mr. Phillips has responsibility for planning, development and operations of the greater Charlotte–metropolitan service area, including the acute care facilities (Carolinas Medical Center, Carolinas Medical Center –Pineville, Carolinas Medical Center – Mercy, Carolinas Medical Center – Union, Carolinas Medical Center – Lincoln and Anson Community Hospital), the Northern Group (Carolinas Medical Center – NorthEast and Carolinas Medical Center – University), specialty hospitals (Levine Children’s Hospital and Carolinas Rehabilitation – Main and Mount Holly) and the post-acute care division of the System, including Huntersville Oaks, Sardis Oaks, home health services and home infusion and durable medical equipment. Mr. Phillips has been in health care management for 33 years. He holds a bachelor’s degree in accounting from Virginia Tech and a master’s degree in hospital and health administration from Medical College of Virginia. Prior to joining the System in 2004, Mr. Phillips served as President and Chief Executive Officer of Frye Regional Medical Center in Hickory, North Carolina.

ROGER A. RAY, MD (age 50), Executive Vice President and Chief Medical Officer. Dr. Ray serves as the Chief Medical Officer for the System and is responsible for providing leadership and strategic direction related to performance improvement in quality and patient safety. Dr. Ray also has operational responsibility within the Charlotte market facilities for quality management, clinical care management, medical staff services, medical records, infection control, the Center for Clinical Data Analysis and the R. Stuart Dickson Research Institute. Prior to joining the System in early 2007, Dr. Ray served as the Chief Quality Officer for BayCare Health System in Tampa, Florida. Dr. Ray received his undergraduate degree from the University of Virginia and his medical degree from West Virginia University. He received a masters in business administration from the University of Colorado. He is certified by the American Board of Psychiatry and Neurology, the American Board of Electrodiagnostic Medicine and the Certifying Commission in Medical Management.

EUGENE A. DELADDY, JR. (age 63), Senior Vice President and Chief Compliance and Privacy Officer. Mr. DeLaddy currently serves as the Chief Compliance Officer, Chief Audit Executive and Chief Privacy Officer of the System. Having served as Chief Financial Officer of Mercy Health System in Charlotte, Mr. DeLaddy came to the System in 1995 when Mercy Health joined the System. Mr. DeLaddy has 34 years of healthcare experience. He holds a bachelor of science degree in industrial management from Clemson University.

SUZANNE H. FREEMAN (age 56), President, Carolinas Medical Center. Ms. Freeman plans, directs and controls the operating activities of Carolinas Medical Center. Ms. Freeman came to the System in 1975 and has 34 years’ experience in the field of health care and over 23 years’ experience in hospital administration. Ms. Freeman obtained her bachelor of science degree in nursing from the University of North Carolina at Charlotte and a master of business administration degree from Queens University of Charlotte.

CAROL A. LOVIN (age 54), Senior Vice President, CHS Management Company. Ms. Lovin leads the development, implementation, and review of all planning initiatives within the System, including strategic and business unit planning, business development and oversight for performance enhancement initiatives. Ms. Lovin joined the System in 2007 when NorthEast Medical Center joined the System. Ms. Lovin has worked in healthcare for more than 25 years, in both administrative and clinical roles. She holds a Bachelor of Science in Nursing from Marion College in Marion, Indiana and a Masters in Nursing as a nurse practitioner from the University of Washington. Additionally, she received her Masters in Health Services Administration from the University of Michigan.

JAMES T. MCDEAVITT, MD (age 47), Senior Vice President, Education and Research. Dr. McDeavitt oversees the medical education and research activities of the System. He is responsible for the faculty physician practice and more than 200 resident physicians. His responsibilities also include the James G. Cannon Research Center, the System's regional education activities, Cancer Services, Ambulatory Care, Outreach and Development and Coordination, MedCenter Air and the Carolinas College of Health Sciences. Dr. McDeavitt received his undergraduate degree from Duke University and a doctorate in medicine from Wake Forest University. He has been with the System since 1991.

MARK S. NANTZ (age 44), President, Carolinas Medical Center–NorthEast. Mr. Nantz plans, directs and controls the operating activities of Carolinas Medical Center–NorthEast. Having served as Executive Vice President and Chief Financial Officer of NorthEast Medical Center since 2000, Mr. Nantz came to the System in 2007 when NorthEast Medical Center joined the System. He has 18 years' experience in the health care industry. Mr. Nantz is a Fellow in the American College of HealthCare Executives, holds a bachelor of science degree in accounting from the University of North Carolina at Charlotte and a master of health administration degree from Pfeiffer University and is a certified public accountant.

DEBRA PLOUSHA-MOORE (age 55), Senior Vice President, Human Resources. Ms. Plousha-Moore directs the human resources division of the System. Prior to joining the System in 2008, Ms. Plousha-Moore held the position of senior vice president of human resources/ organizational development for OhioHealth. Ms. Plousha-Moore also held the positions of vice president of human resources and organizational development at Genesys Health System in Grand Blanc, Michigan, and regional vice president of employee relations, diversity and human resources at Franciscan Health System of the Ohio Valley in Cincinnati and Dayton. She holds a master's degree in education, counseling and human services from the University of Dayton.

CRAIG D. RICHARDVILLE (age 47), Senior Vice President and Chief Information Officer. Mr. Richardville has primary responsibility for all information services, which include all software applications and workflow, operations and disaster recovery, infrastructure and technologies, data management and data security. In addition, Mr. Richardville has responsibility for the System's support center, online service request processing, clinical engineering and transcription services. Prior to joining the System in 1997, Mr. Richardville spent 12 years with ProMedica Health System in Toledo, Ohio serving in several progressive administrative roles. Mr. Richardville holds a Masters of Business Administration, with a specialization in Finance, and an undergraduate degree in Systems Analysis from the University of Toledo.

MICHAEL L. ROSE (age 60), President, The Carolinas HealthCare Foundation, Inc. Mr. Rose joined the Foundation as its executive officer in 1987 and has more than 30 years of successful and diverse institutional advancement and fundraising experience. Mr. Rose oversees all Carolinas HealthCare System grants, contract pre-award activities and fundraising. Prior to joining the Foundation, Mr. Rose served as Senior Vice President of Baptist Health Care Foundation and Baptist Health Care Corporation in Montgomery, Alabama. Mr. Rose holds a bachelor of arts degree in liberal arts from

Mississippi College, a master of education degree in counseling from New Orleans Baptist Theological Seminary, and a Graduate Specialist Certificate in gerontology from the University of Alabama.

KEITH A. SMITH (age 41), Senior Vice President and General Counsel. Mr. Smith has been with the System since 1997. His primary responsibility is managing the System's legal affairs. In addition to his responsibilities as Senior Vice President and General Counsel, Mr. Smith provides guidance in the areas of corporate governance, corporate law and healthcare regulatory issues. Mr. Smith received his undergraduate and law degrees from Duke University.

DANIEL L. WIENS (age 46), Senior Vice President, Carolinas Physicians Network. Mr. Wiens has primary responsibility for managing the operations of Carolinas Physicians Network which comprises over 600 physicians and 150 mid-level providers providing outpatient services in approximately 200 locations. Mr. Wiens came to the System in September, 2005. Prior to joining the System, he served as the Chief Operating Officer for a privately held healthcare management and technology company and also served in a variety of financial and operational roles for Provena Health. Mr. Wiens holds a masters in business administration from the University of Chicago, a bachelor of science degree in accounting from Olivet Nazarene University and is a certified public accountant.

ROBERT H. WIGGINS (age 50), Senior Vice President, Finance. Mr. Wiggins has primary responsibility for all financial accounting, reporting and budget matters plus all Medicare and Medicaid reimbursement-related functions for the System. In addition, he oversees the treasury function, including payroll, disbursements, debt and rating agency and investment relations. Mr. Wiggins came to the System in March 1987. Prior to this, he spent six years in public accounting, where he served primarily health care clients. Cumulatively, he has over 25 years' experience in health care financial management. Mr. Wiggins holds a bachelor of science degree in business, with a concentration in accounting, from the University of North Carolina at Chapel Hill and is a certified public accountant.

PHYLLIS WINGATE-JONES (age 55), President, Carolinas Medical Center-Mercy. As the President of Carolinas Medical Center – Mercy, Ms. Wingate-Jones oversees all the operating activities of Carolinas Medical Center – Mercy. Prior to joining the System in 2002, Ms. Wingate-Jones served as President of Prince George's Hospital Center in Cleverly, Maryland and also served as a senior executive for Dimensions Healthcare System, the parent organization of Prince George's Hospital Center. She holds a bachelor of science degree in physical therapy from the University of North Carolina at Chapel Hill and a master of health administration degree from Virginia Commonwealth University, Medical College of Virginia.

OREN M. WYATT (age 64), Senior Vice President, Patient Financial Services. Mr. Wyatt's responsibilities include patient financial services for both the System's hospitals and physicians' networks. Prior to joining the System in November 1997, Mr. Wyatt served as Senior Vice President and Principal for a healthcare consulting and outsourcing firm and Senior Manager for a public accounting firm. Mr. Wyatt has over 36 years' experience in the health care industry. Mr. Wyatt is a graduate of the University of Alabama and the Duke University Health Administrators Management Program.

ZACHARY J. ZAPACK (age 56), Senior Vice President, Facilities Management Group. Mr. Zapack is responsible for real estate services, project and construction management, plant operations and maintenance, environmental services, security, access control, parking, linen services, dietary services and corporate safety. Mr. Zapack came to the System in July 1982 as the Chief Hospital Architect. Mr. Zapack has over 29 years' experience in the health care industry. Mr. Zapack obtained his bachelor of arts degree in pre-architecture from Clemson University in 1975 and a master of architecture degree from Clemson University in 1977.

FINANCIAL AND UTILIZATION INFORMATION OF THE COMBINED GROUP

Summary of Historical Utilization Information

The table below summarizes certain information concerning utilization of the Combined Group's principal inpatient facilities and physician network, during the years ended December 31, 2006, 2007 and 2008 and during the five months ended May 31, 2008 and 2009.

Total patient service volume increased at the Combined Group's principal inpatient facilities, as measured by adjusted discharges (which measures inpatient and outpatient volumes), during the years ended December 31, 2006, 2007 and 2008 and the five months ended May 31, 2009.

	Combined Group Facilities Summary Utilization Information				
	Year Ended December 31,			Five Months Ended May 31,	
	2006	2007	2008	2008	2009
Total Combined Group					
Acute Care Facilities					
Adjusted patient days (excluding newborn) ⁽¹⁾	835,774	847,538	893,851	375,306	390,532
Adjusted discharges (excluding newborn) ⁽¹⁾	172,063	176,941	184,698	76,492	81,040
Carolinas Medical Center and Levine Children's Hospital					
Licensed beds ^{(2), (3)}	795	796	815	824	808
Beds in service	783	785	815	824	808
Average daily census	632.2	642.6	642.5	657.2	681.2
Percentage occupancy of licensed beds	79.5%	80.7%	78.8%	79.8%	84.3%
Percentage occupancy of beds in service	80.7%	81.9%	78.8%	79.8%	84.3%
Patient days (excluding newborn)	230,749	234,561	235,171	99,888	102,863
Adjusted patient days (excluding newborn) ⁽¹⁾	364,275	360,472	378,777	155,820	171,857
Average length of stay (days)	5.5	5.5	5.6	5.7	5.5
Discharges (excluding newborn)	42,333	42,765	41,970	17,608	18,814
Adjusted Discharges (excluding newborn) ⁽¹⁾	66,830	65,721	67,600	27,468	31,433
Emergency room visits	111,988	111,690	108,672	46,847	45,840
Surgical procedures	30,408	30,702	29,758	12,255	12,671
Newborn deliveries	7,037	6,951	6,512	2,607	2,693
Behavioral Health Center CMC Randolph					
Licensed beds	66	66	66	66	66
Beds in service	66	66	66	66	66
Average daily census	59.8	59.8	61.7	62.5	64.8
Percentage occupancy of licensed beds	90.5%	90.7%	93.5%	94.7%	98.1%
Percentage occupancy of beds in service	90.5%	90.7%	93.5%	94.7%	98.1%
Patient days	21,809	21,840	22,583	9,504	9,779
Adjusted patient days	42,761	42,371	43,447	18,488	19,016
Average length of stay (days)	8.6	8.6	9.4	9.2	10.3
Discharges	2,543	2,542	2,409	1,030	954

**Combined Group Facilities
Summary Utilization Information**

	Year Ended December 31,			Five Months Ended May 31,	
	2006	2007	2008	2008	2009
Carolinas Medical Center – NorthEast					
Licensed beds	457	457	457	457	457
Beds in service	389	414	416	416	416
Average daily census	274.6	280.5	295.0	306.7	296.3
Percentage occupancy of licensed beds	60.1%	61.4%	64.6%	67.1%	64.8%
Percentage occupancy of beds in service	70.6%	67.8%	70.9%	73.7%	71.2%
Patient days (excluding newborn)	100,215	102,398	107,968	46,619	44,745
Adjusted patient days (excluding newborn) ⁽¹⁾	221,203	227,618	244,999	104,356	106,045
Average length of stay (days)	4.8	4.6	4.5	4.6	4.6
Discharges (excluding newborn)	20,817	22,335	23,798	10,151	9,655
Adjusted Discharges (excluding newborn) ⁽¹⁾	45,949	49,648	54,004	22,723	22,882
Emergency room visits	78,750	82,662	85,120	35,554	36,526
Surgical procedures	13,898	13,202	13,130	5,433	5,010
Newborn deliveries	3,031	2,966	3,127	1,269	1,190
Carolinas Medical Center – Mercy					
Licensed beds ⁽⁴⁾	196	196	196	196	196
Beds in service	185	157	167	165	169
Average daily census	91.1	94.2	98.0	104.8	101.2
Percentage occupancy of licensed beds	46.5%	48.1%	50.0%	53.5%	51.6%
Percentage occupancy of beds in service	49.2%	60.0%	58.7%	63.5%	59.9%
Patient days	33,244	34,397	35,857	15,929	15,283
Adjusted patient days	69,252	70,517	69,404	30,542	30,021
Average length of stay (days)	5.5	5.3	5.1	5.3	5.1
Discharges	6,010	6,532	6,971	2,998	2,985
Adjusted Discharges	12,520	13,391	13,493	5,748	5,864
Emergency room visits	26,339	28,332	28,715	12,087	12,857
Surgical procedures	6,928	7,651	7,372	3,060	3,239
Carolinas Medical Center – Pineville					
Licensed beds ⁽⁴⁾	109	109	109	109	109
Beds in service	109	109	108	107	108
Average daily census	71.4	75.8	81.6	84.9	82.4
Percentage occupancy of licensed beds	65.5%	69.5%	74.9%	77.9%	75.6%
Percentage occupancy of beds in service	65.5%	69.5%	75.6%	79.3%	76.3%
Patient days (excluding newborn)	26,054	27,661	29,877	12,904	12,441
Adjusted patient days (excluding newborn)	69,518	72,286	78,832	33,529	33,599
Average length of stay (days)	3.8	3.8	4.1	4.2	4.1
Discharges (excluding newborn)	6,824	7,248	7,253	3,088	3,041
Adjusted Discharges (excluding newborn)	18,208	18,941	19,138	8,024	8,213
Emergency room visits	50,034	50,361	51,430	21,276	22,020
Surgical procedures	6,740	6,834	6,798	2,870	2,805
Newborn deliveries	1,930	2,133	2,207	923	956

**Combined Group Facilities
Summary Utilization Information**

	Year Ended December 31,			Five Months Ended May 31,	
	2006	2007	2008	2008	2009
Carolinas Medical Center – University					
Licensed beds ⁽⁴⁾	130	130	130	130	130
Beds in service	124	130	130	130	130
Average daily census	57.9	60.8	62.1	63.2	61.0
Percentage occupancy of licensed beds	44.6%	46.8%	47.8%	48.6%	46.9%
Percentage occupancy of beds in service	46.7%	46.8%	47.8%	48.6%	46.9%
Patient days (excluding newborn)	21,139	22,198	22,725	9,605	9,216
Adjusted patient days (excluding newborn)	76,839	80,670	82,434	34,428	32,103
Average length of stay (days)	3.8	3.9	3.9	4.0	3.8
Discharges (excluding newborn)	5,604	5,653	5,838	2,430	2,425
Adjusted Discharges (excluding newborn)	20,370	20,544	21,177	8,710	8,447
Emergency room visits	69,002	70,799	70,220	30,015	29,800
Surgical procedures	8,100	8,610	8,318	3,595	3,225
Newborn deliveries	1,417	1,671	1,643	661	616
Carolinas Medical Center – Lincoln					
Licensed beds	101	101	101	101	101
Beds in service	80	80	80	85	85
Average daily census	41.2	42.5	43.7	47.3	43.7
Percentage occupancy of licensed beds	40.8%	42.1%	43.3%	46.8%	43.3%
Percentage occupancy of beds in service	51.6%	53.1%	54.6%	55.7%	51.5%
Patient days (excluding newborn)	15,052	15,509	15,990	7,190	6,604
Adjusted patient days (excluding newborn)	34,687	35,975	39,405	16,631	16,907
Average length of stay (days)	4.2	4.1	4.2	4.4	4.0
Discharges (excluding newborn)	3,553	3,749	3,768	1,651	1,641
Adjusted Discharges (excluding newborn)	8,186	8,696	9,286	3,819	4,201
Emergency room visits	29,868	31,316	33,874	13,992	14,798
Surgical procedures	2,358	2,538	2,548	1,012	1,044
Newborn deliveries	455	514	481	173	199
Carolinas Rehabilitation – Main and Mount Holly					
Licensed beds ⁽²⁾	172	171	159	159	159
Beds in service	155	159	159	153	159
Average daily census	115.5	108.5	110.8	114.5	132.3
Percentage occupancy of licensed beds	67.2%	63.4%	69.7%	72.0%	83.2%
Percentage occupancy of beds in service	74.5%	68.2%	69.7%	74.8%	83.2%
Patient days	42,165	39,591	40,538	17,397	19,974
Adjusted patient days	48,288	45,971	47,621	20,438	23,426
Average length of stay (days)	14.3	14.0	14.5	16.1	16.2
Discharges	2,949	2,823	2,801	1,080	1,236

**Combined Group Facilities
Summary Utilization Information**

	Year Ended December 31,			Five Months Ended May 31,	
	2006	2007	2008	2008	2009
Huntersville Oaks⁽⁵⁾					
Licensed beds	275	244	168	168	168
Average daily census	187.4	164.4	161.3	160.7	162.3
Percent occupancy of licensed beds	68.2%	67.4%	96.0%	95.6%	96.6%
Patient days	68,414	59,996	59,018	24,421	24,511
Sardis Oaks⁽⁵⁾					
Licensed beds	124	124	124	124	124
Average daily census	110.2	116.8	115.2	117.2	110.2
Percent occupancy of licensed beds	88.9%	94.2%	92.9%	94.5%	88.9%
Patient days	40,218	42,633	42,149	17,807	16,642
Physicians Network⁽⁶⁾					
Practice locations ⁽⁷⁾	185	245	264	238	270
Physicians – Faculty ⁽⁸⁾	182	204	231	218	252
Physicians – Non-faculty	528	631	747	699	811
Total Physicians	710	835	978	917	1,063
Patient visits (excluding faculty)	2,259,216	2,467,520	2,810,613	1,161,276	1,270,573

(1) The method of calculating adjusted discharges and adjusted patient days was changed for the year ended December 31, 2008 to include utilization in joint ventures in which the Combined Group has an ownership interest, based on the percentage of ownership in such joint venture. Adjusted discharges and adjusted patient days for the years ended December 31, 2006 and 2007 have been recalculated in a manner consistent with the method used to calculate those statistics for the year ended December 31, 2008.

(2) Licensed beds for Carolinas Medical Center and Carolinas Rehabilitation for the year ended December 31, 2008 reflect the weighted average of 13 licensed pediatric beds permanently transferred to the Levine Children's Hospital at Carolinas Medical Center for the treatment of pediatric rehabilitation patients.

(3) Licensed beds for Carolinas Medical Center for the year ended December 31, 2008 and the five months ended May 31, 2008 reflect the weighted average of a 60-day temporary increase of 40 licensed beds due to high census. The temporary increase in licensed beds ended on April 11, 2008.

(4) In connection with the planned renovation and expansion of Carolinas Medical Center – Pineville, beds from Carolinas Medical Center – Mercy and Carolinas Medical Center – University will be transferred to Carolinas Medical Center – Pineville. When all such transfers are complete, which is expected to occur by the first quarter of 2012, Carolinas Medical Center – Mercy will have 135 licensed beds, Carolinas Medical Center – Pineville will have 206 licensed beds and Carolinas Medical Center – University will have 94 licensed beds.

(5) In the first quarter of 2006, certificates of need were approved to replace the existing Huntersville facility with a new 168-bed facility. As part of this plan, on April 1, 2006, 19 nursing home beds were reallocated from Huntersville Oaks to Sardis Oaks and 20 assisted living beds at Sardis

Oaks were de-licensed. On October 1, 2007, the new Huntersville facility opened and the remaining 102 beds were transferred to a company, in which the Authority has a 10% membership interest, that intends to operate the beds in a new facility it will construct in northern Mecklenburg County. Licensed beds for the years ended December 31, 2007 and 2006 reflect the weighted average of these changes.

- (6) Physicians Network includes physician practices of Carolinas Physicians Network and NorthEast Physician Network and others employed by the Authority. Certain utilization statistics for the year ended December 31, 2006 and December 31, 2007 been restated for comparability.
- (7) Includes physician practices that are managed by Carolinas Physicians Network, practices in which Carolinas Physicians Network has only a partial interest, and practices that are staffed by Carolinas Medical Center faculty physicians.
- (8) These physicians are at Carolinas Medical Center Division of Medical Education and Research and are not employed by Carolinas Physicians Network or NorthEast Physician Network.

Summary of Historical Financial and Operating Results

The following summary of historical revenues and expenses of the Combined Group for the three years ended December 31, 2006, 2007 and 2008 has been derived from the audited financial statements of the System. The unaudited financial information for the five months ended May 31, 2008 and 2009 has been derived from unaudited financial statements and reflects all adjustments and normal recurring accruals that management considers necessary for a fair and comparable presentation of revenues and expenses for these periods. The historical revenues and expenses of the Combined Group set forth in the table below differ from those in the Primary Enterprise that appear in Appendix B because certain affiliates of the Authority that are included in the Primary Enterprise are not members of the Combined Group and an affiliate of the Authority that is a member of the Combined Group is a Component Unit and therefore not included in the Primary Enterprise. The summary financial information presented herein represents the financial performance of the Combined Group in all material respects for the periods presented.

	Combined Group				
	Summary Financial Information				
	(In thousands of dollars)				
	Year Ended			Five Months Ended	
	December 31,			May 31,	
	2006	2007	2008	2008	2009
Net patient service revenue	\$ 1,773,188	\$2,153,223	\$2,571,545	\$1,062,647	\$1,147,940
Other revenue	140,951	194,951	228,135	90,909	93,669
Total revenue	<u>1,914,139</u>	<u>2,348,174</u>	<u>2,799,680</u>	<u>1,153,556</u>	<u>1,241,609</u>
Operating expenses:					
Employee compensation	1,136,854	1,402,834	1,697,902	695,255	757,025
Other expenses	541,431	691,930	826,840	333,289	357,590
Depreciation and amortization	103,413	131,541	167,681	69,829	72,543
Interest expense	24,825	33,918	66,809	28,630	28,316
Total operating expenses	<u>1,806,523</u>	<u>2,260,223</u>	<u>2,759,232</u>	<u>1,127,003</u>	<u>1,215,474</u>
Operating income	107,616	87,951	40,448	26,553	26,135
Non-operating income:					
Interest and dividend income	49,420	49,390	35,453	11,915	7,717
Net increase (decrease) in the fair value of investments and other assets	122,304	64,546	(551,523)	(57,368)	68,102
Other, net	(4,020)	(5,541)	9,085	(1,464)	(871)
Total non-operating income (loss), net	<u>167,704</u>	<u>108,395</u>	<u>(506,985)</u>	<u>(46,917)</u>	<u>74,948</u>
Revenue over (under) expenses before contributions of the Combined Group	<u>275,320</u>	<u>196,346</u>	<u>(466,537)</u>	<u>(20,364)</u>	<u>101,083</u>
Adjustment to include net revenue (expenses) of affiliates that are not members of the Combined Group	<u>2,389</u>	<u>2,246</u>	<u>97</u>	<u>492</u>	<u>(371)</u>
Adjustment to exclude net (revenue) expenses of affiliates that are members of the Combined Group but not part of the Primary Enterprise	<u>(38,020)</u>	<u>(2,965)</u>	<u>121,851</u>	<u>19,544</u>	<u>805</u>
Revenue over (under) expenses before contributions of the Primary Enterprise	<u>\$ 239,689</u>	<u>\$ 195,627</u>	<u>\$(344,589)</u>	<u>\$(328)</u>	<u>\$101,517</u>

Management's Discussion of the Summary of Historical Revenues and Expenses of the Combined Group

All amounts shown below are in thousands of dollars.

Five Months Ended May 31, 2009 Compared with Five Months Ended May 31, 2008

For the five months ended May 31, 2009, revenue and non-operating income exceeded expenses by \$101,083, which resulted in a \$121,447 increase in excess revenues from the prior year. Operating income for the Combined Group was \$26,135 in 2009, a decrease of \$418 from the same period in the prior year. The Combined Group's operating cash flow margin percentage (defined as the sum of operating income plus depreciation, amortization and interest expense, divided by total revenue) was 10.2% through May 31, 2009. Net non-operating income for 2009 was \$74,948 compared to net non-operating losses in 2008 of \$46,917. This increase was due primarily to favorable investment returns, which included \$83,000 of unrealized gains associated with market value changes during the year. As an entity that follows Governmental Accounting Standards Board accounting principles rather than Financial Accounting Standards Board accounting principles, the System is required to record unrealized gains and losses associated with market value changes during the period in which they occur.

Total revenue increased 7.6% to \$1,241,609, due to growth in patient volumes and in physician operations. Adjusted discharges (excluding newborn) at the Combined Group's acute care facilities grew 6%, in part due to modest inpatient growth of 1.6% and significant outpatient services growth. In addition, the effect of the System's annual net rate increase and ongoing revenue cycle initiatives contributed to the increase in net patient service revenue.

Total operating expenses increased 7.9% to \$1,215,474. Employee compensation increased 8.9% to \$757,025, due to the growth of Carolinas Physicians Network ("CPN"), the effects of annual wage and market adjustments and increase personnel associated with System growth. Other expenses increased to \$357,590 due to the increase in building rent expense arising from the System's decision to monetize certain medical office buildings that were owned (and therefore depreciated) in 2008. Professional liability insurance costs also increased as a result of investment losses in the System's malpractice self insurance trust fund.

Year Ended December 31, 2008 Compared with Year Ended December 31, 2007

For the year ended December 31, 2008, expenses and non-operating losses exceeded revenues by \$466,537, which resulted in a \$662,883 decrease in excess revenues from the prior year. Operating income for the Combined Group was \$40,448 in 2008, a decrease of \$47,503 from the prior year. This decrease was primarily due to additional depreciation expense associated with over one million square feet of additional capital placed in service late in 2007 and to additional interest expense primarily associated with \$600 million in new debt issued by the Authority in the third quarter of 2007. The Combined Group's operating cash flow margin percentage was 9.8% in 2008. Net non-operating losses for 2008 were \$506,985 compared to net non-operating income in 2007 of \$108,395. This decrease was due primarily to less favorable investment returns, which included \$492,000 of unrealized losses associated with market value changes during the year.

Total revenue increased 19.2% to \$2,799,680, due to an additional six months of Carolinas Medical Center – NorthEast results reported in the Combined Group's 2008 results and growth at the Charlotte acute care facilities and CPN. Adjusted discharges (excluding newborn) at the Combined Group's acute care facilities grew 21%, in part due to the inclusion of Carolinas Medical Center – NorthEast in the Combined Group. In addition, the effect of the System's annual net rate increase and

ongoing revenue cycle initiatives contributed to the increase in net patient service revenue. Other revenue increased to \$228,135 due to growth in non-patient services.

Total operating expenses increased 22.0% to \$2,759,232. Employee compensation increased 21.0% to \$1,697,902, due to the addition of Carolinas Medical Center – NorthEast, growth at CPN, the expansion of Carolinas Medical Center faculty practice physicians, the opening of the Levine Children’s Hospital and the new ICU tower at Carolinas Medical Center, and the effects of annual wage and market adjustments. Other expenses increased to \$826,840 due to the addition of Carolinas Medical Center-NorthEast and additional supply costs associated with increased patient volumes, greater pharmaceutical costs, primarily as a result of growth at CPN and the startup of new retail pharmacy locations, and the ongoing cost related to advancements in healthcare technology. Additional equipment and software maintenance costs, building rent and professional liability costs, all associated with the growth of the Combined Group, also contributed to the increase in other expenses. Depreciation and amortization expense increased to \$167,681 due to the new capital improvements placed into service, notably Levine Children’s Hospital and the new ICU tower. Interest expense increased to \$66,809 due to the issuance of the Authority’s Series 2007 Bonds in the third quarter of 2007 and higher costs associated with the Authority’s variable rate debt.

Year Ended December 31, 2007 Compared with Year Ended December 31, 2006

The revenues and expenses of Carolinas Medical Center – NorthEast for July through December 2007 are included in the summary financial information for the year ended December 31, 2007 shown in the table on page A-31. The summary financial information for the year ended December 31, 2006 does not include any information relating to Carolinas Medical Center – NorthEast.

For the year ended December 31, 2007, revenue exceeded expenses by \$196,346, which was a \$78,974 decrease from the prior year. Operating income for the Combined Group was \$87,951 in 2007, a decrease of \$19,665 from the prior year. The Combined Group’s operating cash flow margin percentage was 10.8% in 2007. Net non-operating income for the same period decreased \$59,309 to a net non-operating gain of \$108,395 due primarily to less favorable investment returns.

Total revenue increased 22.6% to \$2,348,174, due to the addition of Carolinas Medical Center – NorthEast in the Combined Group’s 2007 results and growth at CPN. In addition, the effect of the System’s annual net rate increase and ongoing revenue cycle initiatives contributed to the increase in net patient service revenue. Other revenue increased to \$194,951 due to additional external grant funding and growth in other non-patient services.

Total operating expenses increased 25.1% to \$2,260,223. Employee compensation increased 23.4% to \$1,402,834 due to the addition of Carolinas Medical Center – NorthEast, growth at CPN, and the effects of annual wage and market adjustments. Other expenses increased to \$691,930 due to the addition of Carolinas Medical Center – NorthEast, additional supply costs arising from continuing advancements in healthcare technology resulting in the use of more expensive supplies and implantable devices and increased use of oncology pharmaceuticals. Additional equipment and software maintenance costs and additional building rent and professional liability costs associated with the growth of CPN and the Combined Group also contributed to the increase in other expenses. Depreciation and amortization expense increased to \$131,541 due to the new capital improvements placed into service in 2007, and interest expense increased to \$33,918 due to the issuance of the Authority’s Series 2007 Bonds in the third quarter of 2007.

Supplemental Financial Ratios

The following table presents certain key liquidity and leverage ratios for the Combined Group.

“Days Cash on Hand” was calculated using unrestricted and internally designated cash plus investments as the numerator and total operating expenses minus depreciation and amortization divided by 365 as the denominator. “Cash to Debt” was calculated using unrestricted and internally designated cash plus investments as the numerator and the outstanding principal amount of short-term debt and long-term debt as the denominator. “Debt to Capitalization” was calculated using the outstanding principal amount of short-term debt and long-term debt as the numerator and the outstanding principal amount of short-term debt and long-term debt plus unrestricted net assets as the denominator.

<u>Ratios</u>	Combined Group Supplemental Financial Ratios	
	As of December 31, 2008	As of May 31, 2009
	Days Cash On Hand	224
Cash to Debt	103.5%	113.2%
Debt to Capitalization	41.7%	40.4%

Third Party Reimbursement and Sources of Payment

The sources of the Combined Group’s gross patient revenue by type of payor, expressed as percentages of total gross patient revenue, for the three years ended December 31, 2006, 2007 and 2008 and the five months ended May 31, 2008 and 2009 were approximately as follows⁽¹⁾:

	Year Ended December 31,			Five Months Ended May 31,	
	2006	2007	2008	2008	2009
	Medicare	30.0%	29.9%	31.4%	31.6%
Managed Care	39.4	39.6	39.3	38.9	38.5
Commercial Insurance	2.0	1.8	1.8	1.9	2.0
Medicaid	16.0	16.2	15.2	15.4	15.4
Direct from Patient/Other	12.6	12.5	12.3	12.2	12.8
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%

⁽¹⁾ Gross patient revenue from Lincoln Health System d/b/a Carolinas Medical Center – Lincoln is included from October 1, 2006 and gross patient revenue from Carolinas Medical Center – NorthEast is included from July 1, 2007. The sources of gross patient revenue by payor for the years ended December 31, 2006 and 2007 have been recalculated in a manner consistent with the sources of gross patient revenue by type of payor for the year ended December 31, 2008.

Fiscal Control and Budgetary Procedures

Fiscal control of the System and the Combined Group is the responsibility of the Chief Executive Officer, the Executive Vice President and Chief Financial Officer, and the Finance and Compliance Committee of the Board. The System uses computerized systems to provide data to management on a monthly basis. The Finance and Compliance Committee reviews performance on a quarterly basis and recommends service rates to the System.

Outstanding Bonds and Other Debt

As of May 31, 2009, the Combined Group had outstanding principal indebtedness equal to the following amounts, net of related unamortized discounts, unamortized loss on refundings and unamortized gains on debt related derivative agreements:

	May 31, 2009 (In thousands of dollars)
Bonds	
Carolinas HealthCare System Series 1997A ⁽¹⁾	\$ 7,810
Carolinas HealthCare System Series 2001A	88,535
Carolinas HealthCare System Series 2005B-D	84,380
Carolinas HealthCare System Series 2007A	204,605
Carolinas HealthCare System Series 2007B	87,750
Carolinas HealthCare System Series 2007C	87,635
Carolinas HealthCare System Series 2007D	67,140
Carolinas HealthCare System Series 2007E	77,220
Carolinas HealthCare System Series 2007F	57,055
Carolinas HealthCare System Series 2007G	113,825
Carolinas HealthCare System Series 2007H	166,050
Carolinas HealthCare System Series 2007J ⁽¹⁾	76,075
Carolinas HealthCare System Series 2007K ⁽¹⁾	78,225
Carolinas HealthCare System Series 2007L ⁽¹⁾	50,365
Carolinas HealthCare System Series 2008A	310,500
Carolinas Medical Center – Lincoln 1985 Pool Loan	1,329
Carolinas Medical Center – Lincoln Series 1996A	7,600
Other	1,955
Total Long-Term Debt (gross)	<u>\$1,568,054</u>
Net related unamortized discounts, loss on refundings, and gains on debt related derivative agreements	<u>(44,860)</u>
Total Long-Term Debt (net)	<u><u>\$1,523,194</u></u>

⁽¹⁾ To be refunded with the proceeds of the 2009A Bonds.

In April 2003, the Authority entered into a derivative agreement that enabled the Authority to obtain higher interest cost savings than those that would have resulted from an advance refunding of its 1996A Bonds, but deferred the need to immediately issue such refunding bonds until December 2005. In addition, and in connection with its acquisition of Carolinas Medical Center – Lincoln in September 2006, the Authority became liable for a derivative agreement with respect to one-half of the Carolinas Medical Center – Lincoln 1996A Variable Rate Bonds. Following the merger with NorthEast Medical Center, the Authority assumed the obligations of NorthEast Medical Center under an existing derivative agreement that is now associated with the 2007L Bonds (the “2007L Swap”). The Authority plans to terminate the 2007L Swap in connection with refunding the 2007L Bonds. See “PLAN OF

REFUNDING—Termination of Interest Rate Swap” in the forepart of this Official Statement. In connection with the issuance of the Authority’s Series 2007 Bonds, the Authority entered into a number of derivative agreements, as more specifically described in Note 6 in the audited financial statements for the years ended December 31, 2008 and 2007 in Appendix B. (See such Note 6 for additional information regarding all of these agreements.)

The Authority has guaranteed a portion of a short-term line of credit for Community Blood Center of the Carolinas, Inc. (the “Blood Center”), a non-profit, community-based blood center created in 2002 by a collaboration of ten greater Charlotte area hospitals to ensure a safe and cost effective choice of blood products and services for patients served by the ten hospitals. In addition, the Authority has guaranteed certain operating lease payments for the Mecklenburg Emergency Medical Services Agency, a non-profit agency that operates Mecklenburg County’s “911” emergency medical transport services. As of the date of this Official Statement, management of the System does not expect that the Authority will be required to make payments on any of the guarantees of the obligations of the Blood Center or the Mecklenburg Emergency Medical Services Agency.

See “**SYSTEM COMPONENTS – Certain Summary Financial Information for the Component Units and Managed Facilities**” above for a discussion of other Authority guarantees of certain obligations of the Component Units.

Historical Debt Service Coverage

The following table presents the Combined Group’s Historic Long-Term Debt Service Coverage Ratio (as such term is defined in the Bond Order), for the years ended December 31, 2006, 2007 and 2008, as derived from the System’s audited financial statements, which appear in Appendix B.

The debt service coverage ratio presented below measures how many times the Combined Group’s Income Available for Debt Service (as such term is defined in the Bond Order) would have covered the Long-Term Debt Service Requirement (as such term is defined in the Bond Order) on all bonds outstanding under the Bond Order during the years ended December 31, 2006, 2007 and 2008.

Historic Long-Term Debt Service Coverage Ratio for the Combined Group (In thousands of dollars)

	Year Ended December 31,		
	2006	2007	2008
Excess revenue over (under) expenses	\$275,320	\$196,346	\$(466,537)
Add:			
Depreciation and Amortization	103,413	131,541	167,681
Interest	24,825	33,918	66,809
Unrealized Net (Gain) Loss on Investments and Other Assets	(64,950)	51,709	492,938
Income Available for Debt Service	<u>\$338,608</u>	<u>\$413,514</u>	<u>\$260,891</u>
Long-Term Debt Service Requirement	<u>\$42,095</u>	<u>\$62,352</u>	<u>\$65,909</u>
Historic Long-Term Debt Service Coverage Ratio	8.04	6.63	3.95

Historical Pro-Forma Debt Service Coverage

The following table presents an historical pro-forma debt service coverage ratio for the Combined Group for the year ended December 31, 2008, derived in part from the System's audited financial statements, which appear in Appendix B. The historical pro-forma debt service coverage ratio presented below measures how many times the Combined Group's Income Available for Debt Service (as such term is defined in the Bond Order) would have covered the maximum annual debt service requirement on all outstanding long-term indebtedness of the Combined Group after giving effect to the issuance of the 2009A Bonds and the redemption of the 1997A Bonds, the 2007J Bonds, the 2007K Bonds and the 2007L Bonds.

Historical Pro-Forma Debt Service Coverage Ratio for the Combined Group (In thousands of dollars)

	<u>Year Ended December 31, 2008</u>
Income Available for Debt Service ⁽¹⁾	\$260,891
Maximum Annual Debt Service Requirement ⁽²⁾⁽³⁾	<u>\$89,168</u>
Historical Pro-Forma Debt Service Coverage Ratio	2.92

⁽¹⁾ From the table entitled "Historic Long-Term Debt Service Coverage Ratio for the Combined Group" on page A-36.

⁽²⁾ Although compliance with the rate covenant in the Bond Order is determined based on the Combined Group's actual annual debt service requirement for each fiscal year, the historical pro-forma debt service coverage ratio in the table above is being calculated based on the maximum annual debt service in order to demonstrate the maximum impact that issuance of the 2009A Bonds would have had on the Combined Group's historical debt service coverage ratio for the year ended December 31, 2008.

⁽³⁾ Assumes that (a) interest on variable rate long-term debt that is hedged bears interest at the fixed payment rate under the related swap agreement, as described in Note 6 in the audited financial statements for the years ended December 31, 2008 and 2007 in Appendix B and (b) interest on variable rate long-term debt that is not hedged bears interest at 3.05%, which is the 20-year average of the SIFMA Index. The 10-year average of the SIFMA Index is 2.40%.

Relationship with Mecklenburg County

The System's headquarters is located in Mecklenburg County, North Carolina. The System and Mecklenburg County have had a long history of working together in a collaborative partnership with the goal to strengthen the overall health of the community and to ensure that all Mecklenburg County residents have access to high quality health care. This partnership, encompassing numerous initiatives, began in the 1940s and continues today pursuant to the provisions of an agreement between the Authority and Mecklenburg County that was last renewed in November 2000 for a term of indefinite duration (the "County Agreement"). For example, pursuant to the County Agreement, the Combined Group provides services on behalf of Mecklenburg County's Public Health Department, including clinics, community services, outreach and case management services and support services. Also, pursuant to the County Agreement, the Combined Group operates the Behavioral Health Center CMC Randolph as part of Carolinas Medical Center. This means providing a comprehensive array of hospital-based and non hospital-based inpatient and outpatient psychiatric services on behalf of Mecklenburg County. The System receives funding from Mecklenburg County for those services not funded by other third party payors. In addition, the Combined Group jointly manages, with another local health care provider, Mecklenburg County's "911" emergency medical transport services.

Mecklenburg County also has committed to fund, in accordance with the provisions of the County Agreement, \$17,700,000 of indigent care for the County fiscal year ending June 2010. Funding for indigent care provided by Mecklenburg County is used first to fund operating deficits of the Combined Group's outpatient indigent clinics, and then any remaining funds are used to fund the cost of other indigent care provided to Mecklenburg County residents. Funding for indigent care provided to Mecklenburg County residents is allocated to both hospital systems in Mecklenburg County based on the level of indigent care provided in excess of 3% of each hospital system's net patient revenue; however, the Combined Group receives substantially all (more than 95%) of this funding at the present time.

Insurance

Insurance coverage for the properties and operations of the Combined Group, is as follows:

Property and Other Coverage (Excluding Liability Coverage)

The properties of the Combined Group are insured on a replacement value basis for fire and extended coverage perils in the amount of \$1,000,000,000 per occurrence regardless of the number of locations. Directors' and officers' liability insurance is provided for the Commissioners and key management personnel with limits in the amount of \$60,000,000. Various other policies cover other exposures, including automobile collision and comprehensive, blanket employee dishonesty, crime and fiduciary responsibility. Worker's compensation coverage is maintained through a self insurance program with stop loss coverage beginning at \$600,000, other than CMC-Lincoln which maintains a separate workers' compensation policy with statutory limits and a \$5,000 deductible. Automobile liability coverage is maintained with a minimum \$2,000,000 combined single limit for bodily injury and property damage.

Liability Coverage

The Combined Group has instituted a limited self insurance program and depository fund for professional liability and general liability claims asserted on or after October 1, 1987. As of May 31, 2009, such fund had a balance of \$95,329,740. Self insurance is limited to \$5,000,000 per occurrence, with no aggregate limit, and is funded annually based upon actuarial projections. General liability, automobile liability, professional liability and aviation are also covered by umbrella liability insurance

policies. All physicians employed at Carolinas Medical Center – NorthEast are provided physician professional liability insurance with limits of \$1,000,000 per claim and \$3,000,000 annual aggregate per physician with an additional \$5,000,000 in shared excess limits.

Pension Plans

Effective January 1, 2009, the System combined its defined benefit pension plan with an existing defined benefit cash balance pension plan for CMC-NorthEast, Inc. to form a single defined benefit pension plan, with a cash balance feature for certain employees (the “Plan”), for all System employees with five or more years of service. The investment return objective for the Plan is a total return over rolling five-year periods equal to 8.5%, net of investment fees. Prior to the combination, the net investment return for the System’s defined benefit pension plan for 2004 through 2008 was 12.4%, 7.4%, 12.5%, 6% and a loss of 28.9%, respectively. Based on an actuarial valuation of the Plan as of January 1, 2009, the Plan’s funded status as of that date was 91% based on the actuarial value of Plan assets and 70% based on the market value of Plan assets. See Note 9 in the audited financial statements for the years ended December 31, 2008 and 2007 in Appendix B for more information on the System’s pension plans.

Real Property Restrictions

The deeds from the City of Charlotte to the Authority conveying the real property upon which Carolinas Medical Center and Carolinas Rehabilitation are located contain certain restrictions requiring the Authority to use those sites for health care or hospital facilities.

The deeds from Mecklenburg County to the Authority conveying the real property upon which Carolinas Medical Center – University and Huntersville Oaks are located restrict the use of those sites to operation of health care or hospital facilities.

Future Capital Expansion Plans

Future capital expansion plans mirror the long-term growth strategy of the System and are focused in four strategic areas including 1) thoughtfully growing the suburban facilities, 2) clinically differentiating the System from other local and regional providers, 3) strategically growing Carolinas Physicians Network and other outpatient services, and 4) developing the System’s partnership with physicians. During the past several years, the System has made record capital expenditures to facilitate this growth and has updated its five year capital plan to reflect strategic developments. Over the next five years, 2010 to 2014, the System expects to make gross capital expenditures of \$1.7 billion, in an effort to give the System’s physicians and patients and the communities it serves the best possible choices for the highest quality clinical care available in the region.

Future capital expansion plans will be funded with proceeds from tax-exempt bonds, philanthropic sources, and expected operating cash flows and cash reserves of the Combined Group, all without any expected material adverse impact on the System’s liquidity.

COMBINED GROUP SERVICE AREA

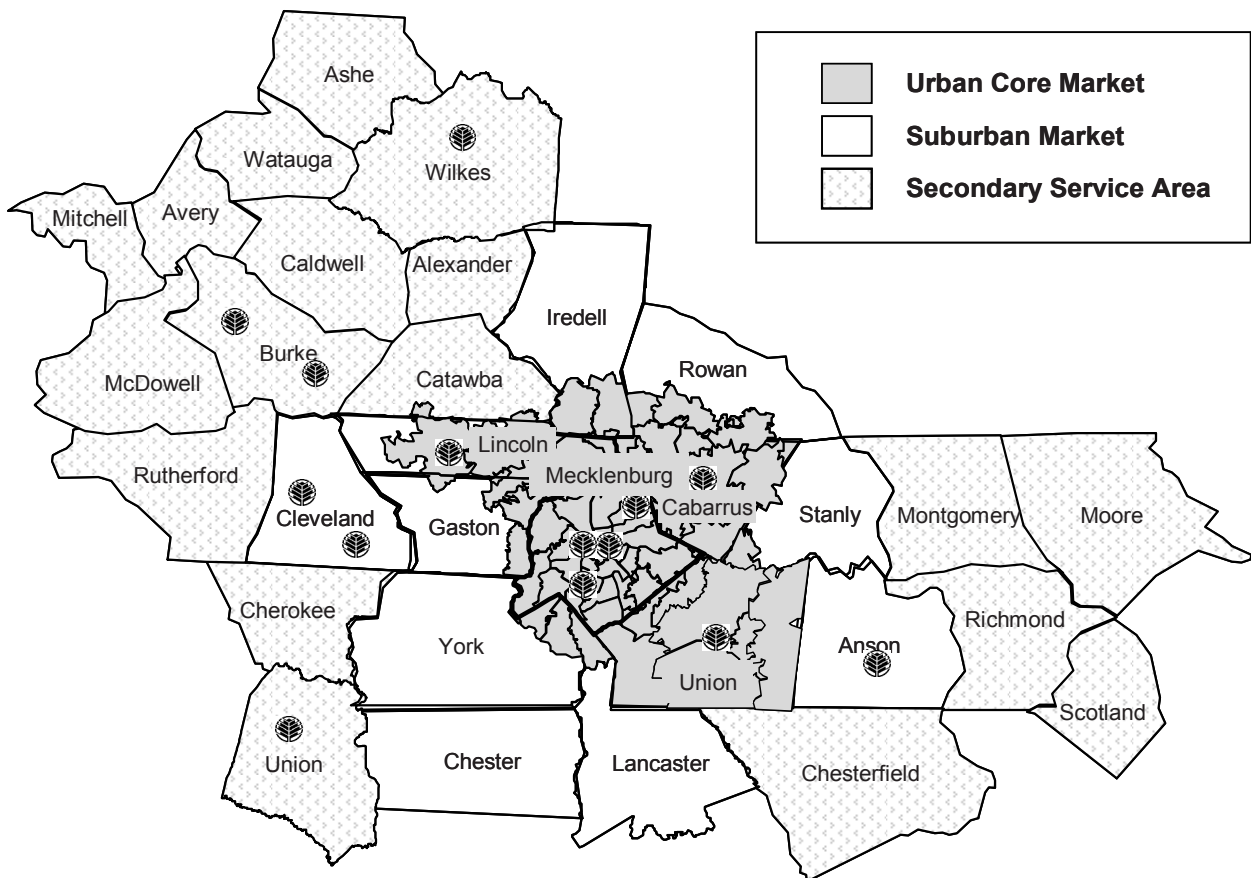
Primary Service Area

The Combined Group serves the City of Charlotte, Mecklenburg County and surrounding counties in North Carolina and South Carolina. Charlotte is the largest city and Mecklenburg County is the most populous county in North Carolina and South Carolina.

The Combined Group considers its primary service area to be Mecklenburg, Union, Gaston, Cleveland, Cabarrus, Lincoln, Iredell, Anson, Stanly and Rowan Counties in North Carolina and York, Lancaster and Chester Counties in South Carolina. (See the map highlighting the primary service area on page A-6 hereof.) The primary service area is comprised of the following two components:

- Urban Core Market (comprised of zip codes including the counties of Mecklenburg, Cabarrus and Union Counties in their entirety, and portions of Gaston, Lincoln, Iredell, Rowan, Stanly and York Counties), and
- Suburban Market (comprised of the remaining portion of the Primary Service Area).

The two components of the primary service area are depicted on the map shown below. The Combined Group treats patients from virtually all counties in North Carolina but considers its secondary service area to be the eighteen counties highlighted as such below and on the map on page A-6.



The following table summarizes the most recently available Combined Group patient origin data indicating the distribution of acute care patient days by market area for the years ended December 31, 2006, 2007 and 2008 and the three months ended March 31, 2009.

Market of Origin	2006	2007	2008	Three Months Ended 03/31/09
Urban Core Market	75.1%	73.7%	73.2%	74.2%
Suburban Market	15.3	16.5	16.7	16.6
Other	9.6	9.8	10.1	9.2
TOTALS	100.0%	100.0%	100.0%	100.0%

Source: System Records.

Population in the Primary Service Area

The following table summarizes census population in 1990 and 2000 and projected population in 2013 for the Combined Group's primary service area.

Market Component	Population		
	Census		Projected
	1990	2000	2013
Urban Core Market	866,448	1,167,716	1,791,925
Suburban Market	644,250	739,981	859,912
TOTALS	1,510,698	1,907,697	2,651,837

Source: Claritas and Environmental Systems Research Institute, Inc. ("ESRI").

Based on ESRI information, the population of the Combined Group's primary service area increased at an annually compounded rate of approximately 2.4% from 1990 to 2000. A growth rate of approximately 2.6% is expected through 2013.

Employment and Income in the Primary Service Area

The following table summarizes certain information concerning employment in the Combined Group's primary service area from 1997 through the first five months of 2009:

Year	Labor Force	Total Employed	Total Unemployed	Rate of Unemployment
1997	960,859	926,673	34,186	3.6%
1998	969,438	939,406	30,032	3.1
1999	997,127	967,609	29,518	3.0
2000	1,022,339	985,723	36,616	3.6
2001	1,046,128	987,919	58,209	5.6
2002	1,060,189	996,327	63,862	6.0
2003	1,065,662	989,001	76,661	7.2
2004	1,076,482	1,011,946	64,536	6.0
2005	1,105,279	1,050,734	54,545	4.9
2006	1,134,655	1,078,392	56,263	5.0
2007	1,158,738	1,098,631	60,107	5.2
2008	1,172,257	1,092,524	79,733	6.8
2009 ¹	1,177,446	1,028,242	149,204	12.7

¹ As of May 31, 2009.

Source: Employment Security Commission of North Carolina;
Employment Security Commission of South Carolina.

For 2007, the weighted average per capita income for Mecklenburg, Cabarrus and Union Counties (counties representing 78% of the Urban Core Market population based upon 2000 census data) was \$42,046 compared to a per capita income of \$33,735 for the State of North Carolina. Individually, Mecklenburg County had one of the highest per capita income figures for any county in the State of North Carolina for this time period. (Source: Bureau of Economic Analysis.)

COMPETITION IN COMBINED GROUP PRIMARY SERVICE AREA

There are 24 acute care hospitals in the Combined Group's primary service area, providing 5,135 licensed beds. The Combined Group, the Component Units and the Managed Facilities provide 2,578 of the licensed acute care beds, or approximately 50% of the total, in the primary service area.

The names, locations and numbers of licensed beds (excluding nursing facility beds) of all acute care hospitals in the Combined Group's primary service area, including the facilities of the Component Units and the Managed Facilities, are as follows as of June 30, 2009 (unless otherwise noted) for the Combined Group, the Component Units and the Managed Facilities, as of September 30, 2008 for Novant Health and the North Carolina facilities listed under Others, and as of December 31, 2007 for the South Carolina facilities listed under Others:

Facility	Location	Licensed Beds
Combined Group, Component Units and Managed Facilities:		
Carolinas Medical Center ⁽¹⁾	Charlotte, NC	874
Carolinas Medical Center – NorthEast	Concord, NC	457
Carolinas Medical Center – Mercy	Charlotte, NC	196
Carolinas Medical Center – Pineville	Pineville, NC	109
Carolinas Medical Center – University	Charlotte, NC	130
Carolinas Medical Center – Lincoln	Lincolnton, NC	101
Anson Community Hospital	Wadesboro, NC	52
Carolinas Medical Center – Union	Monroe, NC	157
Cleveland Regional Medical Center	Shelby, NC	241
Crawley Memorial Hospital	Boiling Springs, NC	50
Kings Mountain Hospital	Kings Mountain, NC	92
Stanly Regional Medical Center	Albemarle, NC	119
Subtotal		2,578
Novant Health:		
Presbyterian Hospital	Charlotte, NC	531
Presbyterian Hospital Matthews	Matthews, NC	102
Presbyterian-Orthopaedic Hospital	Charlotte, NC	140
Presbyterian Hospital Huntersville	Huntersville, NC	50
Rowan Regional Medical Center	Salisbury, NC	268
Subtotal		1,091
Others:		
Davis Regional Medical Center ⁽²⁾	Statesville, NC	136
Gaston Memorial Hospital	Gastonia, NC	435
Iredell Memorial Hospital	Statesville, NC	199
Lake Norman Regional Medical Center ⁽²⁾	Mooresville, NC	105
Chester Regional Medical Center	Chester, SC	86
Piedmont Healthcare System	Rock Hill, SC	288
Springs Memorial Hospital	Lancaster, SC	217
Subtotal		1,466
Total		5,135

⁽¹⁾ Includes 198 licensed beds at Levine Children's Hospital and 66 beds at Behavioral Health Center CMC Randolph.

⁽²⁾ Effective April 1, 2008, Novant Health has a 27% minority ownership interest in North and South Carolina Health Management Associates, Inc. hospitals, which include Davis Regional and Lake Norman Regional.

Source: Annual North Carolina Hospital License Renewal forms at September 30, 2008 and South Carolina Joint Annual Reports information at December 31, 2007.

The following table summarizes the most recently available market share of the acute care facilities of the Combined Group, the Component Units and the Managed Facilities in the primary service area and its two components, based on inpatient discharge data during the years ended December 31, 2006, 2007 and 2008.

	Year Ended December 31,		
	2006	2007	2008
Urban Core Market	56.7%	57.3%	57.6%
Suburban Market	30.5	30.4	31.2
Primary Service Area⁽¹⁾	45.5	46.1	46.7

⁽¹⁾ The market share of the acute care facilities of the Combined Group, the Component Units and the Managed Facilities in the primary and secondary service areas combined, based on inpatient discharge data during the years ended December 31, 2006, 2007 and 2008 is 35.3%, 35.4% and 36.0%, respectively.

Source: Thomson Financial (formerly Solucient), South Carolina Office of Research and Statistics, and System records.

The Urban Core Market has approximately 61% of the primary service area population, based on the year 2000 population census, as indicated by the table on page A-41 above.

EMPLOYEES, EDUCATIONAL PROGRAMS AND LICENSES

Employees

As of May 31, 2009, the Combined Group had approximately 21,300 full-time equivalent employees.

The Combined Group offers a range of employee benefits that management believes are comparable to and competitive with other employers and health care providers in the region. Among those benefits are health, dental, life and short/long-term disability insurance, a defined benefit pension plan and 401(k) plan, tuition reimbursement, dependent-care flexible spending accounts, and employee health services, all of which are available to substantially full-time employees.

At the present time there is a national shortage of technical personnel in areas such as specialty imaging, physical therapy, occupational therapy, speech therapy, anesthesia, radiation therapy, pharmacy and laboratory and a shortage of experienced registered nurses in the more specialized nursing units. (See “**BONDHOLDERS’ RISKS—Risks Relating to Our Business**” in the forepart of this Official Statement.) Management responds to staffing shortages in these technical and nursing areas by maintaining a market driven compensation program that provides competitive salaries including differentials for weekender staffing, compensating nurses for precepting new staff, and working with staff to develop flexible schedules. The Combined Group recruits graduates from a number of nursing school programs in the primary service area. An average of approximately 250 to 300 new nursing school graduates are hired each year. In addition, on average the Combined Group hires 950 experienced nurses each year.

Employee relations at all the Combined Group’s facilities are satisfactory. No employees of the Combined Group are represented by a union on the date hereof.

Educational Programs

Medical and Dental Education. Carolinas Medical Center has been designated by the State of North Carolina as one of five Academic Medical Center Teaching Hospitals in North Carolina. It is the only non-university affiliated teaching hospital in North Carolina with this designation. Carolinas Medical Center has freestanding, separately accredited residency programs in the following specialties: obstetrics/gynecology, pediatrics, family medicine, internal medicine, general surgery, orthopedic surgery, emergency medicine, thoracic and cardiovascular surgery, physical medicine and rehabilitation, dentistry and oral medicine. Carolinas Medical Center also trains residents in plastic surgery, urology and psychiatry. In addition, through the North Carolina Area Health Education Center System, third and fourth year medical students at the University of North Carolina at Chapel Hill participate in Carolinas Medical Center's educational programs.

As of May 31, 2009, Carolinas Medical Center's residency program had 233 physicians in the following specialties:

	Year of Residency				
	1st	2nd	3rd	4th	5th-8th
Obstetrics and Gynecology	6	6	6	5	-
Pediatrics	12	8	9	1	-
Family Medicine	10	9	10	1	-
Internal Medicine	17	11	10	1	-
General Surgery	6	4	5	3	6
Orthopedic Surgery	3	4	3	3	3
Emergency Medicine	14	11	11	3	3
Thoracic Surgery	-	-	-	-	3
Cardiovascular Surgery	-	-	-	-	4
Physical Medicine & Rehabilitation	-	4	3	3	1
Pharmacist	3	-	-	-	-
Dentistry	4	3	-	-	-
Oral Medicine	1	-	-	-	-
TOTAL	76	60	57	20	20

Carolinas Medical Center's graduate education programs are accredited by the Accreditation Council for Graduate Medical Education. Dental programs are accredited by the American Dental Association Council on Hospitals and Institutional Dental Services.

In addition, Carolinas Medical Center – NorthEast's Cabarrus Family Medicine Residency program began in 1996 as a training program for Family Practice Physicians. The program accepts up to eight residents per year and benefits Carolinas Medical Center – NorthEast and the local community by infusing many of these primary care physicians into the community upon graduation.

Non-Physician Programs. The System also operates several non-physician education programs designed to meet workforce needs. Through three of its acute care facilities, the System operates the Mercy School of Nursing and the Carolinas College of Health Sciences, both of which offer established two-year nursing programs, and the Cabarrus College of Health Sciences, which offers two- and four-year nursing programs. The health sciences colleges are both regionally accredited as institutions of higher education, and all three schools' clinically-based programs are separately, programmatically accredited. From 2004 to 2008, the nursing programs at the three schools graduated a total of 1,202 new registered nurses of which approximately 87% were employed by the System upon graduation. In 2008 alone, 358 students completed a full program of study from one of the three schools while another 4,975 earned

continuing education credit or completed non-credit coursework at one of the three schools. In addition to nursing, Carolinas College of Health Sciences operates programs in medical technology, surgical technology, radiation therapy, nurse aide, advanced patient transport, phlebotomy and radiologic technology. Cabarrus College of Health Sciences also operates programs in medical assisting, surgical technology, medical imaging, occupational therapy assisting, pre-professional and life sciences and health services management.

Carolinas Medical Center, in partnership with the University of North Carolina at Charlotte, offers a master's degree nurse anesthesia program graduating approximately 24 nurse anesthetists per year. Carolinas Medical Center, Carolinas Medical Center – NorthEast, Carolinas Medical Center – Mercy, Carolinas Medical Center – Pineville, Carolinas Medical Center – University, Carolinas Rehabilitation – Main and Mount Holly, Huntersville Oaks, and Sardis Oaks have affiliation agreements with a number of universities and colleges for clinical training of student and graduate nurses, respiratory therapists, physical therapists, occupational therapists, vocational therapists, speech therapists, medical records technicians, dieticians, pharmacists, social workers and administrators. Carolinas Medical Center is the site of one of North Carolina's nine Area Health Education Centers. As such, it provides continuing medical education programs in medicine, dentistry, pharmacology and a variety of other areas of allied health.

Licenses, Accreditations, Approvals and Memberships

Each of the Combined Group's inpatient facilities is licensed by the Division of Health Service Regulation of the North Carolina Department of Health and Human Services. All of the System's facilities have been approved by the Centers for Medicare and Medicaid Services for participation in the Medicare and Medicaid Programs. Carolinas Medical Center is also approved by the Centers for Medicare and Medicaid Services as a certified heart, kidney and liver transplant center.

The Joint Commission has accredited Carolinas Medical Center through October 2009. Carolinas Medical Center – NorthEast is accredited by The Joint Commission through May 2012. Carolinas Medical Center – Mercy and Carolinas Medical Center – Pineville were surveyed in June 2008 and are currently accredited by The Joint Commission through June 2011. Carolinas Medical Center – University is accredited by The Joint Commission through December 2009. Carolinas Medical Center – Lincoln is accredited by The Joint Commission through August 2009. Carolinas Rehabilitation-Main is accredited by the Commission on Accreditation of Rehabilitation Facilities through March 2011 and by The Joint Commission through January 2010. Carolinas Rehabilitation – Mount Holly is accredited by the Commission on Accreditation of Rehabilitation Facilities through March 2011. Carolinas Medical Center – Mercy Rehabilitation Hospital Program is also accredited by the Commission on Accreditation of Rehabilitation Facilities through March 2011. Carolinas Medical Center's Trauma Center is certified by the American College of Surgeons. Carolinas Medical Center's Cancer Program is designated as a Teaching Hospital Cancer Program and Carolinas Medical Center – NorthEast's Cancer Center is designated as a Community Hospital Comprehensive Cancer Program by the American College of Surgeons. Carolinas Medical Center was re-certified by The Joint Commission as a Primary Stroke Center in July 2006 and will be re-surveyed in 2010. Carolinas Medical Center also added Congestive Heart Failure and End Stage Renal Disease to the list of Disease Certifications awarded by The Joint Commission. The two programs were certified in July 2008 and will be re-surveyed in 2010. The Commission on Accreditation of Medical Transport Systems accredited Med Center Air for three years in February 2007 including rotor wing, fixed wing and ground transport. In December 2008, Carolinas Medical Center, Carolinas Medical Center – Mercy, Carolinas Medical Center – Pineville and Carolinas Medical Center – University were awarded Chest Pain Center accreditation by the Society of Chest Pain Centers.

APPENDIX B

**BASIC FINANCIAL STATEMENTS OF
THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
D/B/A CAROLINAS HEALTHCARE SYSTEM**

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***The Charlotte-Mecklenburg
Hospital Authority***
(d/b/a Carolinas HealthCare System)

*Basic Financial Statements and Other
Financial Information as of and for the Years
Ended December 31, 2008 and 2007, and
Independent Auditors' Reports*

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Carolinas HealthCare System)

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners of
Carolinas HealthCare System:

We have audited the accompanying basic financial statements of The Charlotte-Mecklenburg Hospital Authority (d/b/a Carolinas HealthCare System) (the "System") and its aggregate discretely presented Component Units as of and for the years ended December 31, 2008 and 2007. These basic financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on the respective basic 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 respective basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective basic financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the System and of its aggregate discretely presented Component Units as of December 31, 2008 and 2007, and the respective changes in its net assets and respective cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, on pages 2 to 10, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the System's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and we express no opinion on it.

Deloitte & Touche LLP

April 30, 2009

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY (d/b/a Carolinas HealthCare System)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This report, Management's Discussion and Analysis, provides an overview of the financial position and results of activities of Carolinas HealthCare System (the "System") for the years ended December 31, 2008 and 2007. It has been prepared by management and is required supplemental information to the financial statements and the notes that follow this section. Except as otherwise noted, the financial highlights in this analysis refer exclusively to the Primary Enterprise as described in Note 1 of the Notes to Combined Financial Statements.

REQUIRED FINANCIAL STATEMENTS

Governmental Accounting Standards Board (GASB) Statement No. 34 requires three financial statements: the Statement of Net Assets (Balance Sheet); the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

The combined balance sheets include all of the System's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to the System's creditors (liabilities). The combined balance sheets, along with the related footnotes, also provide the basis for evaluating the capital structure of the System and assessing the liquidity and financial flexibility of the System.

All of the revenues and expenses are accounted for in the combined statements of revenues, expenses, and changes in net assets. This statement measures the financial performance of the System's operations over the past years and can be used to determine whether the System has recovered its costs through its fees and other sources of revenue, as well as its creditworthiness.

The combined statements of cash flows provide information on where cash came from, what it was used for, and what the change in the cash balance was by reporting cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities.

COMBINED BALANCE SHEETS

Table A-1 — Condensed Combined Balance Sheets at December 31 (dollars in thousands):

	2008	2007
Current assets	\$ 614,630	\$ 675,394
Capital assets	1,756,288	1,547,627
Noncurrent assets	<u>1,883,389</u>	<u>2,314,241</u>
Total assets	<u>\$ 4,254,307</u>	<u>\$ 4,537,262</u>
Long-term debt	\$ 1,533,498	\$ 1,566,970
Other liabilities	<u>634,094</u>	<u>558,913</u>
Total liabilities	<u>2,167,592</u>	<u>2,125,883</u>
Invested in capital assets - net of related debt	590,389	506,128
Restricted for debt service	697	677
Restricted - other	10,470	0
Unrestricted	<u>1,485,159</u>	<u>1,904,574</u>
Total net assets	<u>2,086,715</u>	<u>2,411,379</u>
Total liabilities and net assets	<u>\$ 4,254,307</u>	<u>\$ 4,537,262</u>

The net assets of the System at December 31, 2008 decreased \$324,664 from December 31, 2007. The decrease in net assets was due to investment and other nonoperating losses of \$409,523, offset by positive results from operations of \$64,934 and capital and other contributions of \$19,925.

The net assets of the System at December 31, 2007 increased \$713,426 from December 31, 2006. The increase in net assets was due to positive results from operations of \$108,927, investment and other nonoperating income of \$86,700, and capital and other contributions of \$35,280. The remaining \$482,519 increase in net assets resulted from the merger of NorthEast Medical Center (now Carolinas Medical Center - NorthEast and hereinafter referred to as Carolinas Medical Center - NorthEast) with the System in July 2007, as discussed in Note 1 of the Notes to Combined Financial Statements.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The ongoing clinical and financial success of the System is dependent on the routine replacement of its existing property, plant, and equipment and the investment in new technologies and additional facilities for expansion. Capital additions, net of retirements, for fiscal years 2008, 2007, and 2006, totaled \$421,679, \$362,312 and \$278,055, respectively, and consisted of a number of expansion and renovation projects as well as replacements and additions of medical equipment and buildings. More detailed information about the System's capital assets is presented in Note 4 of the Notes to Combined Financial Statements.

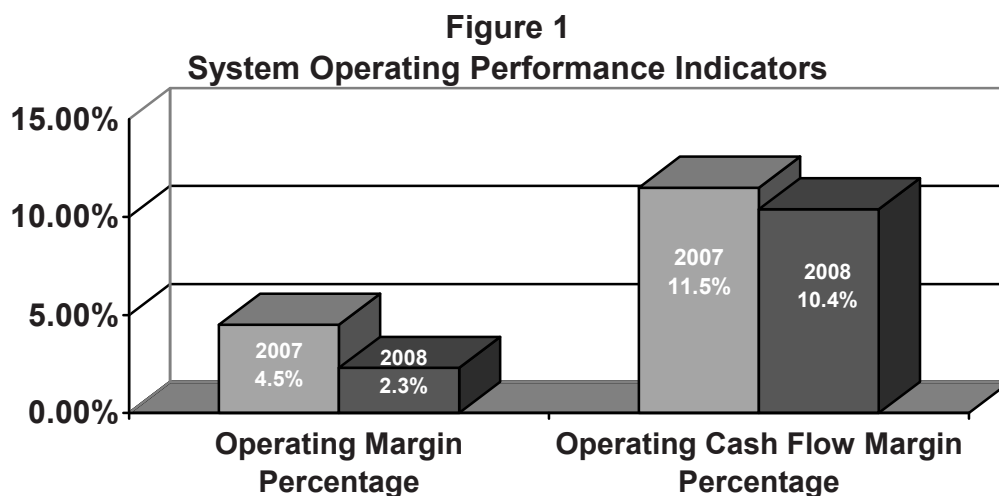
The System's total debt position at December 31, 2008 and 2007, consisting primarily of tax-exempt revenue bonds, was \$1,533,498 and \$1,566,970, respectively. This debt currently carries underlying credit ratings of "AA-" with a stable outlook from Standard and Poor's and "Aa3" with a stable outlook from Moody's. More detailed information about the System's debt is presented in Note 6 of the Notes to Combined Financial Statements.

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Table A-2 — Condensed Combined Statements of Revenues, Expenses, and Changes in Net Assets for the Years Ended December 31 (dollars in thousands):

	2008	2007
Operating revenues	\$ 2,874,359	\$ 2,396,202
Operating expenses	<u>2,809,425</u>	<u>2,287,275</u>
Operating income	64,934	108,927
Nonoperating (loss) income — net	<u>(409,523)</u>	<u>86,700</u>
Revenue (under) over expenses before contributions	(344,589)	195,627
Capital contributions	17,956	28,671
Contribution of net assets of CMC — NorthEast	0	482,519
Other contributions	<u>1,969</u>	<u>6,609</u>
(Decrease) increase in net assets	(324,664)	713,426
Beginning net assets	<u>2,411,379</u>	<u>1,697,953</u>
Ending net assets	<u>\$ 2,086,715</u>	<u>\$ 2,411,379</u>

The decrease in 2008 operating income when compared to 2007 was primarily a result of greater depreciation and interest expense. Depreciation expense increased due to additional capital placed in service, much of which occurred in the fourth quarter 2007. Interest expense increased due to new debt in 2007 and the impact of market conditions on variable rate debt. The System experienced a nonoperating loss in 2008 due to unfavorable investment results. As a governmental entity, the System is required to record all investment market value changes as a component of nonoperating income (loss). The total nonoperating loss in 2008 included \$401 million in unrealized investment losses, whereas nonoperating income in 2007 included \$54 million of unrealized investment losses.

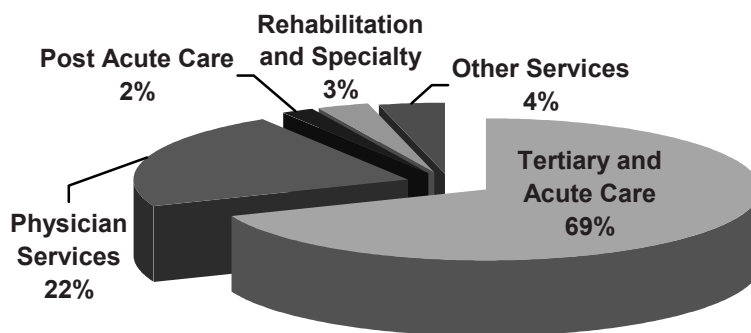


The System tracks several key financial indicators that measure its overall financial strength, two of which are operating margin and operating cash flow margin percentages, which are depicted in Figure 1 above. Operating margin percentage measures the percentage of the System's operating revenue less operating costs. Operating cash flow margin percentage, which is operating margin adjusted for interest expense and certain noncash costs such as depreciation and amortization, measures the percentage of the System's operating revenues that is available for debt service requirements and capital and service expansion. Both of these

indicators remain in line with targets set by System management and, more importantly, at levels necessary to fund the System's capital and expansion needs.

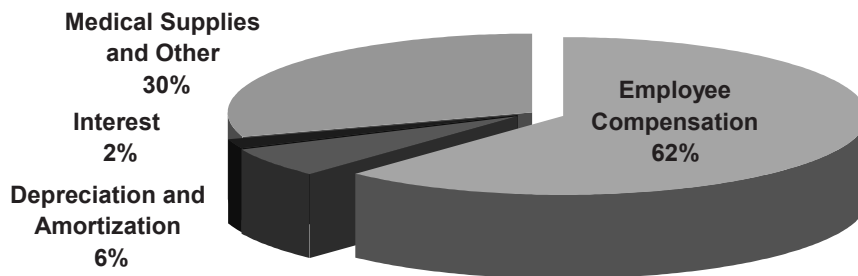
Operating revenues in 2008 increased 20% from the prior year due to the addition of Carolinas Medical Center - NorthEast for a full year (as opposed to six months in 2007) and increases in patient volumes. The acute and tertiary care hospitals, comprising 69% (Figure 2) of the System's net operating revenues, experienced a combined 21% inpatient and outpatient adjusted discharge growth rate (excluding newborns) from the prior year. In addition, the System's physician services operating revenues grew 22% due primarily to the addition of employed physicians and growth in specialty physician services.

Figure 2
System 2008 Operating Revenues by Service Type



Operating expenses increased 23% from the prior year due in part to the addition of Carolinas Medical Center - NorthEast for a full year (as opposed to six months in 2007). Employee compensation, comprising 62% of total operating expenses (Figure 3), grew 21.9% from the prior year due to a full year of Carolinas Medical Center – NorthEast salary costs, physician network growth, facility growth and the effects of annual wage and market adjustments. Depreciation and amortization expense increased 27.2% due to record levels of capital placed into service in 2007 and 2008. Other expenses, consisting primarily of pharmaceutical and supply costs, professional fees, professional liability costs, rent and purchased services, increased 20.2%, primarily due to growth and inflationary cost increases, including the cost of new technologies. Interest expense increased 97% as a result of \$626 million of new debt issued in the third quarter of 2007 and the impact of market conditions on the System's variable rate debt and related interest rate swap agreements (see Note 6 to the Combined Financial Statements).

Figure 3
System 2008 Operating Expenses



EVENTS AND FACTORS EXPECTED TO IMPACT FUTURE PERIODS

Healthcare, as an industry, has never been without challenges, and many believe that these challenges have never been as great as they are today, which is one reason why all three rating agencies have given the not-for-profit healthcare sector a negative outlook into the future. The rating agencies have cited greater-than-anticipated erosion in performance and liquidity, likely higher cost of future borrowing, increased risk from variable-rate debt structures, impaired access to capital, and higher demands on cash, such as for pension funding, as the major factors driving the negative outlook for the industry. The System shares many of these concerns and believes that the credit and capital crises and the weakened U.S. economy will have an impact on System financial performance for the foreseeable future.

Many experts have long thought that the healthcare industry was/is recession proof, or certainly less vulnerable to a weakened economy, but these opinions appear to have changed. In their report U.S. Healthcare: Negative Industry Outlooks Reflect Weakening Economy published in December 2008, Moody's noted that "as individuals bear a greater portion of the responsibility for payment of hospital bills, many not-for-profits are reporting or expecting volumes to soften". Nationally, evidence of volume softness is mounting, primarily driven by indications that individuals are deferring care. For the first time in several years, the System has seen the urban core inpatient market demand growth slow to less than .1% in 2008 compared to an average annual growth rate of 2.5% in prior years. Despite this slow down in market demand, the System improved its urban core inpatient market share in 2008 and grew, on an adjusted discharge basis, 2.4% from 2007 ("same facility basis" - excluding the impact of Carolinas Medical Center – NorthEast). Nevertheless, the System remains concerned that the weakened economy could continue to adversely impact overall and private sector volume growth, which is integral to cover variable and fixed costs and other inflationary cost increases not covered by governmental payers.

The weakened economy and instability of financial markets could impact operating performance in other ways besides growth, most notably potential bad debt/charity care increases, higher interest costs, and threatened state and federal reimbursement cuts. We believe that job losses, salary reductions, and changes in employer-based health insurance plan design will contribute to an increase in uninsured and underinsured patient volume, resulting in higher bad debt and charity care costs, although it is difficult to predict when these increases may occur. A recent Watson Wyatt/National Business Group on Health survey cited approximately half of employers offer some form of high-deductible health plan and the Centers for Medicare and Medicaid (CMS) recently reported that patients already pay 12% of all healthcare costs out of pocket, with the expectation that figure will rise to 20% in upcoming years. As these health benefit trends continue, uncompensated care could rise, particularly in a weakened economy, putting additional stress on the financial viability of many hospitals.

The collapse of the auction rate securities market and other general financial market dislocation led to higher debt service costs industry wide in 2008. In an effort to mitigate escalating interest costs, the System restructured its debt portfolio, eliminating all auction rate debt, removing bond insurance where necessary, and converted some variable rate debt to fixed rate debt. As a result of these actions, we believe that our current debt portfolio is better positioned to respond to future interest rate volatility, even though future interest rate volatility could lead to higher than normal interest costs.

The Office of Management and Budget Director, Peter Orszag, recently stated that "in the event that spending on Medicare and Medicaid continues to increase at current levels, the programs will account for 20% of gross domestic product by 2050" and that addressing this long term problem can best be achieved through "combining efforts at reducing healthcare costs with cuts to the Medicare and Medicaid payments." Both national and state government action to combat this escalating growth rate is expected in the future. One such federal action intended to slow the Medicare spending growth rate is the program that enlists private recovery audit contractors (RACs) to identify and correct improper payments. The demonstration project, representing four years of claims data and encompassing six states, identified approximately \$1 billion in improper

Medicare payments out of the \$317 billion of claims reviewed, or a .3% denial rate. The permanent RAC program, retroactive to October 1, 2007, is expected to begin in North Carolina as soon as August 2009, but it is unclear at this time what impact, if any, this or other programs will have on the System or on future Medicare payments across the industry.

At the state level, for fiscal year ending September 30, 2009, North Carolina is currently facing an estimated \$3 to \$4 billion budget deficit. Medicaid comprises 24% of the State's annual expenditures and even though the State has received over \$1 billion in additional Federal funding from the American Recovery and Reinvestment Act (ARRA) of 2009, some reduction to Medicaid reimbursement could occur. The future of the State's Medicaid supplemental reimbursement plan (the Medicaid Reimbursement Initiative - discussed in more detail in Note 7 of the Notes to Combined Financial Statements) received positive news as the ARRA included language that Congress did not support actions by the prior Administration to limit these programs.

It is clear that investment losses in 2008 were unprecedented. At 298 days cash on hand as of January 1, 2008 for the System Obligated Group (Moody's and Standard & Poor's 2007 "AA" median days cash on hand of 249 and 226 days, respectively), we believe that the System was better positioned to absorb some of the investment losses that occurred in 2008. Nevertheless, we have responded to these investment losses by revising our 5-year capital needs forecast, and we are continuing to evaluate other options as new information/projections materialize.

We continue to be concerned about current access to capital in today's economic environment. We do, however, believe that despite 2008 investment results, the System remains well positioned to meet its planned (5-year) capital needs without having to access the bond market, in the near term. We also believe that our strong Balance Sheet should give us a strategic and financial advantage over other weaker healthcare credits, should the need arise to access the bond markets in the future for our longer term capital needs.

In summary, we expect that the healthcare industry as a whole will continue to be impacted by the capital market volatility, financial markets deterioration, and weakened economy experienced in 2008, at least for the near term. We believe that the extent of the impact on any one organization will depend greatly on how long these events continue and how strong that organization was when it entered this extraordinary environment.

The System remains a financially viable entity with an experienced management team, an extensive physician network, a significant geographic reach, and a commitment to quality which we believe, along with other assets, will enable us to respond to these challenges or events that are expected to impact future periods.

COMMUNITY BENEFIT

The mission of Carolinas HealthCare System is to create and operate a comprehensive system to provide health care and related services, including education and research opportunities, for the benefit of the community it serves. Our commitment to this mission requires both an "investment in" and a "partnership with" the community spanning the entire geographic region within which the System operates.

The System defines and measures this "investment in" and "partnership with" the community under six distinct headings: 1) care to underinsured and uninsured patients, 2) providing medical education to the next generation of healthcare professionals, 3) conducting medical research to stay on the "cutting edge" for new treatments and cost effective care, 4) meeting charitable needs in our community through volunteer and other efforts by our employees, 5) providing vital healthcare services, many of which operate at a deficit, to meet patient and community needs, and 6) promoting healthy lifestyles and disease prevention to our community through the *LiveWELL Carolinas!* program.



Vital Healthcare Services



LiveWELL Carolinas!



Uninsured / Underinsured Patient Care



Uncompromising Excellence. Commitment to Care.



Medical Education



Community Volunteerism



Medical Research

Growth in the community’s unreimbursed care constitutes both a challenge and an opportunity for the System. It is a challenge to ensure that the necessary patient care personnel and facility infrastructures are in place to meet the demand for all patients and an opportunity to provide access for needed healthcare services for the growing uninsured and underinsured population. The cornerstone of the System’s overall community benefit is its commitment to provide healthcare services to all patients regardless of their ability to pay or their insurance coverage. This has been possible, in part, through a unique partnership with Mecklenburg County, which shares a common commitment with the System to allow for access to high-quality healthcare services for our most vulnerable citizens.

The System, under its charity care and uninsured discount policies, provides care without charge or at discounted rates to all uninsured patients, including any uninsured patient who experiences catastrophic related illnesses or injury. Key elements used to determine eligibility for charity care include a patient’s demonstrated inability to pay based on family size and household income relative to Federal income poverty guidelines. North Carolina’s Medicaid program, while providing healthcare coverage for many of the poor, disabled, and elderly residents, does not include all who are unable to pay for healthcare. Also, Medicaid, by design, reimburses healthcare providers at less than actual cost and has not kept pace in recent years with the industry’s rapidly rising cost of technology and utilization. The System provides over 77% of healthcare services to the inpatient and outpatient Medicaid population served by hospitals within Mecklenburg County. In many cases, the System provides the only access for the financially indigent in the community to certain outpatient and physician specialty care. The Mecklenburg County Indigent Healthcare Funding (IHF)

Program helps to defray a portion of the costs of care provided to those Mecklenburg County residents who are not eligible for assistance under the Medicaid program. Under the IHF Program, indigent care funding is available to all hospitals within Mecklenburg County that provide a minimum threshold (3% of their net patient revenue) of indigent patient care. The System also serves uninsured patients who are not eligible for charity care discounts, Medicaid, or other governmental funding. More detailed information about the System's net patient service revenue is presented in Notes 1 and 7 of the Notes to Combined Financial Statements.

The System supports and subsidizes medical education and research, which benefits not only CHS and the patients it serves, but the entire healthcare provider community. Carolinas Medical Center (CMC) has in training, on average, more than 200 medical residents each year in 12 specialties. In 2008, over half of the 68 residents that completed the program stayed in North Carolina, with a majority of them residing in Mecklenburg County. Carolinas Medical Center — NorthEast sponsors the Cabarrus Family Medicine Residency Program and a primary care sports medicine fellowship, which trains 25 residents each year. Since its inception in 1996, the Cabarrus Family Medicine residency Program has graduated 75 family medicine residents, with over 70% staying in North Carolina to practice.

The Carolinas College of Health Sciences (CCHS) enrolls over 450 students each semester in programs such as Nursing, Surgical Technology, Medical Technology, Radiological Technology, and Emergency Medical Sciences. In 2008, 95% of CCHS graduates who qualified for placement remained in the Charlotte area. The Cabarrus College of Health Sciences (CCS) enrolls over 360 students each semester in two diploma programs — Medical Assistant and Surgical Technology, five associate degree programs — Nursing, Medical Assistant, Occupational Therapy Assistant, Surgical Technology and Associate in Science and three baccalaureate programs — Nursing, Medical Imaging, and Health Services Management. With 227 nursing graduates in 2008, the System produces the second highest number of nursing professionals in the state of North Carolina. More importantly, the region reaps the benefits from these programs now, as they provide invaluable resources to locally combat nationwide clinical personnel shortages.

The Charlotte Area Health Education Center, operated by the System, is the only organization providing continuing education to all area healthcare professionals from all settings including hospitals, long-term care, and physician practices.

Cannon Research Center, with approximately 800 studies active during 2008, attracts physicians nationally to the community and is the only dedicated medical research facility in the region. These programs and initiatives enable the System to provide future benefits to the region by training healthcare professionals and developing innovative healthcare techniques. These commitments to research by the System allow the region access to some of the most progressive healthcare treatments and therapies as soon as they are available.

Carolinas HealthCare System and its employees provide benefit to the community by becoming actively involved in, or contributing to, various organizations that seek to improve the overall health and well being of its citizens. System employees have donated millions of dollars and thousands of volunteer hours to charitable organizations such as the United Way, Arts and Science Council, Children's Miracle Network, schools, churches, and countless other community serving entities. They have set records with their generosity and with their time, by sponsoring community programs in 2008. System employees contributed over \$2.3 million to United Way in 2008, thereby distinguishing the System as the top healthcare contributor in the country and one of only five companies in the region to make the United Way's Million Dollar Circle. The System's employees were also awarded the United Way's Spirit of North Carolina award for outstanding employee enthusiasm and participation and they were also recognized by the Arts and Science Council as the top healthcare contributor in the nation. In addition, the System and its employees participated in numerous community volunteer projects during 2008 including over 100 employees painting, hanging dry wall and installing roofing on four Habitat for Humanity homes; nearly 100 volunteers collecting and sorting over 5,300 CHS employee donated books for low-income schools; over 400 employee volunteers performing

greater than 900 screenings for student athletes across 18 local schools; and countless System employees collecting over 11,000 pounds and 23,000 items in the “Help Kids Succeed” school supply and healthy snack drive.

The System operates, often at a deficit, certain health services that are essential to the community. For example, the Carolinas Poison Center, a statewide emergency telephone resource, is staffed 24-7 by System registered nurses and pharmacists that are specialized in providing diagnostic and treatment advice for acute poisonings. Carolinas Medical Center — NorthEast provides numerous mission related services, such as the Parish Nursing and Congregational Health Promoter programs that serve almost 60 churches in Cabarrus County with nurses and lay health promoters who bring healthcare expertise and a variety of wellness resources to parishioners in their homes, at their churches, and in various healthcare settings. Other examples of vital health services provided by the System include The Pediatric Resource Center (Mecklenburg County) and the Children’s Advocacy Center (Cabarrus County), two clinics dedicated specifically for children suspected of being victims of physical and/or sexual abuse, The Adaptive Sports and Adventure Program, a program allowing physically challenged youth and adults to develop their sports recreation and outdoor adventure skills while enhancing an active and productive lifestyle without barriers and limits, and The Carolinas Diabetes Center, a clinic with dedicated nurses and dieticians whose objective is to control acute diabetes symptoms and prevent long-term complications by working with patients, family members and physicians to outline disease management plans.

Lastly, Carolinas HealthCare System’s wellness and preventive program, known as *LiveWELL Carolinas!*, covers a wide variety of employee programs and community partnerships intended to promote preventive health and encourage healthy choices. *LiveWELL Carolinas!* programming grew steadily in 2008, thanks in large part to the opening of an expanded office, including space for group exercise and employee retreats. The *LiveWELL Carolinas!* staff grew to include seven wellness specialists in 2008. Other milestones included the expansion of walking and running clubs, active involvement in the “LiveWell Warriors” lifestyle enhancement, and a steady expansion in fitness challenges, exercise classes, wellness consultation and weight loss initiatives. In addition, groundwork was completed to launch a new web-based wellness initiative powered by nationally recognized WebMD. The site provides personalized health information, along with possible financial incentives for those willing to learn about, and participate in, designated wellness activities.

The total cost in 2008 of the aforementioned programs and services that benefit the community was approximately \$511 million, or 18.2% of the Primary Enterprise’s operating expenses, and \$770 million, or 18.8% of the combined operating expenses of the Primary Enterprise, Discretely Presented Component Units — exclusive of the Carolinas HealthCare Foundation, Inc. — and Managed Affiliates.

Finance Contact

The System’s combined financial statements are designed to present users with a general overview of the System’s finances and to demonstrate the System’s accountability. If you have any questions about the report or need additional financial information, please contact the Senior Vice President of Finance, Carolinas HealthCare System, 1000 Blythe Boulevard, Charlotte, NC 28203.

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Carolinas HealthCare System)

COMBINED BALANCE SHEETS
AS OF DECEMBER 31, 2008 AND 2007
(Dollars in thousands)

	2008			2007		
	Primary Enterprise	Combined Component Units	Total Reporting Entity (Memorandum Only)	Primary Enterprise	Combined Component Units	Total Reporting Entity (Memorandum Only)
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	\$ 118,881	\$ 25,120	\$ 144,001	\$ 175,371	\$ 19,479	\$ 194,850
Short-term investments	2,992	23,354	26,346	2,463	26,963	29,426
Collateral on loaned securities	3,711	5,442	9,153	51,012	9,928	60,940
Patient accounts receivable — net	379,371	57,414	436,785	340,399	55,976	396,375
Other accounts receivable	62,123	7,539	69,662	62,384	9,800	72,184
Assets limited as to use — current portion	0	1,580	1,580	0	1,551	1,551
Inventories	27,187	6,797	33,984	25,277	6,433	31,710
Prepaid expenses	20,365	15,220	35,585	18,488	11,866	30,354
Total current assets	614,630	142,466	757,096	675,394	141,996	817,390
CAPITAL ASSETS						
Accumulated depreciation	3,120,479	451,395	3,571,874	2,950,497	425,689	3,376,186
	(1,364,191)	(236,685)	(1,600,876)	(1,402,870)	(212,970)	(1,615,840)
Total capital assets — net	1,756,288	214,710	1,970,998	1,547,627	212,719	1,760,346
OTHER ASSETS:						
Assets limited as to use:						
Bond proceeds held by trustee	364,290	2,018	366,308	522,263	2,365	524,628
Designated as funded depreciation	1,236,515	110,472	1,346,987	1,478,625	143,854	1,622,479
Other assets limited as to use	85,990	237,819	323,809	88,207	359,593	447,800
Other assets	196,594	32,005	228,599	225,146	37,005	262,151
Total other assets	1,883,389	382,314	2,265,703	2,314,241	542,817	2,857,058
TOTAL ASSETS	\$ 4,254,307	\$ 739,490	\$ 4,993,797	\$ 4,537,262	\$ 897,532	\$ 5,434,794
LIABILITIES AND NET ASSETS						
CURRENT LIABILITIES:						
Accounts payable	\$ 88,287	\$ 14,750	\$ 103,037	\$ 96,449	\$ 14,406	\$ 110,855
Salaries and benefits payable	158,982	12,764	171,746	135,204	11,564	146,768
Obligations under securities lending	17,885	5,442	23,327	50,996	9,928	60,924
Other liabilities and accruals	84,001	40,954	124,955	71,794	47,572	119,366
Estimated third-party reserves	63,682	19,854	83,536	59,434	18,978	78,412
Current portion of long-term debt	11,561	2,631	14,192	14,813	3,291	18,104
Total current liabilities	424,398	96,395	520,793	428,690	105,739	534,429
LONG-TERM DEBT — Less current portion	1,521,937	109,451	1,631,388	1,552,157	112,201	1,664,358
OTHER LIABILITIES	221,257	445	221,702	145,036	0	145,036
COMMITMENTS AND CONTINGENCIES (Notes 1 and 10)						
NET ASSETS:						
Invested in capital assets — net of related debt	590,389	102,628	693,017	506,128	97,588	603,716
Restricted for debt service	697	6,277	6,974	677	6,703	7,380
Restricted — other	10,470	176,530	187,000	0	249,873	249,873
Unrestricted	1,485,159	247,764	1,732,923	1,904,574	325,428	2,230,002
Total net assets	2,086,715	533,199	2,619,914	2,411,379	679,592	3,090,971
TOTAL LIABILITIES AND NET ASSETS	\$ 4,254,307	\$ 739,490	\$ 4,993,797	\$ 4,537,262	\$ 897,532	\$ 5,434,794

See notes to combined financial statements.

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Carolinas HealthCare System)

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(Dollars in thousands)

	2008			2007		
	Primary Enterprise	Combined Component Units	Total Reporting Entity (Memorandum Only)	Primary Enterprise	Combined Component Units	Total Reporting Entity (Memorandum Only)
NET PATIENT SERVICE REVENUE	\$ 2,598,746	\$ 384,950	\$ 2,983,696	\$ 2,161,174	\$ 374,548	\$ 2,535,722
OTHER REVENUE	275,613	15,830	291,443	235,028	21,461	256,489
Total revenue	<u>2,874,359</u>	<u>400,780</u>	<u>3,275,139</u>	<u>2,396,202</u>	<u>396,009</u>	<u>2,792,211</u>
OPERATING EXPENSES:						
Employee compensation	1,737,115	225,201	1,962,316	1,424,806	210,812	1,635,618
Other expenses	836,876	165,496	1,002,372	695,964	162,302	858,266
Depreciation and amortization	168,625	25,862	194,487	132,587	25,270	157,857
Interest expense	66,809	5,190	71,999	33,918	4,998	38,916
Total operating expenses	<u>2,809,425</u>	<u>421,749</u>	<u>3,231,174</u>	<u>2,287,275</u>	<u>403,382</u>	<u>2,690,657</u>
OPERATING INCOME (LOSS)	<u>64,934</u>	<u>(20,969)</u>	<u>43,965</u>	<u>108,927</u>	<u>(7,373)</u>	<u>101,554</u>
NONOPERATING (LOSS) INCOME:						
Interest and dividend income	29,362	10,726	40,088	42,147	14,615	56,762
Net (decrease) increase in the fair value of investments and other assets	(448,420)	(140,944)	(589,364)	49,742	18,408	68,150
Other — net	9,535	209	9,744	(5,189)	267	(4,922)
Total nonoperating (loss) income — net	<u>(409,523)</u>	<u>(130,009)</u>	<u>(539,532)</u>	<u>86,700</u>	<u>33,290</u>	<u>119,990</u>
REVENUE (UNDER) OVER EXPENSES BEFORE CONTRIBUTIONS	(344,589)	(150,978)	(495,567)	195,627	25,917	221,544
CAPITAL CONTRIBUTIONS	17,956	2,429	20,385	28,671	(17,404)	11,267
CONTRIBUTION OF NET ASSETS	0	0	0	482,519	0	482,519
OTHER CONTRIBUTIONS	1,969	2,156	4,125	6,609	(5,722)	887
(DECREASE) INCREASE IN NET ASSETS	<u>(324,664)</u>	<u>(146,393)</u>	<u>(471,057)</u>	<u>713,426</u>	<u>2,791</u>	<u>716,217</u>
NET ASSETS:						
Beginning of year	2,411,379	679,592	3,090,971	1,697,953	676,801	2,374,754
End of year	<u>\$ 2,086,715</u>	<u>\$ 533,199</u>	<u>\$ 2,619,914</u>	<u>\$ 2,411,379</u>	<u>\$ 679,592</u>	<u>\$ 3,090,971</u>

See notes to combined financial statements.

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Carolinas HealthCare System)

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(Dollars in thousands)

	2008			2007		
	Primary Enterprise	Combined Component Units	Total Reporting Entity (Memorandum Only)	Primary Enterprise	Combined Component Units	Total Reporting Entity (Memorandum Only)
CASH FLOWS FROM OPERATING ACTIVITIES:						
Receipts from third-party payors and patients	\$ 2,565,617	\$ 388,120	\$ 2,953,737	\$ 2,097,185	\$ 368,480	\$ 2,465,665
Payments to suppliers	(862,787)	(117,852)	(980,639)	(663,711)	(108,353)	(772,064)
Payments to employees	(1,717,090)	(227,711)	(1,944,801)	(1,407,193)	(213,119)	(1,620,312)
Other receipts (payments) — net	274,159	(37,124)	237,035	217,358	(14,887)	202,471
Net cash provided by operating activities	259,899	5,433	265,332	243,639	32,121	275,760
NONCAPITAL FINANCING ACTIVITIES						
	(476)	715	239	(760)	520	(240)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Purchase of capital assets	(421,679)	(26,336)	(448,015)	(362,312)	(35,024)	(397,336)
Proceeds from monetization of real estate	150,873	1,829	152,702	0	0	0
Donated funds designated for building and equipment purchases	17,956	2,169	20,125	28,671	(17,404)	11,267
(Acquisition of) transfer from health related businesses	(3,920)	0	(3,920)	34,566	0	34,566
Principal payments, refunding and retirements on short- and long-term debt	(984,186)	(32,825)	(1,017,011)	(535,356)	(3,470)	(538,826)
Interest payments on short- and long-term debt	(69,394)	(5,140)	(74,534)	(51,919)	(5,093)	(57,012)
Decrease (increase) in bond proceeds held by trustee	157,973	450	158,423	(445,322)	1,382	(443,940)
Draws on bank short-term lines of credit	203,750	0	203,750	0	0	0
Reacquisition of outstanding CHS bonds	(203,750)	0	(203,750)	0	0	0
Proceeds from issuance of long-term debt	964,347	30,427	994,774	1,133,548	4,625	1,138,173
Decrease (increase) in other assets affecting capital and related financing activities	4,976	(555)	4,421	(16,863)	3,940	(12,923)
Other contributions	1,969	923	2,892	6,609	(5,722)	887
Net cash used in capital and related financing activities	(181,085)	(29,058)	(210,143)	(208,378)	(56,766)	(265,144)
CASH FLOWS FROM INVESTING ACTIVITIES:						
Withdrawal from funded depreciation	0	23,542	23,542	62,998	6,500	69,498
Contribution to funded depreciation	(160,043)	0	(160,043)	(267,937)	0	(267,937)
Investment earnings	22,897	2,699	25,596	10,841	11,751	22,592
Decrease (increase) in other trustee assets	2,217	(1,797)	420	265,805	5,669	271,474
Decrease in loans to affiliates	211	0	211	198	0	198
(Purchase) sale of investments	(110)	4,107	3,997	(5,687)	829	(4,858)
Net cash (used in) provided by investing activities	(134,828)	28,551	(106,277)	66,218	24,749	90,967
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(56,490)	5,641	(50,849)	100,719	624	101,343
CASH AND CASH EQUIVALENTS:						
Beginning of year	175,371	19,479	194,850	74,652	18,855	93,507
End of year	\$ 118,881	\$ 25,120	\$ 144,001	\$ 175,371	\$ 19,479	\$ 194,850
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:						
Operating income (loss)	\$ 64,934	\$ (20,969)	\$ 43,965	\$ 108,927	\$ (7,373)	\$ 101,554
Interest expense considered capital financing activity	66,809	5,190	71,999	33,918	4,998	38,916
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation and amortization	168,625	25,862	194,487	132,587	25,270	157,857
Increase in patient accounts receivable — net	(37,579)	(81)	(37,660)	(50,505)	(3,109)	(53,614)
Increase in inventories and other current assets	(5,154)	(2,991)	(8,145)	(8,840)	(2,537)	(11,377)
Decrease (increase) in other assets affecting operating activities	6,088	(751)	5,337	10,450	183	10,633
(Decrease) increase in accounts payable and other current liabilities	(2,100)	(200)	(2,300)	21,251	13,014	34,265
(Decrease) increase in other liabilities affecting operating activities	(5,972)	(1,373)	(7,345)	8,930	2,619	11,549
Increase (decrease) in estimated third-party reserves	4,248	746	4,994	(13,079)	(944)	(14,023)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 259,899	\$ 5,433	\$ 265,332	\$ 243,639	\$ 32,121	\$ 275,760

See notes to combined financial statements.

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY

(d/b/a Carolinas HealthCare System)

NOTES TO COMBINED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007 (Dollars in thousands)

1. SIGNIFICANT ACCOUNTING POLICIES

Organization, Basis of Presentation, and Discretely Presented Component Units — Carolinas HealthCare System (the “System”) is the largest healthcare system in North and South Carolina and the third largest public, multi-hospital system in the nation. The System includes quaternary, tertiary, acute care, rehabilitation, mental health and long-term care facilities, and an integrated primary and specialty care physician practice network. The System was organized in 1943 under the North Carolina Hospital Authorities Act. It is a public body and a body corporate and politic and, therefore, has been determined by the Internal Revenue Service to be exempt from federal and state income taxes. The System has its headquarters in Charlotte, North Carolina.

For financial reporting purposes, the System is divided into the “Primary Enterprise” and “Component Units.” The Primary Enterprise consists of The Charlotte-Mecklenburg Hospital Authority (d/b/a Carolinas HealthCare System) and all affiliates whose assets and income the System controls without limitation. The Component Units consist of 1) affiliates that lease their facilities from third parties or are prohibited under existing contractual arrangements from distributing all of their net revenues to the System and 2) a foundation that raises and holds economic resources for the direct benefit of the System.

On July 1, 2007, Cabarrus Memorial Hospital d/b/a Northeast Medical Center (NEMC), a nonprofit healthcare organization in Concord, Cabarrus County, North Carolina that operates an extensive inpatient and outpatient network, including a 457-bed regional medical center that serves residents in Cabarrus and surrounding counties, merged its net assets with and into CMC-NorthEast, Inc. d/b/a Carolinas Medical Center - NorthEast, a North Carolina nonprofit corporation that is controlled by the System. In connection with the merger, the System assumed all liabilities of NEMC and committed to invest \$600 million in healthcare facilities in Cabarrus County prior to June 30, 2015. With the merger and beginning July 1, 2007, Carolinas Medical Center - NorthEast became part of the Primary Enterprise.

Included as Component Units are the following entities, all located in North Carolina: Carolinas Union Healthcare (parent of Union Regional Medical Center d/b/a Carolinas Medical Center-Union), Cleveland County HealthCare System (d/b/a Cleveland Regional Medical Center and Kings Mountain Hospital), Carolinas-Anson Healthcare (d/b/a Anson Community Hospital), and The Carolinas HealthCare Foundation, Inc. All individual Component Units listed above are reported on a basis consistent with the System’s calendar year and are discretely presented.

The Carolinas HealthCare Foundation, Inc. (the “Foundation”) operates to raise funds to enhance, promote and support medical and scientific education and research. It solicits contributions for System entities and, in the absence of donor restrictions, its Board of Directors has discretionary control over the amounts to be distributed. Net contributions to the System from the Foundation included in the combined statements of revenues, expenses, and changes in net assets were \$27,899 and \$52,263 for the years ended December 31, 2008 and 2007, respectively.

The System has guaranteed certain obligations of the Component Units, including operating lease payments owed to Union County and Cleveland County, North Carolina. Based on the historical financial performance of these facilities, System management does not expect that the System will be required to make payments on any of its guarantees of these obligations.

Certain healthcare facilities in the region are managed by the System or its affiliates pursuant to management agreements; however, only the management fees earned by the System, not the financial position or results of operation of those facilities, are reflected in the combined financial statements of the System.

The memorandum-only totals aggregate the Primary Enterprise and its discretely presented Component Units. In accordance with governmental accounting standards, no consolidating or other eliminations were made in arriving at the totals; thus, they do not represent consolidated information. Also, unless otherwise noted, all footnote amounts relate only to the Primary Enterprise.

The Combined Group — The System’s Second Amended and Restated Bond Order authorizes the creation of a Combined Group, which consists of the Obligated Group and Designated Affiliates (the “Obligated Group” since there are no Designated Affiliates at this time). Only the Obligated Group has a direct or indirect obligation to pay amounts due on the System’s bonds. As of December 31, 2008, the primary members of the Obligated Group were the Primary Enterprise and one of the System’s Discretely Presented Component Units, The Carolinas HealthCare Foundation, Inc., although there are some affiliates of the Primary Enterprise that are not part of the Obligated Group. The affiliates that are part of the Primary Enterprise, but not part of the Obligated Group, or that are part of the Obligated Group, but not part of the Primary Enterprise, made up less than 3% of the total revenue and less than 6% of the total assets of the Primary Enterprise for each of the years ended December 31, 2008 and 2007.

Governmental Accounting Standards — In 1993, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities That Use Proprietary Fund Accounting*, which provides guidance on the effect of GASB pronouncements on government entities using business-type accounting and financial reporting.

In accordance with this Statement, the System has elected to follow the GASB hierarchy exclusively regarding authoritative literature issued after November 30, 1989.

In 2007, the System adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. The adoption of these pronouncements had no material impact on the basic financial statements of the System.

In 2008, the System adopted GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, and GASB Statement No. 50, *Pension Disclosures*. The adoption of these pronouncements had no material impact on the basic financial statements of the System.

Cash Equivalents — For purposes of the combined balance sheets and statements of cash flows, the System considers all investments purchased with a maturity of three months or less and which are not limited as to use to be cash equivalents.

Patient Accounts Receivable — Net — Patient accounts receivable is recorded net of allowances for uncollectible accounts of \$143,322 and \$158,008 at December 31, 2008 and 2007, respectively. Net patient revenue is shown net of provision for uncollectible accounts of \$158,948 and \$124,013 for the years ended December 31, 2008 and 2007, respectively.

Inventories — Inventories are stated at cost (first-in, first-out method), which is not in excess of market.

Capital Assets — Property, plant, and equipment is stated at cost. Expenditures that materially increase values, change capacities, or extend useful lives are capitalized. Assets that are impaired are adjusted to their net realizable value on an annual basis. Routine maintenance, repairs, and replacements are charged to expense when incurred. Depreciation is determined using the straight-line method over the estimated useful lives of the depreciable assets, which range from 3 to 40 years.

Cost of Borrowing — Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the costs of acquiring these assets.

Bond Proceeds Held by Trustee — Bond proceeds held by trustee consist of proceeds from revenue bonds which are being held by the trustee until expended for capital additions in accordance with the requirements of the System's applicable bond agreements.

Other Assets Limited as to Use — Other assets limited as to use include amounts held in a revocable trust for the payment of contingencies not covered by insurance and amounts the System holds as custodian and trustee for certain employees of its facilities.

Other Assets — Other assets consist of goodwill, bond issuance costs, employee benefit plan assets, and investments in certain healthcare related businesses accounted for using the cost or equity method. Goodwill, representing the cost in excess of the fair value of net assets acquired, is being amortized over a period of not more than 25 years. Goodwill amortization amounted to \$1,102 in 2008 and \$519 in 2007. Bond issuance costs, which include underwriters' discounts, printing costs, legal expenses, and other fees incurred in issuing the debt, are being amortized over the life of the debt.

Net Assets — The combined financial statements utilize a net asset presentation. Net assets are categorized as invested in capital assets, net of related debt, restricted, and unrestricted.

Invested in capital assets, net of related debt, is intended to reflect the portion of net assets that are associated with nonliquid capital assets, less those capital assets with related debt. Restricted net assets are assets generated from revenues that have third-party limitation on their use. Unrestricted net assets have no third-party restrictions on use.

Operating Revenues and Expenses — For purposes of financial reporting, transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are reported as operating revenues and expenses; otherwise, they are reported as nonoperating gains and losses.

Capital Contributions and Grants — Funds donated to acquire property, plant, and equipment are considered donations of capital and are included in capital assets and net assets.

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

Future Accounting and Reporting Requirements — In 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement establishes accounting and reporting standards for intangible assets to reduce inconsistencies in how they have been recognized, measured and amortized. This Statement must be adopted no later than the year ending December 31, 2010.

In 2008, the GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by endowments. This Statement must be adopted no later than the year ending December 31, 2009.

Also in 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement addresses the recognition, measurement and disclosure of information regarding derivative instruments. This Statement must be adopted no later than the year ending December 31, 2010.

The System has not yet determined the impact of these Statements to the basic financial statements.

2. CASH, INVESTMENTS, OTHER FINANCIAL INSTRUMENTS AND SECURITIES LENDING

Cash and Cash Equivalents — As of December 31, 2008, the System had cash and cash equivalents of \$118,881 and bond proceeds held by trustee of \$364,290 invested with the North Carolina Capital Management Trust (NCCMT), which has a rating of AAAM from Standard & Poor's. System funds deposited with the NCCMT, up to \$111,000, are guaranteed by the United States Treasury under a temporary guaranty program that expires on September 19, 2009.

For cash and cash equivalents, the System follows North Carolina General Statute 159-30, whereby all deposits of the System are held in depositories that are either insured or covered under state-wide single financial institution collateral pools (known as the "Pooling Method"). Collateral is maintained for all the depositories' governmental units in the state. The North Carolina State Treasurer monitors the Pooling Method depositories for adequate collateralization. Under the Pooling Method, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. The amount of the pledged collateral is based on an approved averaging method for noninterest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the System. Because of the inability to measure the exact amount of collateral pledged for the System under the Pooling Method, the potential exists for under collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each Pooling Method Depository.

Assets Designated as Funded Depreciation and Other Assets Limited as to Use — The System may, for funds not required for immediate disbursement, make investments which are permissible for trustees, executors, and other fiduciaries under North Carolina law. Funds that are not needed for immediate operating needs and that have been designated by the Board of Commissioners for funded depreciation, along with other trustee assets, are invested in cash equivalents, fixed income, equity securities, equity securities held in common collective trust funds, and limited partnerships. Investments included in the portfolio are reflected at fair value at the balance sheet date, as noted in the table below, with gains and losses reflected in nonoperating income (loss) in the accompanying combined statements of revenues, expenses, and changes in net assets.

The System operates a regional, vertically integrated healthcare system, which has significant capital needs arising from both changes in medical technology and a growing demand for healthcare services. At December 31, 2008, the fair value of investments designated as funded depreciation of \$1,236,515, as noted in the table below, is substantially less than the historical cost of property, plant, and equipment of \$3,120,479.

In 2005, the System adopted GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, an amendment of GASB No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, which requires, among other things, certain disclosures about risks that are inherent in the cash, investments, and other financial instruments that the System holds.

The table below summarizes the System's funded depreciation and other assets limited as to use, based on fair value as of December 31, 2008, and organized by investment type to provide an indication of the level of investment and deposit risks assumed as required by GASB Statement No. 40:

	Ratings By Nationally Recognized Agency	Effective Duration In Years	Designated As Funded Depreciation	Other Assets Limited As To Use
Money market funds	AAA _m		<u>\$ 334,654</u>	<u>\$ 14,994</u>
Fixed income:				
U.S. government treasuries and agencies	AAA	8.45	40,031	4,743
Mortgage pass-throughs:	AAA	2.58	123,524	13,424
	B	3.80	3	0
Collateralized mortgage obligations:	AAA	4.35	48,072	6,078
	AA	1.93	1,357	34
	A	4.36	1,538	158
	BBB	2.07	875	73
	BB	3.63	0	75
Corporate bonds:	AAA	4.51	7,446	716
	AA	5.91	5,196	792
	A	6.21	51,878	5,445
	BBB	5.99	23,599	3,226
	BB	5.38	611	66
Municipal bonds:	AAA	4.26	13,190	1,599
	AA	4.86	6,349	700
Asset-backed securities:	AAA	3.24	3,366	447
	AA	0.17	146	0
	B	2.06	0	51
Closed-end bond funds		5.19	<u>2,852</u>	<u>368</u>
Total fixed income	AA	4.45	<u>330,033</u>	<u>37,995</u>
Equity:				
Domestic equities			169,359	9,621
International funds			148,704	9,633
Common collective trust fund — domestic			60,089	3,415
Common collective trust fund — international			<u>100,953</u>	<u>5,471</u>
Total equity			<u>479,105</u>	<u>28,140</u>
Limited partnerships (recorded under the equity method):				
Real estate limited partnerships			65,074	4,335
Private equity fund of funds limited partnerships			<u>27,649</u>	<u>526</u>
Total limited partnerships			<u>92,723</u>	<u>4,861</u>
Total reported value			<u>\$ 1,236,515</u>	<u>\$ 85,990</u>

The table below summarizes the System's funded depreciation and other assets limited as to use, based on fair value as of December 31, 2007:

	Ratings By Nationally Recognized Agency	Effective Duration In Years	Designated As Funded Depreciation	Other Assets Limited As To Use
Cash and cash equivalents			\$ 68,477	\$ 5,846
Fixed income:				
U.S. government treasuries and agencies	AAA	5.30	71,794	4,154
Mortgage pass-throughs	AAA	3.64	88,799	11,839
Collateralized mortgage obligations	AAA	4.36	69,485	11,226
Corporate bonds:	AAA	4.33	4,226	648
	AA	6.15	13,056	1,948
	A	6.00	31,133	4,530
	BBB	6.88	20,225	3,111
Taxable municipal bonds:	AAA	4.67	4,936	596
	AA	4.80	3,434	475
Asset-backed securities	AAA	3.54	9,837	1,247
Floating rate notes	AAA	0.28	10,703	1,605
Closed-end bond funds		3.92	3,312	424
Total fixed income	AA	4.59	330,940	41,803
Equity:				
Domestic equities			280,123	10,746
International funds			306,635	8,240
Common collective trust fund — domestic			95,408	5,392
Common collective trust fund — international			157,993	7,714
Total equity			840,159	32,092
Limited partnerships (recorded under the equity method):				
Real estate limited partnerships			70,726	4,232
Hedge fund of funds limited partnership			146,167	4,023
Private equity fund of funds limited partnerships			22,156	211
Total limited partnerships			239,049	8,466
Total reported value			\$1,478,625	\$ 88,207

Fair value for financial reporting purposes is based on quoted market prices or an amount determined by external investment managers if quoted market prices are not available. Common collective trust funds are stated at fair value as determined by the issuer of the common collective trust funds based on the fair market value of the underlying investments. Management reviews and evaluates fair value provided by the external investment managers for equity method investments as well as the valuation methods and assumptions used in determining the fair value of such investments. Although management believes the fair value estimated for investments without readily determinable market values to be reasonable at December 31, 2008, such estimated fair values (amounting to \$97,584 and \$247,515 at December 31, 2008 and 2007, respectively) may differ from the ultimate realizable value of the investments. In addition, such investments are generally less liquid than investments with a readily determinable market value. The System committed \$62 million to private equity fund of funds limited partnerships. As of December 31, 2008, approximately \$30 million had been contributed with the remaining amount to be allocated from existing investments. These amounts are a combination of both funds designated as funded depreciation and other assets limited as to use.

Custodial Credit Risk — Custodial credit risk is the risk that the System will not be able to recover the value of its bank deposits, which are exposed to custodial credit risk if they are uninsured and uncollateralized. As of December 31, 2008, all of the System’s bank deposits were either insured by federal depository insurance or collateralized by the Pooling Method.

Fixed income investments and equity securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the System, and are held by either the counterparty or the counterparty’s trust department or agent, but not in the System’s name. As of December 31, 2008, all of the System’s fixed income investments and equity securities are held by the System’s custodial bank in the System’s name and are, therefore, not exposed to custodial credit risk.

Credit Risk — With respect to fixed income investments, credit risk is the risk that an issuer or other counterparty to an investment will not fulfill their obligations as required by the fixed income security. The System’s investment policy requires that the overall average credit quality of fixed income portfolios must be maintained at “AA” or higher. As of December 31, 2008, the System’s fixed income portfolio met these overall average requirements. The quality ratings of the System’s investments in fixed income securities, as determined by nationally recognized statistical rating organizations are disclosed in the preceding tables.

Concentration of Credit Risk — Credit concentration risk results from not adequately diversifying investments. Per the System’s investment policy, (1) no more than 5% of any investment manager’s equity portfolio may be invested in securities of any one issuing corporation, and (2) fixed income investments in any single issuer (excluding obligations of the U.S. government and its agencies) may not exceed 5% of any investment manager’s portfolio market value at the time of purchase. Although exceptions to policy are at times granted to investment managers, at no time may an investment in one organization represent 5% or more of total plan assets. At December 31, 2008, no investment in a single issuer or corporation exceeded 5% of total plan assets.

Interest Rate Risk — Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of a fixed income investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The System monitors the interest rate risk inherent in its fixed income portfolio by measuring the effective duration in years, which measures the expected change in value of a fixed income security or portfolio for a given change in interest rates.

As a means of limiting interest rate risk, the System’s investment policy limits the effective duration in years of the investment manager’s fixed income portfolio to a range of 75% to 125% of the duration of the benchmark (Barclays Capital Aggregate Bond Index) at all times. As noted in the December 31, 2008 table above, the effective duration in years of the System’s total fixed income portfolio was 4.45 years or 119.9% of the Barclays Capital Aggregate Bond Index’s duration of 3.71 years.

The System’s fixed income investments also include asset-backed securities that are sensitive to interest rate fluctuations due to embedded prepayment options.

Securities Lending — The System, through its custodial bank as lending agent, temporarily lends its securities to broker-dealers (borrowers) for collateral with a simultaneous agreement to return the collateral to the borrower for the same securities in the future.

To minimize the inherent risks of securities lending, the System has specific collateral requirements for securities lending transactions. Domestic securities loaned are collateralized at an amount equal to no less than 102% of the market value of the securities on loan, whereas international securities loaned are

collateralized at an amount equal to no less than 105% at the inception of the transaction. Allowable collateral includes cash, U.S. government securities, and irrevocable letters of credit. All borrowers are required to provide additional collateral by the next business day if the fair value of the collateral falls to less than 101% of the market value of securities on loan (marked to market). The securities lending contracts do not allow the System to pledge or sell any collateral securities unless the borrower defaults. The lending agent invests the cash collateral received in permissible fixed income securities that must have an overall average credit quality of “AA” or higher per the System’s investment policy. The System is at risk for any losses (including any loss of principal) from investing or reinvesting any cash collateral.

GASB Statement No. 28, *Accounting for Financial Reporting for Securities Lending Transactions*, requires the System to disclose the extent of the matching of the maturities of the investments made with cash collateral to the maturities of the securities on loan. For the System, the weighted-average maturity of the collateral investments is not permitted to exceed the weighted-average maturity of the securities on loan by more than one day.

As of December 31, 2008, the System had fixed income and equity securities on loan with a fair value of \$17,885. Collateral of \$18,102 in cash was received for the securities on loan and invested as follows:

Type of Collateral Investment	Rating	Principal Amount	Fair Value
Repurchase agreements		\$ 1,630	\$ 1,630
Money market mutual funds	AAA	1,481	1,481
Floating rate notes		<u>14,991</u>	<u>600</u>
Total value of invested collateral		<u>\$ 18,102</u>	<u>\$ 3,711</u>

The fair value of that portion of the invested collateral comprising floating rate notes reflects the net realizable value of those floating rate notes as of December 31, 2008, as reported to the System by its lending agent.

There is no limit on the amount of securities that can be on loan from the System’s portfolio. An individual borrower cannot hold more than 25% of the total market value of the System’s lendable assets, which includes both individually managed fixed income and domestic equity securities. The credit risk exposure to borrowers is mitigated because the collateral exceeds the amount of the securities on loan and the lending agent indemnifies the System if borrowers fail to return the underlying securities. There were no violations by the System of legal or contractual provisions and no borrower or lending agent defaults during the year.

The System was in the process of suspending securities lending as of December 31, 2008.

Foundation's Investments — The Foundation's investments were comprised of the following at December 31:

	Carolinas HealthCare Foundation, Inc.	
	2008	2007
Cash and cash equivalents	\$ 36,240	\$ 4,437
Fixed income securities	57,018	84,565
Domestic equities	64,688	106,439
International funds	55,423	99,177
Real estate limited partnerships	18,384	21,239
Hedge fund of funds limited partnership	0	36,229
Private equity fund of funds limited partnerships	9,211	7,458
	<u>\$ 240,964</u>	<u>\$ 359,544</u>

Fair value for financial reporting purposes is based on quoted market prices or an amount determined by external investment managers if quoted market prices are not available. Management reviews and evaluates fair value provided by the external investment managers as well as the valuation methods and assumptions used in determining the fair value of such investments. Although management believes the fair value estimated for investments without readily determinable market values to be reasonable at December 31, 2008, such estimated fair values (amounting to \$27,595 and \$64,926 at December 31, 2008 and 2007) may differ from the ultimate realizable value of the investments. In addition, such investments are generally less liquid than investments with a readily determinable market value.

3. OTHER ACCOUNTS RECEIVABLE

Other accounts receivable balances as of December 31 were as follows:

	2008	2007
Due from component units and managed entities	\$ 24,416	\$ 28,244
Due from governments	19,464	17,937
Other	<u>18,243</u>	<u>16,203</u>
	<u>\$ 62,123</u>	<u>\$ 62,384</u>

4. CAPITAL ASSETS

Capital assets activity for the year December 31, 2008, was as follows:

	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Land and land improvements	\$ 189,079	\$ 158	\$ 58,840	\$ (4,320)	\$ 243,757
Buildings	1,273,809	13,088	304,297	(114,932)	1,476,262
Equipment	<u>1,092,586</u>	<u>61,868</u>	<u>96,680</u>	<u>(145,211)</u>	<u>1,105,923</u>
	2,555,474	75,114	459,817	(264,463)	2,825,942
Accumulated depreciation	<u>(1,402,870)</u>	<u>(167,328)</u>	<u>0</u>	<u>206,007</u>	<u>(1,364,191)</u>
	1,152,604	(92,214)	459,817	(58,456)	1,461,751
Construction in progress	<u>395,023</u>	<u>359,331</u>	<u>(459,817)</u>	<u>0</u>	<u>294,537</u>
	<u>\$ 1,547,627</u>	<u>\$ 267,117</u>	<u>\$ 0</u>	<u>\$ (58,456)</u>	<u>\$ 1,756,288</u>

Capital assets activity for the year December 31, 2007, was as follows:

	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Land and land improvements	\$ 133,035	\$ 55,710	\$ 853	\$ (519)	\$ 189,079
Buildings	858,820	283,848	144,771	(13,630)	1,273,809
Equipment	<u>843,930</u>	<u>220,507</u>	<u>37,033</u>	<u>(8,884)</u>	<u>1,092,586</u>
	1,835,785	560,065	182,657	(23,033)	2,555,474
Accumulated depreciation	<u>(1,069,202)</u>	<u>(346,294)</u>	<u>0</u>	<u>12,626</u>	<u>(1,402,870)</u>
	766,583	213,771	182,657	(10,407)	1,152,604
Construction in progress	<u>243,919</u>	<u>333,761</u>	<u>(182,657)</u>	<u>0</u>	<u>395,023</u>
	<u>\$ 1,010,502</u>	<u>\$ 547,532</u>	<u>\$ 0</u>	<u>\$ (10,407)</u>	<u>\$ 1,547,627</u>

Net capitalized interest income of \$3,080 and net capitalized interest expense of \$9,352 for the years ended December 31, 2008 and 2007, respectively, was included in the cost of projects.

5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expense balances as of December 31, 2008 and 2007, were as follows:

	2008	2007
Vendors payable	\$ 88,287	\$ 96,449
Employee payroll and related liabilities	158,982	135,204
Employee benefit plans liabilities	39,834	41,720
Interest payable on long-term debt	14,709	5,898
Other	<u>29,458</u>	<u>24,176</u>
	<u>\$ 331,270</u>	<u>\$ 303,447</u>

6. LONG-TERM DEBT

Long-term debt, net of related issuance discounts, unamortized loss on refundings, and unamortized gains on debt-related derivative agreements, consists of the following at December 31:

	2008	2007
The System Series 1996 B, C, and D Variable Rate Demand Revenue Bonds, refunded in 2008, bearing interest at variable rates	\$ 0	\$ 70,020
The System Series 1997 A Revenue Bonds, maturing 2009 through 2011, bearing interest at 4.90% to 6.00%	11,410	14,840
The System Series 2001 A Revenue Bonds, maturing 2027 through 2031, bearing interest at 5.0%	88,535	88,535
The System Series 2003 B Variable Rate Demand Revenue Bonds, refunded in 2008, bearing interest at variable rates	0	68,150
The System Series 2005 B, C, and D Variable Rate Refunding Revenue Bonds, maturing 2009 through 2026, bearing interest at variable rates which are adjusted daily (weighted-average rate for the year ended December 31, 2008 was 1.77%)	87,725	90,895
The System Series 2005 E Variable Rate Revenue Bonds, refunded in 2008, bearing interest at variable rates	0	100,000
The System Series 2007A Revenue and Refunding Revenue Bonds, maturing 2009 through 2031, bearing interest at 4.0% to 5.0%	208,010	212,710
The System Series 2007 B and C Variable Rate Refunding Revenue Bonds, maturing 2009 through 2038, bearing interest at variable rates which are adjusted weekly (weighted-average rate for the year ended December 31, 2008 was 2.69%)	176,785	177,835
The System Series 2007 D, E, and F Variable Rate Revenue Bonds, maturing 2030 through 2044, bearing interest at variable rates which are adjusted weekly (weighted-average rate for the year ended December 31, 2008 was 2.63%)	201,415	201,415
The System Series 2007 G, J, and K Variable Rate Revenue Bonds, maturing 2031 through 2047, bearing interest at variable rates which are adjusted weekly (weighted-average rate for the year ended December 31, 2008 was 3.14%)	268,125	268,125
The System Series 2007 H Variable Rate Revenue Bonds, maturing 2027 through 2045, bearing interest at variable rates which are adjusted daily (weighted-average rate for the year ended December 31, 2008 was 2.63%)	166,050	166,050
The System Series 2007 I Variable Rate Revenue Bonds, refunded in 2008, bearing interest at variable rates	0	71,200
The System Series 2007 L Variable Rate Refunding Revenue Bonds, maturing 2032 through 2036, bearing interest at variable rates which are adjusted weekly (weighted-average rate for the year ended December 31, 2008 was 3.11%)	50,365	50,365
The System Series 2008 A Refunding Revenue Bonds, maturing 2010 through 2047, bearing interest at 3.0% to 5.25%	310,500	0
CMC - Lincoln Series 1996 A Variable Rate Demand Hospital Revenue Bonds, issued by the North Carolina Medical Care Commission, maturing 2009 through 2016, bearing interest at variable rates which are adjusted weekly (weighted-average rate for the year ended December 31, 2008 was 2.26%)	8,500	9,300
CMC - Lincoln Series 1985 Hospital Revenue Bonds (Pooled Equipment Financing Project) issued by the North Carolina Medical Care Commission, maturing 2012, bearing interest at variable rates which are adjusted weekly (weighted-average rate for the year ended December 31, 2008 was 4.15%)	1,471	1,794
Other long-term debt	17	35
	<u>1,578,908</u>	<u>1,591,269</u>
Current portion	<u>(11,561)</u>	<u>(14,813)</u>
	1,567,347	1,576,456
Net unamortized discounts	(7,060)	(1,412)
Unamortized loss on refunding	(45,403)	(30,860)
Unamortized gains on debt-related derivative agreements	<u>7,053</u>	<u>7,973</u>
	<u>\$ 1,521,937</u>	<u>\$ 1,552,157</u>

A summary of changes in long-term debt during 2008 is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Fixed rate revenue bonds	\$ 316,085	\$ 310,500	\$ (8,130)	\$ 618,455
Variable rate revenue bonds	1,275,149	661,325	(976,038)	960,436
Other long-term debt	<u>35</u>	<u>0</u>	<u>(18)</u>	<u>17</u>
	<u>\$ 1,591,269</u>	<u>\$ 971,825</u>	<u>\$ (984,186)</u>	<u>\$ 1,578,908</u>

A summary of changes in long-term debt during 2007 is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Fixed rate revenue bonds	\$ 422,920	\$ 302,840	\$ (409,675)	\$ 316,085
Variable rate revenue bonds	396,000	1,004,790	(125,641)	1,275,149
Other long-term debt	<u>75</u>	<u>0</u>	<u>(40)</u>	<u>35</u>
	<u>\$ 818,995</u>	<u>\$ 1,307,630</u>	<u>\$ (535,356)</u>	<u>\$ 1,591,269</u>

Debt service requirements for long-term debt in future years, including the impact of interest rate swap transactions discussed later in this note, are shown in the table below. Net swap payments, as reflected in the table below, are projected using the December 31, 2008 relationship between the Securities Information and Financial Markets Association (SIFMA) Municipal Swap Index and one-month London InterBank Offered Rate (LIBOR) of approximately 205%, which results in interest that is considerably higher than interest projected using the 74% average relationship between SIFMA and LIBOR over the past ten years.

	Principal	Interest	Total
2009	\$ 13,014	\$ 81,993	\$ 95,007
2010	14,982	80,484	95,466
2011	15,688	79,729	95,417
2012	16,344	78,918	95,262
2013	17,010	78,074	95,084
2014-2018	100,665	375,821	476,486
2019-2023	128,445	345,111	473,556
2024-2028	164,955	305,943	470,898
2029-2033	209,520	258,394	467,914
2034-2038	261,890	204,772	466,662
2039-2043	325,065	118,971	444,036
2044-2047	<u>311,330</u>	<u>20,906</u>	<u>332,236</u>
	<u>\$ 1,578,908</u>	<u>\$ 2,029,116</u>	<u>\$ 3,608,024</u>

Revenue Bonds are secured by and payable from the System's revenues, the money and securities held in certain funds and accounts created by the applicable bond agreements and held by the bond trustees, and in the case of the Combined Group, amounts payable by the other members of the Combined Group under their respective Member Guaranty Agreements or Member Security Agreements. The Revenue

Bonds are redeemable at the option of the System subject to certain premiums to be paid upon redemption.

In July 1996, the System issued Series 1996 B, C, and D Variable Rate Demand Revenue Bonds. Prior to their refunding in June 2008, interest on the Series 1996 B, C, and D Variable Rate Demand Revenue Bonds was payable monthly in arrears and principal was payable on January 15 of each year.

In September 1997, the System issued Series 1997 A Revenue Bonds which advance refunded \$125,170 of Series 1992 Revenue Bonds and \$13,525 of Series 1996 A Revenue Bonds. Interest on the Series 1997 A Revenue Bonds is payable semiannually on January 15 and July 15 of each year, and principal is payable on January 15 of each year.

In December 2001, the System issued Series 2001 A Revenue Bonds which currently refunded \$82,040 of Series 1992 Revenue Bonds and provided the System with \$25,000 for various capital projects. Interest on the Series 2001 A Revenue Bonds is payable semiannually on January 15 and July 15 of each year, and principal is payable on January 15 of each year.

In April 2003, the System issued Series 2003 B Variable Rate Demand Revenue Bonds insured by Ambac Assurance Corporation (“Ambac”). Prior to their refunding in June 2008, interest on the Series 2003 B Variable Rate Demand Revenue Bonds was payable immediately following the end of generally successive seven-day auction interest periods (28-day auction interest periods prior to December 14, 2007) and principal was payable on January 15 of each year.

In December 2005, the System issued Series 2005 B, C, and D Variable Rate Refunding Revenue Bonds which, together with \$2,855 of System funds, currently refunded \$96,760 of Series 1996 A Revenue Bonds. Interest on the Series 2005 B, C, and D Variable Rate Refunding Revenue Bonds is payable monthly in arrears and principal is payable on January 15 of each year.

Also in December 2005, the System issued Series 2005 E Variable Rate Revenue Bonds insured by Ambac. Prior to their refunding in June 2008, interest on the Series 2005 E Variable Rate Revenue Bonds was payable immediately following the end of generally successive seven-day auction interest periods and principal was payable on January 15 of each year.

In August 2007, the System issued Series 2007 A Revenue and Refunding Revenue Bonds, which currently refunded \$114,030 of the outstanding Series 1997 A Revenue Bonds and advance refunded \$26,445 of the outstanding Series 2001 A Revenue Bonds. Interest on the Series 2007 A Revenue Bonds is payable semiannually on January 15 and July 15 of each year and principal is payable on January 15 of each year.

Also in August 2007, the System issued Series 2007 B and C Variable Rate Refunding Revenue Bonds insured by Ambac (see below), which advance refunded all \$71,015 of the outstanding 2003 A Revenue Bonds and all \$100,000 of the outstanding 2005 A Revenue Bonds. Interest on the Series 2007 B and C Variable Rate Refunding Revenue Bonds is payable monthly in arrears and principal is payable on January 15 of each year.

In September 2007, the System issued Series 2007 D, E, and F Variable Rate Revenue Bonds insured by Financial Security Assurance, Inc. (FSA) and Series 2007 L Variable Rate Refunding Revenue Bonds insured by Ambac. Proceeds from the 2007 L Variable Rate Refunding Revenue Bonds were used to currently refund \$49,980 of the outstanding 1996 B, C and D Variable Rate Revenue Bonds. Interest on the Series 2007 D, E, and F Variable Rate Revenue Bonds and interest on the Series 2007 L Variable

Rate Refunding Revenue Bonds is payable monthly in arrears and principal is payable on January 15 of each year.

Also in September 2007, the System issued Series 2007 G, J and K Variable Rate Revenue Bonds insured by FSA and Series 2007 H and I Variable Rate Revenue Bonds insured by Ambac (see below). The proceeds of the Series 2007 H Variable Rate Revenue Bonds were used to repay \$159,930 of outstanding tax-exempt bonds issued by the North Carolina Medical Care Commission for the benefit of NEMC. Subsequent to the change in their interest rate mode in 2008 as described below, interest on the Series 2007 G, J and K Variable Rate Revenue Bonds and interest on the Series 2007 H Variable Rate Revenue Bonds is payable monthly in arrears. Principal is payable on January 15 of each year. Prior to their refunding in June 2008, interest on the Series 2007 I Variable Rate Revenue Bonds was payable immediately following the end of generally successive seven-day auction interest periods and principal was payable on January 15 of each year.

During the first half of 2008, Moody's Investors Services, Standard & Poor's and Fitch Ratings assigned negative outlooks to, and ultimately downgraded, several bond insurers, including one of the System's bond insurers, Ambac. These actions, along with the accompanying volatility in both the auction rate securities market and the variable rate demand bond market, caused the System to experience higher than expected interest costs on all its auction rate bonds and certain variable rate demand bonds. In addition, there were instances in 2008 where there were insufficient clearing bids during auctions of the Series 2003 B and Series 2005 E Bonds, which resulted in interest rates being set at a percentage of LIBOR (up to a maximum rate of 15%). Between April 2008 and July 2008, the System obtained and used two temporary short-term lines of credit aggregating \$316.1 million of which \$203.8 million was used to purchase and temporarily hold a portion of its auction rate bonds to mitigate the increased interest costs pending the execution of its plan of finance to eliminate exposure to the auction rate securities market. As part of this plan, in May 2008 and July 2008, respectively, the System used a mandatory tender process to convert its Series 2007 G, J, and K Variable Rate Revenue Bonds from auction rate bonds to weekly variable rate demand bonds and its Series H Variable Rate Revenue Bonds from auction rate bonds to daily variable rate demand bonds. As a result of this mandatory tender process, the Series 2007 G, J, K and H Variable Rate Revenue Bonds were deemed extinguished and the remarketed bonds were treated as a new issuance. In June 2008, the System issued Series 2008 A Refunding Revenue Bonds which currently refunded all \$70,020 of the outstanding Series 1996 B, C and D Variable Rate Revenue Bonds, all \$66,175 of the outstanding Series 2003 B Variable Rate Revenue Bonds, all \$100,000 of the outstanding Series 2005 E Variable Rate Revenue Bonds and all \$71,200 of the outstanding Series 2007 I Variable Rate Revenue Bonds. Interest on the 2008 A Revenue Bonds is payable semiannually on January 15 and July 15 of each year and principal is payable on January 15 of each year.

In September 2008, the System utilized a mandatory tender process to terminate the municipal bond insurance policies on its Series 2007 B, C and L Variable Rate Refunding Revenue Bonds. The effect of the removal of the municipal bond insurance was lower interest expense on these bonds.

In the event bondholders elect to tender any or all of the Series 2005 B, C and D Variable Rate Refunding Revenue Bonds or the Series 2007 B, C, D, E, F, G, H, J, K and L Revenue Bonds for purchase and the bonds cannot be remarketed, liquidity facilities provided by four highly rated financial institutions are utilized to purchase the un-remarketed bonds. Under the terms of the liquidity facilities, which have original terms ranging from one to ten years and expire at various times through September 2017, the System must repay the liquidity providers over various periods ranging from five to thirty-nine years. Bonds held by the liquidity providers generally require payment of a higher rate of interest. At December 31, 2008, there were \$55,625 of un-remarketed Series 2007 G Variable Rate Health Care

Revenue Bonds held by a financial institution. These bonds were successfully remarketed during the first week of January 2009.

In September 2006, the System assumed liability for CMC – Lincoln Series 1996 A Variable Rate Demand Hospital Revenue Bonds and Series 1985 Hospital Revenue Bonds (Pooled Equipment Program) in connection with the acquisition of assets and assumption of liabilities of CMC – Lincoln. Interest on the Series 1996 A Variable Rate Demand Hospital Revenue Bonds is payable monthly in arrears and principal is payable April 1 of each year. Principal and interest on the Series 1985 Hospital Revenue Bonds is payable monthly.

Interest expense, exclusive of amounts capitalized, was \$66,809 and \$33,918 for the years ended December 31, 2008 and 2007, respectively. Interest paid to bond holders and other lenders totaled \$69,394 and \$51,919 for the years ended December 31, 2008 and 2007, respectively.

Interest Rate Swaps — In April 2003, the System entered into a swaption contract that provided the System an up-front payment of \$7,830. As a synthetic fixed rate refunding of its Series 1996 A Revenue Bonds, this payment represented the risk-adjusted, present-value savings of a refunding as of January 15, 2006, without issuing refunding bonds in April 2003. The swaption gave the bank counterparty the option to make the System enter into a pay-fixed, receive-variable interest rate swap, and on January 15, 2006, the option was exercised, at which time the System entered into a 20-year interest rate swap agreement on its Series 2005 B, C, and D Variable Rate Refunding Revenue Bonds. The terms of this swap, which is uninsured, are shown in the table below.

In August 2007, the System entered into four separate Ambac-insured floating-to-fixed interest rate swaps, with two counterparties, in connection with its Series 2007 B and C Variable Rate Refunding Revenue Bonds, with an aggregate initial notional amount of \$177,835. These swaps were entered into in conjunction with the refunding of the Series 2003 A and 2005 A Revenue Bonds. The terms of these swaps are shown in the table below.

In September 2007, the System entered into five separate FSA-insured floating-to-fixed interest rate swaps, with three counterparties, in connection with its Series 2007 D, E and F Variable Rate Revenue Bonds, with an aggregate initial notional amount of \$201,415. The terms of these swaps are shown in the table below.

Also in September 2007, the System entered into four separate Ambac and FSA-insured floating-to-fixed interest rate swaps, with two counterparties, in connection with its Series 2007 G and H Variable Rate Revenue Bonds, with an aggregate initial notional amount of \$279,875. The terms of these swaps are shown in the table below.

In October 2007, in connection with the merger with Carolinas Medical Center – NorthEast and the refunding of its debt in September 2007, the System elected to assume the obligations of Carolinas Medical Center – NorthEast's floating-to-fixed interest rate swap agreement at an initial notional amount of \$50,000. The swap has been associated with the \$50,365 Series 2007 L Variable Rate Refunding Revenue Bonds. The swap agreement, excluding its economic terms, was modified to be consistent with the swap transactions entered into in connection with the issuance of the Series 2007 Bonds, except the swap is uninsured. The terms of this swap are shown in the table below.

In connection with the acquisition of Carolinas Medical Center – Lincoln in September 2006, the System became liable for an interest rate swap at an initial notional amount of \$5,050, which was equal to one-half of the outstanding principal balance of the Carolinas Medical Center – Lincoln Series 1996A

Variable Rate Demand Hospital Revenue Bonds. The terms of this swap, which is uninsured, are shown in the table below.

The table below summarizes the significant terms and features of the above transactions as of and for the year ended December 31, 2008. The notional amounts of the swaps effectively match the principal amounts of the associated debt, with the exception of the Carolinas Medical Center – Lincoln Series 1996 A swap, as noted above. The swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated bonds.

Associated Bonds	2005 BCD	2007 B	2007 C	2007 D	2007 E
Notional amount	\$ 87,725	\$ 89,150	\$ 87,635	\$ 67,140	\$ 77,220
Swap type	Floating-to-fixed	Floating-to-fixed	Floating-to-fixed	Floating-to-fixed	Floating-to-fixed
Effective date	January 15, 2006	August 28, 2007	August 28, 2007	September 19, 2007	September 19, 2007
Final bond maturity	January 15, 2026	January 15, 2038	January 15, 2037	January 15, 2043	January 15, 2044
The System pays	5.52 %	4.36 %	4.38 %	3.88 %	3.89 %
The System receives	75% of LIBOR	SIFMA	SIFMA	62.97% of LIBOR plus 0.29%	62.97% of LIBOR plus 0.29%
Fair value at December 31, 2008	\$ (27,251)	\$ (22,098)	\$(22,852)	\$(27,301)	\$(31,878)
Associated Bonds	2007 F	2007 G	2007 H	2007 L	CMC-Lincoln Series 1996 A
Notional amount	\$ 57,055	\$ 113,825	\$ 166,050	\$ 49,000	\$ 4,250
Swap type	Floating-to-fixed	Floating-to-fixed	Floating-to-fixed	Floating-to-fixed	Floating-to-fixed
Effective date	September 19, 2007	September 19, 2007	September 19, 2007	October 3, 2007	September 12, 2006
Final bond maturity	January 15, 2042	January 15, 2041	January 15, 2045	November 1, 2036	April 1, 2016
The System pays	3.90%	3.90%	3.88%	3.70%	3.56%
The System receives	62.97% of LIBOR plus 0.29%	62.97% of LIBOR plus 0.29%	67.50% of LIBOR if LIBOR is equal to or greater than 3.50%; 77.50% of LIBOR if LIBOR is less than 3.50%	61.94% of LIBOR plus 0.29%	SIFMA
Fair value at December 31, 2008	\$(22,910)	\$(43,731)	\$(62,911)	\$(10,961)	\$(269)

As of December 31, 2008 and 2007, all swaps had a negative fair value. The negative fair value may be countered by a reduction in total interest payments required under the System’s associated Variable Rate and Variable Rate Refunding Bonds (“Variable Rate Bonds”), creating a lower synthetic interest rate. Because the coupons on the Variable Rate Bonds adjust to changing interest rates, the Bonds do not have corresponding fair value increases. The fair values were estimated using the zero coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

As of December 31, 2008 and 2007, the System was not exposed to credit risk because the swaps had negative fair values. However, should interest rates change and the fair values of the swaps become positive, the System would be exposed to credit risk in the amount of the swaps’ fair value.

The System’s swap transactions are executed with various counterparties. Eight swaps, approximating 48% of the notional amount of swaps outstanding, are provided by one counterparty that was rated AA- and Aaa by Standard & Poor’s and Moody’s Investors Services, respectively, as of December 31, 2008. Seven additional swaps, approximating 43% of the outstanding notional value, are provided by another counterparty rated A+ and Aa3. The remaining swap is provided by a third counterparty rated AA- and Aa2 as of December 31, 2008.

In the event the System's credit ratings, as determined by Standard & Poor's and Moody's Investors Services, fall below a level of A+ or A1, respectively, and the uninsured swaps associated with Series 2005 B, C, D and L bonds have a negative fair value of \$25 million or more, then the System must post collateral on those swaps. With respect to the insured swaps associated with Series 2007 B, C, D, E, F, G and H bonds, should the financial strength ratings of Ambac and FSA, as determined by Standard & Poor's and Moody's Investors Services, fall below A- or A3, respectively, the System, at its option, must either procure replacement swap insurance policies from counterparties rated at least AAA by Standard & Poor's and Aaa by Moody's Investors Services, respectively, or agree to post collateral on those swaps that have a negative fair value of \$25 million or more if the System's credit ratings, as determined by Standard & Poor's and Moody's Investors Services, fall below a level of A+ or A1, respectively. As of December 31, 2008, no collateral was required to be posted by the System for either its insured or uninsured swaps.

The System's Variable Rate Bonds bear interest at a rate that is equivalent to the SIFMA rate. For those swaps for which it receives a variable rate based on LIBOR, the System is exposed to basis risk depending upon the relationship between SIFMA and LIBOR. If that relationship changes, the effective synthetic rate on the Variable Rate Bonds may be higher than the intended synthetic rate. As of December 31, 2008, the SIFMA rate was 0.90% and LIBOR was 0.44%, resulting in a SIFMA to LIBOR relationship of approximately 205% (see above).

The System or the counterparty may terminate any of the swaps if either party fails to perform under the terms of the contract. If any of the swaps are terminated, the associated Variable Rate Bonds would no longer carry synthetic interest rates. Also, if the swap has a negative fair value at the time of termination, the System would be liable to the counterparty for a payment equal to the swap's fair value. Likewise, if the swap has a positive fair value at the time of termination, the System would be entitled to a payment equal to the swap's fair value from the counterparty terminating the swap.

As of December 31, 2008, debt service requirements of the System's outstanding Variable Rate Bonds and net swap payments, assuming current interest rates and the SIFMA to LIBOR relationship remain the same, were as follows:

	Variable Rate Bonds		Interest Rate Swap — Net	Total
	Principal	Interest		
2009	\$ 4,745	\$ 16,944	\$ 28,390	\$ 50,079
2010	4,345	16,899	28,146	49,390
2011	3,930	16,859	27,911	48,700
2012	4,790	16,809	27,643	49,242
2013	5,020	16,757	27,363	49,140
2014-2018	22,385	83,129	133,186	238,700
2019-2023	34,565	81,505	124,602	240,672
2024-2028	50,555	79,342	113,558	243,455
2029-2033	115,035	74,863	100,061	289,959
2034-2038	190,230	63,609	74,487	328,326
2039-2043	285,800	34,076	34,574	354,450
2044-2045	74,765	172	345	75,282
	<u>\$ 796,165</u>	<u>\$ 500,964</u>	<u>\$ 720,266</u>	<u>\$ 2,017,395</u>

7. NET PATIENT SERVICE REVENUE

The System, under its charity care and uninsured discount policies, provides care without charge or at discounted rates to all uninsured patients, including any uninsured patient who experiences catastrophic related illnesses or injury. Key elements used to determine eligibility for charity care include a patient's demonstrated inability to pay based on family size and household income relative to Federal income poverty guidelines. Amounts determined to qualify as charity care are not reported as net patient service revenue. The estimated cost of services provided under the System's charity care policy based on applying an estimated cost to charge ratio to the amount of charity care charges foregone was \$104,037 and \$82,153 for the years ended December 31, 2008 and 2007, respectively.

Net patient service revenue is recorded when patient services are performed at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. The use of estimates is very common for health systems, since, with increasing frequency, even non-cost-based governmental programs have become subject to retrospective adjustments. Often such adjustments are not known for a considerable period of time after the related services are rendered. The lengthy period of time between rendering services and reaching final settlement, compounded further by the complexities and ambiguities of governmental reimbursement regulations, makes it difficult to estimate the net patient service revenue associated with these programs. This situation has been compounded by the frequency of changes in federal program guidelines.

Under the Medicare and Medicaid programs, the System is entitled to reimbursements for certain patient charges at rates determined by federal and state governments. Differences between established billing rates and reimbursements from these programs are recorded as contractual adjustments to arrive at net patient service revenue. Final determination of amounts due from Medicare and Medicaid programs is subject to review by these programs. Changes resulting from final determination are reflected as changes in estimates, generally in the year of determination. In the opinion of management, adequate provision has been made for adjustments, if any, that may result from such reviews. Net patient service revenue increased approximately \$13,000 and \$12,000 for the years ended December 31, 2008 and 2007, respectively, due to removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer subject to audits, reviews, and investigations.

Provisions for Medicare and Medicaid contractual adjustments totaled approximately \$1,680,200 and \$1,285,170 of 2008 and 2007 gross patient service revenue, respectively.

The System has, since 1996, participated in the North Carolina Medicaid Reimbursement Initiative (the "MRI Plan"). In connection therewith, the System received \$73,231 and \$53,521 from the MRI Plan during the years ended December 31, 2008 and 2007, and recognized as net revenue \$69,607 and \$51,404, respectively. Because amounts received from the MRI Plan are subject to final settlement at a later date, the System maintains reserves for any potential settlement. Management continues to reevaluate the settlement process and, as a result, lowered its reserve estimate by \$1,665 in 2008 based on final settlement of MRI Plan year 2003 and \$9,772 in 2007 based on revised estimates of potential final settlements for Plan years 2003–2006 and recognized these amounts as net revenue during 2008 and 2007. Reserves for all other unsettled years amounted to \$13,641 and \$11,682 at December 31, 2008 and 2007, respectively.

In addition, proposed CMS regulations published in the Federal Register on January 18, 2007 could have resulted in the elimination of the MRI Plan effective September 1, 2007. However, in 2007 and 2008 Congress approved moratoriums that effectively postponed any regulations that could have resulted in the elimination of the MRI Plan, the latest of which has an expiration date of April 1, 2009.

The “American Recovery and Reinvestment Tax Act of 2009” passed by Congress in February 2009 states that it is the sense of Congress that the Secretary of Health and Human Services should not promulgate as final regulations those published on January 18, 2007. This action by Congress is deemed by management as a positive development. In addition, the State made payments for the nine months ended June 30, 2009 in April 2009. Management is uncertain how this directive may affect the rest of the 2009 Plan year and the future of the MRI Plan. Accordingly, any future payments beyond June 30, 2009 cannot be determined at this time.

8. OTHER REVENUE

Other revenue is composed of the following amounts for the years ended December 31:

	2008	2007
Medical education and research grants	\$ 101,700	\$ 89,395
Rental, sales, and other revenue	<u>173,913</u>	<u>145,633</u>
	<u>\$ 275,613</u>	<u>\$ 235,028</u>

9. EMPLOYEE BENEFIT PLANS

The System currently has two defined benefit pension plans. One plan (the “CHS plan”) provides pension benefits to all System employees who have attained five or more years of service, except for Carolinas Medical Center – NorthEast employees. These benefits are based on years of service and the employees’ compensation. The Board of Commissioners of the System has the authority to amend benefit provisions.

Annual contributions are based upon actuarial calculations. The CHS plan utilizes the projected unit-credit method to determine the annual contributions. There are no employee contributions to the CHS plan.

The System’s annual pension cost and net pension asset pertaining to the CHS plan were as follows for the years ended December 31:

	2008	2007
Annual required contribution	\$ 37,576	\$ 33,208
Interest on net pension asset	(3,082)	(3,120)
Adjustment to annual required contribution	<u>3,531</u>	<u>3,575</u>
Annual pension cost	38,025	33,663
Contributions made	<u>(37,576)</u>	<u>(33,209)</u>
Decrease in net pension asset	(449)	(454)
Net pension asset — beginning of year	<u>36,255</u>	<u>36,709</u>
Net pension asset — end of year	<u>\$ 35,806</u>	<u>\$ 36,255</u>

The annual required contribution for 2008 was determined as part of the January 1, 2008 actuarial valuation. Actuarial assumptions used for 2008 and 2007 were:

Inflation rate	3.0 %
Post-retirement investment rate of return	7.5 %
Pre-retirement investment rate of return	8.5 %
Projected salary increases	5.0 %
Asset valuation method	Market-related value

The underfunded actuarial accrued liability is being amortized over a 20-year period on an open basis using the level-dollar method.

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
December 31, 2006	\$ 28,902	110.8 %	\$ 36,709
December 31, 2007	33,663	98.7	36,255
December 31, 2008	38,025	98.8	35,806

The System's progress in accumulating sufficient assets to pay benefits when due is presented below:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
January 1, 2007	\$427,732	\$431,687	\$ (3,955)	99.1 %	\$830,899	(0.5)%
January 1, 2008	465,960	486,519	(20,559)	95.8	920,411	(2.2)
December 31, 2008 (estimated)	343,216	543,930	(200,714)	63.1	966,431	(20.8)

The System, as plan sponsor, has fiduciary responsibility for the CHS plan assets on behalf of the plan participants and beneficiaries. The following table summarizes changes in CHS plan net assets for the years ended December 31:

	2008	2007
Changes in plan net assets:		
Fair value of plan net assets — beginning of year	\$ 465,960	\$ 427,732
Employer contributions	37,576	33,209
Investment (losses) gains	(135,564)	26,563
Benefits paid	(23,931)	(20,303)
Administrative expenses	(1,816)	(1,725)
Other — net	991	484
Fair value of plan net assets — end of year	<u>\$ 343,216</u>	<u>\$ 465,960</u>

The fair value of CHS plan net assets at December 31, 2008, is less than the estimated actuarial accrued liability of \$543,930. Although management believes the fair value estimated for investments without readily determinable market values to be reasonable at December 31, 2008, such estimated fair values (amounting to \$30,371 and \$77,629 at December 31, 2008 and 2007, respectively) may differ from the ultimate realizable value of the investments.

CHS plan assets were invested as follows at December 31:

	2008	2007
Cash and cash equivalents	16 %	1 %
Fixed income securities	24	18
Domestic equities	28	34
International funds	23	30
Real estate limited partnerships	6	5
Hedge fund of funds limited partnership	0	10
Private equity fund of funds limited partnerships	<u>3</u>	<u>2</u>
Total	<u>100 %</u>	<u>100 %</u>

The System's second plan provides pension benefits to Carolinas Medical Center – NorthEast employees (the "NorthEast plan") who have attained five or more years of service. The NorthEast plan is a cash balance plan that provides participants with credit based on their compensation and length of service.

The System's annual pension cost and net pension assets pertaining to the NorthEast plan were as follows for the year ended December 31, 2008 and the six months ended December 31, 2007:

	2008	2007
Annual required contribution	\$ 1,674	\$ 402
Interest on net pension asset	(1,609)	(795)
Adjustment to annual required contribution	<u>1,920</u>	<u>969</u>
Annual pension cost	1,985	576
Contributions made	<u>(1,674)</u>	<u>(402)</u>
Decrease in net pension asset	(311)	(174)
Net pension asset — beginning of year	<u>18,932</u>	<u>19,106</u>
Net pension asset — end of year	<u>\$ 18,621</u>	<u>\$ 18,932</u>

Actuarial assumptions used to determine the actuarial determined contribution for the year ended December 31, 2008 and the six months ended December 31, 2007, were:

Inflation rate	3.0 %
Investment return rate	8.5 %
Projected salary increases	5.0 %
Asset valuation method	Fair value

The overfunded actuarial accrued liability is being amortized over a 20-year period on an open basis using the level-dollar method.

Fiscal Period Ended	Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
December 31, 2007 (six months)	\$ 576	69.8%	\$ 18,932
December 31, 2008	1,985	84.3%	18,621

The System's progress in accumulating sufficient assets to pay benefits when due is presented below:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AAL)	Overfunded (Underfunded) AAL OAAL/(UAAL)	Funded Ratio	Covered Payroll	OAAL/(UAAL) as a Percentage of Covered Payroll
January 1, 2008	\$ 73,990	\$ 60,784	\$ 13,206	121.7%	\$ 163,137	8.1%
December 31, 2008 (estimated)	49,322	66,070	(16,748)	74.7	171,294	(9.8)

The System, as plan sponsor, has fiduciary responsibility for the NorthEast plan assets on behalf of the plan participants and beneficiaries. The following table summarizes changes in plan assets for the year ended December 31, 2008 and the six months ended December 31, 2007:

Changes in plan net assets:	2008	2007
Fair value of plan net assets — beginning of period	\$ 73,990	\$ 76,922
Employer contributions	1,674	402
Investment losses	(21,522)	(1,810)
Benefits paid	<u>(4,820)</u>	<u>(1,524)</u>
Fair value of plan net assets — end of period	<u>\$ 49,322</u>	<u>\$ 73,990</u>

The fair value of the NorthEast plan net assets at December 31, 2008, is less than the estimated actuarial accrued liability of \$66,070. Although management believes the fair value estimated for investments without readily determinable market values of \$2,745 to be reasonable at December 31, 2008, such estimated fair values may differ from the ultimate realizable value of the investments.

The NorthEast plan assets were invested as follows at December 31:

	2008	2007
Cash	3 %	0 %
Fixed income securities	39	29
Domestic equities	28	57
International funds	24	14
Real estate limited partnerships	<u>6</u>	<u>0</u>
Total	<u>100 %</u>	<u>100 %</u>

Effective January 1, 2009, the System combined both the CHS plan and the NorthEast plan into a single defined benefit cash balance plan. The estimated impact of the plan design changes on the CHS

projected benefit obligation as of January 1, 2009 is a reduction of \$42 million (based on January 1, 2008 actuarial data). Plan design changes, as modeled based on the January 1, 2007 actuarial study, projected a decrease in the annual required contribution in the first year of the new plan. However, the System expects a corresponding increase to its defined contribution plan discussed below.

Carolinas Medical Center — Lincoln has a single employer defined benefit pension plan, which was frozen effective June 12, 2005. As of January 1, 2008, the most recent actuarial valuation, the plan had actuarially valued assets of \$6,905 and accrued liabilities of \$6,465.

The System also has a defined contribution retirement plan under Section 401(k) of the Internal Revenue Code, covering all full-time employees. The plan is funded by voluntary employee contributions and certain matching contributions by the System. Total expense for this plan was \$19,410 and \$16,860 for the years ended December 31, 2008 and 2007, respectively. In addition, the System provides retirement benefits to certain employees under other benefit plans.

10. COMMITMENTS AND CONTINGENCIES

The System is subject to legal proceedings and claims which arise in the course of providing healthcare services. The System maintains malpractice insurance coverage for claims made during the policy year. In management’s opinion, adequate provision has been made for amounts expected to be paid under the policy’s deductible limits for asserted and unasserted claims not covered by the policy and any other uninsured liability.

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Obligations under noncancelable operating leases, principally real estate leases for medical office space, at December 31, 2008, were as follows:

2009	\$ 67,462
2010	63,884
2011	58,910
2012	53,984
2013	49,939
2014-2018	218,759
2019-2023	128,426
2024-2028	21,160
Thereafter	<u>4,566</u>
	<u>\$ 667,090</u>

In 2008, the System sold 12 medical office buildings for \$150,873 to a single third party and contemporaneously leased back certain medical office space in those buildings for various lease terms of 15 years or less. This transaction resulted in a total net gain of \$93,020, of which \$12,450 was recognized as non-operating income in 2008 and the remaining \$80,570 was recorded as a deferred gain

in current and long-term liabilities and will be amortized in proportion to the lease payments over the terms of the leases to rent expense. Based upon applicable accounting guidance, the transaction qualified for treatment as a sale and the building leases meet the definition of an operating lease. As such, the System is accounting for these leases as noncancelable operating leases which are included in the table above.

The System has entered into contracts for various construction projects, for which remaining commitments totaled approximately \$226,974 at December 31, 2008.

The System has guaranteed a portion of certain debt and lease payments of a community-based blood center and certain lease payments of a local emergency medical transport service totaling \$2,400 and \$1,029, respectively, at December 31, 2008. The System has committed \$2,500 to an affiliate organization for the construction of a new healthcare facility. At December 31, 2008, the remaining amount under this commitment was \$2,000.

The System has committed to invest \$100 million in healthcare facilities and services in Lincoln County, North Carolina prior to September 12, 2016. As of December 31, 2008, the System has spent \$2 million and approved the remaining \$98 million of its commitment for construction of a new hospital in Lincoln County.

The System has committed to invest \$600 million in healthcare facilities and services in Cabarrus County, North Carolina prior to June 30, 2015. As of December 31, 2008, the System has spent \$46 million towards this commitment and approved an additional \$340 million for specific healthcare facility projects and equipment in Cabarrus County.

11. BUSINESS COMBINATIONS AND CERTAIN OTHER AFFILIATIONS

The System accounts for the acquisition of healthcare related businesses using the purchase method of accounting. Any excess of purchase price over carrying value of net assets acquired is being amortized over periods which do not exceed 25 years. The results of operations of these acquired entities are included in the System's combined results of operations from the dates of acquisition. In addition, the System has entered into agreements to manage or lease certain healthcare facilities under varying terms and conditions.

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OTHER FINANCIAL INFORMATION

INDEPENDENT AUDITORS' REPORT ON OTHER FINANCIAL INFORMATION

To the Board of Commissioners of
Carolinas HealthCare System:

Our audits were conducted for the purpose of forming an opinion on the System's basic financial statements taken as a whole. The other financial information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. This other financial information is the responsibility of the System's management. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Deloitte & Touche LLP

April 30, 2009

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Carolinas HealthCare System)

COMBINED BALANCE SHEETS — DISCRETELY PRESENTED COMPONENT UNITS
AS OF DECEMBER 31, 2008 AND 2007
(Dollars in thousands)

	2008					2007				
	Carolinas Union Healthcare	Cleveland County HealthCare System	Carolinas—Anson Healthcare	Carolinas HealthCare Foundation	Combined	Carolinas Union Healthcare	Cleveland County HealthCare System	Carolinas—Anson Healthcare	Carolinas HealthCare Foundation	Combined
ASSETS										
CURRENT ASSETS:										
Cash and cash equivalents	\$ 11,902	\$ 8,306	\$ 789	\$ 4,123	\$ 25,120	\$ 9,838	\$ 6,634	\$ 931	\$ 2,076	\$ 19,479
Short-term investments	11,048	5,406	0	6,900	23,354	13,263	9,388	0	4,312	26,963
Collateral on loaned securities	0	0	0	5,442	5,442	0	0	0	9,928	9,928
Patient accounts receivable, net of combined allowances for uncollectible accounts of \$22,182 in 2008 and \$26,917 in 2007	19,784	32,706	4,924	0	57,414	20,612	30,840	4,524	0	55,976
Other accounts receivable	(370)	5,667	131	2,111	7,539	1,141	5,741	311	2,607	9,800
Assets limited as to use — current portion	1,383	197	0	0	1,580	1,363	188	0	0	1,551
Inventories	2,337	3,977	483	0	6,797	2,018	3,872	543	0	6,433
Prepaid expenses	2,132	12,089	749	250	15,220	2,159	8,913	573	221	11,866
Total current assets	48,216	68,348	7,076	18,826	142,466	50,394	65,576	6,882	19,144	141,996
CAPITAL ASSETS										
Accumulated depreciation	186,966	227,252	25,129	12,048	451,395	174,571	214,376	24,771	11,971	425,689
	(95,586)	(122,795)	(16,201)	(2,103)	(236,685)	(85,856)	(110,181)	(15,195)	(1,738)	(212,970)
Total capital assets — net	91,380	104,457	8,928	9,945	214,710	88,715	104,195	9,576	10,233	212,719
OTHER ASSETS:										
Assets limited as to use:										
Bond proceeds held by trustee	2,018	0	0	0	2,018	2,365	0	0	0	2,365
Designated as funded depreciation	43,550	65,153	1,769	0	110,472	55,329	86,353	2,172	0	143,854
Other assets limited as to use	0	2,679	1,076	234,064	237,819	0	2,787	1,574	355,232	359,593
Other assets	5,343	7,174	0	19,488	32,005	5,543	7,648	0	23,814	37,005
Total other assets	50,911	75,006	2,845	253,552	382,314	63,237	96,788	3,746	379,046	542,817
TOTAL ASSETS	\$ 190,507	\$ 247,811	\$ 18,849	\$ 282,323	\$ 739,490	\$ 202,346	\$ 266,559	\$ 20,204	\$ 408,423	\$ 897,532
LIABILITIES AND NET ASSETS										
CURRENT LIABILITIES:										
Accounts payable	\$ 4,918	\$ 8,264	\$ 1,255	\$ 313	\$ 14,750	\$ 5,802	\$ 7,282	\$ 1,016	\$ 306	\$ 14,406
Salaries and benefits payable	6,145	6,308	311	0	12,764	5,384	5,663	517	0	11,564
Obligations under securities lending	0	0	0	5,442	5,442	0	0	0	9,928	9,928
Other liabilities and accruals	5,118	11,989	333	23,514	40,954	6,900	12,042	426	28,204	47,572
Estimated third-party reserves	5,506	12,435	1,913	0	19,854	5,377	11,919	1,682	0	18,978
Current portion of long-term debt	855	1,776	0	0	2,631	820	2,365	106	0	3,291
Total current liabilities	22,542	40,772	3,812	29,269	96,395	24,283	39,271	3,747	38,438	105,739
LONG-TERM DEBT — Less current portion	42,626	66,825	0	0	109,451	42,428	69,742	31	0	112,201
OTHER LIABILITIES	0	445	0	0	445	0	0	0	0	0
COMMITMENTS AND CONTINGENCIES										
NET ASSETS:										
Invested in capital assets — net of related debt	47,899	35,856	8,928	9,945	102,628	45,467	32,088	9,800	10,233	97,588
Restricted for debt service	3,401	2,876	0	0	6,277	3,728	2,975	0	0	6,703
Restricted — other	0	0	1,691	174,839	176,530	0	0	1,669	248,204	249,873
Unrestricted	74,039	101,037	4,418	68,270	247,764	86,440	122,483	4,957	111,548	325,428
Total net assets	125,339	139,769	15,037	253,054	533,199	135,635	157,546	16,426	369,985	679,592
TOTAL LIABILITIES AND NET ASSETS	\$ 190,507	\$ 247,811	\$ 18,849	\$ 282,323	\$ 739,490	\$ 202,346	\$ 266,559	\$ 20,204	\$ 408,423	\$ 897,532

THE CHARLOTTE-MECKLENBURG HOSPITAL AUTHORITY
(d/b/a Carolinas HealthCare System)

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS — DISCRETELY PRESENTED COMPONENT UNITS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(Dollars in thousands)

	2008					2007				
	Carolinas Union Healthcare	Cleveland County HealthCare System	Carolinas— Anson Healthcare	Carolinas HealthCare Foundation	Combined	Carolinas Union Healthcare	Cleveland County HealthCare System	Carolinas— Anson Healthcare	Carolinas HealthCare Foundation	Combined
NET PATIENT SERVICE REVENUE	\$ 165,066	\$ 196,972	\$ 22,912	\$ 0	\$ 384,950	\$ 161,429	\$ 188,462	\$ 24,657	\$ 0	\$ 374,548
OTHER REVENUE	5,434	2,722	350	7,324	15,830	5,144	4,211	271	11,835	21,461
Total revenue	170,500	199,694	23,262	7,324	400,780	166,573	192,673	24,928	11,835	396,009
OPERATING EXPENSES:										
Employee compensation	103,743	105,360	13,964	2,134	225,201	94,964	99,801	13,919	2,128	210,812
Other expenses	52,510	74,841	8,914	29,231	165,496	52,066	72,279	9,418	28,539	162,302
Depreciation and amortization	10,885	13,548	1,007	422	25,862	10,933	12,893	1,044	400	25,270
Interest expense	1,499	3,685	6	0	5,190	1,830	3,152	16	0	4,998
Total operating expenses	168,637	197,434	23,891	31,787	421,749	159,793	188,125	24,397	31,067	403,382
OPERATING INCOME (LOSS)	1,863	2,260	(629)	(24,463)	(20,969)	6,780	4,548	531	(19,232)	(7,373)
NONOPERATING INCOME:										
Interest and dividend income	1,895	3,071	45	5,715	10,726	3,672	3,640	60	7,243	14,615
Net increase in the fair value of investments and other assets	(13,313)	(23,634)	(894)	(103,103)	(140,944)	354	2,934	166	14,954	18,408
Other — net	196	13	0	0	209	230	37	0	0	267
Total nonoperating income — net	(11,222)	(20,550)	(849)	(97,388)	(130,009)	4,256	6,611	226	22,197	33,290
REVENUE (UNDER) OVER EXPENSES BEFORE CONTRIBUTIONS	(9,359)	(18,290)	(1,478)	(121,851)	(150,978)	11,036	11,159	757	2,965	25,917
CAPITAL CONTRIBUTIONS	260	569	43	1,557	2,429	165	479	35	(18,083)	(17,404)
OTHER CONTRIBUTIONS	(1,197)	(56)	46	3,363	2,156	(2,433)	(3,130)	(159)	0	(5,722)
INCREASE (DECREASE) IN NET ASSETS	(10,296)	(17,777)	(1,389)	(116,931)	(146,393)	8,768	8,508	633	(15,118)	2,791
NET ASSETS:										
Beginning of year	135,635	157,546	16,426	369,985	679,592	126,867	149,038	15,793	385,103	676,801
End of year	\$ 125,339	\$ 139,769	\$ 15,037	\$ 253,054	\$ 533,199	\$ 135,635	\$ 157,546	\$ 16,426	\$ 369,985	\$ 679,592

APPENDIX C

**DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE BOND ORDER
AND THE SERIES RESOLUTION**

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DEFINITIONS OF CERTAIN TERMS

The following is a summary of definitions of certain terms used in this Official Statement, the Bond Order or the Series Resolution. Any other capitalized terms used herein that are not defined herein are defined in the Bond Order or the Series Resolution.

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

“Act” means The State and Local Government Revenue Bond Act, Article 5 of Chapter 159 of the General Statutes of North Carolina, as the same may be amended from time to time.

“Additional Bonds” means the bonds authorized to be issued under Section 206 of the Bond Order.

“Affiliate” means a corporation, partnership, limited liability company, joint venture, association, business trust or similar entity organized under the laws of the United States of America or any state thereof, whether for profit or not for profit, a majority of the members of the governing body of which are (i) the same as the Commissioners of the Authority or (ii) subject, directly or indirectly, to election or appointment by the Authority.

“Architect” means the architect or firm of architects, or engineers or firm of engineers, as the case may be, who shall be duly registered and licensed by the State and employed by the Authority or under the employment of the Authority.

“Audited Financial Statements” means the consolidated financial statements of the Authority and such other Persons includable therein, prepared in accordance with generally accepted accounting principles, for a 12-month period or for such other period for which an audit has been performed, which have been audited and reported upon by independent certified public accountants selected by the Authority. To the extent required, Audited Financial Statements shall also include, or be accompanied by, the Financial Statements.

“Authorities Act” means the Hospital Authorities Act, Article 2, Part 2 of Chapter 131E of the General Statutes of North Carolina, as the same may be amended from time to time.

“Authority” means The Charlotte-Mecklenburg Hospital Authority, and any successor thereto.

“Authority Counsel” means any attorney or attorneys acting on behalf of the Authority.

“Authority Representative” means each of the Person(s) at the time designated by resolution of the Authority to act on behalf of the Combined Group, which Person(s) are named in a written certificate furnished to the Trustee, which certificate shall contain the specimen signature(s) of such Person(s) and shall be signed on behalf of the Combined Group by the Chairman or Vice Chairman of the Board.

“Balloon Long-Term Indebtedness” means (i) Long-Term Indebtedness 25% or more of the principal payments of which are due in a single period of 12 full consecutive calendar months, which portion of the principal is not required by the documents pursuant to which such Indebtedness is issued to be amortized by payment or redemption prior to such date. Balloon-Long Term Indebtedness does not include any Indebtedness that otherwise qualifies as Interim Indebtedness.

“Base Value” means, at the option of the Authority, which may be exercised either with respect to all or any one or more items of property, plant and equipment, (a) the cost basis of property, plant and equipment, net of accumulated depreciation, of the Combined Group as shown on the Financial Statements for the most recent period of 12 full consecutive calendar months or period for which Financial Statements are available, or (b) the appraised value of such property, plant and equipment as determined by an appraiser selected by the Authority and acceptable to the Trustee, such appraisal taking place within the 2-year period preceding the date such value is used in any computation or calculation pursuant to the Bond Order.

“Board” means the Board of Commissioners of the Authority, or any successor board or body in which the power to govern the Authority shall be vested and shall include any duly appointed committee authorized by law to act for the Board of Commissioners of the Authority or the Authority.

“Bond Counsel” means a nationally recognized firm of attorneys experienced in municipal bond financings selected by the Authority.

“Bond Fund” means The Charlotte-Mecklenburg Hospital Authority Revenue Bond Fund created by Section 501 of the Bond Order.

“Bond Order” means the Second Amended and Restated Bond Order adopted by the Authority as of September 9, 1997, as amended by a First Amendment thereto dated as of November 1, 2001, as further amended by a Second Amendment thereto dated as of June 1, 2002, and as further amended by a Third Amendment thereto dated as of September 11, 2007, together with any supplemental bond order(s) adopted in accordance with the provisions thereof or any successor instrument arising out of or becoming effective pursuant to Section 732 thereof.

“Bonds” means all Bonds Outstanding from time to time under the Bond Order, currently those described in the forepart of this Official Statement under “INTRODUCTION AND SUMMARY—Our Outstanding Bonds; Additional Bonds”.

“Bond Year” means, with respect to the Series 2009A Bonds, the period commencing on January 15 of any year and ending on January 14 of the following year and, with respect to any Additional Bonds, such period, if any, as may be specified in the series resolution authorizing such Additional Bonds.

“Business Day” means a day on which banks located in the city in which the principal office of the Trustee is located are not required or authorized to remain closed and on which The New York Stock Exchange is not closed.

“Combined Group” means the Members of the Obligated Group and all Designated Affiliates.

“Cost” as applied to any Improvements financed by Bonds, means, without intending thereby to limit or restrict any proper definition of such word under the Act and the Authorities Act, all items of cost set forth in Section 403 of the Bond Order, including, but not limited to, obligations incurred by any Member of the Combined Group in connection with the construction or acquisition of Improvements, obligations incurred by any Member of the Combined Group in connection with the acquisition of any tangible or intangible property or interest therein, including the equity interest(s) of any Person which, upon such acquisition, immediately becomes a Member of the Combined Group, the cost of preparing and acquiring interests in real property, the fees and expenses of the Trustee, attorneys and accountants, financing charges and the cost of insurance.

“Credit Facility” means a line of credit, letter of credit, standby bond purchase agreement, municipal bond insurance policy, surety bond or similar credit enhancement or liquidity facility established to provide credit or liquidity support for Indebtedness or in lieu of deposits to any debt service reserve fund created under any series resolution. The Authority may be the provider of its own Credit Facility; provided, however, that during any period in which any Bond Outstanding under the Bond Order is rated lower than AA - or its equivalent by any rating agency then rating any such Bonds, the Authority must first obtain Local Government Commission approval to serve as provider of its own Credit Facility during such period.

“Defeasance Obligations” means (i) noncallable Government Obligations, (ii) evidences of ownership of a proportionate interest in specified noncallable Government Obligations, which noncallable Government Obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity of custodian, (iii) to the extent then permitted by applicable law, including N.C.G.S. Section 159-30(b) and any successor statutory provision, noncallable obligations of any agency or instrumentality of the United States government, (iv) noncallable certificates of deposit issued by a bank or trust company located in the State of North Carolina, if such certificates shall be secured by a pledge of noncallable Government Obligations or obligations described in (ii) or (iii) above, or any combination thereof, and (v) obligations of state or local government municipal bond issuers, provisions for the payment of principal of and interest on which shall have been made by deposit with a trustee or escrow agent of noncallable Government Obligations or obligations described in (ii), (iii) or (iv) above, or any combination thereof, the maturing principal of an interest on which, when due and payable, will provide sufficient money to pay the principal of, premium, if any, and interest on such obligations of state or local government municipal bond issuers.

“Defeased Series 2009A Bonds” means the maturity or maturities and the amount of each maturity of the Series 2009A Bonds selected by the Authority for defeasance as provided in the Series Resolution.

“Derivative Indebtedness” means all or any portion of Indebtedness of any Member of the Combined Group with respect to which a Hedging Transaction has been entered into and which Indebtedness is expressly identified in such Hedging Transaction.

“Designated Affiliate” means any Person constituting a Designated Affiliate from time to time pursuant to Section 731 of the Bond Order.

“Eminent Domain” means the eminent domain or condemnation power by which all or any part of the Obligated Health Care System may be taken for public use or any agreement that is reached in lieu of proceedings to exercise such power.

“Equipment” means those items constituting equipment, as that term is defined in the North Carolina Uniform Commercial Code, and all fixtures now owned or hereafter acquired by (i) any Member of the Obligated Group for use in the operation and maintenance of the Obligated Health Care System or (ii) Designated Affiliates.

“Event of Default” means each of the events set forth in Section 801 of the Bond Order and, with respect to the Series 2009A Bonds, each of the events set forth in Section 701 of the Series Resolution, all as described herein under “Events of Default and Remedies.”

“Existing Restrictions” means those covenants, limitations, restrictions or conditions included in any agreement enforceable against a Member of the Obligated Group, which agreement was in existence on the date such Person became a Member of the Obligated Group, which prohibits such Member of the

Obligated Group from discharging a particular obligation or complying with a particular covenant or limitation in the Bond Order, or in a Member Guaranty Agreement or Member Security Agreement executed by such Member of the Obligated Group, or which would constitute an event of default or noncompliance under such agreement as a consequence of discharging a particular obligation or complying with a particular covenant or limitation in the Bond Order, or in a Member Guaranty Agreement or Member Security Agreement executed by such Member of the Obligated Group.

“Financial Statements” means generally the unaudited combined financial statements of the Combined Group derived from the Audited Financial Statements and prepared by the Authority, and which are included, as an additional information section, in the Audited Financial Statements, or which accompanies the Audited Financial Statements, and which covers the same 12-month or other period as the Audited Financial Statements, from which the revenues, assets, liabilities and expenses of any Person which is not a Member of the Obligated Group or a Designated Affiliate have been eliminated and to which the revenues, assets, liabilities and expenses of any Member of the Combined Group which is not included in the Audited Financial Statements have been added; provided, however, that for purposes of adding the revenues, assets, liabilities and expenses of a Member of the Combined Group which is not included in the Audited Financial Statements, the balances thereof shall be extracted from audited financial statements of such Member of the Obligated Group, Designated Affiliate and its affiliates (determined in the same manner as in the case of the Authority), if any. Notwithstanding the foregoing, if the net amount of revenues and assets that would be eliminated or added pursuant to the immediately preceding sentence is not greater than 5% of the amount of revenues and assets as shown on the Audited Financial Statements for the period which would be covered by the Financial Statements, then the Combined Group shall substitute the Audited Financial Statements in lieu of Financial Statements for the period covered by the Audited Financial Statement for all purposes of the Bond Order; provided, however, that in such event the Audited Financial Statements shall disclose by supplement or other appropriate means the aggregate amount of revenues and assets that would otherwise be excluded from or added to such Audited Financial Statements.

“Fiscal Year” means the period of 12 full consecutive calendar months or other period included in the Audited Financial Statements in accordance with generally accepted accounting principles, unless the Trustee is notified in writing by the Authority Representative of a change or difference in such period, in which case the Fiscal Year means the 12-month or other period set forth in such notice in accordance with generally accepted accounting principles; provided, however, that one or more Members of the Combined Group may have a fiscal year which does not coincide with the Fiscal Year of the Authority so long as the financial statements of such Member of the Obligated Group can be combined with that of the Authority in accordance with generally accepted accounting principles.

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

“Government Obligations” means direct obligations of, or obligations the timely payment of the principal of and interest on which are fully and unconditionally guaranteed by, the United States of America.

“Governmental Restrictions” means federal, state or other applicable governmental laws or regulations affecting any Member of the Combined Group and its facilities by placing restrictions and limitations on the (i) fees and charges to be fixed, charged and collected by any Member of the Combined Group or (ii) the amount or timing of the receipt of such revenues or expenses of operation.

“Guarantor” when used in a Member Guaranty Agreement means each Member of the Obligated Group that has entered into a Member Guaranty Agreement.

“Guaranty” means any obligation of any Member of the Combined Group guarantying in any manner, directly or indirectly, any obligation of any Person that is not a Member of the Combined Group, which obligation of such other Person would, if such obligation were the obligation of a Member of the Combined Group, constitute Indebtedness under the Bond Order. A Guaranty shall be valued for inclusion as Indebtedness as provided in the Bond Order.

“Health Care System” means, collectively, all facilities of the Authority and its Affiliates in existence upon the date of adoption of the Bond Order at which health care or medical services are provided and all Improvements, whether the same are now existing or hereinafter constructed, installed or acquired.

“Hedging Transaction” means an agreement, expressly identified in an Officer’s Certificate delivered to the Trustee as being entered into in order to hedge the interest payable on all or a portion of any Indebtedness, which agreement may include, without limitation, an interest rate swap, a forward or futures contract or an option (e.g., a call, put, cap, floor or collar) and which agreement does not constitute an obligation to repay money borrowed, credit extended or the equivalent thereof.

“Historic Long-Term Debt Service Coverage Ratio” means the Long-Term Debt Service Coverage Ratio of the Combined Group for the most recent period of 12 full consecutive calendar months or other period upon which Financial Statements are prepared for which Financial Statements are available.

“Holder” means the registered owner of any Parity Debt Outstanding.

“Improvements” means, generally, (i) any additions, enlargements, improvements, extensions, alterations, fixtures, equipment, land, appurtenances, and other facilities to or for the Health Care System and (ii) to the extent otherwise permitted by applicable law, any additions, enlargements, improvements, extensions, alterations, fixtures, equipment, land, appurtenances, and other facilities to or for any Designated Affiliate not a part of the Health Care System.

“Income Available for Debt Service” means, with respect to the Combined Group, as to any period of 12 full consecutive calendar months or other period for which Financial Statements are available, the combined excess of revenues over expenses before depreciation, amortization and interest expense reflected on such Financial Statements, as determined in accordance with generally accepted accounting principles; provided, however, that no determination thereof shall take into account any gain or loss resulting from the extinguishment of Indebtedness, any unrealized gain or loss, including any unrealized change in the value of a Hedging Transaction, any realized gain or loss resulting from the sale, exchange or other disposition of capital assets other than in the ordinary course of business and provided, however, that revenues shall not include income from investments from funds held in a Qualified Escrow to the extent that such income is to be applied to the payment of principal, premium, if any, or interest on Long-Term Indebtedness which is excluded from the determination of Long-Term Debt Service Requirement. If a Member of the Combined Group has issued a Guaranty with respect to Indebtedness of a Non-Combined Person, which Indebtedness would constitute Long-Term Indebtedness if incurred directly by a Member of the Combined Group, then in any period of 12 full consecutive calendar months or other period upon which Financial Statements are prepared that any amount of such Guaranty is required to be taken into account in computing the Long-Term Debt Service Coverage Ratio of the Combined Group, the term Income Available for Debt Service shall also include the Percentage Interest

in the excess of revenues over operating expenses and the debt service requirements of such Non-Combined Person for the same period included in such period.

“Indebtedness” means (i) all obligations of any Member of the Combined Group for borrowed money, (ii) all installment sales and capital lease obligations, incurred or assumed by any Member of the Combined Group and (iii) all Guaranties (to the extent required to be taken into account for purposes of the Bond Order), whether constituting Long-Term Indebtedness or Short-Term Indebtedness; provided, however that there shall be excluded Indebtedness of any Member of the Combined Group to any other Member of the Combined Group.

“Interest Account” means the account in the Bond Fund created and so designated by Section 501 of the Bond Order.

“Interest Payment Date” means, with respect to the Series 2009A Bonds, January 15 or July 15, as the case may be (with the first Interest Payment Date on January 15, 2010), and, with respect to any other Additional Bonds, means such date or dates as shall be provided in the series resolution authorizing such Additional Bonds.

“Interested Beneficial Owner” means any Person who shall have established to the satisfaction of the Authority that he is a beneficial owner of at least \$1,000,000 of Outstanding Series 2009A Bonds and who shall have filed with the Authority, within the period of twenty-four (24) months immediately prior to each quarterly period when such term has application, a request in writing setting forth his name and address and that he desires to receive a copy of the Quarterly Reports. An assertion of Interested Beneficial Ownership shall be filed, with such documentary support acceptable to the Authority, as shall be sufficient to establish such beneficial ownership as part of such request, and the Authority may conclusively rely, without making any investigation respecting any fact preparatory to taking any action in reliance thereon, upon the accuracy of the statements and the correctness of the matters stated in such request. Notwithstanding the foregoing, the Authority may require any Person to establish, in the manner described above and not later than 75 days after the end of the particular quarterly period, that he continued to be the beneficial owner of at least \$1,000,000 of Outstanding Series 2009A Bonds as of the last day of a particular quarterly period as a condition precedent to providing the Quarterly Reports to such Person as an Interested Beneficial Owner pursuant to Section 1113 of the Series Resolution for such quarterly period and any subsequent quarterly period unless and until such Person reestablishes his status as an Interested Beneficial Owner.

“Interim Indebtedness” means Indebtedness having an original term (including therein optional renewals by a Member of the Combined Group) from the date incurred of at least one but not more than five years, with respect to which an Officer’s Certificate is delivered to the Trustee to the effect that permanent financing of the Improvements to be temporarily financed with such Interim Indebtedness is expected to be obtained within five years from the date of incurrence of such Interim Indebtedness.

“Investment Grade” means that rating of Moody’s, S & P, Fitch or any other rating agency of national recognition acceptable to the Local Government Commission with a rating then outstanding with respect to any Bond issued under the Bond Order which represents the lowest rating which Moody’s, S & P, Fitch or any such other rating agency then recognizes as being investment grade.

“Investment Obligations” means Government Obligations and, to the extent from time to time permitted by law, (a) obligations of (i) Federal National Mortgage Association, (ii) Federal Intermediate Credit Banks, (iii) Federal Banks for Cooperatives, (iv) Federal Land Banks, (v) Federal Home Loan Banks, (vi) Federal Financing Bank, (vii) Federal Farm Credit System, (viii) Federal Home Loan Mortgage Corporation, (ix) Government National Mortgage Association, (x) Federal Housing

Administration, and (xi) Farmers Home Administration, (b) certificates of deposit or time deposits of any bank, any branch of any bank, trust company, national banking association (including the Trustee and its affiliates) or federally chartered savings and loan association; provided, however, that such certificates of deposit or time deposits shall be fully secured, to the extent not secured by the Federal Deposit Insurance Corporation by Government Obligations or by obligations described in clauses (i) to (xi), inclusive, of (a) above, (c) evidences of ownership of a proportionate interest in specified Government Obligations, which Government Obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity of custodian, (d) obligations of state or local government municipal bond issuers, provision for the payment of the principal of and interest on which shall have been made by deposit with a trustee or escrow agent of Government Obligations or obligations described in (c) above, the maturing principal of and interest on which, when due and payable, shall provide sufficient money to pay the principal of, premium, if any, and interest on such obligations of state or local government municipal bond issuers, (e) obligations of state or local government municipal bond issuers, the principal of and interest on which, when due and payable, have been insured by a bond insurance company which is rated in the highest rating category by Moody's and S&P, (f) full faith and credit obligations of state or local government bond issuers which are rated in the highest rating category by both Moody's and S&P, (g) any repurchase agreement by the Trustee that is with a bank or trust company (including the Trustee and its affiliates) or recognized securities dealer for Government Obligations in which the Trustee shall be given a first security interest and on which no third party shall have a lien and having on the date of the repurchase agreement a fair market value equal to at least 100% of the amount of the repurchase obligation of the bank, trust company or recognized securities dealer; provided, however, that such obligations purchased must be transferred to the Trustee or a third party agent by physical delivery or by an entry made on the records of the issuer of such obligations and (h) any other investment to the extent from time to time permitted by applicable law including, but not limited to, N.C.G.S. Section 159-30(b) and any successor statutory provision. Any investment in a repurchase agreement shall be considered to mature on the date the bank, trust company or recognized securities dealer providing the repurchase agreement is obligated to repurchase the Investment Obligations. Any investment in Government Obligations or in obligations described in (a), (c), (d) and (e) above may be made in the form of an entry made on the records of the issuer of the particular obligation.

“Lien” means any mortgage, deed of trust or pledge of, security interest in or encumbrance on any property of any Member of the Combined Group which secures any Indebtedness or any other obligation of any Member of the Obligated Group, Designated Affiliate or any other Person, other than any Indebtedness or obligation payable to a Member of the Obligated Group or a Designated Affiliate.

“Local Government Commission” or “LGC” means the Local Government Commission of North Carolina, a division of the Department of State Treasurer, and any successor or successors thereto.

“Long-Term Debt Service Coverage Ratio” means for any period of calculation the ratio determined by dividing the Income Available for Debt Service by the Long-Term Debt Service Requirement for the period of calculation.

“Long-Term Debt Service Requirement” means (a) for purposes of determining the Historic Long-Term Debt Service Coverage Ratio, for the period of 12 full consecutive calendar months or other period upon which Financial Statements are prepared for which such determination is made, the principal of and interest due in such period on all Outstanding Long-Term Indebtedness of any Member of the Combined Group, taking into account (i) with respect to Balloon Long-Term Indebtedness or Interim Indebtedness, there shall be excluded from such calculation any principal installment of Balloon Long-Term Indebtedness or Interim Indebtedness due in such period, whether at maturity or pursuant to mandatory redemption, if the debtor has designated prior to the payment or redemption date available and unrestricted funds for such payment or redemption or has received a binding commitment from a

recognized financial institution to refinance such principal on reasonable terms and (ii) with respect to Derivative Indebtedness, the interest on such Derivative Indebtedness may, at the option of the Authority, include payments made and received by the relevant Member of the Combined Group or to be made and received by the relevant Member of the Combined Group under the related Hedging Transaction; provided, however, that at the time such option is exercised, the Authority delivers to the Trustee an Officer's Certificate to the effect that the institution which is a counterparty to such Hedging Transaction is obligated to make such payments thereunder for the period for which such payments are proposed to be taken into account, and (b) for purposes of any forecast of the Long-Term Debt Service Coverage Ratio, for the period of 12 full consecutive calendar months or other period upon which Financial Statements are prepared for which such determination is made, the principal of and interest which will be due in such period on all Outstanding Long-Term Indebtedness of any Member of the Combined Group, taking into account (i) with respect to Balloon Long-Term Indebtedness or Interim Indebtedness, there shall be excluded from such calculation any principal installment of Balloon Long-Term Indebtedness or Interim Indebtedness due in such period, whether at maturity or pursuant to mandatory redemption, if the debtor has designated prior to the payment or redemption date available and unrestricted funds for such payment or redemption or has received a binding commitment from a recognized financial institution to refinance such principal on reasonable terms, (ii) with respect to Derivative Indebtedness, the interest on such Derivative Indebtedness may, at the option of the Authority, include payments made and received by the relevant Member of the Combined Group or to be made and received by the relevant Member of the Combined Group under the related Hedging Transaction; provided, however, that at the time such option is exercised, the Authority delivers to the Trustee an Officer's Certificate to the effect that the institution which is a counterparty to such Hedging Transaction is obligated to make such payments thereunder for the period for which such payments are proposed to be taken into account, (iii) with respect to any Credit Facility, to the extent that such Credit Facility has not been used or drawn upon, no principal and interest relating to such Credit Facility shall be included in the forecasted Long-Term Debt Service Requirement, (iv) with respect to a Guaranty of Long-Term Indebtedness, no amount of principal and interest of the guaranteed Indebtedness shall be included in the forecasted Long-Term Debt Service Requirement during any period of 12 consecutive calendar months for which such determination is made if the relevant Member of the Combined Group has not theretofore been required to make any payments in respect of principal or interest on the Indebtedness guaranteed and (v) with respect to Variable Rate Indebtedness that is Long-Term Indebtedness, the forecasted interest on such Variable Rate Indebtedness shall be equal to the 52-week running average of The Bond Market AssociationTM Municipal Swap Index for the most recent date available (or, if such index is no longer available, another index certified to be comparable by a commercial bank or investment banking firm experienced in municipal finance); provided, however, for purposes of both (a) and (b), that interest shall be excluded from the determination of the Long-Term Debt Service Requirement to the extent the same is provided from the proceeds of the Long-Term Indebtedness; and provided, further, that principal and interest shall be excluded from the determination of Long-Term Debt Service Requirement to the extent a Qualified Escrow has been established.

“Long-Term Indebtedness” means Indebtedness having a maturity of, or a term longer than, 12 months when initially incurred or assumed by any Member of the Combined Group, including Guaranties (to the extent required to be taken into account under the Bond Order), Short-Term Indebtedness if a commitment by an institutional lender exists to provide financing to retire such Short-Term Indebtedness and such commitment provides for the repayment of principal on terms which would, if such commitment were implemented, constitute Long-Term Indebtedness, and the current portion of Long-Term Indebtedness, for any of the following:

- (i) money borrowed for an original term, or renewable at the option of any Member of the Combined Group for a period from the date originally incurred, longer than one year;

(ii) leases which are required to be capitalized in accordance with generally accepted accounting principles having an original term, or renewable at the option of any Member of the Combined Group for a period from the date originally incurred, longer than one year; and

(iii) installment sale or conditional sale contracts of any Member of the Combined Group having an original term in excess of one year;

provided, however, that any Guaranty by any Member of the Combined Group of any obligation of any Person which obligation would, if it were a direct obligation of a Member of the Combined Group, constitute Short-Term Indebtedness shall be excluded.

“Management Consultant” means a firm of independent certified public accountants or a management consulting firm of favorable repute for skill and experience in performing the duties to be imposed upon the Management Consultant by the Bond Order.

“Member Guaranty Agreement” means that agreement by which a Person becomes a Member of the Obligated Group by delivering a guaranty to the Trustee, subject to Existing Restrictions, and thereby also becomes subject to the provisions of the Bond Order.

“Member of the Combined Group” means all Members of the Obligated Group and all Designated Affiliates.

“Member of the Obligated Group” means the Authority and any other Person then a Member of the Obligated Group pursuant to Sections 729 and 730 of the Bond Order.

“Member Security Agreement” means that agreement by which a Person becomes a Member of the Obligated Group by delivering a pledge of such Person’s Revenues to the Trustee, subject to Existing Restrictions, and thereby also becomes subject to the provisions of the Bond Order.

“Moody’s” means Moody’s Investor Services, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation for any reason no longer performs the functions of a securities rating agency, “Moody’s” will be deemed to refer to any other nationally recognized rating agency designated by the Authority by notice to the Trustee.

“Net Proceeds” means the gross proceeds derived from insurance or any Eminent Domain award or agreement in lieu of an award in Eminent Domain proceedings, less payment of attorneys’ fees and expenses properly incurred in the collection of gross proceeds.

“Net Proceeds Account” means that account in the Project Fund authorized by Section 408 of the Bond Order.

“Non-Combined Person” means a Person which is not a Member of the Combined Group, but is a Person as to which a Member of the Combined Group either (a) owns all or a portion of such Person’s assets or ownership interest or (b) owns the right to receive a portion of such Person’s income or loss, or both.

“Nonparity Debt” means any indebtedness other than Parity Debt.

“Obligated Group” means, collectively, from time to time, the Authority and the then current Members of the Obligated Group; and initially shall mean the Authority and those Persons so listed in the Bond Order.

“Obligated Health Care System” means, collectively, such portion of the Health Care System that is directly owned by any Member of the Obligated Group, plus all facilities directly owned by any Member of the Obligated Group at which health care or medical services are provided which are not a part of the Health Care System. The term Obligated Health Care System shall specifically exclude any portion of the Health Care System that is not directly owned by any Member of the Obligated Group, and shall specifically exclude all facilities, property, plant and equipment of any Person that is not a Member of the Obligated Group, including all additions, improvements, extensions, alterations and appurtenances thereto, equipment used in connection therewith, and all real property upon which the same are located, whether the same are now existing or hereinafter constructed, installed or acquired.

“Officer’s Certificate” means a certificate signed by an Authority Representative.

“Operating Expenses” means the expenses of maintaining and operating the Obligated Health Care System, including, without limiting the generality of the foregoing, all administrative, general and commercial expenses, insurance and surety bond premiums, architectural expenses, legal expenses, refunds of overpayments on patient accounts, any taxes that may be lawfully imposed on the Obligated Health Care System or the income or operations thereof or the property forming a part thereof, rentals of equipment or other property, usual expenses of operations, maintenance, and repair, amounts owed to others and collected by any Member of the Obligated Group on their behalf, and any other current expenses required to be paid by any Member of the Obligated Group under the provisions of the Bond Order or by law, to the extent the same are properly attributable to the Obligated Health Care System, and all expenses, liabilities and compensation of the Trustee and paying agents required to be paid under the Bond Order. Operating Expenses shall be determined in accordance with generally accepted accounting principles, but shall not include any allowance for depreciation, amortization of financing expenses, or the principal of or interest on Indebtedness.

“Outstanding” when used with reference to Bonds means, as of a particular date, all Bonds theretofore issued under the Bond Order, except:

- (1) Bonds theretofore canceled by the Trustee or delivered to the Trustee for cancellation;
- (2) Bonds for the payment of which money, Defeasance Obligations, or a combination of both, have been deposited with the Trustee in an amount sufficient to pay on the date when such Bonds are to be paid or redeemed the maturing principal or Redemption Price of, and the interest accruing to such date on, the Bonds to be paid or redeemed, provided that if any of such Bonds are to be redeemed prior to maturity, notice has been given in accordance with the Bond Order or arrangements for the giving of notice have been made; Defeasance Obligations shall be deemed to be sufficient to pay or redeem Bonds on a specified date if the principal of and the interest on such Defeasance Obligations, when due, will be sufficient to pay on such date the Redemption Price of, and the interest accruing on, such Bonds to such date;
- (3) Bonds deemed to have been paid in accordance with Section 1201 of the Bond Order or the comparable section in any series resolution; and
- (4) Bonds in exchange for or in lieu of which other Bonds have been issued pursuant to the Bond Order.

“Outstanding,” when used with reference to all Indebtedness other than Bonds means, as of any date of determination, all such Indebtedness theretofore issued or incurred and not paid and discharged

other than Indebtedness deemed paid and no longer outstanding under the terms of the instrument by which such Indebtedness was created or incurred.

“Parity Debt” generally means all Bonds and Parity Obligations. However, for purposes of all provisions of the Bond Order requiring the delivery of an Officer’s Certificate to the effect that all “Parity Debt then Outstanding under the Bond Order would continue to be Investment Grade,” such references to Parity Debt do not include any Parity Debt that does not otherwise constitute Indebtedness.

“Parity Instrument” means an instrument pursuant to which any Member of the Obligated Group provides for the issuance of Parity Obligations. If issued by any Member of the Obligated Group other than the Authority, the Authority must either be a guarantor or a co-obligor thereof and secure its obligation by a pledge of Revenues.

“Parity Obligations” means all obligations authorized by Section 720 of the Bond Order.

“Percentage Interest” means, in the case of a Non-Combined Person, that portion of such Non-Combined Person’s net income or loss that is attributable to the ownership interest of the Combined Group or which a Member of the Combined Group has a right to receive.

“Permitted Encumbrances” means, with respect to the Obligated Health Care System and the property owned by a Designated Affiliate, determined on a noncumulative basis and to the extent permitted by law and subject to other applicable provisions of the Bond Order:

- (a) the lien on Revenues created by Section 502(II) of the Bond Order or any Member Security Agreement;
- (b) liens for taxes or other governmental charges or levies not delinquent or that are being contested in good faith by any Member of the Combined Group;
- (c) covenants, easements, encumbrances, defects of title, reservations, restrictions, and conditions none of which materially impairs the use of the property affected thereby for its intended purposes by any Member of the Combined Group;
- (d) defects, irregularities, encumbrances, easements, including easements for roads and public utilities and similar easements, rights of way, mineral conveyances, mineral reservations, and clouds on title, none of which materially impairs the use of the property affected thereby for its intended purposes by any Member of the Combined Group;
- (e) mechanics’, workers’, repairmen’s, architects’, engineers’, surveyors’, or carriers’ liens, or other similar liens with respect to the construction and equipping of any Improvements;
- (f) other liens, charges, and encumbrances that do not prevent or materially impair the use of the property affected thereby for its intended purposes by any Member of the Combined Group (and the Trustee may rely upon a certificate of an Architect as to whether such liens, charges and encumbrances materially impair the use of the property affected thereby for its intended purposes) or value of the property affected;
- (g) purchase money security interests and Liens securing purchase money indebtedness;

(h) any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable any Member of the Combined Group to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with workers' compensation, unemployment insurance, pension or profit sharing plans or other social security, or to share in the privileges or benefits required for companies participating in such arrangements;

(i) any judgment lien against any Member of the Combined Group so long as such judgment is being contested in good faith and execution thereon is stayed;

(j) any Lien on property of any Member of the Combined Group in an amount not exceeding the greater of (i) twenty-five percent (25%) of the Base Value of property, plant and equipment of the Combined Group or (ii) twenty-five percent (25%) of the Base Value of unrestricted net assets of the Combined Group; provided, however, that no such Lien may be granted during any period that an Event of Default exists under the Bond Order or any series resolution;

(k) any Lien on pledges, gifts or grants to be received in the future including any income derived from the investment thereof;

(l) any Lien on inventory which does not exceed twenty-five percent (25%) of the book value thereof;

(m) any Lien in favor of a trustee on the proceeds of Indebtedness prior to the application of such proceeds;

(n) Liens on moneys deposited by patients or others with any Member of the Combined Group as security for or as prepayment for the cost of patient care;

(o) Liens on property received by any Member of the Combined Group through gifts, grants or bequests, such Liens being due to restrictions on such gifts, grants or bequests of property or the income thereon;

(p) Liens on property due to rights of third party payers for recoupment of amounts paid to any Member of the Combined Group;

(q) rights of the United States of America under Title 42 United States Code Section 291i;

(r) any Lien on Accounts that are sold pursuant to Section 728 of the Bond Order or that are pledged to secure Indebtedness;

(s) Liens or encumbrances securing indebtedness of any Person which is not a Member of the Combined Group that is assumed by a Member of the Combined Group in connection with the purchase or other acquisition of Improvements, whether by merger, consolidation or otherwise, which Improvements upon consummation of such transaction become a portion of the Obligated Health Care System; provided, however, that no such Lien may be granted during any period that an Event of Default exists under the Bond Order or any series resolution;

(t) Liens or encumbrances upon property or revenues of a Person in existence as of the date such Person becomes a Member of the Combined Group; provided, however, that such Liens or encumbrances may not be extended to secure any other obligations of such Person;

(u) Liens or encumbrances upon any amounts on deposit in any debt service reserve fund established pursuant to a series resolution providing for the issuance of Bonds under the Bond Order;

(v) Liens or encumbrances securing any repayment or reimbursement obligations or indebtedness of any Member of the Combined Group arising pursuant to or in connection with any Credit Facility established to provide credit or liquidity support for Parity Debt;

(w) Liens or encumbrances securing Nonparity Debt for money borrowed to pay a part of the Cost of any Improvements, but solely upon (1) grants, gifts, bequests, contributions, and other donations that do not constitute Revenues or (2) property owned by any Member of the Combined Group that is specifically pledged by such Member of the Combined Group for the payment of such Nonparity Debt or (3) the revenues to be derived from the operation of such property and that are specifically pledged by the Authority or any Member of the Combined Group for the payment of such Nonparity Debt; provided, however, that such property was not financed by proceeds of Parity Debt and that in the event any Member of the Combined Group shall default on any Nonparity Debt permitted by this paragraph (w), the sole recourse of the holder thereof shall be to the security pledged by the relevant Member of the Combined Group for such Nonparity Debt; and

(x) Any Lien securing the payment obligations of a Member of the Combined Group under a Hedging Transaction which, if required by the provider of such a Hedging Transaction, may be secured by the pledge of Revenues under the Bond Order on a parity with all other Parity Debt Outstanding under the Bond Order. The Trustee shall, upon written request of the Authority, execute any document, instrument or agreement necessary to cause the Lien permitted under this subparagraph (x) to be secured by the pledge of Revenues under the Bond Order on a parity with all other Parity Debt Outstanding under the Bond Order.

“Person” includes an individual, association, unincorporated organization, corporation, partnership, limited liability company, joint venture, joint stock company, business trust, government or an agency or a political subdivision thereof, or any other entity.

“Principal Account” means the account in the Bond Fund created and so designated by Section 501 of the Bond Order.

“Project Fund” means The Charlotte-Mecklenburg Hospital Authority Project Fund created by Section 401 of the Bond Order.

“Qualified Escrow” means a segregated escrow fund or other similar fund or account which (a) is irrevocably established as security for Long-Term Indebtedness previously incurred and then outstanding (herein referred to as “Prior Indebtedness”) or for Long-Term Indebtedness, if any, then to be incurred to refund Outstanding Prior Indebtedness (herein referred to as “Refunding Indebtedness”), (b) is held by the holder of the Prior Indebtedness or Refunding Indebtedness secured thereby or by a trustee or agent acting on behalf of such holder and is subject to a perfected security interest in favor of such holder, trustee or agent, (c) is held in cash or invested in Defeasance Obligations, as defined in the Bond Order or series resolution that secures such Prior Indebtedness or Refunding Indebtedness, and (d) is required by the documents establishing such fund or account to be applied toward the payment obligations of any

Member of the Combined Group in respect of the Prior Indebtedness, provided that, if the fund or account is funded in whole or in part with the proceeds of Refunding Indebtedness, the documents establishing the same may require specified payments of principal or interest (or both) in respect of the Refunding Indebtedness to be made from the fund or account prior to the date on which the Prior Indebtedness is repaid in full.

“Quarterly Reports” means the unaudited consolidated balance sheet, unaudited consolidated statement of operations and unaudited consolidated statement of cash flows of the Authority, together with a financial highlights discussion on such unaudited consolidated financial statements of the Authority.

“Redemption Fund” means The Charlotte-Mecklenburg Hospital Authority Revenue Bond Redemption Fund established and so designated pursuant to Section 501 of the Bond Order.

“Redemption Price” means, with respect to any Bond or a portion thereof, the principal amount of such Bond or portion thereof plus the applicable premium, if any, payable upon redemption thereof in the manner contemplated in accordance with its terms and the series resolution providing for the issuance thereof.

“Related Bond Indenture” means any indenture, bond resolution, bond order, series resolution or other comparable instrument (including, without limitation, any lease or installment contract) pursuant to which a series of Related Bonds is issued or proceeds of Related Bonds are loaned or otherwise made available to any Member of the Obligated Group (or any property financed or refinanced thereby is the subject of a Transfer to a Member of the Obligated Group).

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

“Related Bonds” means the revenue bonds or other obligations (including, without limitation, any lease or installment contract) issued by any state, territory or possession of the United States or any municipal corporation or political subdivision formed under the laws thereof or any constituted authority or agency or instrumentality of any of the foregoing empowered to issue obligations on behalf thereof (a “governmental issuer”), pursuant to a single Related Bond Indenture, the proceeds of which are loaned or otherwise made available to (i) any Member of the Obligated Group in consideration of the execution, authentication and delivery of an obligation to or for the order of such governmental issuer, or (ii) any Person other than a Member of the Obligated Group in consideration of the issuance to such governmental issuer (A) by such Person of any indebtedness or other obligation of such Person, and (B) by any Member of the Obligated Group of a Guaranty in respect of such indebtedness or other obligation.

“Related Bond Trustee” means the trustee and its successors in the trusts created under any Related Bond Indenture.

“Resulting Base Value” means, at the time of determination, the Base Value as shown on the Financial Statements for the most recent period of 12 full consecutive calendar months or other period for which Financial Statements are available, as adjusted to give effect to a proposed disposition of Equipment or real property in accordance with the Bond Order.

“Revenues” means, with respect to the Authority, (a) all revenues, income, and other money earned and actually received by the Authority from or in connection with the Obligated Health Care System, including, but without limiting the generality thereof, income (1) from goods and properties sold or leased or services rendered, (2) from agreements and other arrangements with insurance companies, Medicare, Medicaid, Blue Cross, governmental units, agencies and instrumentalities, and prepaid health

organizations, and (3) from any award or agreement in lieu of an award resulting from Eminent Domain proceedings, (b) investment income from and revenues realized upon the liquidation or sale of securities held by or on behalf of the Authority, including those held in any of the funds or accounts established pursuant to the Bond Order, (c) insurance proceeds received by the Authority, (d) all gifts, grants, bequests, contributions, and donations received by the Authority, including the unrestricted income and profits therefrom, exclusive of gifts, grants, bequests, contributions, and donations to the extent specifically restricted to a particular purpose inconsistent with their use as Revenues and (e) all payments received by the Authority from a Designated Affiliate to be used by the Authority for the payment of Parity Debt issued under the Bond Order or a Parity Instrument. Revenues in the case of any other Member of the Obligated Group who has executed a Member Security Agreement shall be determined in the same manner as with respect to the Authority. Except as provided in this paragraph, Revenues shall be determined in accordance with generally accepted accounting principles. There shall be specifically excluded from Revenues (i) the proceeds of any borrowings if and to the extent that the use of the same is restricted by the terms of such borrowings for uses inconsistent with the payment of Parity Debt and (ii) any unrealized gains or losses with respect to any property, plant or equipment and (iii) any revenues generated by any residential real property or medical office building.

“S & P” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns, and, if such corporation for any reason no longer performs the functions of a securities rating agency, “S & P” will be deemed to refer to any other nationally recognized rating agency designated by the Authority by notice to the Trustee.

“Series,” whenever used herein with respect to Bonds, means any series of Bonds issued under the Bond Order.

“Series 1997A Bonds” means the Authority’s Health Care Revenue Bonds, Series 1997A, so designated and issued pursuant to the Bond Order and a series resolution adopted by the Authority on September 9, 1997.

“Series 2007J Bonds” means the Authority’s Variable Rate Health Care Revenue Bonds, Series 2007J, so designated and issued pursuant to the Bond Order and a series resolution adopted by the Authority on July 26, 2007.

“Series 2007K Bonds” means the Authority’s Variable Rate Health Care Revenue Bonds, Series 2007K, so designated and issued pursuant to the Bond Order and a series resolution adopted by the Authority on July 26, 2007.

“Series 2007L Bonds” means the Authority’s Variable Rate Health Care Refunding Revenue Bonds, Series 2007L, so designated and issued pursuant to the Bond Order and a series resolution adopted by the Authority on July 26, 2007.

“Series 2009A Bonds” means the Authority’s Health Care Refunding Revenue Bonds, Series 2009A, to be issued pursuant to the Bond Order and the Series Resolution.

“Series 2009A Improvements Account” means the account within the Project Fund established and so designated by Section 401 of the Series Resolution.

“Series 2009A Interest Account” means the subaccount within the Interest Account established and so designated by Section 501 of the Series Resolution.

“Series 2009A Principal Account” means the subaccount within the Principal Account established and so designated by Section 501 of the Series Resolution.

“Series 2009A Redemption Account” means the account within the Redemption Fund established and so designated by Section 501 of the Series Resolution.

“Series 2009A Serial Bonds” means the Series 2009A Bonds which are stated to mature on January 15 of each of the years designated for Serial Bonds on the inside cover page of this Official Statement.

“Series 2009A Sinking Fund Account” means the subaccount within the Sinking Fund Account established and so designated by Section 501 of the Series Resolution.

“Series 2009A Term Bonds” means the Series 2009A Bonds that mature in the years designated for Term Bonds on the inside cover page of this Official Statement.

“Series Resolution” means the series resolution adopted by the Authority on July 21, 2009, relating to the issuance of the Series 2009A Bonds.

“Short-Term Indebtedness” means all Indebtedness incurred or assumed by any Member of the Combined Group, other than the current portion of Long-Term Indebtedness, and including any Guaranty (to the extent required to be taken into account under the Bond Order), incurred or assumed by a Member of the Combined Group for any of the following:

(i) payments of principal and interest with respect to money borrowed for an original term, or renewable at the option of any Member of the Combined Group for a period from the date originally incurred, of one year or less;

(ii) payments under leases which are capitalized in accordance with generally accepted accounting principles having an original term, or renewable at the option of any Member of the Combined Group for a period from the date originally incurred, of one year or less; and

(iii) payments under installment purchase or conditional sale contracts having an original term of one year or less.

“Sinking Fund Account” means the account in the Bond Fund created and so designated by Section 501 of the Bond Order.

“Sinking Fund Requirement” means, with respect to the Series 2009A Term Bonds, for any Bond Year, the principal amount fixed or computed in the Series Resolution for the retirement of such Series 2009A Term Bonds by purchase prior to, or redemption on, January 15 of the following Bond Year.

“State” means the State of North Carolina.

“State Treasurer” means the State Treasurer of the State of North Carolina.

“Supplemental Bond Order” means any supplement authorized in accordance with Article XI of the Bond Order that amends, modifies, or supplements the Bond Order.

“Total Operating Revenues” means the total operating revenues of the Combined Group less applicable deductions from operating revenues, all as determined in accordance with generally accepted accounting principles.

“Transfer” means any act or occurrence the result of which is to dispossess any Person of any asset or interest therein, including specifically, but without limitation, the forgiveness of any debt or the lease of any such asset.

“Trustee” means the Trustee at the time serving as such under the Bond Order whether the original or a successor trustee.

“Variable Rate Indebtedness” means any portion of Indebtedness the interest on which is not established at the time of incurrence at a fixed or constant rate.

SUMMARY OF THE BOND ORDER AND THE SERIES RESOLUTION

The Bond Order and the Series Resolution specify the details and terms of the Series 2009A Bonds as set out in this Official Statement. See also the section in the forepart of this Official Statement entitled "DESCRIPTION OF THE 2009A BONDS." The following is a summary of the Bond Order and the Series Resolution as they relate to the Series 2009A Bonds. This summary is not intended to be definitive and is qualified in its entirety by reference to each of the documents summarized for the complete terms thereof.

Various Funds and Accounts Created by the Bond Order and the Series Resolution

The following funds and accounts are created pursuant to the Bond Order:

1. the Bond Fund and three accounts therein:
Interest Account,
Principal Account, and
Sinking Fund Account,
2. the Redemption Fund, and
3. the Project Fund.

The following accounts and subaccounts are created pursuant to the Series Resolution within the funds and accounts created under the Bond Order:

1. three sub-accounts within the accounts of the Bond Fund:
Series 2009A Interest Account,
Series 2009A Principal Account, and
Series 2009A Sinking Fund Account,
2. the Series 2009A Redemption Account within the Redemption Fund, and
3. the Series 2009A Improvements Account within the Project Fund.

Payments by the Authority

The Authority covenants and agrees to deposit with the Trustee the following amounts as provided herein until there shall have been deposited with the Trustee sufficient monies for the payment in full of all the amounts due and payable under the Series Resolution:

(a) into the Series 2009A Interest Account, beginning on January 1, 2010, and continuing on the first day of each July and January thereafter while any Series 2009A Bonds remain Outstanding, an amount equal to the total amount of interest payable on the Series 2009A Bonds on the next ensuing Interest Payment Date, but not payable from the proceeds of the Series 2009A Bonds or other moneys theretofore deposited or retained in the Series 2009A Interest Account (including investment earnings, if any, retained therein);

(b) into the Series 2009A Principal Account, beginning on January 1 in the earliest calendar year in which Series 2009A Serial Bonds are stated to mature, and continuing on the 1st

day of each January thereafter, the amount required to retire the Series 2009A Serial Bonds to be paid at maturity on the next ensuing January 15;

(c) into the Series 2009A Sinking Fund Account, beginning on January 1 in the earliest calendar year in which Series 2009A Term Bonds of any maturity are stated to mature or are subject to mandatory redemption, and continuing on the first day of each January thereafter, the amount required to retire the Series 2009A Term Bonds to be called by mandatory redemption or to be paid at maturity on the next ensuing January 15, in accordance with the Sinking Fund Requirement therefor; and

(d) into the Series 2009A Interest Account or the Series 2009A Redemption Account, as applicable, any amounts that may from time to time be required to enable the Trustee to pay the interest on and the Redemption Price of Series 2009A Bonds as and when the Series 2009A Bonds are called for redemption (other than mandatory redemption in accordance with the Sinking Fund Requirement therefor.

If, on the second Business Day next preceding an Interest Payment Date or date upon which Series 2009A Bonds mature or are to be redeemed in accordance with any Sinking Fund Requirement therefor, there is not on deposit in the Series 2009A Interest Account, the Series 2009A Principal Account or the Series 2009A Sinking Fund Account the respective amount necessary for the payment of interest on, principal of or Sinking Fund Requirement for the Series 2009A Bonds on such date, the Trustee shall give notice to the Authority of the amount of such deficiency, and the Authority shall immediately deliver to the Trustee an amount sufficient to cure the same.

Under certain circumstances, a portion of the Net Proceeds of property insurance and condemnation awards will be deposited in an account in the Redemption Fund. Amounts received by the Trustee from the Authority as optional prepayments on the Series 2009A Bonds will also be deposited in the Redemption Fund. Money held in the Redemption Fund will be applied to the purchase or redemption of Series 2009A Bonds (other than redemption by operation of the Series 2009A Sinking Fund Account) as provided in the Series Resolution. In the event the balance in the Series 2009A Redemption Account at 10:00 a.m. on a date upon which Series 2009A Bonds are to be redeemed is insufficient for the payment of the Redemption Price becoming due on the Series 2009A Bonds on such date, the Trustee shall notify the Authority of the amount of the deficiency, and the Authority shall immediately deliver to the Trustee an amount sufficient to cure the same.

Series 2009A Improvements Account

Simultaneously with the delivery of the Series 2009A Bonds the proceeds of the Series 2009A Bonds, to the extent not applied to refund the Series 1997A Bonds, the Series 2007J Bonds, the Series 2007K Bonds and the Series 2007L Bonds, shall be deposited to the credit of the Series 2009A Improvements Account. All amounts deposited to the credit of the Series 2009A Improvements Account will be used to pay all or a portion of certain expenses incurred in connection with the issuance of the Series 2009A Bonds, which may include any payments due in connection with the termination of any swap agreement relating to the Series 2007J Bonds, the Series 2007K Bonds or the Series 2007L Bonds.

Investments

Moneys in all funds and accounts shall be continuously invested and reinvested by the Trustee in Investment Obligations to the extent practicable. Any such Investment Obligations shall mature not later than the respective dates when any amount held for the credit of such funds or accounts will be required for the purposes for which such funds and accounts are intended. No Investment Obligations in any fund

or account for the Series 2009A Bonds may mature beyond the latest maturity date of any of the Series 2009A Bonds Outstanding at the time such Investment Obligations are deposited. The maturity date of repurchase agreements for Government Obligations or other obligations is the maturity date of such repurchase agreement and not the maturity date of the underlying Government Obligation or other obligation.

Interest accruing on all Investment Obligations in any fund or account for the Series 2009A Bonds, and any profit realized or loss resulting from such investment, shall be credited to or charged against the respective fund or account, provided, however, that except to the extent directed in writing by the Authority, as to the Series 2009A Interest Account, the interest accruing thereon and any profit or any loss realized upon the maturity or disposition of such investments prior to the completion of the Improvements, shall be credited to, or charged against, the Series 2009A Improvements Account.

Valuation

For the purpose of determining the amount on deposit in any fund or account, Investment Obligations in which money in such fund or account is invested shall be valued (a) at face value if such Investment Obligations mature within six (6) months from the date of valuation thereof, and (b) if such Investment Obligations mature more than six (6) months after the date of valuation thereof, at the price at which such Investment Obligations are redeemable by the holder at his option if so redeemable, or, if not so redeemable, at the lesser of (i) the cost of such Investment Obligations minus the amortization of any premium or plus the amortization of any discount thereon and (ii) the market value of such obligations.

The Trustee shall value the Investment Obligations in the funds and accounts established under the Bond Order and the Series Resolution three (3) Business Days prior to each Interest Payment Date. In addition, the Investment Obligations shall be valued by the Trustee at any time requested by the Authority on reasonable notice to the Trustee (which period of notice may be waived or reduced by the Trustee); provided, however, that the Trustee shall not be required to value the Investment Obligations more than once in any calendar month.

Rate Covenant

The Authority has covenanted to fix, charge and collect, and to cause each other Member of the Obligated Group and each Designated Affiliate to fix, charge and collect rates, fees, and charges for use of, and for the goods, products and services furnished at, the Obligated Health Care System and the facilities of the Designated Affiliates and to revise such rates, fees, and charges as often as may be necessary or appropriate to produce a Long-Term Debt Service Coverage Ratio of the Combined Group of not less than 1.10 to 1.0 in each period upon which Financial Statements are based. If Long-Term Indebtedness is issued to pay the Cost of Improvements, the debt service thereon shall not be included in the computation of the Long-Term Debt Service Coverage Ratio until the first such period following the completion, occupation and utilization of such Improvements unless the Authority or other Member of the Combined Group is required to pay the principal thereof and interest thereon from sources other than the proceeds of such Long-Term Indebtedness prior to such period.

If the Historic Long-Term Debt Service Coverage Ratio of the Combined Group is less than that required above, within 30 days of the receipt of the audit report for such period the Authority shall employ a Management Consultant to review and analyze the financial status of the Combined Group and the administration and operations of the Obligated Health Care System and the facilities of the Designated Affiliates, to inspect the Obligated Health Care System and the facilities of the Designated Affiliates, and to submit, within 120 days thereafter, a written report to the Authority recommending revisions of the rates, fees, and charges of the Obligated Health Care System and the facilities of the Designated Affiliates

and the methods of operation of the Obligated Health Care System and the facilities of the Designated Affiliates that will produce the Historic Long-Term Debt Service Coverage Ratio so required or, if in the opinion of the Management Consultant the attainment of such level is impracticable, to the highest level attainable, in the ensuing period upon which Financial Statements are prepared. Promptly upon its receipt of such recommendations, the Authority shall transmit copies thereof to the Trustee and the Local Government Commission. The Obligated Group shall, and shall cause each Designated Affiliate to, to the extent permitted by law, substantially follow the written recommendations of the Management Consultant. So long as the Combined Group substantially complies, to the extent permitted by law, with the written recommendations of the Management Consultant in respect to its rates, fees, charges and methods of operation, the failure of the Historic Long-Term Debt Service Coverage Ratio to meet the requirement of the first sentence of the preceding paragraph shall not constitute an Event of Default so long as the Total Operating Revenues of the Combined Group shall not be less than the amount required to pay when due the operating expenses of the Combined Group and to pay when due the debt service on all Indebtedness of the Combined Group for the following period upon which Financial Statements are based. If a report of a Management Consultant is delivered to the Trustee, which report shall state that Governmental Restrictions have been imposed which make it impossible for the coverage requirement described in the first sentence of the preceding paragraph to be satisfied, then such coverage requirement shall be reduced to the maximum coverage permitted by such Governmental Restrictions while such Governmental Restrictions are in effect, but in no event less than 1.00.

Parity Debt

The Authority and other Members of the Obligated Group may issue Additional Bonds and Parity Obligations (together, "Parity Debt") which will share in the security for the Series 2009A Bonds equally and without preference with respect to the pledge of and security interest in Revenues.

Additional Bonds. Additional Bonds may be issued under the Bond Order to provide funds to (i) pay all or any part of the Cost of any Improvements, (ii) pay any debt obligations issued by any Member of the Combined Group to finance the Cost of any Improvements, (iii) repay any advances made from any source to temporarily finance the Cost of any Improvements, (iv) make a deposit to a debt service reserve fund, if any, created to secure such Additional Bonds, (v) pay interest on the Additional Bonds then being issued for such period as shall be specified in the applicable series resolution and is then permitted by law, (vi) pay expenses incurred in connection with the issuance of such Additional Bonds, and (vii) pay such other items as may be set forth in the applicable series resolution including the costs of issuance of such Additional Bonds.

Parity Obligations. Parity Obligations may be issued or incurred by the Authority and other Members of the Obligated Group in lieu of the issuance of Additional Bonds for the same purposes for which Additional Bonds may be issued, as described above, and upon satisfying certain terms and certain conditions set forth in the Bond Order. In addition, the Obligated Group shall also have the right, but is not required, to issue or incur Parity Obligations (i) in the form of or to evidence the repayment or reimbursement obligations or indebtedness of any Member of the Obligated Group arising pursuant to or in connection with any Credit Facility established to provide credit or liquidity support for Parity Debt and (ii) in the form of or to evidence payment obligations of any Member of the Obligated Group with respect to any Hedging Transaction. Holders of Parity Obligations shall enjoy the same security as holders of the Bonds with respect to the pledge of and security interest in Revenues. Parity Obligations will not be secured by or have the benefit of the pledge of moneys in any fund or account held by the Trustee under the Bond Order or any series resolution solely for the benefit of the holders of a particular Series of Bonds.

Allocations if Parity Obligations Outstanding. Notwithstanding any other provision of the Bond Order, if at any time (a) there are both Bonds Outstanding under the terms of the Bond Order and Parity Obligations outstanding under the terms of one or more Parity Instruments and (b)(1) the Authority, any other Member of the Obligated Group or the Trustee receives Net Proceeds and the Authority elects or is required to redeem Bonds with the same pursuant to the provisions of the Bond Order, or (2) any Member of the Obligated Group receives proceeds from the sale or disposition of all or any portion of the Obligated Health Care System and elects to redeem Bonds with the same, or (3) the Authority and each Member of the Obligated Group which has executed a Member Security Agreement is required to deposit its Revenues with the Trustee daily pursuant to the provisions of the Bond Order and the Trustee is thereafter required to apply Revenues to pay necessary expenses of operating and maintaining the Obligated Health Care System, to make deposits to various funds and accounts in accordance with the various series resolutions and to pay Parity Obligations pursuant to the provisions of the Bond Order, or (4) the Bonds are accelerated in accordance with the provisions of the Bond Order after an Event of Default has occurred under the Bond Order or under the Series Resolution and the Trustee is required to apply Revenues or payments under Member Guaranty Agreements thereafter coming into its possession, then all such Net Proceeds, proceeds, Revenues or payments under Member Guaranty Agreements to be distributed under the terms of the Bond Order to Holders shall be allocated among and distributed by the Trustee to the Holders of Bonds and the Holders of Parity Obligations (or a trustee representing their interests) in the proportion that the principal of and interest on (or other types of payments with respect to) each type of Parity Debt then due (by its terms or by acceleration) bears to the total principal of and interest on (or other types of payments with respect to) all Parity Debt then due, unless such an allocation and distribution has been made prior to the receipt by the Trustee of such Net Proceeds, proceeds, Revenues or payments under Member Guaranty Agreements; provided, however, that the holders of Parity Obligations shall have no right in and to the moneys or Investment Obligations on deposit to the credit of any fund or account held by the Trustee under the Bond Order or any series resolution solely for the benefit of the holders of a particular series of Bonds.

The provisions of the Bond Order regarding pro rata application of funds after an Event of Default to pay Bonds (which provisions are described under the caption “**Events of Default and Remedies—Pro Rata Application of Funds After Default**”) will be applied after giving effect to the allocations and distributions among Bonds and Parity Obligations described in the immediately preceding paragraph.

Nonparity Debt

The Members of the Combined Group may incur, issue, assume or guarantee Nonparity Debt.

Maintenance and Operation of Health Care System and Obligated Health Care System

The Obligated Group shall keep and maintain the Obligated Health Care System at all times in a good state of repair and sound operating condition, ordinary wear and tear, obsolescence in spite of repair, and acts of God excepted; provided, however, that nothing contained in the Bond Order or the Series Resolution shall be construed to (i) prevent any Member of the Obligated Group from ceasing to operate any portion of its property, if in its judgment it is advisable not to operate the same, or if it intends to sell or otherwise dispose of the same and does so within a reasonable time, or (ii) obligate any Member of the Obligated Group to retain, preserve, repair or replace any property, leases, rights, privileges or licenses no longer used or, in its judgment, useful in the conduct of its business. The Obligated Group will not permit, commit or suffer any waste of the whole or any part of the Obligated Health Care System and shall not use or permit the use of the Obligated Health Care System, or any part thereof, for any unlawful purpose. Each Member of the Obligated Group shall make such repairs or replacements as are required or convenient for the proper operation, repair and maintenance of so much of the Obligated Health Care

System as is owned by such Member of the Obligated Group in an economical and efficient manner, consistent with standards of health care facilities operation and administration generally required for licensure by the State in which the health care facilities are located and for accreditation or certification of health care facilities comparable to the Obligated Health Care System.

The Authority covenants that, with respect to the Health Care System it shall, and shall cause its Affiliates to, operate the Health Care System in accordance with all applicable laws, orders, rules, regulations and requirements. The Authority further covenants that it will not use the Health Care System or any part thereof, or permit any Person to use the Health Care System or any part thereof, in such a way as to affect adversely the tax-exempt status of the Authority or the excludability of the interest on any Bonds or Parity Obligations from gross income for federal income tax purposes.

Liens and Encumbrances

Except as otherwise provided in the Bond Order and other than Permitted Encumbrances, the Obligated Group shall not create or suffer to be created or permit the existence of any lien or charge upon the Obligated Health Care System or any part thereof or upon any property owned by Designated Affiliates, or on the Revenues now owned or hereafter acquired, and shall pay or cause to be discharged, or shall make adequate provision to satisfy and discharge, and shall cause the Designated Affiliates to pay or cause to be discharged, or make adequate provision to satisfy and discharge, within sixty (60) days after the same shall become due and payable, all lawful costs, expenses, liabilities and charges relating to the maintenance, repair, replacement, improvement and operation of the Obligated Health Care System and any property owned by Designated Affiliates and all lawful claims and demands for labor, materials, supplies or other objects that might by law become a lien upon the Obligated Health Care System, any property owned by Designated Affiliates or Revenues if unpaid.

Notwithstanding the preceding paragraph, the Members of the Combined Group are not required to satisfy or discharge any such lien, encumbrance, charge, claim or demand or make provision for the satisfaction and discharge so long as the validity thereof shall be contested in good faith and by appropriate legal proceedings. Prior to such contest the relevant Member of the Obligated Group shall prevent, or cause its Designated Affiliate to prevent, the foreclosure or enforcement of any lien, claim, encumbrance, charge or demand against any Member of the Combined Group by payment or order of court, by depositing with an escrow agent, or requesting the Trustee to set aside and segregate, an amount sufficient to satisfy or discharge such lien, claim, encumbrance, charge or demand, or by delivering to the Trustee a surety bond in an amount sufficient to satisfy the same.

So long as any Bonds are Outstanding, the Obligated Group may not at any time create, assume or suffer to exist any mortgage, pledge or other lien or encumbrance of or upon the Obligated Health Care System, or the Revenues, other than Permitted Encumbrances, and the Obligated Group will not permit any Designated Affiliate to create, assume or suffer to exist any mortgage, pledge or other lien or encumbrance of or upon any property owned by such Designated Affiliate, other than Permitted Encumbrances, unless the Combined Group secures Parity Debt equally and ratably with the indebtedness or obligations secured by such mortgage, pledge, lien or encumbrance for so long as such indebtedness or obligations are so secured.

After-Acquired Property; Alterations

All buildings, structures and Equipment that shall be constructed, placed or installed in or upon the Obligated Health Care System as an addition or improvement to, as a substitute for, or in renewal, replacement, or alteration of, any buildings, structures, and Equipment constituting part of the Obligated Health Care System and all real property acquired as an addition to, in replacement of, or as a substitute

for real property constituting a part of the Obligated Health Care System shall thereupon become a part of the Obligated Health Care System.

Any Member of the Obligated Group, at its own cost and expense, may make such additions or improvements to or such replacements or alterations of the Obligated Health Care System as it may deem desirable to attain the purposes contemplated in the Bond Order; provided that any such additions, improvements, replacements or alterations shall not impair the structural soundness or the revenue-producing capacity of the Obligated Health Care System.

Disposition of Property, Plant and Equipment

So long as the Historic Long-Term Debt Service Coverage Ratio of the Combined Group was not less than 2.0, the Bond Order imposes no restrictions on the Transfer of property, plant and equipment of the Members of the Combined Group.

If the Historic Long-Term Debt Service Coverage Ratio of the Combined Group was less than 2.0, then the Authority will not, and will not permit any Member of the Combined Group to, during any period of 12 full consecutive calendar months or other period upon which Financial Statements are prepared until an Historic Long-Term Debt Service Coverage Ratio of the Combined Group of not less than 2.0 is restored, Transfer any property, plant and equipment, or Transfer any interest in any Member of the Combined Group which would have substantially the same effect as a Transfer of property, plant and equipment, except for Transfers:

- (i) To a Member of the Combined Group without limit;
- (ii) To any Person, provided that the total amount of property, plant and equipment so Transferred in any period upon which Financial Statements are prepared has a Base Value of not more than 5.0% of the Base Value of all such property, plant and equipment of the Combined Group;
- (iii) To any Person if prior to the Transfer there is delivered to the Trustee a certificate of the Authority Representative to the effect that such property, plant and equipment have become inadequate, obsolete, worn out, unsuitable, unprofitable, undesirable or unnecessary and the disposition thereof will not impair the structural soundness, efficiency or economic value of the remaining property, plant and equipment or adversely affect the amount of Total Operating Revenues of the Combined Group; or
- (iv) To any Person provided that either:
 - (A) had the Transfer occurred at the beginning of the most recent period for which Financial Statements are available, the Historic Long-Term Debt Service Coverage Ratio of the Combined Group for such period (I) would not be less than 1.30 taking such Transfer into account, or (II) if less than 1.30, would not be reduced to less than 1.10 and would not be less than 65% of what it would have been absent such Transfer as demonstrated in an Officer's Certificate delivered to the Trustee; or
 - (B) the Long-Term Debt Service Coverage Ratio of the Combined Group, taking such Transfer into account, for the period upon which Financial Statements are based next succeeding the expected date of such Transfer, is forecast either (I) to be not less than 1.30, or (II) if less than 1.30, to not be less than 1.10 and not less than 65% of

what it would have been absent such Transfer as demonstrated in the written report of a Management Consultant delivered to the Trustee.

Notwithstanding the foregoing provisions of clauses (A) and (B) of this subparagraph (iv), prior to consummating such Transfer there shall also be delivered to the LGC an Officer's Certificate to the effect that all Parity Debt then Outstanding under the Bond Order would continue to be Investment Grade; provided, however, that no Officer's Certificate need be delivered if the Local Government Commission has theretofore approved such Transfer.

The Authority covenants to maintain or cause to be maintained records adequate to enable the Trustee to ascertain that the provisions described under this caption have been complied with and to make such records available to the Trustee upon written request.

Transfer of Cash and Investments

So long as the Historic Long-Term Debt Service Coverage Ratio of the Combined Group was not less than 2.0, the Bond Order imposes no restrictions on the Transfer of cash and investments of the Members of the Combined Group.

If the Historic Long-Term Debt Service Coverage Ratio of the Combined Group was less than 2.0 then, during any period of 12 full consecutive calendar months or other period upon which Financial Statements are prepared until an Historic Long-Term Debt Service Coverage Ratio of the Combined Group of 2.0 is restored, the Members of the Obligated Group may, and may permit the Designated Affiliates to, Transfer net cash and investments:

(i) to any other Member of the Combined Group without restriction;

(ii) to any Person, without fair consideration, provided that if the net amount of cash or investments Transferred over cash or investments received in any period of 12 full consecutive calendar months or other period upon which Financial Statements are prepared, together with all other net cash or investment Transfers during said period, exceeds 7 1/2% of the total unrestricted funds of the Combined Group, as shown on the Financial Statements for the most recent period available, the Authority shall give written notice thereof to the Trustee, which notice shall specify the net amount of cash and investments proposed to be Transferred and shall be accompanied by a report of the Management Consultant to the effect that such proposed Transfer will not impair the ability of the Combined Group to comply with the rate covenant described above under the heading "Rate Covenant" during the period of 12 full consecutive months or other period upon which Financial Statements are based immediately following the period in which such Transfer is to occur;

(iii) to any Person, without fair consideration, provided that either:

(A) had the Transfer occurred at the beginning of the most recent period for which Financial Statements are available, the Historic Long-Term Debt Service Coverage Ratio for such period (I) would not be less than 1.30 taking such Transfer into account, or (II) if less than 1.30, would not be reduced to less than 1.10 and would not be less than 65% of what it would have been absent such Transfer as demonstrated in an Officer's Certificate delivered to the Trustee; or

(B) the Long-Term Debt Service Coverage Ratio, taking such Transfer into account, for the period upon which the Financial Statements are based next succeeding

the expected date of such Transfer, is forecast either (I) to be not less than 1.30, or (II) if less than 1.30, to not be less than 1.10 and not less than 65% of what it would have been absent such Transfer as demonstrated in the written report of a Management Consultant delivered to the Trustee; provided, however, that notwithstanding the foregoing provisions of (A) and (B) of this subparagraph (iii), prior to consummating such Transfer there shall also be delivered to the LGC an Officer's Certificate to the effect that all Parity Debt then Outstanding under the Bond Order would continue to be Investment Grade; provided further, however, that no Officer's Certificate need be delivered if the Local Government Commission has theretofore approved such Transfer; or

(iv) to any Person, provided that the Member of the Combined Group proposing to make such Transfer shall receive, and if requested by the Trustee can demonstrate in an Authority's Certificate filed with the Trustee that such Member of the Combined Group shall receive, as consideration for such Transfer, property, cash, securities or services the fair market value of which is at least equal to the amount of the cash and other investments so transferred.

Nothing contained in the provisions described under this caption shall be construed as limiting the ability of any Member of the Obligated Group, Designated Affiliate or any other Affiliate to (i) Transfer cash or investments in connection with ordinary investment transactions where such Transfers are for substantially equivalent value or (ii) Transfer cash or investments to pay Operating Expenses or to make other payments arising in the ordinary and usual course of business. For purposes of the Bond Order, any Transfer of cash or investments to an Affiliate that is not a Member of the Combined Group shall only be taken into account in an amount equal to 50% of such Transfer.

Transfer of Accounts

So long as the Historic Long-Term Debt Service Coverage Ratio of the Combined Group was not less than 2.0, the Bond Order imposes no restrictions on the Transfer of Accounts of the Combined Group.

If the Historic Long-Term Debt Service Coverage Ratio of the Combined Group was less than 2.0 then, during any period of 12 full consecutive calendar months or other period upon which Financial Statements are prepared until an Historic Long-Term Debt Service Coverage Ratio of the Combined Group of 2.0 is restored, the Members of the Obligated Group shall not, and will not permit the Designated Affiliates to, Transfer Accounts, provided, however, that prior to an occurrence of an Event of Default, the Members of the Obligated Group shall have the right, and may permit the Designated Affiliates, to sell, in any period of 12 full consecutive calendar months or other period upon which the Financial Statements are based, their Accounts if the relevant Member of the Combined Group shall (i) receive as consideration for such sale cash, services or property equal to the fair market value of the Accounts so sold, with the fair market value thereof to be determined in the following manner: (1) as certified to the Trustee in an Officer's Certificate that the cash, services or property received in exchange for the Accounts had a value at least equal to 80% of the net book value of such Accounts as reflected on the balance sheets of the Obligated Group or Designated Affiliate, or (2) if the value of the cash, services or property to be received in exchange for the Accounts has a value less than 80% of the net book value of such Accounts, then as certified in a report by a Management Consultant that the value of the cash, services or property to be received in exchange for the Accounts is the reasonable fair market value of such Accounts based on standards applicable to the health care industry and (ii) deliver to the Trustee a statement from the certified public accountants of the relevant Member of the Obligated Group or Designated Affiliate that such sale of Accounts constitutes a "sale" under generally accepted accounting principles.

Consolidation and Merger; Acquisitions

The Authority shall not, and will not permit any Member of the Obligated Group to, (i) dissolve or otherwise Transfer all or substantially all of its assets to any Person not a Member of the Obligated Group, (ii) consolidate with or merge into any Person not a Member of the Obligated Group, or (iii) Transfer ownership or control of the Authority or any Member of the Obligated Group to any Person not a Member of the Obligated Group, unless the following conditions are satisfied:

- (1) The successor (A) has the power to assume and shall assume in writing all of the obligations of the Obligated Group under the Bond Order and, if it is not a corporation incorporated in the State or a political subdivision of the State, qualifies to do business in the State, or (B) has the power to guarantee and shall guarantee in writing all of the obligations of the Obligated Group under the Bond Order;
- (2) The Authority has received a written opinion of Bond Counsel to the effect that such merger, consolidation, Transfer or other transaction will not adversely affect the excludability of interest on any Bonds from gross income for federal income tax purposes; and
- (3) The successor has met all applicable licensing requirements.

Neither the Authority nor any other Member of the Obligated Group shall (i) permit any Person not a Member of the Obligated Group to merge into or consolidate with the Authority or any other Member of the Obligated Group or (ii) acquire the ownership interest of any Person which upon consummation thereof will become a Member of the Obligated Group if, after giving effect to such merger, consolidation or acquisition and taking it into account as if it had occurred at the beginning of the most recent period preceding the date thereof for which Financial Statements are available, the Obligated Group would be in default under any provision of the Bond Order.

Notwithstanding the foregoing provisions described under this caption, if the Historic Long-Term Debt Service Coverage Ratio of the Combined Group was less than 2.0, then prior to consummating such transaction there shall also be delivered to the Local Government Commission an Officer's Certificate to the effect that all Parity Debt then Outstanding under the Bond Order would continue to be Investment Grade; provided, however, that no Officer's Certificate need be delivered if the Local Government Commission has theretofore approved such transaction.

Entry into and Withdrawal from Obligated Group

Entry into the Obligated Group. Persons who are not Members of the Obligated Group may, with the prior written consent of the Authority, become Members of the Obligated Group, if:

- (a) The Person or successor which is becoming a Member of the Obligated Group shall execute and deliver to the Authority and the Trustee an appropriate instrument satisfactory to the Authority and the Trustee which may be, but is not required to be, substantially in the form of a Member Guaranty Agreement or Member Security Agreement, containing the agreement of such Person or successor (i) to become a Member of the Obligated Group under the Bond Order and any Supplemental Bond Orders and thereby become subject to compliance with all provisions of the Bond Order and any Supplemental Bond Orders pertaining to the Obligated Group and the performance and observance of all covenants and obligations of the Obligated Group under the Bond Order and (ii) either (A) guaranteeing to the Authority, the Trustee and each other Member of the Obligated Group that all Bonds and Parity Obligations issued and then outstanding or to be issued and outstanding under the Bond Order will be paid in accordance with the terms thereof

and of the Bond Order when due, or (B) pledging the Revenues of such Member of the Obligated Group as security for the payment when due of all Bonds and Parity Obligations issued and then outstanding or to be issued and outstanding under the Bond Order, in either case subject to Existing Restrictions; and

(b) Each instrument executed and delivered to the Authority and the Trustee in accordance with paragraph (a) above shall be accompanied by an opinion of counsel, addressed to and satisfactory to the Authority and the Trustee, to the effect that such instrument has been duly authorized, executed and delivered by such Person or successor and constitutes a valid and binding obligation enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy laws, insolvency laws, other laws affecting creditors' rights generally, equity principles and laws dealing with fraudulent conveyances; and

(c) If such Person is not wholly owned, directly or indirectly, by the Authority, the Authority Representative shall have delivered to the Trustee an opinion of counsel to the effect that the addition of such Person as a Member of the Obligated Group will not necessitate the registration of any Bonds or Parity Obligations issued under the Bond Order under the Securities Act of 1933, as amended, or cause the qualification of the Bond Order or any Supplemental Bond Order thereto under the Trust Indenture Act of 1939, as amended, to be required, or, if such registration or qualification is required that all applicable registration and qualification provisions of said acts have been complied with.

(d) Notwithstanding the foregoing, so long as the Historic Long-Term Debt Service Coverage Ratio of the Combined Group is less than 2.0, then prior to consummating such transaction there shall also be delivered to the LGC an Officer's Certificate to the effect that all Parity Debt then Outstanding under the Bond Order would continue to be Investment Grade; provided, however, that no Officer's Certificate need be delivered if the Local Government Commission has theretofore approved such transaction.

Withdrawal from the Obligated Group.

(a) Any Member of the Obligated Group, other than the Authority, may withdraw from membership in the Obligated Group with the prior written consent of the Authority.

(b) Upon the withdrawal of any Member of the Obligated Group pursuant to paragraph (a) above, any guaranty or pledge of Revenues by such Member of the Obligated Group pursuant to the Bond Order as described above under "Entry into the Obligated Group," shall be released and discharged in full and all liability of such Member of the Obligated Group with respect to all Parity Debt outstanding under the Bond Order shall cease.

(c) Notwithstanding the foregoing, so long as the Historic Long-Term Debt Service Coverage Ratio for the Combined Group is less than 2.0, then prior to consummating such transaction there shall also be delivered to the Local Government Commission an Officer's Certificate to the effect that all Parity Debt then Outstanding under the Bond Order would continue to be Investment Grade; provided, however, that no Officer's Certificate need be delivered if the Local Government Commission has theretofore approved such transaction.

(d) Notwithstanding any other provision of the Bond Order, the withdrawal of a Person from membership in the Obligated Group shall not constitute a Transfer.

Designation as a Designated Affiliate; Removal of a Designated Affiliate

Designation as a Designated Affiliate. Any Person which satisfies the following conditions may become a Designated Affiliate, thus obligating such Person to comply with the provisions of the Bond Order applicable to Designated Affiliates.

Either:

- (1) such Person shall be an Affiliate of a Member of the Obligated Group; or
- (2) such Person shall have entered into a written agreement, contract or written undertaking with a Member of the Obligated Group to comply with the covenants and obligations contained in Article VII of the Bond Order satisfactory to the Authority.

Such Person shall become a Designated Affiliate upon delivery to the Trustee of a written request of the Authority Representative that such Person be a Designated Affiliate, accompanied by a resolution of the governing body of such Person authorizing such Person to become a Designated Affiliate under the Bond Order and, in the case of paragraph (2) above, authorizing the instrument described in such paragraph.

The Authority Representative shall deliver to the Trustee upon request a list of all Persons designated as Designated Affiliates.

The Authority at all times shall either (i) maintain, directly or indirectly, control of each Designated Affiliate, including the power to direct the management, policies, disposition of assets and actions of such Designated Affiliate to the extent required to cause such Designated Affiliate to comply with the terms and conditions of the Bond Order applicable to Designated Affiliates, whether through the ownership of voting securities, by contract, partnership interests, membership, reserved powers, the power to nominate or appoint members, trustees or directors or otherwise, or (ii) execute and have in effect such contracts or other agreements that are, in the opinion of Authority Counsel, sufficient for the Authority to cause each such Designated Affiliate to comply with the terms and conditions of the Bond Order applicable to Designated Affiliates. A copy of each such opinion of Authority Counsel shall be delivered to the Trustee. The Authority has covenanted in the Bond Order that it will cause each Designated Affiliate to comply with the terms and conditions of the Bond Order which are applicable to Designated Affiliates.

Removal as a Designated Affiliate. Any Person will cease to be a Designated Affiliate and will thereupon cease to be subject to any of the provisions of the Bond Order upon the declaration of the Board (or the executive committee thereof) in a written resolution of the Board (or such executive committee), and upon such declaration such Person shall no longer be subject to any of the covenants applicable to a Designated Affiliate set forth in the Bond Order.

Notwithstanding the foregoing, so long as the Historic Long-Term Debt Service Coverage Ratio of the Combined Group is less than 2.0, then prior to any Person either becoming or ceasing to be a Designated Affiliate there shall also be delivered to the Local Government Commission an Officer's Certificate to the effect that all Parity Debt then Outstanding under the Bond Order would continue to be Investment Grade; provided, however, that no Officer's Certificate need be delivered if the Local Government Commission has theretofore approved such transaction.

Insurance

The Obligated Group shall purchase and continuously maintain in effect, and shall cause the Designated Affiliates to purchase and continuously maintain in effect, insurance policies in such amounts and with such limits as, in the judgment of the Authority, are customarily maintained by health care facilities of like size and are adequate to protect the Obligated Group, the Obligated Health Care System and the facilities of the Designated Affiliates against loss or damage from such causes as are customarily insured against by such health care facilities of like size.

Any insurance required to be carried may be included as part of any blanket or other policy or policies of insurance covering not only the Obligated Health Care System but also other properties in which any Member of the Combined Group or an Affiliate thereof (determined in the same manner as with respect to the Authority) has an insurable interest in the case of property and, in the case of all policies, may include additional named insureds. Coverage may be provided by umbrella policies if such policies in the aggregate provide the same coverage required by this section.

The Combined Group shall be entitled to provide the required coverage through Qualified Self Insurance, provided that the requirements hereinafter set forth are satisfied. "Qualified Self Insurance" means insurance maintained through a program of self-insurance or insurance maintained with a fund, company or association in which any Member of the Combined Group has a material interest or of which any Member of the Combined Group has control, either singly or with others.

The Obligated Group shall, and shall cause the Designated Affiliates to, demand, collect, sue, and receipt for the insurance money that may become due and payable under any policies payable to them, respectively. Any appraisal or adjustment of any loss or damages and any settlement or payment of indemnity therefor that may be agreed upon shall be binding upon the Obligated Group, the Designated Affiliates and the Trustee.

The Net Proceeds of all property and casualty or business interruption insurance covering loss of anticipated Revenues carried or maintained with respect to the Obligated Health Care System shall be applied as provided in accordance with the provisions of the Bond Order described below under the heading entitled "Insurance and Eminent Domain Proceeds."

Notice of Taking; Cooperation of Parties

If any public authority or entity attempts to take or damage the Obligated Health Care System or any part thereof through Eminent Domain proceedings, the Authority and any other relevant Member of the Obligated Group shall take prompt and appropriate measures to protect and enforce its rights and interests and those of the Trustee and the Holders in connection with such proceedings. Upon receiving notice of the institution of Eminent Domain proceedings by any public instrumentality, body, agency or officer, the Authority or such other relevant Member of the Obligated Group shall deliver written notice thereof to the Trustee.

The Net Proceeds of any award or compensation resulting from Eminent Domain shall be applied in accordance with the provisions of the Bond Order described in paragraph (a) below under the caption entitled "Insurance and Eminent Domain Proceeds."

Insurance and Eminent Domain Proceeds

(a) The Net Proceeds of all property and casualty or business interruption insurance covering loss of anticipated Revenues carried or maintained with respect to the Obligated Health Care System as

described above under the caption entitled “Insurance,” and the Net Proceeds resulting from Eminent Domain proceedings as described above under the caption entitled “Notice of Taking; Cooperation of Parties,” shall be paid to the Authority if the aggregate Net Proceeds in the relevant period upon which Financial Statements are based do not exceed 10% of Base Value. The Authority may use said Net Proceeds in such manner as it may determine.

All Net Proceeds described in the foregoing paragraph in excess of such 10% of Base Value shall be applied at the election of the Authority as follows:

(1) to the redemption of Bonds, provided that Bonds may be redeemed in part only if (A) the Authority delivers to the Trustee a certificate of an Architect stating that the Obligated Health Care System has been restored to substantially the same condition as prior to such damage or destruction, or (B) the Authority delivers to the Trustee and the Local Government Commission an Officer’s Certificate stating that the Board has determined that the portion of the Obligated Health Care System damaged or destroyed is not necessary to the operation of the same and that the failure of the Authority to repair or restore the same will not impair or otherwise adversely affect the structural soundness or the revenue-producing capacity of the Obligated Health Care System; or

(2) to not redeem Bonds if the Authority shall notify the Trustee and within 12 months after the adjustment deliver to the Trustee (A) an Officer’s Certificate certifying the expected Long-Term Debt Service Coverage Ratio for the period upon which Financial Statements are based following the date on which such proceeds or awards are expected to have been fully applied, which Long-Term Debt Service Coverage Ratio for such period is not less than 1.30, as shown by pro forma financial statements for each such period, accompanied by a statement of the relevant assumptions including assumptions as to the use of such proceeds or awards, upon which such pro forma statements are based, or (B) a written report of a Management Consultant stating the consultant’s recommendations, including recommendations as to the use of such proceeds or awards, to cause the Long-Term Debt Service Coverage Ratio for the period described in (A) of this paragraph (2) to be not less than 1.10, or, if in the opinion of the Management Consultant the attainment of such level is impracticable, at the highest practicable level.

If the Authority shall not apply Net Proceeds, or cause them to be applied, to the replacement, repair, rebuilding or restoration of the Obligated Health Care System, the Authority shall direct the Trustee to redeem Bonds in accordance with the Bond Order and the applicable series resolution and to transfer pro rata to the applicable redemption fund and any similar fund or account created under the applicable series resolution an amount sufficient to pay the Redemption Price of the Bonds to be redeemed on the earliest redemption date and pro rata to the applicable interest account and any similar fund or account created under the applicable series resolution an amount that, together with amounts on deposit therein, is sufficient to pay interest accruing on the Bonds to be redeemed to the date of redemption.

If the Authority shall apply Net Proceeds, or cause them to be applied, to the replacement, repair, rebuilding or restoration of the Obligated Health Care System, the Trustee shall create a Net Proceeds Account in the Project Fund, shall transfer such proceeds to the Net Proceeds Account, and shall make disbursements therefrom, to the extent practicable, in accordance with the procedures and requirements set forth in the Bond Order for requisitions from the Project Fund. In the event said Net Proceeds are not sufficient to pay in full the costs of such replacement, repair, rebuilding or restoration, the Authority shall complete the work thereof and pay the portion of the cost thereof in excess of the amount of said Net

Proceeds. Any balance of Net Proceeds remaining after the payment of all costs of such replacement, repair, rebuilding or restoration shall be transferred to the Authority.

(b) The proceeds of business interruption insurance covering loss of anticipated Revenues carried or maintained with respect to the Obligated Health Care System as described under the caption above entitled "Insurance," shall be payable to the Authority for application in accordance with the provisions of the Bond Order and comparable provisions of the applicable series resolution.

Supplements and Modifications to the Bond Order and the Series Resolution

The Authority, from time to time and at any time, may adopt such series resolutions supplemental to the Series Resolution and such bond orders supplemental to the Bond Order as shall be consistent with the terms and provisions of the Bond Order (which supplemental series resolution or supplemental bond order shall thereafter form a part of the Series Resolution or the Bond Order, respectively) without consent of or notice to any of the Holders:

(a) to cure any ambiguity or formal defect or omission, to correct or supplement any provision therein that may be inconsistent with any other provision therein, to make any other provision with respect to matters or questions arising thereunder, or, with the prior written consent of the Trustee, to modify, alter, amend, add to or rescind, in any particular, any of the terms or provisions contained therein which do not materially and adversely affect the interests of the Holders, or

(b) to grant to or confer upon the Trustee for the benefit of the Holders any additional rights, remedies, powers, authority, or security that may lawfully be granted to or conferred upon the Holders or the Trustee, or

(c) to add to the conditions, limitations and restrictions on the issuance of Bonds under the provisions therein or other conditions, limitations and restrictions thereafter to be observed, provided that such conditions, limitations, and restrictions do not impair the security for the Outstanding Bonds and do not materially and adversely affect the interests of the Holders, or

(d) to add to the covenants and agreements of the Authority and other Members of the Obligated Group therein, other covenants and agreements thereafter to be observed by the Obligated Group or the Combined Group or to surrender any right or power therein reserved to or conferred upon any Member of the Obligated Group or Combined Group which do not materially and adversely affect the interests of the Holders, or

(e) to permit the qualification thereof under any federal statute now or hereafter in effect or under any state Blue Sky law, and, in connection therewith, to add to the Bond Order or any supplemental bond order provisions as may be permitted or required by such federal statute or Blue Sky law, or

(f) to create and provide for the issuance of Bonds or Indebtedness to the extent permitted thereunder, or

(g) to provide for the issuance of Bonds in uncertificated form or bearer form, with or without coupons, to the extent permitted by law.

Other than supplements referred to in the preceding paragraph and subject to the terms and provisions described in this paragraph and further described in the Bond Order, and not otherwise, the Holders of not less than 51% in aggregate principal amount of the Bonds then Outstanding that will be affected by a proposed supplemental bond order or supplemental series resolution shall have the right,

from time to time, anything contained in the Bond Order or the Series Resolution to the contrary notwithstanding, to consent to and approve the adoption by the Authority of any bond order supplemental to the Bond Order or any series resolution supplemental to the Series Resolution, as applicable, as shall be deemed necessary or desirable by the Authority for the purpose of modifying, altering, amending, adding to, or rescinding, in any particular, any of the terms or provisions contained in the Bond Order or in any supplemental bond order or the Series Resolution or any supplemental series resolution; provided that nothing in the Bond Order or the Series Resolution shall permit, or be construed as permitting (a) a change in the times, amounts or currency of payment of the principal of, premium, if any, or the interest on any Bond, or a reduction in the principal amount of any Bond or the redemption premium or the rate of interest thereon, without the consent of the Holder of such Bond, or (b) a preference or priority of any Bond or Bonds over any other Bond or Bonds without the consent of the Holders of all Bonds then Outstanding, or (c) a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental bond order or supplemental series resolution without the consent of the Holders of all Bonds then Outstanding. Nothing described in this paragraph, however, shall be construed as making necessary the approval by the Holders of the adoption of any supplemental bond order or supplemental series resolution described in the preceding paragraph.

Notwithstanding the foregoing, so long as any Indebtedness the issuance of which was approved by the Local Government Commission is Outstanding certain provisions of the Bond Order described above which require that either the prior consent of the Local Government Commission be obtained or that an Officer's Certificate to the effect that all Parity Debt then Outstanding under the Bond Order would continue to be Investment Grade be delivered to the Local Government Commission before a specified action may be taken may not be amended without the prior written consent of the Local Government Commission.

Events of Default and Remedies

Each of the following events is an Event of Default under the Bond Order and the Series Resolution:

- (a) payment of the interest on any Bonds is not made when the same is due and payable;
- (b) payment of the principal of, or the redemption premium, if any, on any Bonds is not made when due and payable, whether at maturity, by proceedings for redemption, or pursuant to a Sinking Fund Requirement or otherwise;
- (c) failure of any Member of the Obligated Group to perform, observe or comply with any of the other covenants, agreements, conditions, or provisions in the Bond Order, the Series Resolution or in any other series resolution and the continuance thereof for a period of 30 days after receipt by the Authority of a written notice from the Trustee specifying such default and requesting that it be corrected; provided, however, that if prior to the expiration of such 30-day period any Member of the Obligated Group institutes action reasonably designed to cure such default, no Event of Default shall be deemed to have occurred upon the expiration of such 30-day period for so long as any Member of the Obligated Group pursues such curative action with reasonable diligence and provided that such curative action can be completed within a reasonable time;
- (d) except as contemplated by any certificate of need issued in connection with any Improvements, all or a substantial portion of the Obligated Health Care System is abandoned or operations are discontinued therein for a period of 5 continuous days after receipt by the

Authority of a written notice from the Trustee specifying such default and requesting that it be corrected, except as such abandonment or discontinuance is permitted by the Bond Order;

(e) any Member of the Obligated Group: (i) becomes insolvent or the subject of insolvency proceedings; or (ii) is unable or admits in writing its inability to pay its debts as they mature; or (iii) makes a general assignment for the benefit of creditors or to an agent authorized to liquidate any substantial amount of its property; or (iv) files a petition or other pleading seeking reorganization, composition, readjustment, or liquidation of assets, or requesting similar relief; or (v) applies to a court for the appointment of a receiver for any of its assets; or (vi) has a receiver or liquidator appointed for any of its assets (with or without the consent of the relevant Member of the Obligated Group) and such receiver is not discharged within 90 consecutive days after his appointment; or (vii) becomes the subject of an “order for relief” within the meaning of the United States Bankruptcy Code; or (viii) files an answer to a creditor’s petition admitting the material allegations thereof for liquidation, reorganization, readjustment or composition, or to effect a plan or other arrangement with creditors, or fails to have such petition dismissed within 60 consecutive days after the same is filed against the relevant Member of the Obligated Group;

(f) any court of competent jurisdiction assumes custody or control of any Member of the Obligated Group or of the whole or any substantial part of its property under the provisions of any other law for the relief or aid of debtors, and such custody or control is not terminated within ninety (90) days from the date of assumption of such custody or control;

(g) any Member of the Obligated Group shall fail to make any required payment with respect to any Indebtedness aggregating more than 5% of the Indebtedness of the Obligated Group (including all Bonds issued and Outstanding under the Bond Order), whether such Indebtedness now exists or shall hereafter be created, and any period of grace with respect thereto shall have expired, or an event of default as defined in any mortgage, indenture or instrument under which there may be issued, or by which there may be secured or evidenced, any Indebtedness, whether such Indebtedness now exists or shall hereafter be created, shall occur, which event of default shall not have been waived by the holder of such mortgage, indenture or instrument, and as a result of such failure to pay or other event of default such Indebtedness shall have been accelerated; provided, however, that such default shall not constitute an Event of Default within the meaning of the Bond Order if within 30 days (i) written notice is delivered by the Authority to the Trustee, that a Member of the Obligated Group is contesting the payment of such Indebtedness and the amount of such Indebtedness is less than 1/2% of Income Available for Debt Service for the most recent period for which Financial Statements are available, or (ii) if such Indebtedness is equal to or greater than 1/2% of Income Available for Debt Service, within the time allowed for service of a responsive pleading if any proceeding to enforce payment of the Indebtedness is commenced, any Member of the Obligated Group in good faith shall commence proceedings to contest the obligation to pay or the existence or payment of such Indebtedness; and

(h) payment of any Parity Obligation is not made when the same is due and payable and any period of grace with respect thereto shall have expired, or an event of default as defined in any Parity Obligation issued or incurred to secure Indebtedness or related Parity Instrument shall occur, which event of default shall not have been waived by the Holders of such Parity Obligation (or a trustee representing their interests).

Acceleration. Upon the happening and continuance of any Event of Default under the Bond Order, the Trustee may, and upon the written request of the Holders of not less than 25% in aggregate principal amount of Bonds then Outstanding shall, declare the principal of all the Bonds then Outstanding

to be due and payable. Such declaration may be rescinded under circumstances specified in the Bond Order.

Additional Remedies. In addition, upon the occurrence and continuance of an Event of Default the Trustee may, and upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds Outstanding, together with indemnification of the Trustee to its satisfaction therefor, shall, proceed to protect and enforce its rights and the rights of the Holders under the Bond Order by such suits, actions or proceedings as the Trustee, being advised by counsel, shall deem expedient, and may take whatever action at law or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due or to enforce observance or performance of any covenant, condition or agreement of the Obligated Group under the Bond Order.

No Remedy Exclusive. No remedy conferred upon or reserved to the Trustee or to the Holders pursuant to the Bond Order is intended to be exclusive of any other remedy or remedies provided in the Bond Order, and each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Bond Order or now or hereafter existing at law or in equity.

Pro Rata Application of Funds After Default. Anything in the Bond Order to the contrary notwithstanding, if at any time the money in the applicable interest accounts, the principal accounts, and the sinking fund accounts created under any series resolution is not sufficient to pay the interest on or the principal of the Bonds as the same become due and payable (either by their terms or by acceleration of maturities as described above under the caption entitled "Acceleration"), such money, together with any money then available or thereafter becoming available for such purposes, whether through the exercise of the remedies provided for in the Bond Order or otherwise, shall be applied as follows:

first: if the principal of the Bonds has not become due and payable, to the payment of all installments of interest then due, in the order of the maturity of the installments of such interest;

second: if the principal of less than all of the Bonds has become due and payable, first to the payment of all installments of interest due on Bonds of which the principal is not overdue, in the order of the maturity of the installments thereof, and next to the payment of interest at the respective rates specified in such Bonds on overdue principal, and next to the payment of the principal of Bonds then due in order of their due dates;

third: if the principal of all Bonds has become due and payable by declaration, redemption, or otherwise, first to the payment of all interest due on Bonds of which the principal is not overdue, and next to the payment of interest at the respective rates specified in the Bonds on overdue principal, and next to the payment of the principal of the Bonds in order of their due dates;

fourth: if the principal of all Bonds has been declared due and payable and if such declaration thereafter has been rescinded and annulled in accordance with the Bond Order, then, subject to the provisions of the preceding paragraph third in the event that the principal of all Bonds later becomes due and payable or is declared due and payable, the money then remaining in and thereafter accruing to the interest accounts, the principal accounts, and the sinking fund accounts created under any series resolution shall be applied in accordance with the provisions of the preceding paragraphs first or second, whichever is then applicable.

All payments to be made to the Holders pursuant to the foregoing provisions shall be made ratably to the persons entitled thereto, without discrimination or preference, except that if there are insufficient funds to make any payment of interest or principal then due, the amount to be paid in respect of principal or

interest, as the case may be, on each Bond shall be determined by multiplying the aggregate amount of the funds available for such payment by a fraction, the numerator of which shall be the amount then due as principal or interest, as the case may be, on each Bond and the denominator of which shall be the aggregate amount due in respect of all interest or all principal, as the case may be, on all Bonds.

Whenever all Bonds and interest thereon have been paid under the foregoing provisions and all expenses and charges of the Trustee have been paid, any balance remaining shall be paid to the Person entitled to receive the same; if no other Person shall be entitled thereto, then the balance shall be paid to the Authority, their respective successors, or as a court of competent jurisdiction may direct.

The provisions of the Bond Order described under this caption will be applied after giving effect to the allocations and distributions among Bonds and Parity Obligations described under the caption “**Parity Debt—Allocations if Parity Obligations Outstanding.**”

Control of Proceedings by Holders. Anything in the Bond Order to the contrary notwithstanding, the Holders of a majority in aggregate principal amount of Bonds at any time Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee under the Bond Order, provided that such direction shall be in accordance with law and the provisions of the Bond Order.

Restrictions upon Acts by Individual Holders. Except as provided in the Bond Order, no Holder shall have any right to institute any suit, action, or proceeding in equity or at law on any Bond or for the execution of any trust under the Bond Order or for any other remedy under the Bond Order unless such Holder previously shall (a) have given to the Trustee written notice of the Event of Default on account of which such suit, action or proceeding is to be instituted, (b) have requested the Trustee to take action after the right to exercise such powers or right of action has accrued, (c) have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted in the Bond Order or to institute such action, suit, or proceedings in its or their name, and (d) have offered to the Trustee reasonable security and indemnity against the costs, expenses, and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time. Such notification, request, and offer of indemnity, at the option of the Trustee, may be conditions precedent to the execution of the powers and trusts of the Bond Order or to any other remedy thereunder.

Notwithstanding the provisions of the preceding paragraph and without complying therewith, the Holders of not less than 25% in aggregate principal amount of Bonds then Outstanding may institute any such suit, action or proceeding in their own names for the benefit of all Holders. Except as otherwise provided in the Bond Order, no one or more Holders shall have any right in any manner whatsoever by his or their action to affect, disturb or prejudice the security of the Bond Order, or to enforce any right thereunder except in the manner provided, that all proceedings at law or in equity shall be instituted, had and maintained in the manner provided in the Bond Order and for the benefit of all Holders, and that any individual rights of action or other right given to one or more of such Holders by law are restricted by the Bond Order to the rights and remedies therein provided.

No Recourse Against Members, Officers or Employees of the Authority or the Local Government Commission

No recourse, under or upon, any statement, obligation, covenant or agreement contained in the Series Resolution, or in any Series 2009A Bond, or in any document or certification whatsoever, or under any judgment obtained against the Authority or by the enforcement of any assessment or by any legal or equitable proceeding by virtue of any constitution or statute or otherwise, or under any circumstances,

shall be had against any member, officer or employee, as such, of the Authority or the Local Government Commission, either directly or through the Authority or the Local Government Commission, or otherwise, for the payment for or to the Authority or any receiver of the Authority, or for or to any Holder, or otherwise, of any sum that may be due and unpaid upon any such Series 2009A Bond.

Defeasance

The Authority may select all or any portion of the Series 2009A Bonds to be Defeased Series 2009A Bonds as provided in the Series Resolution. When (a) if the Defeased Series 2009A Bonds shall become due and payable in accordance with their terms or otherwise as provided in the Series Resolution and the Bond Order, the whole amount of the principal and the interest and premium, if any, so due and payable upon all such Defeased Series 2009A Bonds shall be paid, (b) if the Defeased Series 2009A Bonds shall not have become due and payable in accordance with their terms, the Trustee shall hold sufficient (i) money or (ii) Defeasance Obligations the principal of and the interest on which, when due and payable, in the opinion of a nationally recognized firm of certified public accountants or such other verification agent as shall be acceptable to the Authority and the Trustee, without further investment or reinvestment of either the principal amount thereof or the interest earnings thereon (said earnings also to be held in trust), will be sufficient, together with any other moneys, to pay the principal of, and the interest and redemption premium, if any, on all such Defeased Series 2009A Bonds then Outstanding to the maturity date or dates of such Defeased Series 2009A Bonds or to the date or dates specified for the redemption thereof, (c) if Defeased Series 2009A Bonds are to be called for redemption, irrevocable instructions to call the Defeased Series 2009A Bonds for redemption shall have been given by the Authority to the Trustee, and (d) sufficient funds shall also have been provided or provision made for paying all other obligations payable under the Bond Order or the Series Resolution by the Authority relating to and allocable to the Defeased Series 2009A Bonds, then and in that case the right, title and interest of the Trustee and Holders in the Revenues and the funds and accounts mentioned in the Series Resolution shall thereupon cease, determine and become void with respect to the Defeased Series 2009A Bonds and, upon being furnished with an opinion, in form and substance satisfactory to the Trustee, of counsel approved by the Trustee, to the effect that all conditions precedent to the repeal of the Series Resolution with respect to the Defeased Series 2009A Bonds have been satisfied, the Trustee shall repeal the Series Resolution with respect to the Defeased Series 2009A Bonds and shall transfer to the Authority any surplus in, and all balances remaining in, all funds and accounts allocable to the Defeased Series 2009A Bonds. Otherwise, the Series Resolution shall be, continue and remain in full force and effect; provided, that, in the event Defeasance Obligations shall be deposited with and held by the Trustee as hereinabove provided, (i) in addition to the requirements set forth in the Series Resolution, the Trustee, within thirty (30) days after such Defeasance Obligations shall have been deposited with it, shall cause a notice signed by the Trustee to be mailed, first class, postage prepaid, to all Holders, setting forth (A) the date or dates, if any, designated for the redemption of the Defeased Series 2009A Bonds, (B) a description of the Defeasance Obligations so held by it, and (C) that the Series Resolution has been repealed with respect to the Defeased Series 2009A Bonds in accordance with the provisions herein described, and (ii)(A) the Trustee shall nevertheless retain such rights, powers and privileges under the Series Resolution and the Bond Order as may be necessary and convenient in respect of the Defeased Series 2009A Bonds for the payment of the principal, interest and any premium for which such Defeasance Obligations have been deposited, and (B) the Trustee shall retain such rights, powers and privileges under the Series Resolution and the Bond Order as may be necessary and convenient for the registration, transfer and exchange of Defeased Series 2009A Bonds.

All money and Defeasance Obligations held by the Trustee for such purpose shall be held in trust and applied to the payment, when due, of the obligations payable therewith.

The Authority may select all or any portion of the Series 2009A Bonds to be Defeased Series 2009A Bonds. The portion of the Series 2009A Bonds selected to be Defeased Series 2009A Bonds shall be only in whole multiples of \$5,000 principal amount. The Authority shall select for defeasance the maturity or maturities and the amount of each maturity of the Series 2009A Bonds to be Defeased Series 2009A Bonds. If less than all of the Series 2009A Bonds of any maturity are defeased, the Series 2009A Bonds to be redeemed pursuant to defeasance shall be selected at or before the time of redemption in the manner provided in the Bond Order and the Series Resolution and, to the extent necessary, the Series 2009A Bonds to be paid at maturity pursuant to defeasance shall be selected at or before the time of payment in similar manner.

Additional Disclosure Requirements

The Authority, not later than 90 days after the end of each of the first three quarters of its Fiscal Year, will mail or otherwise make available to each Interested Beneficial Owner a copy of the Quarterly Reports for such fiscal quarter.

Member Guaranty Agreement

The following is a summary of the form of Member Guaranty Agreement that is an exhibit to the Bond Order.

Member of the Obligated Group. Each Person agrees by the execution and delivery of a Member Guaranty Agreement to become a Member of the Obligated Group and becomes subject to compliance with all provisions of the Bond Order and any Supplemental Bond Orders pertaining to the Obligated Group, subject to Existing Restrictions.

The Guaranty. Each Member of the Obligated Group executing a Member Guaranty Agreement thereby jointly and severally unconditionally guarantees to the Authority, the Trustee and the other Members of the Obligated Group the full and prompt payment and performance of all Parity Debt, subject only to Existing Restrictions. The Member Guaranty Agreement is a guaranty of payment and not of collection, and each of the Guarantors expressly waives any right to require that any action be brought against any other Member of the Obligated Group or to require that resort be had to any security. If any Member of the Obligated Group defaults in payment of any Parity Debt when due, the Guarantors, upon demand by the Trustee, will promptly and fully make such payments, subject only to Existing Restrictions. The Trustee, in its sole discretion, shall have the right to proceed first and directly against any Guarantor. Each Member Guaranty Agreement will remain in full force and effect until all Parity Debt is paid and satisfied in full, subject to the provisions of the Bond Order and the Member Guaranty Agreement regarding withdrawal from membership in the Obligated Group.

Subordination. Upon payment by any Member of the Obligated Group (other than the Authority) of any of the Obligated Group's obligations under the Bond Order, all rights of each such Member of the Obligated Group against the Obligated Group arising as a result thereof by way of right of subrogation or contribution or otherwise shall in all respects be subordinated and junior in right of payment to the prior indefeasible right of the Trustee to payment in full of all obligations under the Bond Order. The Authority shall not be entitled to any right of subrogation or contribution against the other Members of the Obligated Group.

Withdrawal from Membership in the Obligated Group. Any Member of the Obligated Group, other than the Authority, may withdraw from membership in the Obligated Group with the prior written consent of the Authority upon compliance with the requirements set forth in the Bond Order and described above under the caption entitled "Entry into and Withdrawal from Obligated Group." Upon the

withdrawal of any Member of the Obligated Group, the guaranty by such Member of the Obligated Group pursuant to a Member Guaranty Agreement shall be released and discharged in full and all liability of such Member of the Obligated Group with respect to all Parity Debt Outstanding under the Bond Order shall cease.

Events of Default. The following shall constitute events of default under the Member Guaranty Agreement:

- (a) any representation or warranty made by the Member of the Obligated Group in the Member Guaranty Agreement or in any related statement or certificate furnished to the Trustee is false, in any material respect, as of the date on which made or issued;
- (b) failure by the Member of the Obligated Group to comply with any of the terms and conditions of the Member Guaranty Agreement; and
- (c) the occurrence of an event of default under the Bond Order or any series resolution or Parity Instrument.

Remedies. Upon the occurrence and continuance of an event of default under the Member Guaranty Agreement, the Trustee will have those rights and remedies provided in the Member Guaranty Agreement, the Bond Order, any series resolution, any Parity Instrument or by law.

Member Security Agreement

The following is a summary of the form of Member Security Agreement that is an exhibit to the Bond Order.

Members of the Obligated Group. Each Person agrees by the execution and delivery of a Member Security Agreement to become a Member of the Obligated Group and becomes subject to compliance with all provisions of the Bond Order and any Supplemental Bond Orders pertaining to the Obligated Group, subject to Existing Restrictions.

Guaranty, Pledge and Grant of Security Interest in Revenues. Each Member of the Obligated Group executing a Member Security Agreement guarantees the full and prompt payment of all Parity Debt, but solely from and only to the extent of its Revenues, and pledges, assigns and grants to the Holders and to the Trustee, on behalf of the Holders, a security interest in such Revenues and its rights to receive the same as security for the payment of all Parity Debt, in each case subject to Existing Restrictions and the provisions of the Bond Order and Member Security Agreement regarding withdrawal from Membership in the Obligated Group.

Subordination. Upon payment by any Member of the Obligated Group (other than the Authority) of any of the Obligated Group's obligations under the Bond Order, all rights of each such Member of the Obligated Group against the Obligated Group arising as a result thereof by way of right of subrogation or contribution or otherwise shall in all respects be subordinated and junior in right of payment to the prior indefeasible right of the Trustee to payment in full of all obligations under the Bond Order. The Authority shall not be entitled to any right of subrogation or contribution against the other Members of the Obligated Group.

General Representations, Warranties, Covenants and Agreements. So long as any Parity Debt remains Outstanding, each Member of the Obligated Group that has executed a Member Security Agreement represents, warrants, covenants and agrees that its Revenues are and will be free and clear of

all pledges, security interests, liens, attachments, levies and encumbrances, except to the extent of any Existing Restrictions or as otherwise permitted by the Bond Order; that it will warrant and defend its Revenues against any claims and demands (other than Permitted Encumbrances); that the pledge of and security interest in its Revenues granted to the Trustee (i) when properly perfected by filing, will constitute a valid and perfected security interest in its Revenues and (ii) will not be subject to, and it will not grant or permit to exist, any other security interests, liens, encumbrances or claims on or against its Revenues, except for Existing Restrictions and as otherwise permitted by the Bond Order; and it agrees to cooperate with the Authority and the Trustee to make all filings and take such other action necessary or advisable in the Trustee's reasonable discretion to perfect and maintain the security interest granted.

Withdrawal from Membership in the Obligated Group. Any Member of the Obligated Group, other than the Authority, may withdraw from membership in the Obligated Group with the prior written consent of the Authority upon compliance with the requirements set forth in the Bond Order and described above under the caption entitled "Entry into and Withdrawal from Obligated Group." Upon the withdrawal of any Member of the Obligated Group, the guarantee of payment of all Parity Debt and the pledge of and grant of a security interest in Revenues by such Member of the Obligated Group that has executed a Member Security Agreement shall be released, discharged and terminated in full and all liability of such Member of the Obligated Group with respect to all Parity Debt Outstanding under the Bond Order shall cease.

Events of Default. The following shall constitute events of default under the Member Security Agreement:

- (a) any representation or warranty made by the Member of the Obligated Group in the Member Security Agreement or in any related statement or certificate furnished to the Trustee is false, in any material respect, as of the date on which made or issued;
- (b) failure by the Member of the Obligated Group to comply with any of the terms and conditions of the Member Security Agreement; and
- (c) The occurrence of an event of default under the Bond Order or any series resolution or Parity Instrument.

Remedies. Upon the occurrence and continuance of an event of default under the Member Security Agreement, the Trustee will have in addition to the rights and remedies provided in the Member Security Agreement, the Bond Order, any series resolution, any Parity Instrument or by law, the rights and remedies of a secured party under the Uniform Commercial Code as enacted in North Carolina.

APPENDIX D

FORM OF OPINION OF BOND COUNSEL

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ROBINSON BRADSHAW & HINSON

August __, 2009

Board of Commissioners
The Charlotte-Mecklenburg Hospital Authority
Charlotte, North Carolina

Re: \$222,645,000 The Charlotte-Mecklenburg Hospital Authority Health Care Refunding
Revenue Bonds, Series 2009A

Ladies and Gentlemen:

We have acted as bond counsel to The Charlotte-Mecklenburg Hospital Authority (the "Authority") in connection with the issuance by the Authority of the referenced bonds (the "2009A Bonds"). In such capacity, we have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion.

The 2009A Bonds are issued pursuant to the Hospital Authorities Act, Article 2, Part 2 of Chapter 131E of the General Statutes of North Carolina, as amended (the "Hospital Authorities Act"), The State and Local Government Revenue Bond Act, Article 5 of Chapter 159 of the General Statutes of North Carolina, as amended (the "Revenue Bond Act"), a Second Amended and Restated Bond Order adopted by the Board of Commissioners of the Authority (the "Board") as of September 9, 1997, as amended by a First Amendment thereto dated as of November 1, 2001, a Second Amendment thereto dated as of June 1, 2002 and a Third Amendment thereto dated as of September 11, 2007 (as so amended, the "Bond Order"), and a Series Resolution authorizing the 2009A Bonds adopted by an authorized committee of the Board on July 21, 2009 (the "Series Resolution"). Any capitalized term used herein without definition has the meaning given to such term in the Bond Order or the Series Resolution.

As security for the prompt payment of the principal of, redemption premium, if any, and interest on the 2009A Bonds, the Authority (i) pursuant to the Bond Order has granted a security interest in the Authority's Revenues and its rights to receive the same to U.S. Bank National Association, as trustee (the "Trustee"), on behalf of the Holders of the 2009A Bonds, and (ii) pursuant to the Bond Order and the Series Resolution has created liens in favor of the Holders of the 2009A Bonds on the money held by the Trustee in the accounts and subaccounts for the 2009A Bonds created and established under the Series Resolution.

The Bond Order provides for the creation of a Combined Group, which consists of the Members of the Obligated Group and all Designated Affiliates. Each Member of the Obligated Group (other than the Authority, which is directly obligated to pay the principal of, redemption premium, if any, and interest on the 2009A Bonds) has executed a Member Guaranty Agreement or a Member Security Agreement. Each Member of the Obligated Group that has executed a Member Guaranty Agreement has jointly and severally unconditionally guaranteed the prompt payment of the principal of, redemption premium, if any, and interest on the 2009A Bonds, subject to Existing Restrictions and the withdrawal of such Member of the Obligated Group from membership therein upon the terms and conditions set forth in the Bond Order. Each Member of the Obligated Group that has executed a Member Security Agreement has also guaranteed prompt payment of the principal of, redemption premium, if any, and interest on the 2009A Bonds, but solely from and only to the extent of its Revenues, and as security for such payment obligations has granted a security interest in its Revenues to the Trustee, on behalf of the Holders, subject to Existing Restrictions and the withdrawal of such Member of the Obligated Group from membership

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ROBINSON BRADSHAW & HINSON

Board of Commissioners
The Charlotte-Mecklenburg Hospital Authority
August __, 2009
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therein upon the terms and conditions set forth in the Bond Order. There are currently no Designated Affiliates.

All Outstanding Bonds issued by the Authority pursuant to the Bond Order prior to the date hereof, all Outstanding Parity Obligations issued or incurred by the Authority or other Members of the Obligated Group prior to the date hereof, and all Additional Bonds and Parity Obligations which may be issued or incurred by the Authority or other Members of the Obligated Group after the date hereof upon the terms specified in the Bond Order are and will be equally and ratably secured with the 2009A Bonds by (i) the pledge of the Authority's Revenues and its rights to receive the same pursuant to the Bond Order, (ii) all Member Guaranty Agreements and (iii) all Member Security Agreements; however, money held by the Trustee in the accounts and subaccounts for the 2009A Bonds created and established under the Series Resolution is not and will not be security for the Holders of any other Bonds or any Parity Obligations.

As to questions of fact material to our opinion, we have relied upon representations of the Authority contained in various documents, certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based on the foregoing, we are of the opinion that, under existing law:

1. The Authority is validly existing as a public body and body corporate and politic under the Hospital Authorities Act with the power under the Hospital Authorities Act and the Revenue Bond Act to adopt the Bond Order and the Series Resolution, perform the agreements on its part contained therein, and issue the 2009A Bonds.
2. The Bond Order and the Series Resolution have been duly adopted by the Authority and constitute valid and binding obligations of the Authority enforceable against the Authority.
3. The Bond Order creates a valid lien on the Authority's Revenues that equally and ratably secures all Bonds issued pursuant to the Bond Order, including the 2009A Bonds. The Bond Order and the Series Resolution create valid liens on the money held by the Trustee in the accounts and subaccounts for the 2009A Bonds created and established under the Series Resolution.
4. The 2009A Bonds have been duly authorized and executed by the Authority, and are valid and binding limited obligations of the Authority, payable solely from (i) the Revenues of the Authority, (ii) payments from each Member of the Obligated Group that has signed a Member Guaranty Agreement, (iii) the Revenues of each Member of the Obligated Group that has signed a Member Security Agreement, and (iv) money held by the Trustee in the accounts and subaccounts for the 2009A Bonds created and established under the Series Resolution.
5. Each Member Guaranty Agreement and Member Security Agreement that has been executed by a current Member of the Obligated Group has been duly authorized, executed and delivered

ROBINSON BRADSHAW & HINSON

Board of Commissioners
The Charlotte-Mecklenburg Hospital Authority
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Page 3

by such Member of the Obligated Group and constitutes a valid and binding obligation of such Member of the Obligated Group enforceable against such Member of the Obligated Group.

6. Interest on the 2009A Bonds is excludable 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. The opinion set forth in the preceding sentence is subject to the condition that the Authority and any Member of the Combined Group benefiting from the proceeds of the 2009A Bonds comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the 2009A Bonds in order that interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The Authority has covenanted to comply, and cause all other Members of the Combined Group to comply, with all such requirements. Failure to comply with certain of such requirements may cause interest on the 2009A Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the 2009A Bonds.

7. Interest on the 2009A Bonds is exempt from State of North Carolina income taxes.

The rights of the Holders of the 2009A Bonds and the enforceability of the 2009A Bonds, the Bond Order, the Series Resolution, each Member Guaranty Agreement and each Member Security Agreement are limited by bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium, and other similar laws affecting creditors' rights generally and by equitable principles, whether considered at law or in equity.

We express no opinion herein (a) regarding the accuracy, adequacy, or completeness of the Official Statement relating to the 2009A Bonds, or (b) except as stated above, regarding federal, state, or local tax consequences arising with respect to the 2009A Bonds.

In rendering this opinion, we have relied upon the opinion of Keith A. Smith, Esq., the Authority's Senior Vice President and General Counsel, with respect to the due authorization, execution and delivery of each Member Guaranty Agreement and each Member Security Agreement that has been entered into by a current Member of the Obligated Group.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Respectfully submitted,

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APPENDIX E
BOOK-ENTRY ONLY SYSTEM

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BOOK-ENTRY ONLY SYSTEM

General. The information provided under this caption “*General*” is based on information provided by the Depository Trust Company (which we refer to as “DTC”). No representation is made by us, the trustee or the underwriters as to the accuracy or adequacy of such information provided by DTC or as to the absence of material adverse changes in such information subsequent to the date hereof.

DTC, New York, New York, will act as securities depository for the 2009A Bonds. The 2009A Bonds will be issued as fully registered securities registered in the name of Cede & Co., DTC’s partnership nominee. One fully registered 2009A Bond certificate will be issued for each maturity of the 2009A Bonds set forth on the cover page of this official statement, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest 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, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (which we refer to as “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. The Depository Trust & Clearing Corporation is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. The Depository Trust & Clearing Corporation 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 (which we refer to as “Indirect Participants”). DTC has S&P’s highest rating: AAA. The rules applicable to DTC and its Direct and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of 2009A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2009A Bonds on DTC’s records. The ownership interest of each actual owner of a 2009A Bond (which we refer to as 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 beneficial ownership interests in the 2009A 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 2009A Bonds, except in the event that use of the book-entry system for the 2009A Bonds is discontinued.

To facilitate subsequent transfers, all 2009A Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. (or such other nominee as

requested by an authorized representative of DTC). The deposit of 2009A Bonds with DTC and their registration in the name of Cede & Co. (or such other nominee as requested by an authorized representative of DTC) effect no change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the 2009A Bonds. DTC's records reflect only the identity of the Direct Participants to whose accounts such 2009A Bonds are credited, which may or may not be the beneficial owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial owners of 2009A Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2009A Bonds, such as redemptions, defaults and proposed amendments to the security documents.

Redemption notices will be sent to DTC. If less than all of the 2009A Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2009A Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an "Omnibus Proxy" to us 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 2009A Bonds are credited on the record date identified in a listing attached to the "Omnibus Proxy."

Principal, premium and interest payments on the 2009A Bonds will be made to Cede & Co. (or such other nominee as 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 us or the trustee on each payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect 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 Direct and Indirect Participant and not of us, DTC, its nominee or the trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium and interest to Cede & Co. (or such other nominee as requested by an authorized representative of DTC) is the responsibility of the 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 the Direct Participants and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2009A Bonds at any time by giving reasonable notice to us. Under such circumstances, in the event that a successor depository is not obtained, 2009A Bond certificates are required to be printed and delivered. We may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, 2009A Bond certificates will be printed and delivered to DTC.

***Limitation.* For so long as the 2009A Bonds are registered in the name of DTC or its nominee, Cede & Co., we and the trustee will recognize only DTC or its nominee, Cede & Co., as the registered owner of the 2009A Bonds for all purposes, including payments, notices and voting. So long as Cede & Co. is the registered owner of the 2009A Bonds, references in this official**

statement to registered owners of the 2009A Bonds will mean Cede & Co. and will not mean the beneficial owners of the 2009A Bonds.

Because DTC is treated as the owner of the 2009A Bonds for substantially all purposes under our bond order and the series resolution, beneficial owners may have a restricted ability to influence in a timely fashion remedial action or the giving or withholding of requested consents or other directions. In addition, because the identity of beneficial owners is unknown to us, the trustee or to DTC, it may be difficult to transmit information of potential interest to beneficial owners in an effective and timely manner. Beneficial owners should make appropriate arrangements with their brokers or dealers regarding distribution of information regarding the 2009A Bonds that may be transmitted by or through DTC.

Under our bond order, payments made by the trustee to DTC or its nominee will satisfy our obligations under our bond order, the series resolution, member guaranty agreements and member security agreements to the extent of the payments so made.

We and the trustee do not have any responsibility or obligation with respect to:

- 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 2009A Bonds;
- the delivery to any Direct Participant or Indirect Participant or any other person, other than a registered owner as shown in the bond register kept by the trustee, of any notice with respect to any 2009A Bond including, without limitation, any notice of redemption with respect to any 2009A Bond;
- the payment to any Direct Participant or Indirect Participant or any other person, other than a registered owner as shown in the bond register kept by the trustee, of any amount with respect to the principal of, premium, if any, or interest on, any 2009A Bond; or
- any consent given by DTC or its nominee as registered owner.

Prior to any discontinuation of the book-entry only system described above, we and the trustee may treat Cede & Co. (or such other nominee of DTC) as, and deem Cede & Co. (or such other nominee) to be, the absolute registered owner of the 2009A Bonds for all purposes whatsoever, including, without limitation:

- the payment of principal, premium, if any, and interest on the 2009A Bonds;
- giving notices of redemption and other matters with respect to the 2009A Bonds;
- registering transfers with respect to the 2009A Bonds; and
- the selection of 2009A Bonds for redemption.

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Carolinan HealthCare System