

*In the opinion of Bond Counsel and the Attorney General of the State of Michigan, under existing law and subject to the conditions described herein under "TAX MATTERS," interest on the Bonds is excluded from gross income for federal income tax purposes and interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; however, it should be noted that certain corporations must take into account interest on the Bonds in determining adjusted current earnings for the purpose of computing such alternative minimum tax. The Bonds and interest thereon are free and exempt from all state, city, county and other taxation provided by the laws of the State of Michigan except for estate, inheritance and gift taxes and taxes on transfers. See "TAX MATTERS" herein.*



**\$300,000,000**  
**MICHIGAN FINANCE AUTHORITY**  
**HOSPITAL REVENUE BONDS**  
**(BEAUMONT HEALTH CREDIT GROUP)**  
**SERIES 2016A**

**Dated: Date of Delivery**

**Due: As Set Forth on the Inside Cover**

The above-captioned bonds (the "Bonds") are issuable only as fully registered bonds without coupons and, when issued, will be registered in the name of and held by Cede & Co., as nominee for The Depository Trust Company, New York, New York. So long as Cede & Co. is the registered owner of the Bonds, principal, premium, if any, and interest payments on the Bonds will be made by The Bank of New York Mellon Trust Company, N.A., as Bond Trustee, to Cede & Co., which in turn will remit such payments to the DTC Participants (as defined herein) and DTC Indirect Participants (as defined herein) for subsequent disbursement to the beneficial owners of the Bonds. Purchase of the Bonds will be made in book-entry form only and individual purchasers will not receive physical delivery of bond certificates representing their beneficial interest in the Bonds. So long as Cede & Co. is the registered owner of the Bonds, references herein to the holders or registered owners of the Bonds shall mean Cede & Co. and shall not mean the beneficial owners of the Bonds. See "THE BONDS – Book-Entry Only System" herein.

The Bonds are being issued to provide funds that will be loaned by the Michigan Finance Authority (the "Authority") to Beaumont Health, a Michigan nonprofit corporation ("Beaumont Health"), to be used by the Corporations (as defined herein), together with other available funds, to (a) finance the costs of the Project (as defined herein); and (b) pay all or a portion of the costs of issuing the Bonds.

The Bonds will be issued as fixed rate Bonds and shall bear interest at the rates set forth on the inside cover hereof. Purchase of the Bonds will be made in book-entry only form in denominations of \$5,000 and integral multiples thereof.

Interest on the Bonds is payable on May 1, 2016, and semiannually thereafter on November 1 and May 1 in each year, and on the respective maturity dates of the Bonds. **The Bonds are subject to optional, mandatory and extraordinary redemption prior to maturity as provided herein.**

The principal of and premium, if any, and interest on the Bonds are payable solely from payments to be made on Note No. 36 under an Amendment and Restatement of Master Indenture, dated as of January 1, 2015, between The Bank of New York Mellon Trust Company, N.A., as Master Trustee, and Beaumont Health, for itself and as Credit Group Representative on behalf of the Members of the Obligated Group.

**The Bonds are limited obligations of the Authority and are not a debt or liability of the State of Michigan or any political subdivision of the State of Michigan other than the Authority. The Authority has no taxing power.**

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

The Bonds are offered subject to prior sale, when, as and if issued by the Authority and accepted by the Underwriters, subject to certain conditions, including the approval of legality by Miller, Canfield, Paddock and Stone, P.L.C., Ann Arbor, Michigan, Bond Counsel to the Authority and the Attorney General of the State of Michigan, and the approval of certain legal matters by Dickinson Wright PLLC, Ann Arbor, Michigan, counsel to the Obligated Group, and by Hawkins Delafield & Wood LLP, counsel to the Underwriters. It is expected that the Bonds in definitive form will be available for delivery to The Depository Trust Company in New York, New York, on or about February 4, 2016.

**MORGAN STANLEY**

**RBC Capital Markets**

**Barclays**

*The date of this Official Statement is January 13, 2016.*

† For an explanation of ratings, see "RATINGS" herein.

## **MATURITY SCHEDULE**

**\$300,000,000**

**MICHIGAN FINANCE AUTHORITY  
HOSPITAL REVENUE BONDS  
(BEAUMONT HEALTH CREDIT GROUP)  
SERIES 2016A**

\$202,700,000 5.00% Term Bonds due November 1, 2044, Priced to Yield 3.53%\*, CUSIP<sup>†</sup> 59447THF3

\$97,300,000 4.00% Term Bonds due November 1, 2046, Priced to Yield 4.05%, CUSIP<sup>†</sup> 59447THE6

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\* Priced to November 1, 2025 call date.

<sup>†</sup> Copyright, American Bankers Association. CUSIP data herein is provided by Standard and Poor's CUSIP Service Bureau, a Standard & Poor's Financial Services LLC business. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP service. CUSIP numbers are provided for reference only. None of the Authority, the Obligated Group, the Bond Trustee or the Underwriters take any responsibility for the accuracy of such numbers.

The information contained in this Official Statement under “THE AUTHORITY” has been furnished by the Michigan Finance Authority. All other information contained herein has been obtained from Beaumont Health, The Depository Trust Company (“DTC”) (see “OTHER MATTERS” and the following paragraph) and other sources (other than the Michigan Finance Authority) that are believed to be reliable. Such other information is not guaranteed as to accuracy or completeness by, and is not to be relied upon as or construed as a promise or representation by, the Michigan Finance Authority. None of the information contained in this Official Statement has been supplied or verified by the Master Trustee or the Bond Trustee, and the Master Trustee and the Bond Trustee make no representation, warranty or guarantee as to the accuracy or completeness of any information in this Official Statement.

The 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 investors 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.*

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

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

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CAUTIONARY STATEMENTS REGARDING  
FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements.” Such statements generally are identifiable by the terminology used such as “plan,” “expect,” “estimate,” “budget” or other similar words. Such forward-looking statements include but are not limited to certain statements contained in the information under “PLAN OF FINANCE” and “BONDHOLDERS’ RISKS” in the forepart of this Official Statement and the statements under the heading “SUMMARY OF FINANCIAL RESULTS” in APPENDIX A to this Official Statement. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Beaumont Health does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur.

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## OFFICIAL STATEMENT

**\$300,000,000**  
**MICHIGAN FINANCE AUTHORITY**  
**HOSPITAL REVENUE BONDS**  
**(BEAUMONT HEALTH CREDIT GROUP)**  
**SERIES 2016A**

### INTRODUCTORY STATEMENT

*This Introductory Statement is subject in all respects to more complete information contained in this Official Statement. This entire Official Statement, including its appendices, should be read by any prospective purchaser of the Bonds. No person is authorized to detach this Introductory Statement from this Official Statement or otherwise to use it without this entire Official Statement, including the appendices.*

**Purpose of this Official Statement.** The purpose of this Official Statement, including the cover page, the inside cover page and the appendices, is to set forth information relating to the offering of \$300,000,000 aggregate principal amount of Hospital Revenue Bonds (Beaumont Health Credit Group) Series 2016A (the “*Bonds*”) of the Michigan Finance Authority (the “*Authority*”).

The Bonds will be issued in the original principal amount of \$300,000,000 pursuant to a Bond Indenture dated as of February 1, 2016 (the “*Bond Indenture*”), between the Authority and The Bank of New York Mellon Trust Company, N.A., a national banking association, as trustee (the “*Bond Trustee*”). The proceeds from the sale of the Bonds will provide funds to the Authority to make a loan to Beaumont Health, a Michigan nonprofit corporation (“*Beaumont*”). The Authority will lend the proceeds of the Bonds to Beaumont pursuant to a Loan Agreement, dated as of February 1, 2016 (the “*Loan Agreement*”), between the Authority and Beaumont, for itself and as Credit Group Representative on behalf of the Obligated Group, as described below.

**Beaumont Health.** Beaumont is the sole member of each of William Beaumont Hospital (“*WBH*”), Oakwood Healthcare, Inc. (“*Oakwood*”) and Botsford General Hospital (“*Botsford*”), each a Michigan nonprofit corporation. WBH, Oakwood and Botsford, are each also referred to as a “*System Organization*” and, collectively, as the “*System Organizations*.” The combined operations of the System Organizations, and their subsidiaries and affiliates, are referred to as “*Beaumont Health*.”

As of the date of this Official Statement, Beaumont, Oakwood, Oakwood United Hospitals, Inc., a Michigan nonprofit corporation (“*Oakwood United*”), Oakwood Health Promotions, Inc., a Michigan nonprofit corporation (“*Oakwood Promotions*”), WBH and Botsford are the only Members of the Obligated Group under the Amended and Restated Master Indenture (as defined below). Botsford Continuing Care Corporation, a Michigan nonprofit corporation (“*BCC*”), is a Designated Affiliate under the Amended and Restated Master Indenture. Beaumont is the Credit Group Representative under the Amended and Restated Master Indenture.

For additional information regarding Beaumont Health and the Obligated Group, *see* “BEAUMONT HEALTH” below and the information in APPENDIX A to this Official Statement.

**Plan of Finance.** The proceeds from the sale of the Bonds will be used, together with other available funds, to (a) finance the costs of the Project as described herein; and (b) pay the costs of issuing the Bonds. *See* “PLAN OF FINANCE” for more information.

**Payment for the Bonds.** The Bonds will be limited obligations of the Authority, secured by and payable solely from the sources described in the Bond Indenture. Pursuant to the Bond Indenture, the

Authority will pledge certain of the funds and accounts created thereunder and its interest in the Loan Agreement, under the terms of which Beaumont, for itself and as Credit Group Representative on behalf of the other Members of the Obligated Group, agrees to make loan repayments in amounts and at times which will enable the Authority to pay the principal or redemption price of and interest on the Bonds.

The Obligated Group's payment obligations under the Loan Agreement will be evidenced by Note No. 36 (the "*Note*"), dated as of February 1, 2016 and delivered to the Authority. The Note is being issued by Beaumont, for itself and as Credit Group Representative on behalf of the Obligated Group under, and will constitute an "Obligation" within the meaning of, the Amendment and Restatement of the Master Indenture, dated as of January 1, 2015 (the "*Amended and Restated Master Indenture*"), between Beaumont, for itself and on behalf of the other Members of the Obligated Group, and The Bank of New York Mellon Trust Company, N.A., as master trustee (the "*Master Trustee*").

The Note will be an Obligation of the Obligated Group secured on a parity basis with any other Obligations issued under the Amended and Restated Master Indenture. The Note will be authorized for issuance pursuant to a Supplemental Indenture Number 36, dated as of February 1, 2016 (the "*Supplemental Indenture*"), between Beaumont, for itself and as Credit Group Representative on behalf of the Obligated Group, and the Master Trustee, supplementing the Amended and Restated Master Indenture for the purpose of such issuance. The Bonds are payable solely from certain funds and accounts created under the Bond Indenture and from payments made on the Note.

The Amended and Restated Master Indenture may be further amended or supplemented from time to time (including supplements relating to the issuance of additional indebtedness). See "PAYMENT AND SECURITY PROVISIONS RELATING TO THE BONDS – Master Indenture."

**The Obligated Group.** The Note and all other Obligations issued under the Amended and Restated Master Indenture will be general obligations of Beaumont, the current Members of the Obligated Group and each additional entity that agrees to be jointly and severally liable under the Amended and Restated Master Indenture. (Beaumont and each such additional entity are herein referred to individually as a "*Member of the Obligated Group*" or a "*Member*" and collectively as the "*Obligated Group*"). Beaumont serves as agent for the Members of the Obligated Group for the purposes of the Amended and Restated Master Indenture (in such capacity, the "*Credit Group Representative*").

**Under certain circumstances, the Note may be exchanged for an obligation of a different obligated group or credit group. Under certain circumstances, this could lead to the substitution of different security in the form of obligations backed by an obligated group or credit group that is financially and operationally different from the then existing Obligated Group. That new obligated group or credit group could have substantial debt outstanding that would rank on a parity basis with the obligation substituted for the Note. See "PAYMENT AND SECURITY PROVISIONS RELATING TO THE BONDS – Master Indenture – Replacement of the Note with an Obligation Issued Under a Separate Master Indenture."**

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**THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY NOT CONSTITUTING A GENERAL OBLIGATION OF THE AUTHORITY AND DO NOT CONSTITUTE OR CREATE ANY DEBT OR DEBTS, LIABILITY OR LIABILITIES ON BEHALF OF THE STATE OF MICHIGAN (THE "*STATE*") OR ANY POLITICAL SUBDIVISION THEREOF, OR A LOAN OF THE CREDIT OF THE STATE OR A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF, BUT ARE PAYABLE SOLELY FROM THE FUNDS PROVIDED UNDER THE NOTE, THE LOAN AGREEMENT, THE AMENDED AND RESTATED MASTER INDENTURE, THE SUPPLEMENTAL INDENTURE AND THE BOND INDENTURE. THE ISSUANCE OF**

**BONDS UNDER THE BOND INDENTURE WILL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATEVER THEREFOR, OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE AUTHORITY HAS NO TAXING POWER.**

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**Bondholders' Risks.** There are risks associated with the purchase of the Bonds. *See* "BONDHOLDERS' RISKS" for a discussion of certain of these risks.

**Defined Terms.** All capitalized terms used in this Official Statement, unless otherwise defined or the context otherwise indicates, have the same meanings as in the Amended and Restated Master Indenture, the Supplemental Indenture, the Loan Agreement and the Bond Indenture. Certain of these definitions are summarized in APPENDIX C or in APPENDIX D of this Official Statement.

**Underlying Documents.** The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document for the complete details of all of its terms and conditions. All statements herein are qualified in their entirety by reference to each such document. Copies of the Amended and Restated Master Indenture, the Supplemental Indenture, the Loan Agreement and the Bond Indenture are available for inspection at the designated corporate trust office of the Bond Trustee.

## **THE AUTHORITY**

### **General**

The Michigan Finance Authority is an autonomous public body corporate, separate and distinct from the State, created by Executive Order No. 2010-2 issued by the Governor on March 4, 2010 (the "*Executive Order*") and effective by its terms on May 30, 2010. Under the Executive Order, among other things, the Authority is the successor to various bonding authorities including: the Michigan Municipal Bond Authority, the Michigan State Hospital Finance Authority, the Michigan Public Educational Facilities Authority, the Michigan Higher Education Facilities Authority, the Michigan Tobacco Settlement Finance Authority, the Michigan Higher Education Assistance Authority, the Michigan Forest Finance Authority, and the Michigan Higher Education Student Loan Authority, all of which were created by statute for the purposes of fostering and promoting the borrowing of money by governmental units within the State for financing public improvements and other eligible purposes. In order to effectuate such purposes, the Authority is authorized to issue its bonds or notes and to make money available to governmental units by the purchase of their municipal obligations. In addition to the Bonds, the Authority (including its various predecessor authorities under the Executive Order) has outstanding, and the Authority expects to issue in the future, short and long term obligations under other Authority programs. The security for the Bonds does not serve as security for the Authority's other program obligations.

Under the Executive Order, the Authority is housed within the State Department of Treasury but exercises its powers, duties and functions independently of the State Treasurer (except for the State Treasurer's appointment of administrative staff and exercise of certain administrative functions related to staff, pursuant to the Governor's Executive Order 2002-12). The Authority's address is Richard H. Austin Building, 430 West Allegan Street, Lansing, Michigan 48922, and its telephone number is (517) 335-0994.

## Members of the Authority

The Authority is governed by a seven member Board of Directors (the “*Board*”). The members of the Board are appointed by the Governor of the State with the advice and consent of the State Senate. The members serve for various terms and may continue to serve until successors are appointed and file the oath of office or, in the event of resignation, until the Governor accepts such resignation. The members of the Board are:

Nick A. Khouri, Chairperson	State Treasurer
MaryLee Davis	Professor of Higher Education Administration, Emerita, Michigan State University
Charlotte P. Edwards	Retired Banker
Donald H. Gilmer	Retired Administrator, Kalamazoo County
Timothy Hoffman	Director of Regulatory Affairs, Consumers Energy
Travis Jones	Senior Vice President and Chief Financial Officer, Greenstone Farm Credit Services
JulieAnn Karkosak	Vice President and General Counsel, Toyota Boshoku America, Inc.

The Executive Director of the Authority is Mary G. Martin, Director, Bureau of State and Authority Finance, Michigan Department of Treasury.

The Bond Indenture provides that the covenants, stipulations, promises, agreements and obligations of the Authority contained in the Bond Indenture are those of the Authority and not of any member of the Board or any officer or employee of the Authority in his or her individual capacity and that no recourse shall be had for the payment of the principal of or interest on the Bonds or for any claim based thereon or on the Bond Indenture against any member of the Board, any officer or employee of the Authority or any person executing the Bonds.

The Bonds are limited obligations of the Authority as described in this Official Statement. The Authority is not generally liable on the Bonds or on any other obligation incurred by the Authority under the Bond Indenture. The Bonds are not general obligations and do not constitute debts or pledges against the general credit of the Authority or the credit or taxing power of the State. The Bonds are limited obligations of the Authority, which will, if and when issued, be payable solely through revenues, properties or other funds as described in this Official Statement and the Bond Indenture. No owner of any Bond shall have the right to demand payment of the principal of, premium, if any, or interest on such Bond out of any funds to be raised by taxation. The Authority has no taxing power.

The Authority has not prepared any material for inclusion in this Official Statement except the matters under the headings “THE AUTHORITY” and “LITIGATION” (to the extent that the information therein relates to the Authority). The distribution of this Official Statement has been duly approved and authorized by the Authority. Such approval and authorization do not, however, constitute a representation of approval by the Authority of the accuracy or sufficiency of any information contained herein except to the extent of the information contained in this section.

## BEAUMONT HEALTH

For information regarding Beaumont Health including the Members of the Obligated Group, *see* the information in APPENDIX A to this Official Statement.

## THE BONDS

### Description of the Bonds

The Bonds will be dated the date of their initial delivery (the “*Date of Issuance*”) and will bear interest at the rates and will mature in the amounts and on the dates set forth on the inside cover page of this Official Statement and will be subject to redemption prior to maturity as described herein. *See* “Redemption” below.

The Bonds will be issued as fully registered Bonds as described below under “Book-Entry-Only System.” Subject to the provisions for the book-entry system, the principal of and any redemption premium on the Bonds will be payable upon surrender thereof at the designated office of the Bond Trustee, and interest will be payable by check or draft mailed by the Bond Trustee to the registered owners of the Bonds as shown on the registration books of the Authority maintained by the Bond Trustee as of the close of business on the first day of the calendar month in which the interest payment is due. The Bond Trustee also may pay interest on Bonds by wire transfer or such other method as is acceptable to the Bond Trustee and the Bondholder to whom payment is being made.

### Interest on the Bonds

The Bonds are being issued as fixed rate bonds under the Bond Indenture, and will bear interest from the Date of Issuance at the rates set forth on the inside front cover, payable on each Interest Payment Date.

### Interest Payment Dates

The “*Interest Payment Dates*” with respect to the Bonds are: (i) each May 1 and November 1, commencing May 1, 2016; *provided, however*, that if such May 1 or November 1 is not a Business Day, then the first Business Day immediately succeeding such May 1 or November 1; and (ii) the applicable maturity date of such Bonds.

Interest on the Bonds will become due and payable on the applicable Interest Payment Dates in each year to and including the maturity dates for (or earlier redemption of) such Bonds. Payment of interest on a Bond will be made on each Interest Payment Date for unpaid interest accrued during the interest period to the registered owner at the registered address shown on the registration books of the Authority as of the close of business on the 15th day of the calendar month preceding the calendar month in which the interest payment is due as provided in the Bond Indenture.

As long as the Bonds are registered in the name of Cede & Co., as nominee of DTC, such payments will be made directly to DTC. *See* “Book-Entry Only System” below.

## **Redemption**

### ***Mandatory Redemption***

The Term Bonds maturing on November 1, 2044, shall be subject to mandatory redemption at par plus accrued interest to the date of redemption set forth below in the following amounts, without premium:

<u>Date (November 1.)</u>	<u>Sinking Fund Installment</u>
2039	\$11,545,000
2040	32,500,000
2041	34,130,000
2042	35,835,000
2043	43,265,000
2044 <sup>†</sup>	45,425,000

<sup>†</sup> Stated Maturity

The Term Bonds maturing on November 1, 2046, shall be subject to mandatory redemption at par plus accrued interest to the date of redemption set forth below in the following amounts, without premium:

<u>Date (November 1.)</u>	<u>Sinking Fund Installment</u>
2045	\$47,695,000
2046 <sup>†</sup>	49,605,000

<sup>†</sup> Stated Maturity

### ***Optional Redemption***

The Bonds will be redeemable prior to their respective maturities, at the option of the Authority (at the direction of the Credit Group Representative), either in whole or in part, at any time, in any order of maturities and by lot within a maturity on and after November 1, 2025, from any moneys that may be made available for such purpose, at a redemption price of par, plus accrued interest without premium to the redemption date. The Bonds are also subject to Extraordinary Optional Redemption and Purchase in Lieu of Redemption as described below and in the Bond Indenture.

### ***Extraordinary Optional Redemption***

Pursuant to the Bond Indenture, the Bonds are also subject to optional redemption in whole or in part by the Authority prior to maturity, on any date in any order of maturity and by lot within a maturity, at the price of 100% of the principal amount to be redeemed plus accrued interest without premium in the event of damage by fire or other casualty or the taking by eminent domain of all or a portion of Property of the Credit Group exceeding in value 10% of the Book Value of Property of the Credit Group (all as defined in the Master Indenture), and the application of some or all of the resulting insurance proceeds or condemnation award to the redemption of the Note under certain conditions set forth in the Master Indenture and the Loan Agreement.

### ***Purchase in Lieu of Redemption***

Upon the written request of the Credit Group Representative and the provision of funds therefor, the Authority is required to purchase Bonds that would otherwise be subject to optional redemption, as set forth above. The purchase price of any Bonds so purchased is required to be no less than the redemption

prices at the times set forth above under “Optional Redemption.” If the Authority gives notice (in the manner described below under “Notice of Redemption”) and moneys sufficient to pay the purchase price of the Bonds to be so purchased is held by the Bond Trustee, the owners of the Bonds so purchased will be deemed to have been delivered for purchase. Any Bonds so purchased by the Authority are required to be resold in such manner as the Credit Group Representative directs in writing or, in the absence of such instructions, registered in the Credit Group Representative’s name. The exercise of the purchase in lieu of redemption or the sale of such rights shall be subject to the receipt by the Authority of an opinion of nationally recognized bond counsel to the effect that such exercise or sale shall not cause the interest on the Bonds to be included in gross income for federal income tax purposes.

### ***Notice of Redemption***

The Bond Trustee shall give notice of any Bonds selected for redemption by mail once at least 30 days prior to the date fixed for the redemption to all registered owners of Bonds or portions thereof to be redeemed, at their addresses as they appear on the registration books of the Authority at the close of business on the 45th day preceding the redemption date. Failure to receive any such notice shall not affect the validity of the proceedings for redemption. Any notice of any optional redemption of the Bonds may be a conditional notice, stating (1) that it is conditional upon the deposit of moneys, in an amount equal to the amount necessary to effect the redemption, with the Bond Trustee no later than the redemption date or (2) that the Obligated Group retains the right to rescind such notice at any time on or before the fifth Business Day (as defined in the Bond Indenture) prior to the redemption date, and such notice and optional redemption shall be of no effect if such moneys are not so deposited or if the notice is rescinded.

### ***Effect of Redemption and Call for Redemption***

On the date fixed for redemption, proper notice having been given and moneys for payment of the redemption price being held in trust for the registered owners of the Bonds or portions thereof to be redeemed, the Bonds or portions of Bonds so called for redemption shall become and be due and payable at the redemption price provided for redemption of such Bonds or portions of Bonds so called for redemption. On that date, the interest on such Bonds or portions of Bonds shall cease to accrue, the Bonds or portions of Bonds so called for redemption shall cease to be entitled to any benefit or security under the Bond Indenture, and the registered owners of such Bonds or portions of Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof and to receive Bonds for any unredeemed portions of Bonds.

Notwithstanding the defeasance of all or a portion of the Bonds pursuant to the Bond Indenture, the mandatory and optional redemption provisions of the Bond Indenture with respect to such Bonds shall continue to apply.

Bonds and portions of Bonds which are subject to redemption prior to maturity and which have been duly called for redemption, or with respect to which irrevocable instructions to call for redemption at a stated redemption date have been given to the Bond Trustee and for which moneys sufficient to pay the principal of, redemption premium, if any, and interest to the applicable redemption or payment dates, or Government Obligations the principal of and the interest on which will provide moneys sufficient therefor, shall be held in trust for the registered owners of the Bonds or portions thereof to be redeemed or paid, all as provided in the Bond Indenture, shall not thereafter be deemed to be outstanding under the Bond Indenture, and shall cease to be entitled to any security or benefit under the Bond Indenture, other than the right to receive payment from such moneys or Government Obligations.

## Book-Entry-Only System

*The information in this section concerning DTC and DTC's book-entry-only system has been obtained from the sources that the Authority believes to be reliable, but the Authority does not take any responsibility for the accuracy thereof.*

The Depository Trust Company, New York, New York ("DTC") will act as securities depository for the Bonds. The ownership of one fully registered Bond for each maturity as set forth on the cover page hereof, each in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., as nominee for DTC. SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE BONDHOLDERS, HOLDERS OR REGISTERED OWNERS OF THE BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

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

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("*Beneficial Owner*") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. **Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry-only system for the Bonds is discontinued.**

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct

and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

While the Bonds are in the book-entry-only system, redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

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

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Bond Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Bond Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

Principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participant's accounts on a payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on such payment date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Bond Trustee, the Authority, or the Members of the Obligated Group, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Authority or the Bond Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

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

In addition, the Authority may discontinue the book-entry-only system for the Bonds at any time by giving reasonable notice to DTC. In that event, Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry-only system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

THE AUTHORITY, THE OBLIGATED GROUP AND THE BOND TRUSTEE CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, THE DIRECT PARTICIPANTS OR THE INDIRECT PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE BONDS (i) PAYMENTS OF PRINCIPAL OF OR INTEREST AND PREMIUM, IF ANY, ON THE BONDS, (ii) ANY DOCUMENT REPRESENTING OR CONFIRMING BENEFICIAL OWNERSHIP INTERESTS IN BONDS, OR (iii) REDEMPTION OR OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS NOMINEE, AS THE REGISTERED OWNER OF THE BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT. THE CURRENT "RULES" APPLICABLE TO DTC ARE ON FILE WITH THE SECURITIES AND EXCHANGE COMMISSION, AND THE CURRENT "PROCEDURES" OF DTC TO BE FOLLOWED IN DEALING WITH THE PARTICIPANTS ARE ON FILE WITH DTC.

NEITHER THE AUTHORITY, THE OBLIGATED GROUP NOR THE BOND TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON WITH RESPECT TO: (1) THE BONDS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT BY DTC TO ANY PARTICIPANT, OR BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT TO ANY BENEFICIAL OWNER OF ANY AMOUNT DUE WITH RESPECT TO THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS; (4) THE DELIVERY BY DTC TO ANY PARTICIPANT, OR BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT TO ANY BENEFICIAL OWNER OF ANY NOTICE WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE BOND INDENTURE TO BE GIVEN TO BONDHOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (6) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS BONDHOLDER.

DTC may determine to discontinue providing its service with respect to the Bonds at any time by giving notice to the Authority and the Bond Trustee and discharging its responsibilities with respect thereto under applicable law. Upon the giving of such notice, the book-entry-only system for the Bonds will be discontinued unless a successor securities depository is appointed by the Authority. In addition, the Authority may discontinue the book-entry-only system for the Bonds at any time by giving reasonable notice to DTC.

**In the event that the book-entry-only system for the Bonds is discontinued, the following provisions would apply, subject in each case to the further conditions set forth in the Bond Indenture.**

#### **Delivery of Certificates; Registered Owners**

Bond certificates in fully registered form will be delivered to, and registered in the names of, the DTC Participants or such other persons as such DTC Participants may specify (which may be the DTC Indirect Participants or Beneficial Owners), in authorized denominations of \$5,000 or an integral multiple thereof at maturity. The ownership of the Bonds so delivered (and any Bonds thereafter delivered upon a

transfer or exchange described below) shall be registered in registration books to be kept by the Bond Trustee, or a successor Bond Trustee for the Bonds and the Authority and the Bond Trustee shall be entitled to treat the registered owners of such Bonds, as their names appear in such registration books as of the appropriate dates, as the owners thereof for all purposes described herein and in the Bond Indenture.

### **Transfers and Exchanges**

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

## **PAYMENT AND SECURITY PROVISIONS RELATING TO THE BONDS**

*The descriptions of the Bond Indenture, the Loan Agreement, the Note and the Amended and Restated Master Indenture set forth below do not purport to be complete, and reference is made to each document for all of its terms and conditions. Copies of each document are available for inspection at the designated office of the Bond Trustee.*

### **General**

The Bonds are limited obligations of the Authority secured by the pledge by the Authority to the Bond Trustee of all its right, title and interest in and to: (i) the Loan Agreement (other than the right to receive certain expenses, notices, indemnification and certain approvals); (ii) the Note; and (iii) the moneys from time to time on deposit to the credit of the Funds and Accounts created under the Bond Indenture (other than the Rebate Fund). To evidence and secure its obligations under the Loan Agreement, the Obligated Group will issue the Note pursuant to the Amended and Restated Master Indenture, as supplemented by the Supplemental Indenture. Pursuant to the Amended and Restated Master Indenture, all Obligations issued thereunder, including the Note, are joint and several obligations of the existing and any future Members of the Obligated Group. Payments required to be made under the Loan Agreement will be sufficient to pay the principal of, redemption premium, if any, and interest on the Bonds and the costs of the Authority associated therewith.

### **Bond Indenture**

The Bonds are to be issued under and equally and ratably secured by the Bond Indenture. The Bond Indenture provides that the Bonds are limited obligations of the Authority, payable solely from the sources therein described, including payments on the Note. As security for its obligations under the Bond Indenture, the Authority will pledge to the Bond Trustee the payments received or receivable by the Authority pursuant to the Loan Agreement and the Note (except for payments with respect to administrative expenses of the Authority, indemnification of the Authority and payments into the Rebate Fund), all funds held by the Bond Trustee under the Bond Indenture (except the Rebate Fund) and all income derived from the investment of such funds. See “THE BOND INDENTURE – Pledge” in APPENDIX C.

## Loan Agreement and Note

The Authority will lend the proceeds from the sale of the Bonds to Beaumont pursuant to the Loan Agreement to be used by Oakwood, Oakwood United, WBH, and Botsford (the “Corporations”), together with other available funds, to (a) finance the costs of the Project; and (b) pay all or a portion of the costs of issuing the Bonds. *See* “PLAN OF FINANCE.” Under the Loan Agreement, the Obligated Group agrees, among other things, to pay to the Authority amounts sufficient to enable the Authority to pay the principal or redemption price of and interest on the Bonds, to make required deposits into the Rebate Fund, to pay the administrative expenses of the Authority and the Bond Trustee with respect to the Bonds and to indemnify the Authority and the Bond Trustee for losses and liabilities relating to the Bonds. The Obligated Group will deliver the Note to secure Beaumont’s obligations under the Loan Agreement.

The Obligated Group is issuing the Note pursuant to the Amended and Restated Master Indenture to evidence its payment obligations to the Authority under the Loan Agreement. Subject to certain credits as provided in the Bond Indenture and Loan Agreement, payments under the Note shall be due at the following times and in the following amounts: (a) on or before each Interest Payment Date, an amount equal to the interest due on the Bonds on such Interest Payment Date; (b) on or before each November 1, the principal amount of the Bonds becoming due and payable on such November 1 by reason of either the maturity or required redemption of the Bonds; (c) fee payments at the times and in the amounts provided in the Loan Agreement; (d) any amount which may from time to time be required to enable the Bond Trustee to pay redemption premiums as and when the Bonds are called for redemption; (e) any amount necessary to make up any deficit in the Loan Repayments required in the previous period; and (f) at the times required by the Bond Indenture and Loan Agreement, the amounts then required to be deposited into the Rebate Fund. Reference is made to “THE LOAN AGREEMENT” in APPENDIX C for further information regarding the Loan Agreement and the Note.

## Amended and Restated Master Indenture

The following is a brief summary of certain of the security provisions of the Amended and Restated Master Indenture. For a more detailed summary of the Amended and Restated Master Indenture and the Supplemental Indenture, *see* APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE, THE SUPPLEMENTAL INDENTURE AND DEFINITIONS OF CERTAIN TERMS USED THEREIN.”

**Credit Group.** The Master Indenture creates the Credit Group, which is comprised of the Members of the Obligated Group and Designated Affiliates. **As of the Date of Issuance, Beaumont, WBH, Oakwood, Botsford, Oakwood United and Oakwood Promotions will be the only Members of the Obligated Group and BCC will be the only Designated Affiliate.** All Members of the Obligated Group are jointly and severally obligated for the amounts due on Obligations; Designated Affiliates are not obligated to make payments on Obligations. Although Designated Affiliates are not obligated to make payments on Obligations, financial covenants and ratios under the Amended and Restated Master Indenture are based on the consolidated financial results of the Credit Group. *See* also “Designated Affiliates” below.

**Issuance of Obligations; Joint and Several Obligations.** Under the Amended and Restated Master Indenture, each Obligated Group Member authorizes to be issued from time to time Obligations, without limitation as to amount, except as provided in the Amended and Restated Master Indenture or as may be limited by law, and subject to the terms, conditions and limitations described herein and established in the Amended and Restated Master Indenture. Obligations may be in any form set forth in a Related Supplement, including, but not limited to, bonds, notes, obligations, debentures, reimbursement agreements, loan agreements, Financial Product Agreements or leases. Each Obligated Group Member jointly and severally covenants to promptly pay, or cause to be paid, all Required Payments (as defined in

the Amended and Restated Master Indenture) at the place, on or before the dates and in the manner provided in the Amended and Restated Master Indenture or in any Related Supplement or Obligation. Each Obligated Group Member further covenants that it will, and shall cause each Credit Group Member to faithfully observe and perform all of the conditions, covenants and requirements of the Amended and Restated Master Indenture, any Related Supplement and any Obligation.

The Note is being issued by Beaumont, as Credit Group Representative, on behalf of the Obligated Group, pursuant to the Amended and Restated Master Indenture, on parity with all Obligations issued or to be issued under the Amended and Restated Master Indenture.

***Membership and Withdrawal from the Obligated Group.*** The Master Indenture permits the addition of Members to the Obligated Group under certain circumstances and permits Members of the Obligated Group to be released from their respective obligations under the Amended and Restated Master Indenture under certain circumstances. For a description of the Obligated Group, *see* APPENDIX A.

***Designated Affiliates.*** Under the Amended and Restated Master Indenture, Beaumont, as the Credit Group Representative, may designate “Designated Affiliates” from time to time, and may rescind any such designation at any time. **As of the Date of Issuance, BCC will be the only Designated Affiliate under the Amended and Restated Master Indenture.** *See* APPENDIX D for the full definition of Designated Affiliate. In connection with such designation, the Credit Group Representative shall designate for each Designated Affiliate an Obligated Group Member to serve as the Controlling Member for such Designated Affiliate. So long as such Person is designated as a Designated Affiliate, the Controlling Member of such Designated Affiliate shall either (i) maintain, directly or indirectly, control of such Designated Affiliate to the extent necessary to cause such Designated Affiliate to comply with the terms of the Amended and Restated Master Indenture, whether through the ownership of voting securities, by contract, corporate membership, reserved powers or the power to appoint corporate members, trustees or directors, or otherwise or (ii) execute and have in effect such contracts or other agreements which the Credit Group Representative and the Controlling Member, in the judgment of their respective Governing Bodies, deem sufficient for the Controlling Member to cause such Designated Affiliate to comply with the terms of the Amended and Restated Master Indenture.

Designated Affiliates are not obligated to make payments on any Obligation. Each Controlling Member agrees, however, that it shall cause each of its Designated Affiliates to pay, loan or otherwise transfer to the Credit Group Representative such amounts as are necessary to enable the Members of the Obligated Group to comply with the provisions of the Amended and Restated Master Indenture; *provided, however*, that nothing in the Amended and Restated Master Indenture shall be construed to require any Controlling Member to cause its Designated Affiliate to pay, loan or otherwise transfer to the Credit Group Representative any amounts that constitute Restricted Moneys.

***Security for Obligations Issued Under the Amended and Restated Master Indenture.*** All Obligations Outstanding from time to time under the Amended and Restated Master Indenture, including the Note, are secured by security interests in the Gross Receivables of the Members of the Obligated Group and each of the future Members of the Obligated Group.

***Security Interests in Gross Receivables for Obligations Issued Under the Amended and Restated Master Indenture.*** Each Member of the Obligated Group will grant to the Master Trustee a security interest in its Gross Receivables subject to Permitted Liens, to the extent the same may be pledged and a security interest granted therein under the UCC, whether now owned or hereafter acquired. Any future Members of the Obligated Group will also be required to grant a security interest in their Gross Receivables. For purposes of the Amended and Restated Master Indenture, “*Gross Receivables*” is defined to mean all present and future accounts and general intangibles, including but not limited to (subject to applicable federal law) Medicare and Medicaid and like public or private medical or hospital expense reimbursement programs or agreements (but excluding pledges or agreements for gifts, grants,

bequests, donations and contributions to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for payment of Obligations), and all proceeds of the foregoing. The security interest of the Master Trustee in the Gross Receivables is subject to certain limitations as described below.

The Master Trustee's security interest in the Gross Receivables described above will be perfected, to the extent that such security interest may be so perfected, by the filing of financing statements which comply with the requirements of the UCC. Each Member of the Obligated Group shall file, in accordance with the requirements of the UCC, financing statements; and, from time to time thereafter, shall deliver such other documents (including, but not limited to, continuation statements as required by the UCC) as may be necessary or reasonably requested by the Master Trustee in order to perfect or maintain perfected such security interests or give public notice thereof.

***Permitted Liens Under the Amended and Restated Master Indenture.*** Pursuant to the Amended and Restated Master Indenture, each Member of the Obligated Group agrees that it will not create or suffer to be created or permit the existence of any Lien upon the Property of the Obligated Group, except for Permitted Liens (which include liens in existence at time an entity joins the Obligated Group). Permitted Liens include, but are not limited to, Liens that may be granted to secure additional Obligations and other Indebtedness and Liens not otherwise identified as a Permitted Lien where the Value of all Property that is encumbered by such Liens does not exceed 30% of the Value of all Property of the Obligated Group, calculated at the time of creation of such Lien. The Obligated Group may incur substantial liabilities secured by Permitted Liens.

***Other Master Indenture Covenants.*** In addition to the security and other provisions described above, the Amended and Restated Master Indenture contains provisions, covenants and restrictions related to debt service coverage, mergers and other corporate combinations and divestitures, sales, leases or other dispositions or assets and other matters.

***Outstanding Indebtedness.*** In addition to the Note, upon delivery of the Bonds on the Date of Issuance, Obligations outstanding under the Amended and Restated Master Indenture will consist of 9 other notes outstanding in the aggregate principal amount of approximately \$1.13 billion. This includes a committed \$50 million line of credit which currently has no outstanding balance.

***Replacement of the Note with an Obligation Issued Under a Separate Master Indenture.*** The Bond Indenture provides that the Note will be surrendered by the Bond Trustee and delivered to the Master Trustee upon satisfaction of certain requirements that include receipt by the Bond Trustee of (i) a substitute obligation or obligations issued by the Obligated Group under a master trust indenture (the "*Replacement Master Indenture*") executed by the Members of the Obligated Group and certain other parties named therein (the "*New Group*") and an independent corporate trustee (the "*Replacement Trustee*"); (ii) written evidence from each of Moody's and S&P, if then maintaining a rating on the Bonds, that it will not lower the rating on the Bonds in connection with the issuance of the Substitute Note under the Replacement Master Indenture, provided that for purposes of this paragraph only, a withdrawal of any rating on the Bonds shall be deemed to be a reduction of such rating; (iii) an original executed Replacement Master Indenture; and (iv) certain opinions of counsel described in the Bond Indenture. See APPENDIX C – "THE BOND INDENTURE – Substitution of Note."

## **Security and Enforceability**

***Perfection of a Security Interest.*** Each Obligated Group Member has granted a security interest in all of its Gross Receivables, subject to Permitted Liens, and has agreed to perfect the grant of a security interest in the Gross Receivables to the extent that the same may be pledged and a security interest granted therein under the UCC. The Master Indenture provides that the Master Trustee's security interest in the Gross Receivables shall be perfected, to the extent that such security interest may be so perfected,

by the filing of financing statements which comply with the requirements of the UCC. It may not be possible to perfect a security interest in any manner whatsoever in certain types of Gross Receivables (e.g., certain insurance proceeds and payments under the Medicare and Medicaid programs) prior to actual receipt by any Member. *See* “BONDHOLDERS’ RISKS – Receivables Pledge.”

***Enforceability of the Amended and Restated Master Indenture, the Loan Agreement and the Note.*** The state of the insolvency, fraudulent conveyance and bankruptcy laws relating to the enforceability of guaranties or obligations issued by one corporation in favor of the creditors of another or the obligations of an Obligated Group Member to make debt service payments on behalf of an Obligated Group Member is unsettled, and the ability to enforce the Amended and Restated Master Indenture and the Obligations against any Obligated Group Member that would be rendered insolvent thereby could be subject to challenge.

The legal right and practical ability of the Bond Trustee to enforce its rights and remedies against Beaumont and the Obligated Group under the Loan Agreement and related documents and of the Master Trustee to enforce its rights and remedies against the Members of the Obligated Group under the Note may be limited by laws relating to bankruptcy, insolvency, reorganization, fraudulent conveyance or moratorium and by other similar laws affecting creditors’ rights. In addition, the Bond Trustee’s and the Master Trustee’s ability to enforce such rights will depend upon the exercise of various remedies specified by such documents which may in many instances require judicial actions that are often subject to discretion and delay or that otherwise may not be readily available or may be limited. *See* “BONDHOLDERS’ RISKS – Factors Concerning Enforceability of the Amended and Restated Master Indenture, the Loan Agreement and the Note.”

## PLAN OF FINANCE

The proceeds of the Bonds will be loaned by the Authority to Beaumont to be applied, together with other available funds, to (a) finance the costs of the Project; and (b) pay all or a portion of the costs of issuing the Bonds. The Loan Agreement provides for disbursement of the proceeds from the sale of the Bonds for such purposes.

### The Project

The “*Project*” consists of the financing or refinancing of the costs of acquiring, constructing and renovating certain hospital and health facilities of Members of the Obligated Group, including, among other projects: Emergency Center expansion at Beaumont - Royal Oak, the master facility expansion and renovation plan at Beaumont - Farmington Hills and the renovation of the 1st floor Operating Room at Beaumont – Troy.

### Status of Planning Agency Approvals and Construction Permits

Beaumont’s management has advised the Authority that it has received all approvals or determinations from the Michigan Department of Community Health necessary for acquisition or financing of the Project, including appropriate certificates of need or determinations that certificates of need are not required. See “BONDHOLDERS’ RISKS – Failure to Obtain Certificates of Need” for additional information on penalties and other sanctions that may result for failure to obtain a necessary certificate of need. In addition, all other permits and approvals necessary to proceed with the Project have been obtained or are expected to be obtained in a timely manner.

### Estimated Sources and Uses of Funds

The following table sets forth the total estimated sources and uses of funds, net of accrued interest, for the Bonds (with all amounts rounded to the nearest whole dollar):

#### *Sources of Funds*

Bond Par Amount.....	\$300,000,000
Net Original Issue Premium.....	<u>23,514,381</u>
TOTAL SOURCES OF FUNDS .....	<u>\$323,514,381</u>

#### *Uses of Funds*

Deposit to Construction Fund .....	\$320,956,429
Costs of Issuance <sup>(1)</sup> .....	<u>2,557,952</u>
TOTAL USES OF FUNDS.....	<u>\$323,514,381</u>

<sup>(1)</sup> Includes Underwriters’ discount, fees and reimbursable expenses of bond counsel, counsel to Members of the Obligated Group, counsel to the Underwriters, counsel to the Authority, the auditor, the Master Trustee and the Bond Trustee, printing costs, rating agencies’ fees and other fees and expenses.

### Other Matters

Beaumont periodically reviews and, as appropriate, revises its financing plans, including proposals for additional indebtedness to finance capital improvements or the refunding of existing debt in response to market developments and other factors subsequent to the date of this Official Statement or the issuance of the Bonds.

## ESTIMATED ANNUAL DEBT SERVICE REQUIREMENTS

The following table sets forth, for each fiscal year ending December 31, the amounts (rounded to the nearest whole dollar) required to be paid in such fiscal year for the payment of principal of (whether at maturity or pursuant to mandatory redemption) and interest on the Bonds and the Obligated Group's other Indebtedness, as defined by the Amended and Restated Master Indenture.

<b>Fiscal Year Ending December 31</b>	<b>Series 2016A Bonds</b>		<b>Other Debt</b>	<b>Total</b>
	<b>Debt Service</b>		<b>Service<sup>(1)</sup></b>	
	<b>Principal</b>	<b>Interest</b>		
2016	--	\$10,403,358	\$ 89,924,730	\$100,328,088
2017	--	14,027,000	100,790,804	114,817,804
2018	--	14,027,000	100,672,306	114,699,306
2019	--	14,027,000	100,696,361	114,723,361
2020	--	14,027,000	100,805,747	114,832,747
2021	--	14,027,000	99,064,438	113,091,438
2022	--	14,027,000	98,662,343	112,689,343
2023	--	14,027,000	98,647,731	112,674,731
2024	--	14,027,000	98,661,695	112,688,695
2025	--	14,027,000	98,611,131	112,638,131
2026	--	14,027,000	98,613,293	112,640,293
2027	--	14,027,000	98,508,887	112,535,887
2028	--	14,027,000	98,408,735	112,435,735
2029	--	14,027,000	98,256,287	112,283,287
2030	--	14,027,000	98,151,106	112,178,106
2031	--	14,027,000	98,019,377	112,046,377
2032	--	14,027,000	97,904,983	111,931,983
2033	--	14,027,000	63,870,177	77,897,177
2034	--	14,027,000	32,373,383	46,400,383
2035	--	14,027,000	37,629,237	51,656,237
2036	--	14,027,000	59,623,818	73,650,818
2037	--	14,027,000	59,602,330	73,629,330
2038	--	14,027,000	64,027,320	78,054,320
2039	\$11,545,000	14,027,000	26,016,861	51,588,861
2040	32,500,000	13,449,750	5,637,500	51,587,250
2041	34,130,000	11,824,750	5,634,000	51,588,750
2042	35,835,000	10,118,250	5,638,500	51,591,750
2043	43,265,000	8,326,500	--	51,591,500
2044	45,425,000	6,163,250	--	51,588,250
2045	47,695,000	3,892,000	--	51,587,000
2046	<u>49,605,000</u>	<u>1,984,200</u>	<u>--</u>	<u>51,589,200</u>
<b>TOTAL</b>	<b><u>\$300,000,000</u></b>	<b><u>\$388,783,058</u></b>	<b><u>\$2,034,453,081</u></b>	<b><u>\$2,723,236,139</u></b>

<sup>(1)</sup> Includes debt service on all of the Obligated Group debt as well as various Beaumont Health capital leases, mortgages and other notes. Debt service on variable rate indebtedness is calculated based on an assumed interest rate of 2.50%.

## **BONDHOLDERS' RISKS**

### **Introduction**

Payment of the Bonds depends directly on the ability of the Members of the Obligated Group to collectively generate revenues sufficient to cover the debt service on the Bonds and all other indebtedness of the Obligated Group. In the last decade, health care providers, especially hospitals, have faced increasing economic pressures from both governmental health care programs and private purchasers of health care such as insurance companies and health maintenance organizations (collectively “*third party payers*”). The dependence of hospitals on governmental programs requires them to accept limitations on payments and comply with regulations and other restrictions and requirements triggered by participation in such programs. Some governmental and private third party payers have entered into contracts with health care providers that require “capitated” or other fixed payments, which have the effect of shifting significant economic risks to health care providers.

Health care, especially at the hospital level, is a highly regulated industry with complicated and frequently changing regulations arising both from payment programs and extensive governmental oversight. Health care providers are increasingly subject to audits, investigations and litigation that may threaten access to governmental reimbursement programs, require substantial fines and payments, generate adverse publicity and create significant legal and other transaction costs. In addition, because each Obligated Group Member is a tax-exempt charitable organization under the Internal Revenue Code of 1986, as amended (the “*Code*”), it is subject to increasing regulation and restrictions that may have adverse effects on its economic performance or threaten its tax-exempt status and the economic benefits derived from such status. In particular, such regulations and restrictions may require the provision of health care services without payment.

Set forth below is a limited discussion of certain of the risks affecting the Obligated Group and the ability of its Members to provide for payment of the Bonds. Investors should recognize that the discussion below does not cover all such risks, that payment provisions and regulations and restrictions change frequently and that additional material payment limitations and regulations and restrictions may be created, implemented or expanded while the Bonds are outstanding. The following discussion is not meant to be an exhaustive list of the risks associated with the purchase of any Bonds and does not necessarily reflect the relative importance of the various risks. Potential investors are advised to consider the following special factors along with all other information described elsewhere or incorporated by reference in this Official Statement, including the Appendices hereto, in evaluating the Bonds.

### **Concerning Operations of the Obligated Group**

The future revenues and expenses are subject to, among other things, the demand for the services provided, the capabilities and continued support of management, the ability of management to recruit and retain physicians and other clinical and non-clinical personnel and to maintain the support of the present medical staff and other personnel. Other factors that may impact the operations of the Obligated Group include: economic developments and population trends in the service area; changes in competition, rates, costs or third party reimbursement programs; the availability of gifts and contributions from donors; the ability of Members of the Obligated Group to secure federal and state loans and grants; the effect of changes in accreditation standards or governmental regulations; the availability of adequate malpractice insurance coverage; and the ability of the Members of the Obligated Group to control expenses and to increase revenue while maintaining the amount and quality of health care items and services delivered. The regulatory and market factors discussed below may have an adverse effect on the Obligated Group’s financial condition or results of operations. In particular, the following factors, among others, may have an adverse effect on the Obligated Group’s financial condition to an extent that cannot be determined at this time.

## Health Care Reform

The Patient Protection and Affordable Care Act, as subsequently amended by the Health Care and Education Reconciliation Act of 2010 (collectively, referred to herein as the “*Health Care Reform Act*”), was enacted in March 2010.

Some of the provisions of the Health Care Reform Act took effect immediately, while others will take effect or will be phased in over a period of up to ten years following approval. The Health Care Reform Act requires the promulgation of substantial regulations that will significantly affect the health care industry and third-party payors. In response, third-party payors and suppliers and vendors of goods and services to health care providers are expected to impose new and additional contractual terms and conditions. Additionally, because of the complexity of the Health Care Reform Act generally, additional legislation is likely to be considered and enacted over time. Thus, the health care industry will continue to be subjected to significant new statutory and regulatory requirements and contractual terms and conditions and, consequently, to structural and operational changes and challenges for an extended period of time.

Management at Beaumont Health is analyzing the Health Care Reform Act and will continue to do so in order to assess the effects of the legislation and evolving regulations on current and projected operations, financial performance and financial condition. However, management cannot predict with any reasonable degree of certainty or reliability any interim or ultimate effects of the legislation.

A significant component of the Health Care Reform Act is reformation of the sources and methods by which consumers will pay for health care for themselves and their families and by which employers will procure health insurance for their employees and employees’ dependents. As a consequence, expansion of the base of consumers of health care services is a significant component as well. One of the primary purposes of the Health Care Reform Act is to provide or make available, or subsidize the premium costs of, health care insurance for some of the millions of previously uninsured (or underinsured) consumers. The Health Care Reform Act proposes to accomplish that objective through various provisions, summarized as follows: (i) the creation of active markets (referred to as exchanges or marketplaces) in which individuals and small employers can purchase health care insurance for themselves and their families or their employees and dependents, (ii) providing subsidies for premium costs to individuals and families based upon their income relative to federal poverty levels, (iii) mandating that individual consumers obtain and certain employers provide a minimum level of health care insurance, and providing for penalties or taxes on consumers and employers that do not comply with these mandates, (iv) expansion of private commercial insurance coverage through such reforms as prohibitions on denials of coverage for pre-existing conditions and elimination of lifetime or annual cost caps, and (v) expansion of existing public programs, including Medicaid, for individuals and families. The Congressional Budget Office (“CBO”) has estimated that in federal fiscal year 2015, 19 million consumers who were previously uninsured will become insured, followed by an additional 11 million consumers in federal fiscal year 2016. To the extent all or any of these provisions produce the expected result, an increase in utilization of health care services by those who are currently avoiding or rationing their health care can be expected and bad debt expenses may be reduced. Associated with increased utilization will be increased variable and fixed costs of providing health care services, which may or may not be offset by increased revenues.

Some of the specific provisions of the Health Care Reform Act that may affect hospital operations, financial performance or financial conditions, including those of the Members of the Obligated Group, are described below. This listing is not, is not intended to be, nor should be considered by the reader as, comprehensive. The Health Care Reform Act is complex and comprehensive, and includes a myriad of new programs and initiatives and changes to existing programs, policies, practices and laws. Additionally, some provisions of the Health Care Reform Act will affect some Members of the Obligated Group more significantly than others. The demographics of the markets in which individual

Members of the Obligated Group provide services, the mix of services that any member provides to its community and other factors that are unique to any member will affect individual outcomes. At this time, management at Beaumont Health cannot predict the aggregate effect of the Health Care Reform Act upon the Obligated Group as a whole.

- Commencing upon enactment of the Health Care Reform Act and through September 30, 2019, the annual Medicare market basket updates for hospitals have been and will be reduced. In federal fiscal year 2012, the market basket updates for hospitals became subject to productivity adjustments. The reductions in market based updates and the productivity adjustments have had (and will continue to have) a disproportionately negative effect upon those providers (such as the Members of the Obligated Group) that are relatively more dependent upon Medicare than other providers. Additionally, the reductions in market basket updates were effective prior to the periods during which insurance coverage and the insured consumer base began to expand, which may have an interim negative effect on revenues. The combination of reductions to the market basket updates and the imposition of the productivity adjustments may result in reductions in Medicare payment per discharge on a year-to-year basis.
- Commencing October 1, 2010 and continuing through September 30, 2019, payments under the “Medicare Advantage” programs (Medicare managed care) have been and will be reduced, which may result in increased premiums or out-of-pocket costs to Medicare beneficiaries enrolled in Medicare Advantage plans. Those beneficiaries may terminate their participation in those plans and opt for the traditional Medicare fee-for-service program. The reduction in payments to Medicare Advantage programs may also lead to decreased payments to providers by managed care companies operating Medicare Advantage programs. In addition, in some instances hospitals are required to continue to provide care for a period of time even without reimbursement. All or any of these outcomes will have a disproportionately negative effect upon those providers with relatively high dependence upon Medicare managed care revenues. The Medicare managed care revenues of Members of the Obligated Group are collectively not significant.
- Commencing October 1, 2012, a value-based purchasing program was established under the Medicare program, which was designed to provide incentive payments to hospitals based on performance on quality and efficiency measures under the Medicare program. These incentive payments are funded through a pool of money collected from all hospital providers. For fiscal year 2016, the incentive payments are funded by a 1.75% reduction from participating hospitals’ base operating diagnosis related (DRG) payments for 2016.
- Commencing October 1, 2013, Medicare disproportionate share hospital payments (“*DSH payments*”) were reduced initially by 75%. DSH payments increased thereafter and will continue to increase to account for the national rate of consumers who do not have health care insurance and are provided uncompensated care. In addition, commencing October 1, 2013, states’ Medicaid disproportionate share hospitals allotment from federal funds have been and will continue to be reduced. DSH payments are not a significant portion of the revenues of the Members of the Obligated Group.
- Medicaid programs, per state, may be expanded to a broader population with incomes up to 133% of federal poverty levels. Michigan is an expansion state. CBO has estimated that 14 million to 16 million more uninsured consumers will become newly eligible for Medicaid through 2025 as a result of this expansion. Providers operating in markets with large Medicaid and uninsured populations are anticipated to benefit from increased revenues resulting from increased utilization and reductions in bad debt or uncompensated care. The increase in utilization can also be

expected to increase in costs of providing that care, which may or may not be offset by increased revenues.

- Commencing October 1, 2012, Medicare payments that would have previously been made to hospitals that have a high rate of potentially preventable readmissions for certain clinical conditions were, and will continue to be, reduced by specified percentages to account for those excess and “preventable” hospital readmissions.
- Commencing October 1, 2014, Medicare payments to certain hospitals for hospital-acquired conditions were reduced by 1%. Effective July 1, 2011, federal payments to states for Medicaid services related to preventable health conditions were prohibited.
- Effective October 1, 2011, health care insurers are required to include quality improvement covenants in their contracts with hospital providers, and will be required to report their progress on such actions to the Secretary of Health and Human Services (“HHS”). Commencing January 1, 2015, health care insurers participating in the health insurance exchanges are allowed to contract only with hospitals that have implemented programs designed to ensure patient safety and enhance quality of care. The effect of these provisions upon the process of negotiating contracts with insurers or the costs of implementing such programs cannot be predicted.
- With varying effective dates, the Health Care Reform Act is intended to enhance the ability to detect and reduce waste, fraud, and abuse in public programs through provider enrollment screening, enhanced oversight periods for new providers and suppliers, and enrollment moratoria in areas identified as being at elevated risk of fraud in all public programs, and by requiring Medicare and Medicaid program providers and suppliers to establish compliance programs. The Health Care Reform Act requires the development of a database to capture and share health care provider data across federal health care programs and provides for increased penalties for fraud and abuse violations, and increased funding for anti-fraud activities.
- The Health Care Reform Act establishes an Independent Payment Advisory Board (the “IPAB”) to develop proposals to improve the quality of care and to limit cost increases. Beginning January 15, 2019, if the Medicare growth rate in per capital program spending exceeds the target, the IPAB is required to develop proposals to reduce the growth rate and require the Secretary of HHS to implement those proposals, unless Congress enacts legislation related to the proposals. While hospitals are largely exempted from the recommendations from the IPAB, the impact on providers may filter up to hospitals, and industry experts also expect that government cost reduction actions may be followed by private insurers and payors. The IPAB was to begin submitting its annual recommendations no later than January 15, 2014, however, President Obama has not yet appointed the members of the IPAB. Additionally, the Chief Actuary of CMS has concluded that the projected Medicare per capita growth rate has not yet exceeded the target growth rate and there will be no need for IPAB activity at least through 2016. In June 2015, the House of Representatives voted to repeal the IPAB, although the Senate has not yet approved the legislation.

The Health Care Reform Act creates a Center for Medicare and Medicaid Innovation to test innovative payment and service delivery models and to implement various demonstration programs and pilot projects to test, evaluate, encourage and expand new payment structures and methodologies to reduce health care expenditures while maintaining or improving quality of care. Demonstration efforts include bundled payments under Medicare and Medicaid, and comparative effectiveness research programs that compare the clinical effectiveness of medical treatments and develop recommendations concerning practice guidelines and coverage determinations. Other provisions encourage the creation of new health care delivery programs, such as accountable care organizations or combinations of provider

organizations, that voluntarily meet quality thresholds to share in the cost savings they achieve for the Medicare program. The outcomes of these projects and programs, including their effect on payments to providers and financial performance, cannot be predicted.

Healthcare.gov, the health care exchange website created by the federal government under the provisions of the Health Care Reform Act, launched on October 1, 2013. The website is designed to allow residents of states, which opted not to create their own state exchanges or to enter into a partnership with the federal government to purchase health insurance or qualify for Medicaid coverage. The Health Care Reform Act requires individuals, unless exempt, to purchase insurance through the health care exchanges or other venues, or face a financial penalty.

Additionally, the administration delayed the effective date of certain aspects of the Health Care Reform Act such as the requirement that businesses with more than 50 employees provide health insurance to their workers or pay a penalty, of which the deadline was delayed to January 1, 2015 for employers with 100 or more full-time employees and January 1, 2016 for employers with 50 to 99 full-time employees. In response to difficulties faced by individuals who received cancellation notices regarding plans that did not meet the coverage requirements for the Health Care Reform Act, the administration has granted those individuals an exception from the Health Care Reform Act's individual mandate, which requires individuals to have health insurance or face a penalty for tax year 2014. Those individuals may now obtain catastrophic coverage, which is basic coverage generally available to those under 30 or who meet a hardship exemption; the administration announced that it is granting a "hardship exemption" to individuals whose plans were cancelled and might be having difficulty paying for standing coverage. Similarly, delaying the Health Care Reform Act adjusted community rating provisions for grandfathered small group plans temporarily stabilizes renewal rates for many small employers with young, healthy employees in many markets. But when this delay expires, many of these small employers will receive significant rate increases as they are moved toward an average "community" rate.

High deductible insurance plans have become more common in recent years, and the Health Care Reform Act is expected to encourage the increase in high deductible insurance plans as the health care exchanges include a variety of plans, several of which offer lower monthly premiums in return for higher deductibles. Many plans offered on the exchanges have high deductibles. High deductible plans may contribute to lower inpatient volumes as patients may forgo or choose less expensive medical treatment to avoid having to pay the costs of the high deductibles. There is also concern that high deductible plans will lead to an increase in bad debt expenses as some patients may not be able to pay the high deductible.

The Health Care Reform Act establishes a Medicare Shared Savings Program ("MSSP") that seeks to promote accountability and coordination of care through the creation of Accountable Care Organizations ("ACOs"). The program allows hospitals, physicians and others to form ACOs and work together to invest in infrastructure and redesign integrated delivery processes to achieve high quality and efficient delivery of services. ACOs that achieve quality performance standards are eligible to share in a portion of the amounts saved by the Medicare program. HHS has significant discretion to determine key elements of the program, including what steps providers must take to be considered an ACO, how to decide if Medicare program savings have occurred, and what portion of such savings will be paid to ACOs. In November 2011, CMS issued a final rule to update and improve policies governing the MSSP. Oakwood has held a Medicare Shared Savings Program ("MSSP") contract with the Center for Medicare and Medicaid Services ("CMS") since 2012. This ACO received a shared savings distribution for surpassing the minimum shared savings threshold required by CMS. Management at Beaumont Health is working with the leaders of physician and accountable care groups to explore opportunities that may arise from the formation of a high performing narrow network affiliated with Beaumont Health. See the discussion appearing under the caption "MANAGED CARE" in APPENDIX A. It remains unclear to what extent providers will pursue federal ACO status or whether the required investment would be warranted by increased payment. Nevertheless, it is anticipated that private insurers may seek to establish similar incentives for providers, while requiring less infrastructural and organizational change. The

potential impacts of these initiatives are unknown, but introduce greater risk and complexity to health care finance and operations.

The outcomes of these projects and programs, including their effect on payments to providers and financial performance, cannot be predicted.

On June 28, 2012, the United States Supreme Court upheld the constitutionality of the Health Care Reform Act generally, but struck down certain provisions which would have permitted federal Medicaid funding to be entirely eliminated for states that do not comply with the expanded Medicaid coverage required under the Health Care Reform Act. Since the Supreme Court's decision was handed down, certain political leaders have announced their intention to proceed with legislation to repeal or amend provisions of the Health Care Reform Act. Attempts to repeal provisions of the Health Care Reform Act are pending in Congress while the constitutionality of the Health Care Reform Act continues to be challenged in the courts. For example, in June 2015, the United States Supreme Court ruled in *King v. Burwell* that health insurance subsidies provided under the Health Care Reform Act would be available in all states, including those with a federally-facilitated health insurance exchange. The ultimate outcomes of legislative attempts to repeal or amend the Health Care Reform Act and legal challenges to the Health Care Reform Act are unknown.

In November 2015, the Bipartisan Budget Act of 2015 (the “BBA”) repealed a provision of the Health Care Reform Act which would require employers that offer one or more health benefit plans and have more than 200 full-time employees to automatically enroll new full-time employees in a health plan.

## **Nonprofit Healthcare Environment**

Each Obligated Group Member is a not for profit corporation, exempt from federal income taxation as an organization described in Section 501(c)(3) of the Code. Therefore, the Members of the Obligated Group are subject to federal, state and local laws, regulations, rulings and court decisions relating to its organization and operation, including its operation for charitable purposes. At the same time, certain of the Members of the Obligated Group conduct large-scale complex business transactions and are major employers. There can often be a tension between the rules designed to regulate a wide range of charitable organizations and the day-to-day operations of a complex healthcare organization.

Recently, an increasing number of the operations or practices of healthcare providers have been challenged or questioned to determine if they are consistent with the regulatory requirements for nonprofit tax-exempt organizations. These challenges, in some cases, are broader than concerns about compliance with federal and state statutes and regulations, such as Medicare and Medicaid compliance, and instead in many cases are examinations of core business practices of the healthcare organizations. Areas which have come under examination have included pricing practices, billing and collection practices, charitable care, methods of providing and reporting community benefit, executive compensation, exemption of property from real property taxation, and others. These challenges and questions have come from a variety of sources, including state attorneys general, the Internal Revenue Service (the “IRS”), labor unions, Congress, state legislatures, and patients, and in a variety of forums, including legislation, regulations, hearings, audits and litigation. These challenges or examinations include the following, among others:

***Nonprofit Hospitals’ 501(c)(3) Status.*** The Health Care Reform Act added to the Code a new Section 501(r) which applies to charitable hospitals or other charitable organizations whose principal purpose is to provide hospital care. Section 501(r) adds four requirements, in addition to those required under Section 501(c)(3) of the Code, which must be satisfied in order for such organizations to continue to be treated as exempt organizations under Section 501(c)(3) of the Code. First, a “community health needs assessment” must be conducted every three years and an “implementation strategy” must be adopted to meet the needs identified in the assessment.

Second, written policies regarding financial assistance and emergency medical care must be established, including policies relating to the basis for calculating patient charges and actions to be taken in the event of nonpayment. Third, limits must be established for emergency or other medically necessary care charges to patients eligible for financial assistance. Fourth, certain billing and collection requirements must be met, including a prohibition on “extraordinary collection actions” unless a “reasonable effort” has been made to determine whether the patient is eligible for financial assistance. See also “Healthcare Reform and Other Governmental Initiatives” above.

***Congressional Hearings.*** In recent years, three congressional committees have conducted hearings and other proceedings inquiring into various practices of nonprofit hospitals and health care providers. Among the legislation proposed or discussed as a result of these hearings and proceedings are: (1) establishment of minimum required levels of charity care to be provided by nonprofit health care providers; (2) periodic review of hospitals’ tax-exempt status by the IRS; and (3) greater and more uniform reporting of charitable and community benefit activities.

***Bond Examinations.*** IRS officials have recently indicated that more resources will be invested in audits of tax-exempt bonds in the charitable organization sector with specific review of private use. A schedule to the revised Form 990 return (Schedule K), is intended to address what the IRS believes is significant noncompliance with recordkeeping and record retention requirements. Schedule K also requires tax-exempt organizations to report on the investment and use of bond proceeds to address IRS concerns regarding compliance with arbitrage rebate requirements and the compliant use of bond-financed facilities.

***IRS Examination of Compensation Practices.*** In February 2009, the IRS issued its Hospital Compliance Project Final Report (the “*IRS Final Report*”) that examined tax-exempt organizations’ practices and procedures with regard to compensation and benefits paid to their officers and other defined “insiders.” The IRS Final Report indicates that the IRS (1) will continue to heavily scrutinize executive compensation arrangements, practices and procedures, and (2) in certain circumstances, may conduct further investigations or impose fines on tax-exempt organizations.

***Litigation Relating to Billing and Collection Practices.*** Lawsuits have been filed in federal and state courts alleging, among other things, that hospitals have failed to fulfill their obligations to provide charity care to uninsured patients and have overcharged uninsured patients. Many of these cases have since been dismissed by the courts. A number of cases are still pending in various courts around the country with inconsistent results. While it is not possible to make general predictions, some hospitals and health systems have entered into substantial settlements.

***Challenges to Real Property Tax Exemptions.*** Recently, the real property tax exemptions afforded to certain nonprofit healthcare providers by state and local taxing authorities have been challenged on the grounds that the healthcare providers were not engaged in charitable activities. These challenges have been based on a variety of grounds, including allegations of aggressive billing and collection practices and excessive financial margins. While management at Beaumont Health is not aware of any current challenge to the tax exemption afforded to any material real property of the Members of the Obligated Group, there can be no assurance that these types of challenges will not occur in the future.

The foregoing are some examples of the challenges and examinations facing nonprofit healthcare organizations. They are indicative of a greater scrutiny of the billing, collection and other business practices of these organizations, and may indicate an increasingly more difficult operating environment for healthcare organizations, including the Members of the Obligated Group. The challenges and

examinations, and any resulting legislation, regulations, judgments, or penalties, could have a material adverse effect on the Obligated Group.

### **Charity Care**

Hospitals are permitted to acquire tax-exempt status under the Code because the provision of health care historically has been treated as a “charitable” enterprise. This treatment arose before most Americans had health insurance, when charitable donations were required to fund the health care provided to the sick and disabled. Some commentators and others have taken the position that, with the onset of employer health insurance and governmental reimbursement programs, there is no longer any justification for special tax treatment for the health care industry, and the availability for tax-exempt status should be eliminated. Management at Beaumont Health considers the likelihood of such a dramatic change in the law to be remote; nevertheless, federal and state tax authorities are beginning to demand that tax-exempt hospitals justify their tax-exempt status by documenting their charitable care and other community benefits.

Litigation was initiated against several hospitals in Michigan, including WBH, and elsewhere in the United States by individual uninsured plaintiffs alleging, among other things, that the defendants violated their duty to the plaintiffs by charging higher rates and fees for services to those plaintiffs than the hospitals received from Blue Cross Blue Shield entities, Medicare, Medicaid or other insurers. Among the remedies sought by the plaintiffs are money damages and a court order against the defendants compelling them to reduce the rates and fees charged to uninsured patients. All such litigation against WBH has been dismissed. Although management believes such claims are meritless, Beaumont Health may be subject to similar allegations and litigation in the future.

The Health Care Reform Act imposes additional requirements for tax-exemption upon tax-exempt hospitals, including obligations to adopt and publicize a financial assistance policy; limit charges to patients who qualify for financial assistance to the amounts generally billed to insured patients; and control the billing and collection processes. Additionally, effective for tax years commencing January 1, 2013, tax-exempt hospitals must conduct a community health needs assessment and adopt an implementation strategy to meet those identified needs. Failure to complete a community health needs assessment in any applicable three-year period can result in a penalty on the organization of up to \$50,000, in addition to possible revocation of status as a section 501(c)(3) organization.

The Health Care Reform Act also imposes new reporting and disclosure requirements on hospital organizations. The IRS is required to review information about a hospital’s community benefit activities at least once every three years. The Health Care Reform Act requires the Secretary of the Treasury, in consultation with the Secretary of HHS, to submit annually a report to Congress with information regarding the levels of charity care, bad debt expenses, unreimbursed costs of government programs, as well as costs incurred by tax-exempt hospitals for community benefit activities. The Secretary of the Treasury, in consultation with the Secretary of HHS, must conduct a study of the trends in these amounts, and submit a report on such study to Congress not later than five years after the date of enactment of the Health Care Reform Act. These statutorily mandated requirements for periodic review and submission of reports relating to community benefit provided by section 501(c)(3) hospital organizations may increase the likelihood that Congress will consider additional requirements for section 501(c)(3) hospital organizations in the future and may increase IRS scrutiny of particular 501(c)(3) hospital organizations.

The Secretary of the Treasury has issued proposed regulations regarding the financial assistance policies and collection efforts. These proposed regulations are complex and administratively burdensome. The IRS has also issued Notice 2011-52, which is guidance on the performance of the community health needs assessments. While the guidance is not controlling, the IRS has stated that any hospital that performs a community health needs assessment in accordance with the notice will be deemed to have complied with the statute. The IRS issued proposed regulations on community health needs assessments

on April 5, 2013. These proposed regulations are consistent with the terms set forth in the Notice and on December 30, 2013, the IRS confirmed this previous guidance with Notice 2014-3. The proposed regulations also discuss the related excise tax and reporting requirements for charitable hospitals and the consequences for failure to satisfy the Health Care Reform Act requirements for tax-exempt hospitals.

## **Tax Matters**

### *Tax Exemption for Nonprofit Corporations*

Loss of tax-exempt status of any Member of the Obligated Group could result in loss of tax exemption of the Bonds and of other tax-exempt debt issued for the benefit of one or more Members of the Obligated Group, and defaults in covenants regarding the Bonds and other related tax-exempt debt would likely be triggered. Such an event could have material adverse consequences on the financial condition of the Obligated Group. Management at Beaumont Health is not aware of any transactions or activities currently ongoing that are likely to result in the revocation of the tax-exempt status of any Member of the Obligated Group. As described above under the caption “Health Care Reform,” the Health Care Reform Act has expanded the requirements for maintenance of Section 501(c)(3) status by hospitals to include maintenance and monitoring of charity care policies and procedures.

The maintenance by the Members of the Obligated Group of their status as organizations described in Section 501(c)(3) of the Code is contingent upon compliance with general rules promulgated in the Code and related regulations regarding the organization and operation of tax-exempt entities, including their operation for charitable and educational purposes and their avoidance of transactions that may cause their assets to inure to the benefit of private individuals. The IRS has announced that it intends to closely scrutinize transactions between not-for-profit corporations and for-profit entities, and in particular has issued audit guidelines for tax-exempt hospitals. Although specific activities of hospitals, such as medical office building leases and compensation arrangements and other contracts with physicians, have been the subject of interpretations by the IRS in the form of Private Letter Rulings, many activities have not been addressed in any official opinion, interpretation or policy of the IRS. Because some of the Members of the Obligated Group conduct large-scale and diverse operations involving private parties, there can be no assurances that such transactions would not be challenged by the IRS.

The IRS has taken the position that hospitals that are in violation of the Anti-Fraud Laws (as defined below) may also be subject to revocation of their tax-exempt status. See the information herein under the caption “BONDHOLDERS’ RISKS – Audits, Exclusions, Fines, Enforcement and Other Actions.” As a result, tax-exempt hospitals, such as those owned and operated by Members of the Obligated Group, which have, and will continue to have, extensive transactions with physicians are subject to an increased degree of scrutiny and perhaps enforcement by the IRS.

The Taxpayers Bill of Rights 2, referred to for purposes of this Official Statement as the “*Intermediate Sanctions Law*,” allows the Internal Revenue Service to impose “intermediate sanctions” against certain individuals in circumstances involving the violation by tax-exempt organizations of the prohibition against private inurement. Prior to the enactment of the Intermediate Sanctions Law, the only sanction available to the IRS was revocation of an organization’s tax-exempt status. Intermediate sanctions may be imposed in situations in which a “disqualified person” (such as an “insider”) (i) engages in a transaction with a tax-exempt organization on other than a fair market value basis, (ii) receives unreasonable compensation from a tax-exempt organization or (iii) receives payment in an arrangement that violates the prohibition against private inurement. These transactions are referred to as “excess benefit transactions.” A disqualified person who benefits from an excess benefit transaction will be subject to an excise tax equal to 25% of the amount of the excess benefit. Organizational managers who participate in the excess benefit transaction knowing it to be improper are subject to an excise tax equal to 10% of the amount of the excess benefit, subject to a maximum penalty of \$10,000. A second penalty, in

the amount of 200% of the excess benefit, may be imposed on the disqualified person (but not upon the organizational manager) if the excess benefit is not corrected within a specified period of time.

In certain cases, the IRS has imposed substantial monetary penalties and future charity care or public benefit obligations on tax-exempt hospitals in lieu of revoking their tax-exempt status, as well as requiring that certain transactions be altered, terminated or avoided in the future and/or requiring governance or management changes. These penalties and obligations are typically imposed on the tax-exempt hospital pursuant to a “closing agreement” with respect to the hospital’s alleged violation of Section 501(c)(3) exemption requirements.

Bills have been introduced in Congress that would require a tax-exempt hospital to provide a certain amount of charity care and care to Medicare and Medicaid patients in order to maintain its tax-exempt status and avoid the imposition of an excise tax. Other proposed legislation would have conditioned a hospital’s tax-exempt status on the delivery of adequate levels of charity care. Congress has not enacted such bills. However, there can be no assurance that similar legislative proposals or judicial actions will not be adopted in the future. *See* the discussion above under “– Nonprofit Healthcare Environment – Nonprofit Hospitals’ 501(c)(3) Status” for a discussion of the effect of certain elements of the Health Care Reform Act on nonprofit hospitals, including conditioning a hospital’s tax-exempt status on the delivery of adequate levels of charity care.

In recent years, the IRS and state, county and local taxing authorities have been undertaking audits and reviews of the operations of tax-exempt hospitals with respect to their exempt activities and the generation of unrelated business taxable income. The Members of the Obligated Group participate in activities that may generate unrelated business taxable income. Management at Beaumont Health believes it has properly accounted for and reported unrelated business taxable income; nevertheless, an investigation or audit could lead to a challenge which could result in taxes, interest and penalties with respect to unreported unrelated business taxable income and in some cases could ultimately affect an Obligated Group Member’s tax-exempt status as well as the exclusion from gross income for federal income tax purposes of the interest payable on the Bonds and other tax-exempt debt issued for the benefit of an Obligated Group Member. In addition, legislation, if any, which may be adopted at the federal, state and local levels with respect to unrelated business income cannot be predicted. Any legislation could have the effect of subjecting a portion of an Obligated Group Member’s income to federal or state income taxes.

In addition, failure of a hospital facility to meet the additional requirements of Section 501(r) of the Code could subject revenues of the hospital facility to federal income tax.

Members of the Obligated Group have been and most likely will be audited from time to time by the IRS. Management at Beaumont Health believes that the Members of the Obligated Group have properly complied with the tax laws. Nevertheless, because of the complexity of the tax laws and the presence of issues about which reasonable persons can differ, an audit could result in additional taxes, interest and penalties. An audit could ultimately affect a Member of the Obligated Group’s tax-exempt status as well as the exclusion from gross income for federal income tax purposes of the interest payable with respect to the Bonds and other tax-exempt debt issued for the benefit the Obligated Group.

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

It is not possible to predict the scope or effect of future legislative or regulatory actions with respect to taxation of not-for-profit corporations. There can be no assurance that future changes in the laws and regulations of federal, state or local governments will not materially adversely affect the operations and financial condition of the Members of the Obligated Group by requiring any of them to pay income or local property taxes.

#### *Tax-Exempt Status of Bonds*

The Code imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include, among other things, limitations on the use of bond proceeds and facilities financed with bond proceeds, limitations on the investment earnings of bond proceeds prior to expenditure, a requirement that certain investment earnings on bond proceeds be paid periodically to the United States, and a requirement that the Authority file an information report with the IRS. The Bonds are considered a single issue of bonds for purposes of determining compliance with many of these requirements. The Authority and Beaumont Health have covenanted to comply with these requirements to the extent applicable. Failure to comply with the requirements stated in the Code and related regulations, rulings and policies may result in the treatment of the interest on the Bonds as taxable. Such adverse treatment may be retroactive to the date of issuance. *See also* “TAX MATTERS.” In such event, the Bonds are not subject to redemption solely as a consequence thereof, although if an Event of Default shall have occurred, the principal thereof may be accelerated under certain circumstances. *See* APPENDIX C –“THE BOND INDENTURE – Events of Default and Remedies.”

IRS officials have recently indicated that more resources will be invested in audits of tax-exempt bonds in the charitable organization sector. The Bonds may be, from time to time, subject to audits by the IRS. Management at Beaumont Health believes that the Bonds properly comply with the tax laws. In addition, Bond Counsel will render an opinion with respect to the tax-exempt status of the Bonds, as described under the caption “TAX MATTERS” below. Beaumont has not sought to obtain a private letter ruling from the IRS with respect to the Bonds, and the opinion of Bond Counsel is not binding on the IRS. There is no assurance that an IRS examination on the Bonds will not adversely affect the market value of the Bonds. *See* “TAX MATTERS” below.

#### *Proposed Legislation Regarding Limitations or Elimination of Tax-Exempt Status*

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under Federal or state law or otherwise prevent beneficial owners of the Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Bonds.

#### **Risks Related to Rules Governing Reimbursement for Healthcare Services**

The Members of the Obligated Group are subject to federal and state regulatory actions, legislative and policy changes by those governmental and private agencies that administer Medicare, Medicaid, Blue Cross and Blue Shield of Michigan (“BCBSM”), and other third party payors, and actions by, among others, the National Labor Relations Board and other federal, state and local government agencies.

## Medicare Reimbursement of Obligated Group Operations

For the fiscal year ended December 31, 2014, Medicare payments represented approximately 44% of Beaumont Health's pro forma combined net revenues billed to third party payers for inpatient, outpatient and physician services.

**General.** Medicare is a federal governmental health insurance system under which physicians, hospitals and other health care providers are reimbursed or paid directly for services provided to eligible elderly and disabled persons. Medicare provides certain health care benefits to beneficiaries who are 65 years of age or older, blind, disabled or qualify for the End Stage Renal Disease Program. Medicare Part A covers inpatient hospital services, certain skilled nursing facility ("*SNF*") care, hospice and some home health care, and Medicare Part B covers physician services, outpatient hospital services, diagnostic tests, outpatient therapy and some supplies. Medicare is administered by the Centers for Medicare and Medicaid Services of the federal Department of Health and Human Services ("*CMS*"). Health care providers, including hospitals, may participate in Medicare, subject to certain conditions of participation and upon acceptance of a provider agreement by the HHS Secretary.

The Health Care Reform Act has made several changes to the Medicare program, including changes to amounts payable to providers through imposition, directly or indirectly, of quality assurance measures. This and other changes are summarized above under the caption "Health Care Reform."

The Medicare Integrity Program ("*MIP*") was established, as authorized by the Health Insurance Portability and Accountability Act of 1996 ("*HIPAA*"), to deter fraud and abuse in the Medicare program. MIP allows CMS to enter into contracts with outside entities and insure the "integrity" of the Medicare program. Such entities, Medicare zone program integrity contractors ("*ZPICs*"), formerly known as program safeguard contractors, are contracted by CMS to review claims and medical charts, both on a prepayment and post-payment basis, conduct cost report audits and identify cases of suspected fraud. ZPICs have the authority to deny and recover payments as well as to refer cases to the Office of Inspector General. CMS is also planning to enable ZPICs to compile claims data from multiple sources in order to analyze the complete claims histories of beneficiaries for inconsistencies.

Medicare audits may result in reduced reimbursement or in repayment obligations related to past alleged overpayments and may also delay Medicare payments to providers pending resolution of the appeals process. The Health Care Reform Act explicitly gives the Secretary of HHS the authority to suspend Medicare and Medicaid payments to a provider or supplier during a pending investigation of fraud. The Health Care Reform Act also amended certain provisions of the Federal False Claims Act (the "*FCA*") to include retention of overpayments as a violation. It also added provisions relating to the timing of the obligations to identify, report and reimburse overpayments. The effect of these changes on existing programs and systems of the Members of the Obligated Group cannot be predicted.

**Payment for Inpatient Hospital Services.** A substantial portion of the Medicare revenues of the Obligated Group is derived from payments made for services rendered to Medicare beneficiaries under a hospital inpatient prospective payment system ("*IPPS*"). Under IPPS, for each covered hospitalization Medicare pays a predetermined base operating payment and a separate predetermined base payment for capital-related costs. Each hospitalization of a Medicare beneficiary is classified into one of several hundred diagnosis-related groups ("*DRGs*") which determines the IPPS base payment rate for the hospitalization. The IPPS payment rate is not correlated to the hospital's actual cost of treating a particular patient. It is a fixed sum, generally based on national DRG rates and a Hospital Wage Index intended to reflect geographic differences in the costs of labor. Several hospital characteristics are reflected in payment adjustments, including an indirect medical education adjustment, the disproportionate share adjustment to pay certain hospitals for a portion of the higher costs of treating a large proportion of poor patients and for indirect costs of operating in areas accessible to poor patients and outlier case adjustments (an additional payment for selected cases unusually long stays or high costs).

In addition, DRG rates are subject to annual adjustment by CMS or Congress and are subject to federal budget considerations. The legislation that created the IPPS requires that payments under the IPPS be adjusted annually based on the national average cost of providing inpatient services (the “market basket”). For every year since 1983, Congress has modified the increases and given substantially less than the increase in the “market basket” index. There is no assurance that future updates in the IPPS payments will come any closer to keeping pace with the increases in the cost of providing hospital services. If a hospital incurs operating and capital costs in treating Medicare inpatients which exceed the DRG level of reimbursement, the hospital will experience a loss from providing these services.

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

Effective October 1, 2013, CMS adopted a policy known as the Inpatient Hospital Prepayment Review “Probe & Educate” review process or the “Two-Midnight” rule. The “Two-Midnight” policy specifies that hospital stays spanning two or more midnights after the beneficiary is properly and formally admitted as an inpatient will be presumed to be “reasonable and necessary” for purposes of inpatient reimbursement. With some exceptions, stays not expected to extend past two midnights should not be admitted and instead be billed as outpatient. In April 2015, CMS announced that it would delay enforcement of the “Two-Midnight” rule until September 30, 2015 and therefore would continue to prohibit Recovery Auditor inpatient hospital patient status reviews for dates of admission occurring between October 1, 2013 and September 30, 2015. In August 2015, CMS announced that it would again delay enforcement of the “Two-Midnight” rule and prohibit Recovery Auditor reviews until January 1, 2016. The implementation of the “Two-Midnight” rule may have an adverse financial impact for hospitals.

There is no assurance that the Members of the Obligated Group will be paid amounts that will reflect adequately its costs incurred in providing inpatient hospital services to Medicare beneficiaries, as well as any changes in the cost of providing healthcare or in the cost of healthcare technology being made available to Medicare beneficiaries. The ultimate effect of the IPPS on the hospital members of the Obligated Group will depend on their ability to control their costs involved in providing inpatient hospital services.

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

**Payment for Hospital Outpatient Services.** A significant amount of the Obligated Group’s revenue comes from hospital outpatient services to Medicare beneficiaries. Outpatient hospital services are paid by Medicare at predetermined rates based upon Ambulatory Payment Classification Groups (“APCs”). The payment rate established for each APC is based upon national median hospital costs (including operating and capital costs) adjusted for variations in labor costs across geographic areas. Depending on the services provided, hospitals may be paid for more than one APC per patient encounter. CMS makes additional payment adjustments including: (i) outlier payments for services where the

hospital's costs exceed a threshold amount determined by CMS for that service and (ii) transitional pass-through payments for certain drugs and medical devices. Some hospital outpatient services (such as physical, speech and occupational therapy) are paid on the basis of the Medicare Physician Fee Schedule, instead of APCs. There can be no assurance that Medicare's hospital outpatient rates will be sufficient to cover the actual costs allocable to Medicare patient care. Because of the fixed nature of Medicare payments for hospital outpatient services, the ultimate effect depends upon the hospital's ability to control the costs of providing such services. Additionally, Congress or regulators in the future may impose additional limits or cutbacks in such payments or modify the method of calculating such payments.

**Resource Based Relative Value Scale Fee Schedule.** Medicare now pays for the services of physicians (and certain other professional and ancillary providers) under Part B of the Medicare program based on fee schedules that are subject to annual adjustment. Medicare's physician fee schedule was limited by the Sustainable Growth Rate ("SGR"). SGR was linked to changes in the U.S. Gross Domestic Product over a ten-year period. SGR targets were compared to actual expenditures in order to determine subsequent physician fee schedule updates. Use of the SGR in determining physician fee schedule updates was widely criticized as an unworkable formula. On April 16, 2015, President Obama signed a bill into law, the Medicare Access and CHIP Reauthorization Act of 2015 (the "MACR Act"), which ended use of the SGR. The measure went into effect in July 2015.

**Medicare Advantage Plans.** The Balanced Budget Act of 1997 substantially expanded the health-plan options for Medicare beneficiaries by creating a new Medicare Part C program, currently called Medicare Advantage Plans. The purpose of the program was to provide Medicare beneficiaries with an opportunity to obtain Medicare-covered services through various managed care organizations and other alternatives to traditional fee-for-service Medicare. However, Medicare beneficiaries may elect to remain in traditional fee-for-service Medicare.

Hospitals are paid by some Medicare Advantage Plans at the same rates as under traditional fee-for-service Medicare and in other cases the Medicare Advantage Plan establishes its own payment schedule. The latter type of Medicare Advantage Plan poses the same risks for the Obligated Group as are discussed below with respect to managed care organizations generally. It is impossible to determine the effect on the Obligated Group and its revenues of Medicare managed-care programs which may be instituted in the future.

**Additional Medicare Payments to Hospitals.** Additional Medicare payments may be made to individual hospitals. For example, hospitals that treat a disproportionately large number of low-income patients are known as disproportionate share hospitals ("*DSH*") and receive the DSH payments described above. Additional "outlier payments" are also made to hospitals that treat patients who are more costly to treat than the average patient. Additionally, hospitals are paid for a portion of their direct and indirect graduate-medical-education ("*GME*") costs and their bad debts on Medicare co-payments and deductibles. These forms of additional payments are also subject to reductions and modifications as a result of amendments to relevant statutes or regulations. Members of the Obligated Group have from time to time qualified for DSH payments and may be adversely affected by reductions to such payments (see discussion above regarding the Health Care Reform Act).

**EMTALA Obligations.** To ensure public access to emergency health care without ability to pay, Congress enacted the Emergency Medical Treatment and Active Labor Act ("*EMTALA*") in 1986, the so-called "anti-dumping" statute. Generally, EMTALA requires that Medicare-participating hospitals provide an "appropriate medical screening" to all patients who "come to the emergency department" to determine if an emergency medical condition exists. If such a condition exists, the hospital must provide treatment within its capabilities until the patient's condition is stabilized. This screening and treatment requirement applies with regard to all persons, not just Medicare beneficiaries, and applies regardless of the person's ability to pay. A hospital may not delay the provision of a medical screening examination in order to inquire about the patient's ability to pay or method of payment.

Over the last few years, the federal government has increased its enforcement of EMTALA. Failure to comply with this law can result in exclusion from the Medicare and Medicaid programs as well as civil and criminal penalties. Additionally, a hospital may be held liable to any patient who suffered injuries as a result of a violation of EMTALA and may be liable to the receiving hospital for financial losses suffered as a result of a transfer in violation of EMTALA. Any failure of the Obligated Group to meet its responsibilities under this law could materially affect its financial condition.

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

**Medicare Conditions of Participation; Utilization Review.** Hospitals must comply with standards called “Conditions of Participation” in order to be eligible for continuing enrollment in Medicare and Medicaid. CMS is responsible for ensuring that hospitals meet these regulatory Conditions of Participation. Failure to comply with the Conditions of Participation could result in loss of eligibility to participate in the Medicare and Medicaid programs. De-participation from federal health care programs would have a material negative effect on the financial condition and results of operation of the Obligated Group. Such requirements also apply to home health, hospice and skilled nursing facilities.

**Payment for Skilled Nursing Facility Services.** Medicare provides reimbursement for certain skilled nursing care in Medicare-certified facilities. A resident will qualify for Medicare reimbursement only if the patient’s admission to the nursing home facility is immediately subsequent to the patient’s three or more day stay at an acute care facility and the patient’s condition requires a level of skilled care. Reimbursement under Medicare Part A for nursing care is limited to a 100-day period per spell of illness for each qualified resident for each qualified stay.

Under the Balanced Budget Act of 1997, CMS implemented in 1998 a Part A per diem prospective payment system for skilled nursing facilities, similar to the DRG prospective payment system for acute care providers under Medicare. The SNF reimbursement rate is based on an “unadjusted federal per diem rate,” which is derived from the weighted average of standardized allowable costs for all nursing facilities for the cost reporting period which began in 1995, updated by a factor based on the skilled nursing facility market basket percentage. The unadjusted federal rate is then adjusted for (i) case mix, based on a resident classification system, i.e., Resource Utilization Groups (“RUGs”), that accounts for the relative resource utilization of different patient types; and (ii) wages and related costs for the area, compared to the national average of such costs. Payment rates are updated each fiscal year using a skilled nursing facility market basket index.

Some Medicare beneficiaries are not eligible for coverage of a SNF stay under Part A of Medicare. In such cases, Medicare pays the SNF only for selected ancillary services, including physical and occupational therapy, under Medicare Part B. Part B payments are not available when the resident is within a 100-day period.

There is no guarantee that market basket updates will continue to be made on an annual basis. In addition, the Health Reform Act contains certain changes to Medicare reimbursement that may negatively impact the Medicare reimbursement levels for the Obligated Group. Starting in federal fiscal year 2012, the market basket adjustment is reduced by a productivity adjustment, which may result in payments lower than in previous years. The Health Reform Act may also expand to the SNF setting Medicare “value-based purchasing” and limits on payment for institution-acquired conditions. The full impact of these provisions is unknown and subsequent laws, regulations, and guidance documents with changes to Medicare payments may be issued.

Other future legislation, regulation or actions by the federal government are expected to continue the trend toward more restrictive limitations on reimbursement for long term care services. At present, no determination can be made concerning whether, or in what form, such legislation could be introduced and enacted into law. Similarly, the impact of future cost control programs and future regulations upon SNFs' financial performance cannot be determined at this time.

## **Medicaid**

For the fiscal year ended December 31, 2014, Medicaid charges represented approximately 9.6% of Beaumont Health's pro forma combined net revenues billed to third party payors for inpatient, outpatient and physician services.

The Members of the Obligated Group are participating providers in the Medicaid program, a state-administered health insurance program for certain low-income individuals. Medicaid is jointly funded by the federal and state governments. Medicaid is designed to pay providers for care given to the medically indigent and others who receive federal aid. Medicaid is funded by federal and state appropriations and administered by the various states. Pursuant to broad federal guidelines, each state establishes its own eligibility standards; determines the type, amount, duration, and scope of services; sets the payment rates for services; and administers its own programs.

Under the Medicaid program, the federal government supplements funds provided by the various states for medical assistance to the medically indigent. Payment for medical and health services is made to providers in amounts determined in accordance with procedures and standards established by state law under federal guidelines. Fiscal considerations of both federal and state governments in establishing their budgets directly affect the funds available to the providers for payment of services rendered to Medicaid beneficiaries.

Payment for Medicaid patients is subject to appropriation of sufficient funds by the respective state legislatures. Delays in appropriations and state budget deficits which may occur from time to time create a risk that payment for services to Medicaid patients will be withheld or delayed.

The federal government and the governments of many states have considered, and are continuing to consider, changes to Medicaid funding, particularly in light of the budget crises facing many such states. The United States Congress recently approved an increase in Medicaid funding to states; however, the federal government continues to explore options for a long-term solution to the funding difficulties with Medicaid. Certain additional proposals are being examined that may ultimately result in reduced federal Medicaid funding to the states, which could adversely impact the amount of revenue received by the Members of the Obligated Group.

Certain states, including Michigan, have created programs that impose a fee on health care providers, the proceeds of which are intended to qualify for federal matching funds for such state's Medicaid program and are to be used to provide additional reimbursement from the federal government for Medicaid inpatient and outpatient services. Management at Beaumont Health believes that the existing programs do not materially affect the business, financial condition or results of operations of the Obligated Group. The effect on the Obligated Group of any changes to these programs cannot be predicted.

The Health Care Reform Act makes changes to Medicaid funding, substantially increases the potential number of Medicaid beneficiaries, increases federal financial support for the increased enrollment, and expands the Medicare Recovery Audit Contractor ("RAC") program to include Medicaid, using state-based RAC contracts. Management at Beaumont Health cannot predict the effect these changes will have on the operations, results from operations or financial condition of the Obligated Group.

**Michigan Medicaid Funding.** Since a portion of the Medicaid program's costs in Michigan are paid by the State, the amount of Medicaid revenues paid to the Members of the Obligated Group, as well as the timeliness of their receipt, may be affected by the financial condition of and budgetary factors facing the State. Potential actions the State could take to reduce Medicaid expenditures and accommodate budgetary shortfalls include changing hospital payment methodologies, changing eligibility requirements for Medicaid recipients or delaying actual payments due to hospitals. In recent years, the Governor of Michigan has issued Executive Orders that reduced payments to hospitals, other providers, and health maintenance organizations ("*HMOs*") participating in the Medicaid program. Future actions by the State to reduce Medicaid funding could adversely affect the Obligated Group.

At the federal level, plans to reduce federal funding of Medicaid and to replace the current federal Medicaid matching program with a "block grant" to the States have been considered. Such legislation could limit the means by which a state may raise the revenue needed to qualify for federal Medicaid matching funds. Adoption of these or similar reform measures would reduce Medicaid funds and could, correspondingly, reduce the revenues of the Obligated Group.

**Michigan Medicaid Reimbursement.** The State of Michigan provides most of its benefits to the Medicaid eligible population through contracted managed care programs. The Comprehensive Health Care Program covers acute, primary and specialty services and prescription drugs through HMOs which are paid capitation rates, and in turn, contract individually with hospitals and other providers. Mental health and substances abuse services are provided to Medicaid beneficiaries through the Managed Specialty Supports and Services program. This program is currently being restructured and implemented in pilot regions of Michigan, including Wayne and Macomb counties within Beaumont Health's service area. Funds for graduate medical education ("*GME*") will be paid directly to hospitals. To date, these changes had minimal impact on the Members' reimbursement from Medicaid. Some of the HMOs through which Medicaid patients are covered are significantly delinquent in their payments to providers and are not financially stable. The Members of the Obligated Group are not presently experiencing any difficulty in payments from Medicaid HMOs. The Michigan Medicaid program has proposed that hospitals enrolled in Medicaid be required to treat all Medicaid patients, including those enrolled in an HMO; however no such requirement has yet been adopted. The State of Michigan imposes a quality assessment fee that is assessed on all licensed Michigan hospitals retroactive to October 1, 2002. The fee is assessed on each hospital's net patient revenue before deduction of expenses and less Medicare net revenue and is used by the State to supplement Medicaid payments to Michigan hospitals. Although scheduled to expire on September 30, 2004, the quality assessment fee was extended indefinitely.

**Medicaid SNF Payments.** A SNF operated by a Member of the Obligated Group is classified as a "Class I Facility" under the Michigan Medicaid program. As such, it receives a prospectively determined per diem rate that is based on its historical operating and capital costs, subject to limitations imposed by Medicaid policy and an Economic Inflation Rate that is established annually through the State legislative appropriations process. Michigan law requires most nursing facilities to participate in the Quality Assurance Assessment Program ("*QAAP*") pursuant to which the facilities are assessed a QAAP fee that is paid to the State; this fee is capped by statute at 5.5% of total nursing facility industry revenue for the fiscal year in question. The State in turn distributes the QAAP fees as Quality Assurance Supplements nursing facility Medicaid reimbursement rates, based on the volume of Medicaid services furnished by each facility.

There is no assurance that Medicaid payments calculated in the manner described above will be sufficient to cover the expense of operating a nursing facility. Furthermore, these rates may be reduced based on Executive Order, legislative mandate, or other State cost savings initiatives. There is no guarantee that the Quality Assurance Supplement received by a given nursing facility will equal or exceed the QAAP paid by that facility.

**Children's Health Insurance Program (CHIP).** The Social Security Act authorizes the Children's Health Insurance Program ("*CHIP*") to provide increased access to health coverage for children in families with income too high to qualify for Medicaid but too low to afford private coverage. Michigan has implemented CHIP, calling its program "MICHild." The federal government matches state spending for CHIP at a rate than that is subject to change.

Michigan must periodically submit its CHIP plan to the federal government for review to determine if it meets federal requirements. If it does not meet the federal requirements, Michigan could lose its federal funding for its program. A decision to tighten the eligibility requirements, thereby decreasing the number of individuals eligible for CHIP, the loss of federal approval for Michigan's program, or the failure of the federal government to appropriate funds for CHIP, could have an adverse financial effect on the Obligated Group. The Health Care Reform Act extended the authorization and funding for CHIP through federal fiscal year 2015. The MACR Act extends CHIP for two additional years through federal fiscal year 2017.

### **Federal Debt Limit and Federal Budget Cuts**

Through legislation, the federal government has created a debt "ceiling" or limit on the amount of debt that may be issued by the United States Treasury. In the past several years, political disputes have arisen within the federal government in connection with discussions concerning the authorization for an increase in the federal debt ceiling. Any failure by Congress to increase the federal debt limit may impact the federal government's ability to incur additional debt, pay its existing debt instruments and to satisfy its obligations relating to the Medicare and Medicaid programs.

Management at Beaumont Health is unable to determine at this time what impact any future failure to increase the federal debt limit may have on the operations and financial condition of the Credit Group, although such impact may be material. Additionally, the market price or marketability of the Bonds in the secondary market may be materially adversely impacted by any failure to increase the federal debt limit.

The Budget Control Act of 2011 (the "*BCA*") mandated significant reductions and spending caps on the federal budget for fiscal years 2012-2021. The BCA also created a Joint Select Committee on Deficit Reduction (the "*Super Committee*") to develop a plan to further reduce the federal deficit by \$1.5 trillion on or before November 23, 2011. Because the Super Committee failed to act, the BCA mandated that a 2% reduction in Medicare spending, among other reductions, would be triggered to take effect on January 2, 2013.

The American Taxpayer Relief Act of 2012 ("*ATRA*") postponed this scheduled reduction until March 1, 2013. CMS implemented the 2% reductions for all Medicare Parts A and B claims with dates-of-service or dates-of-discharge on or after April 1, 2013, and for all payments made to Medicare Advantage Organizations ("*MAOs*"), Part D plans and other programs (including Managed Care Organizations) with enrollment periods beginning on or after April 1, 2013. Additionally, ATRA significantly affects hospital Medicare reimbursement in that it requires the Medicare program to recoup funds from hospitals based on changes in documentation and coding that have increased Medicare inpatient prospective payment system ("*IPPS*") payments but that do not represent real increases in the intensity of services provided to patients. In the final IPPS regulations for federal fiscal year 2014, CMS stated that it intends to phase in this recoupment over time, starting with a 0.8% reduction in the Medicare standardized amount for 2014. Additional recoupment adjustments are planned for federal fiscal years 2015-2017.

In addition, ahead of a December 13, 2013 deadline, a bipartisan and bicameral budget agreement staved off further sequestration cuts, while keeping the current Medicare sequestration cuts in place. The agreement included restructuring of Medicaid DSH payments reductions by delaying the fiscal year 2014

DSH payment cuts until fiscal year 2016, but increasing the overall level of reductions and extending cuts through fiscal year 2023. The \$85 billion agreement replaced \$63 million in sequester cuts.

While the budget agreement offers limited relief from sequestration cuts for certain defense and non-defense spending for fiscal years 2014 and 2015, the budget agreement does not extend relief to sequestration reductions impacting Medicare. The 2% reduction to Medicare providers and insurers will continue at least through March 31, 2016, for Medicare Fee-For-Service program claims with dates of service or dates of discharge on or after April 1, 2013, subject to additional Congressional action. Also, certain commercial Medicare Advantage plans are passing this reduction on to health care providers. The budget agreement achieves new savings for the federal government by extending sequestration for mandatory programs, including Medicare, through fiscal year 2023.

It is possible that Congress will take action to eliminate some or all of the reductions in the future and any Congressional action could be made retroactive in order to eliminate some or all of the cuts even to the extent they were imposed. However, there is no certainty that Congress will take any action. Absent further Congressional action, these automatic spending cuts will become permanent. Because Congress may make changes to the budget in the future, it is impossible to predict the impact any spending cuts may have upon Members of the Obligated Group. Similarly, it is impossible to predict whether any automatic reductions to Medicare may be triggered in lieu of other spending cuts that may be proposed by Congress. If and to the extent Medicare and/or Medicaid spending is reduced under either scenario, this may have a material adverse effect upon the financial condition of the Members of the Obligated Group. Ultimately, these reductions or alternatives could have a disproportionate impact on hospital providers and could have an adverse effect on the financial condition of the Members of the Obligated Group, which could be material.

On November 2, 2015, President Obama signed the BBA, increasing the budget caps imposed by the BCA for fiscal years 2016 and 2017 and authorizing \$80 billion in increased spending over the next two years. The BBA also suspends the limit on the federal government's debt until March 2017.

### **Private Health Plans and Insurers**

Healthcare coverage for many individuals is provided by various managed care organizations ("MCOs") that negotiate discounts from providers and use economic incentives to reduce or limit the cost and utilization of healthcare services such as inpatient hospital care. MCOs include health maintenance organizations ("HMOs") and preferred provider organizations ("PPOs"). Under PPO plans, there may be financial incentives for subscribers to use only those hospitals which contract with the plans. Under an exclusive provider plan, which includes most HMOs, private payors limit coverage to those services provided by selected hospitals within the provider plan. Therefore, MCOs may direct patients away from non-contracted providers by denying coverage for services provided by them or imposing significant costs on the patient for use of a non-contracted provider.

Contractual agreements are currently in place with MCOs by which Members of the Obligated Group serve as participating providers. Payments from MCOs typically are lower than those received from traditional indemnity/commercial insurers. Most MCOs currently pay hospitals on a discounted fee-for-service basis, a discounted per diem, or a prospective payment. The discounts negotiated by MCOs may result in payment at less than actual costs and the volume of patients directed to a contracted provider may vary significantly from projections. For the fiscal year ended December 31, 2014, charges to commercial insurers represented approximately 5.6% of Beaumont Health's pro forma combined net patient revenues billed to third party payors for inpatient, outpatient and physician services. For purposes hereunder, revenues from BCBSM managed care programs are included in BCBSM revenues. Such programs individually negotiate payment terms with participating providers, which terms include discounted fee-for-service payments or discounted fixed rate per day/case of care payments. There also are additional provisions by which providers share in the risk associated with the cost of providing health

care services. There is no assurance that Beaumont Health's exposure to such contracts or arrangements will not increase in the future. Increased participation may maintain or increase the patient base, but the discounts offered to HMOs and PPOs may result in reduced payments and lower net patient revenue.

Some HMOs are now offering or mandating a "capitation" payment method under which hospitals are paid a predetermined periodic rate for each enrollee in the HMO who is "assigned" to, or otherwise directed to receive care at, a particular hospital. In a capitated payment system, the health care provider assumes an insurance type risk for the cost and scope of care given to the HMO's enrollees. If payment under an HMO or PPO contract is insufficient to meet the provider's costs of care, the financial condition of the provider may erode rapidly and significantly. In addition to this standard managed care risk sharing approach, private health insurance companies are increasingly adopting various additional risk sharing/cost containing measures, sometimes similar to those introduced by government payors. Providers may expect health care cost containment and its associated risk sharing to continue to increase in the coming years amongst all payors.

Often, HMO or PPO contracts are enforceable for a stated term, regardless of provider losses. Recently, certain HMOs and PPOs have experienced financial difficulties, and some have resorted to bankruptcy proceedings. It is not possible, at this time, to predict the future of the managed care industry in general in relation to specific HMOs or PPOs with which Members of the Obligated Group contract.

With implementation of the Health Care Reform Act, substantial numbers of employers may elect to discontinue employer-funded medical care for employees eligible for federal assistance in securing private insurance, and the employees could then choose health insurance under the health insurance exchanges. Individuals choosing their own coverage may become highly price sensitive, which could increase the number of enrollees in HMO plans and increase the use of capitation, making price negotiations with HMO and other insurance plans more difficult.

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

Members of the Obligated Group are party to Participating Hospital Agreements with Blue Cross and Blue Shield of Michigan ("BCBSM"). For the fiscal year ended December 31, 2014, BCBSM charges represented approximately 24.1% of Beaumont Health's pro forma combined net revenues from inpatient, outpatient and physicians services. BCBSM reimburses hospitals on a DRG basis for most inpatient services pursuant to a Participating Hospital Agreement. BCBSM pays for outpatient services based on a combination of predetermined fee schedules and a formula tied to the Members of the Obligated Group's outpatient costs, which may or may not be adequate to cover the cost of providing the services in question. In addition, BCBSM has implemented a hospital performance incentive/disincentive program. An individual hospital's ability to earn incentive payments, and avoid disincentives depends on meeting certain quality, utilization and community health standards.

### **Receivables Pledge**

The Master Indenture provides that each Obligated Group Member shall grant to the Master Trustee a security interest in all of its Gross Receivables, subject to Permitted Liens, and to perfect the grant of a security interest in the Gross Receivables to the extent that the same may be pledged and a security interest granted therein under the UCC. The Master Trustee's security interest in the Gross Receivables shall be perfected, to the extent that such security interest may be so perfected, by the filing of financing statements which comply with the requirements of the UCC. It may not be possible to perfect a security interest in any manner whatsoever in certain types of Gross Receivables (e.g., certain insurance proceeds and payments under the Medicare and Medicaid programs) prior to actual receipt of funds by any Member. The grant of a security interest in Gross Receivables may be subordinated to the interest and claims of others in several instances. Some examples of cases of subordination of prior interests and claims are (i) statutory liens, (ii) rights arising in favor of the United States of America or

any agency thereof, (iii) present or future prohibitions against assignment in any federal statutes or regulations, (iv) constructive trusts, equitable liens or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction, and (v) federal or state bankruptcy laws that may affect the enforceability of the Amended and Restated Master Indenture or grant of a security interest in the Gross Receivables.

### **Factors Concerning Enforceability of the Amended and Restated Master Indenture, the Loan Agreement and the Note**

The Members of the Obligated Group are jointly and severally liable for Obligations issued under the Amended and Restated Master Indenture. At closing, the Members of the Obligated Group will be Beaumont, Oakwood, Oakwood United, Oakwood Promotions, WBH and Botsford. The accounts of the Members of the Designated Affiliates will be combined for financial reporting purposes and will be used in determining whether various covenants and tests contained in the Amended and Restated Master Indenture (including tests relating to the incurrence of Additional Indebtedness) are met, notwithstanding the uncertainties as to the enforceability described in the preceding paragraphs and below.

Under the United States Bankruptcy Code, a trustee in bankruptcy or, under state fraudulent conveyance statutes, a creditor of a guarantor may avoid an obligation incurred by the guarantor if, among other bases therefor, (1) the guarantor has not received fair consideration or reasonably equivalent value in exchange for the guaranty, and (2) the guaranty renders the guarantor insolvent, as defined in the United States Bankruptcy Code or state fraudulent conveyances statutes, or (3) the guarantor is undercapitalized. Interpretations by courts of the Bankruptcy Code with respect to transactions similar to the transaction discussed above and of the tests of “insolvency,” “reasonably equivalent value” and “fair consideration” have resulted in a conflicting body of case law. It is possible that in an action involving the enforceability of an agreement to make payments on an Obligation by a Member of the Obligated Group, the Obligation may not be enforced if it is determined that such Member did not receive sufficient consideration for the Obligation and that the incurrence of such Obligation has rendered or will render such Member insolvent or unable to carry out its charitable purposes.

In addition, the joint and several obligations described herein of Members of the Obligated Group to make payments on Obligations issued under the Amended and Restated Master Indenture (including transfers in connection with voluntary dissolution or liquidation) and certain limitations the Amended and Restated Master Indenture imposes upon the Designated Affiliates, may not be enforceable to the extent (1) enforceability may be limited by applicable bankruptcy, moratorium, reorganization or similar laws affecting the enforcement of creditors’ rights and by general equitable principles and (2) such payments (i) are requested with respect to payments on an Obligation which are issued for the benefit of a Member other than the Member from which such payment is requested and which was issued for a purpose which is not consistent with the charitable purposes of the Member of the Obligated Group from which such payment is requested or which are issued for the benefit of any Member of the Obligated Group which is not a Tax Exempt Organization; (ii) are requested to be made from any moneys or assets which are donor restricted or which are subject to a direct or express trust which does not permit the use of such moneys or assets for such a payment; (iii) would result in the cessation or discontinuation of any material portion of the health care or related services previously provided by the Member of the Obligated Group from which such payment is requested; or (iv) are requested to be made pursuant to any loan violating applicable usury laws. The extent to which the assets of any future Member of the Obligated Group may fall within the categories (i), (ii) and (iii) above with respect of the Bonds cannot now be determined. The amount of such assets that could fall within such categories could be substantial.

In addition to the foregoing, common law authority and authority under state statutes permit state courts or the state Attorney General to terminate the existence of a nonprofit corporation or undertake supervision of its affairs on various grounds, including a finding that such corporation has insufficient assets to carry out its stated charitable purposes or has taken such action which renders it unable to carry

out such purposes. Such court action may arise on the court's own motion pursuant to a petition of the State Attorney General or such other persons who have interests different from those of the general public, pursuant to the common law and statutory power to enforce charitable trusts and to see to the application of their funds to their intended charitable uses.

### **Factors Concerning Enforceability Generally**

The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by bankruptcy, insolvency, fraudulent conveyance, reorganization or other Laws affecting the enforceability of creditors' rights generally and by application of equitable remedies regardless of whether the action is brought in equity or at law.

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

**General.** Efforts by health insurers and governmental agencies to limit the cost of hospital and other health care services and to reduce utilization of hospital facilities may reduce future revenues.

**Technology and Services.** Scientific and technological advances, new procedures, drugs and appliances, preventive medicine, occupational health and safety, and outpatient health care delivery may reduce utilization and revenues of the Members of the Obligated Group in the future. Technological advances in recent years have accelerated the trend toward the use by hospitals of sophisticated, and costly, equipment and services for diagnosis and treatment. The acquisition and operation of certain equipment or services may continue to be a significant factor in hospital utilization, but the ability of the Members of the Obligated Group to offer such equipment or services may be subject to the availability of equipment or specialists, governmental approval, or the ability to finance such acquisitions or operations.

**Competition.** Hospitals and health facilities providing services to residents and employees in the Obligated Group's service area are the major source of competition for the Obligated Group. Competition from a variety of potential sources, including, but not limited to, inpatient and outpatient healthcare facilities, clinics and physicians, may adversely affect the utilization and/or revenues of the Obligated Group. Proposals to eliminate the Certificate of Need ("CON") requirement for licensed hospital facilities in Michigan have been suggested. Elimination of the CON requirement would likely increase competition. In addition, nontraditional competitors, such as physician-management companies, disease-management companies and outpatient service providers, could have the same effect. Certain new competitors, such as home-health and infusion providers, and certain niche providers, such as specialized cardiology, dialysis or oncology companies, specifically target hospital patients as their prime source of revenue growth. Furthermore, because existing and potential competitors may not be subject to the regulations and restrictions applicable to Beaumont Health, these competitors may be more flexible in their ability to adapt to competitive opportunities and risks. If these competitors and any future competitors are successful, some of the most profitable aspects of hospital operations may be stripped away and/or overall hospital utilization may decline.

Additionally, mergers or affiliations of existing competitors may create larger, more viable entities that may be more formidable competitors than the original constituent entities. While the effect of such actions is uncertain, mergers and acquisitions can be expected to increase competition in the healthcare field, and the utilization and revenues of Beaumont Health could be adversely affected. Alternatively, existing competitors could fail, which could decrease competition in a particular region, but which could force Beaumont Health to accommodate significantly higher volumes, including significantly higher volumes of uninsured or under-insured patients and charity care.

Beaumont Health is likely to face increased competition in the future from other general hospitals, skilled nursing facilities, home-health agencies, rehabilitation and therapy centers, increasingly

sophisticated physician-group practices, and from other healthcare providers that offer comparable healthcare services. There also is concern regarding the proliferation of specialty hospitals and, in particular, physician-owned specialty hospitals, due to the potential for those hospitals to attract selected profitable services from full-service community hospitals, thereby adversely impacting the ability of those community hospitals to continue offering adequate quality and quantity of services for the communities they serve. Beaumont Health has certain relationships and joint ventures with physicians which are responsive to this concern. There have been recent initiatives at the federal level to stop or significantly limit the development of these specialty hospitals, including in the Health Care Reform Act, but at this time the effect of this initiative is uncertain. As such, management at Beaumont Health cannot fully assess the impact of the development of specialty hospitals on its future operations, but believes that the actions it has taken to strengthen the relationship between Beaumont Health and physicians will lessen any adverse impact.

The growth of e-commerce also may result in a shift in the way that healthcare is delivered. Persons residing in Beaumont Health's service area may be able to receive certain health services from remote providers. For example, physicians will be able to provide certain services over the internet (e.g., teleradiology and second opinions). Pharmaceuticals and other health services may also now be ordered on-line. Additionally, other service providers in competition with Beaumont Health may now compete through this new medium by advertising their services and providing easy registration for competing services over the internet. Also, alternative forms of healthcare payment including managed-care organizations and consumer-driven care, as well as expanded preventive medicine and outpatient treatment, could affect Beaumont Health's ability to maintain its market share at current levels.

#### **Audits, Exclusions, Fines, Enforcement and Other Action**

**Background.** The Members of the Obligated Group are subject to federal, state and local regulatory requirements, legislative and policy changes by governmental and private agencies that administer Medicare, Medicaid, BCBSM and other third-party payors, and actions by, among others, The Joint Commission and other accreditation agencies.

The following statutes, as well as numerous other statutes potentially applicable to the Members of the Obligated Group, generally provide for both civil and criminal sanctions for their violation. Criminal violations of certain federal and state health care statutes are felonies, punishable by imprisonment and/or significant fines for each violation. Civil penalties include not only fines, but temporary or permanent exclusion from the Medicare and Medicaid programs. Conduct which violates certain of these statutes also has the potential for providing the basis for civil suits by competitors and others who feel they are harmed by improper conduct and for providing the basis for loss of an entity's tax exemption under Sections 501(c)(3) and 501(a) of the Code.

Because the language of many of these statutes is very broad, the statutes are potentially applicable to many ordinary business arrangements pursuant to which remuneration passes between health care providers and suppliers that are in a position to make referrals to each other. While Beaumont Health currently has arrangements with health care providers that are so regulated, management at Beaumont Health believes that such arrangements are being conducted consistent with applicable law and is not aware of any pending or contemplated challenge or investigation with respect to any such arrangements. There can be no assurance that such challenges or investigations will not occur in the future, or that existing arrangements will not require restructuring or elimination in order to comply with applicable laws of this nature, particularly if the trend toward greater regulation of relationships between health care providers continues.

**False Claims Act.** The FCA makes it illegal to submit or present a false, fictitious or fraudulent claim to the federal government and may include claims that are simply erroneous. FCA investigations and cases have become common in the health care industry and may cover a range of activity from

intentionally inflated billings, to highly technical billing infractions, to allegations of inadequate care. Violation or alleged violation of the FCA most often results in settlement that sometimes require multi-million dollar payments and compliance with “corporate integrity agreements.” The FCA also permits individuals to initiate civil actions on behalf of the government in lawsuits called “qui tam” actions. Qui tam plaintiffs, or “whistleblowers,” share in the damages recovered by the government or may recover damages independently if the government chooses not to participate in the claim. The FCA has become one of the government’s primary weapons against health care fraud. Federal or state FCA violations or alleged violations could lead to settlements, fines, exclusion or reputational damage that could have a material adverse impact on a hospital.

The Health Care Reform Act expanded the False Claims Act to require that any Medicare or Medicaid overpayment must be reported and returned to CMS, the state, intermediary or carrier within sixty (60) days of the date the overpayment was identified or the due date of the cost report, whichever is later. Any overpayment retained after that deadline will give rise to liability under the False Claims Act. The Health Care Reform Act extends False Claims Act liability to provide that any claim for items or services resulting from a violation of the Anti-Kickback Law constitutes a false or fraudulent claim under the False Claims Act.

**Federal Anti-Fraud Statutes.** In 1977, Congress adopted the Medicare and Medicaid Anti-Fraud and Abuse Amendments, which have been strengthened by subsequent amendments and revisions (collectively, the “*Federal Anti-Fraud Laws*”) and the creation of the Office of Inspector General (“*OIG*”) to enforce compliance with said Laws. The Federal Anti-Fraud Laws provide for civil monetary and criminal penalties and expulsion from the Medicare/Medicaid programs for acts which add unnecessarily to the costs of the programs, such as knowing or willful over-utilization of services, or the direct or indirect offering, solicitation, payment or receipt of remuneration to induce the referrals of patients or the arranging for or recommending the ordering of goods or services for which payment may be made by Medicare or Medicaid. The Medicare Patient and Program Protection Act of 1987 required the adoption of regulations which specify transactions which would not be treated as violations of the Federal Anti-Fraud Laws. Beginning July 29, 1991 the *OIG* has issued a series of “safe harbors” which protect from prosecution under certain of the Anti-Fraud Laws limited types of transactions as described in the safe harbors. Transactions which do not comply with all of the strict requirements of the safe harbors, while not necessarily illegal, face an ongoing risk of prosecution due to the broad language within the statute itself.

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

Members of the Obligated Group currently have arrangements with health care providers and suppliers that do not fall squarely within certain safe harbors. While the fact that a contract does not fall within a safe harbor does not necessarily mean that it is subject to regulatory or other enforcement actions, if such a program or venture were considered to be in violation of the Federal Anti-Fraud Laws, an Obligated Group Member could be subject to enforcement action. The extent to which such an action might be commenced is uncertain, as is the ultimate outcome. If an agency or court were to conclude that programs of an Obligated Group Member violated any of the applicable statutes, there is a possibility that an Obligated Group Member could be subject to a withholding of payment, exclusion from participation in the Medicare and Medicaid programs, loss of federal income tax exemption under Sections 501(c)(3) and 501(a) of the Code, assessment of fines, penalties and certain intermediate sanctions, which could be substantial and be subject to civil suits by competitors or others who claim they were harmed by such conduct.

See also the discussion appearing under the caption “Stark” below.

**State Anti-Fraud Laws.** In addition to federal statutes concerning referrals of patients or business for which payment is ultimately made by third-party payment programs funded by the government, Michigan has statutes which contain similar prohibitions with respect to patients, goods, services and items for which payment is or may be made in whole or in part by the Medicaid program, health care corporations or other health care insurers.

**Other Penalties.** There are numerous other civil and criminal laws which could affect healthcare providers. For example, in addition to prohibiting kickbacks, the Federal Anti-Fraud Laws make it illegal to submit or present a false, fictitious or fraudulent claim to the federal government. In addition, the FCA allows the United States government (or an individual in a “qui tam” action) to recover significant damages from persons or entities that submit fraudulent claims for payment to any federal agency and the Civil Monetary Penalty Act provides for administrative sanctions against healthcare providers for a broad range of billing and other abuses. The State of Michigan amended its Medicaid False Claims Act, effective January 6, 2006, to add qui tam provisions similar to those in the federal False Claims Act. There can be no assurance that the Members of the Obligated Group’ existing arrangements will not require restructuring or elimination in order to comply with applicable laws of this nature, particularly if the trend toward greater regulation of relationships between health care providers continues.

**Health Insurance Portability and Accountability Act.** The Health Insurance Portability and Accountability Act of 1996 (“HIPAA”) addresses the confidentiality of individuals’ health information. Disclosure of certain broadly defined protected health information is prohibited unless expressly permitted under the provisions of the HIPAA statute and regulations or authorized by the patient. HIPAA’s confidentiality provisions extend not only to patient medical records, but also to a wide variety of health care clinical and financial settings where patient privacy restrictions often impose new communication, operational, accounting and billing restrictions. These add costs and create potentially unanticipated sources of legal liability. HIPAA imposes civil monetary penalties for violations and criminal penalties for knowingly obtaining or using individually identifiable health information. The criminal penalties range from \$50,000 to \$250,000 and/or imprisonment if the information was obtained or used with the intent to sell, transfer or use the information for commercial advantage, personal gain or malicious harm. The Members of the Obligated Group have implemented policies and procedures to comply with the privacy rules.

**The HITECH Act.** Provisions in the 2009 Health Information Technology for Economic and Clinical Health Act (the “HITECH Act”), enacted as part of the economic stimulus legislation, increase the maximum civil monetary penalties for violations of HIPAA and grant enforcement authority of HIPAA to state attorneys general. The HITECH Act also (i) extends the reach of HIPAA beyond “covered entities,” (ii) imposes a breach notification requirement of HIPAA covered entities, (iii) limits certain uses and disclosures of individually identifiable health information and (iv) restricts covered entities’ marketing communications. Management at Beaumont Health does not anticipate that compliance with the HITECH Act will have a material effect on the Obligated Group’s operations.

The breach notification obligation, in particular, may expose covered entities such as hospitals to heightened liability. Under the HITECH Act, in the event of a data privacy breach, covered entities are required to notify affected individuals and the federal government. If more than 500 individuals are affected by the breach, (i) the covered entity must also notify the media and (ii) the federal government posts a description of the breach on its website. These reporting obligations increase the risk of government enforcement as well as class action lawsuits, especially if large numbers of individuals are affected by a breach.

The HITECH Act also established programs under Medicare and Medicaid to provide incentive payments for the “meaningful use” of certified electronic health record (“EHR”) technology. Beginning

in 2011, the Medicare and Medicaid EHR incentive programs provide incentive payments to eligible professionals and eligible hospitals for demonstrating meaningful use of certified EHR technology. Health care providers demonstrate their meaningful use of EHR technology by meeting objectives specified by CMS for using health information technology and by reporting on specified clinical quality measures. Beginning in 2015, hospitals and physicians who have not satisfied the performance and reporting criteria for demonstrating meaningful use will have their Medicare payments significantly reduced. The payment reduction starts at 1% and increases each year that an eligible professional does not demonstrate meaningful use, to a maximum of 5%. Additionally, beginning in 2014, the federal government began auditing hospitals' and providers' records related to their attestation of being "meaningful users" in order to obtain the incentive payments. A hospital or provider that fails the audit will have an opportunity to appeal. Ultimately, hospitals or providers that fail on appeal will have to repay any incentive payments they received through these programs.

***International Classification of Diseases, 10th Revision Coding System.*** In 2009, CMS published the final rule adopting the International Classification of Diseases, 10th Revision coding system ("ICD-10"), requiring health care organizations to implement ICD-10 no later than October 2013. In August 2012, DHHS issued a rule delaying this compliance deadline until October 2014 and on March 31, 2014, Congress passed legislation further delaying the ICD-10 implementation deadline to October 2015. On October 1, 2015 implementation of ICD-10 became effective. ICD-10 provides a common approach to the classification of diseases and other health problems, allowing the United States to align with other nations to better share medical information, diagnosis, and treatment codes. In order to implement the ICD-10, staff need to be retrained, processes redesigned, and computer applications modified as the current available codes and digit size will dramatically increase. Due to these changes, there is a potential for temporary coding and payment backlog, increases in claims errors, and revenue stream disruption. Additionally, because of the magnitude of the transition across the industry, implementation of ICD-10 may add pressure to health care organizations cash flows. Furthermore, health care organizations may become dependent on outside software vendors, clearinghouses and third-party billing services to develop products and services to assist in timely, complete and successful implementation of ICD-10 which will likely result in increased training and related implementation costs for the Credit Group. Lastly, although implementation became effective, it remains unclear what potential implementation issues may arise and the costs associated with addressing such issues.

**Stark.** The Ethics in Patient Referral Act or "Stark Law" generally prohibits a physician from making referrals for which payment is received from the Medicare program to any entity with which the physician or family member has a financial relationship. The term "financial relationship" includes any compensation arrangement with an entity for payment of any remuneration, or any direct or indirect ownership or investment interest in the entity whether by debt, equity or otherwise. If a financial relationship exists, regardless of intent, unless the arrangement meets a statutory exception, the physician is precluded from referring patients to the entity for designated health services, and the entity is precluded from billing Medicare for any such referred services. An entity that bills for items or services in violation of the Stark Law is subject to civil monetary penalties and exclusion from federal health care programs, including Medicare and Medicaid. The Stark Law was expanded to include Medicaid and now prohibits referrals in clinical laboratory services; physical therapy services; occupational therapy services; radiology and other diagnostic imaging services; radiation therapy services; durable medical equipment; parenteral and enteral nutrients, equipment and supplies; prosthetics, orthotics and prosthetic devices; home health services; outpatient prescription drugs; and inpatient and outpatient hospital services. The Members of the Obligated Group intend to comply fully with the requirements of the Stark Law.

In April 2011, WBH received a CID from the United States Attorney's office requiring production of a large number of documents. Management has been informed that the thrust of the investigation concerns allegations of relationships between WBH and its physicians to determine whether there exists a violation of the Stark or Federal Anti-Fraud laws as a civil false claim. Management understands that, at this time, the investigation is a civil investigation only. To date, WBH has not

received a demand, and management does not anticipate a demand forthcoming in the near future. WBH intends to vigorously defend any demand if or when proffered. *See* the discussion appearing under the caption “LITIGATION AND INVESTIGATIONS” in APPENDIX A.

In June 2012, CEMS and several joint venture ambulance companies received a CID from the United States Attorney’s office requiring production of a large number of documents. CEMS is the sole member of Parastar, a for-profit entity, and is consolidated with Botsford. For information about CEMS, *see* “WHOLLY OWNED SUBSIDIARIES AND JOINT VENTURES” in APPENDIX A. Management has been informed that the thrust of the investigation concerns allegations of relationships between CEMS and its physicians to determine whether there exists a violation of the Stark or Federal Anti-Fraud laws as a civil false claim. Management understands that, at this time, the investigation is a civil investigation only. To date, CEMS has not received a demand, and management does not anticipate a demand forthcoming in the near future. CEMS intends to vigorously defend any demand if or when proffered. *See* the discussion appearing under the caption “LITIGATION AND INVESTIGATIONS” in APPENDIX A.

**Audits.** Healthcare providers are subject to audits and retroactive audit adjustments with respect to the Medicare program, as well as other programs, including BCBSM. Generally, the Members of the Obligated Group maintain an adequate level of reserves for proposed audit adjustments, which are likely to be contested. Nevertheless, such adjustments may exceed reserves and may be substantial. Applicable laws, regulations, rules and policies also provide for third-party payors to withhold payments in certain circumstances. Such withheld payments could have a substantial adverse effect on the Obligated Group’s ability to make payments with respect to the Loan Repayments or on their overall financial condition. Beaumont Health’s management is not aware of any situation where a third-party payment is being withheld in an amount material to an Obligated Group Member.

**Enforcement Activity.** Enforcement activity against health care providers appears to be increasing, and enforcement authorities appear to be adopting more aggressive approaches to enforcement. In the current regulatory climate, it is anticipated that many health facilities and practitioners will be subject to an investigation, audit or inquiry regarding billing practices or false claims. Although neither currently nor recently the subject of any OIG, U.S. Attorney General and/or Justice Department investigations, audits or inquiries for which management at Beaumont Health management has formed an opinion that material liability is probable, System Organizations and their affiliates have been the subject of such investigations, audits or inquiries resulting in adverse action in the past and may be the subject of such investigations, audits or inquiries in the future. Beaumont Health’s management believes that it has properly complied with the laws concerning billing practices and the submission of false claims. Nevertheless, because of the complexity of these laws, the instances in which an alleged violation may arise to trigger such investigations, audits or inquiries are increasing.

### **Malpractice Claims and General Liability Insurance**

Malpractice and general liability suits and other actions alleging wrongful conduct are often filed against health care facilities and practitioners. For a discussion of the malpractice and general liability insurance coverage of the Obligated Group, *see* “LITIGATION – Beaumont Health – Medical Malpractice Litigation” in this Official Statement.

### **Workers’ Compensation**

Act No. 457, Public Acts of Michigan, 1998, requires the director of the Bureau of Workers’ Disability Compensation (“*Bureau*”) to provide for an advisory committee to aid and assist in establishing, annually, schedules of maximum charges for any treatment or attendance, service, devices, apparatus, or medicine, provided to workers’ compensation claimants. Pursuant to those “schedules,” a health facility or practitioner will be paid either its usual and customary charge for the treatment or

attendance, service, devices, apparatus, or medicine, or the maximum charge established in those schedules, whichever is less. Public Act No. 447 also provides for “utilization review” procedures. Such utilization review shall be accomplished pursuant to a system established by the Bureau that assists in evaluating the level and the quality of health care and services provided to workers’ compensation claimants, based on medically accepted standards. Such “utilization review” procedures also set forth procedures for the acquiring of necessary records, bills, or other information concerning the health care or health services. Management believes that these schedules and procedures, to date, have not had an adverse material effect on Beaumont Health.

### **Failure to Obtain Certificates of Need**

The Michigan Certificate of Need statute, as amended, provides, in part, that a person shall not acquire an existing “health facility” or begin operation of a new “health facility,” make a “change in bed capacity” of a “health facility,” initiate, replace or expand a “covered clinical service,” or acquire “covered medical equipment,” and that a “health facility” shall not make a “covered capital expenditure,” with certain exceptions, without first obtaining a CON from the Michigan Department of Community Health, which documents a demonstrated need and grants permission for the proposed project. The capital expenditure threshold has been substantially increased for certain covered projects, thereby subjecting fewer proposed projects to CON review. In 2015, the capital expenditure threshold was \$3,197,000 for covered capital expenditures for health care facilities. This threshold amount is indexed annually by the Michigan Department of Community Health based on the Consumer Price Index. Projects involving non-clinical service areas do not require a CON. Recent amendments have also increased the penalties to which a person is subject for failure to obtain a necessary CON. If a provider fails to obtain required approvals, such provider will be subject to penalties which may include civil fines, the obligation to refund amounts paid by patients or third-party payors, injunctions to restrain or prevent violations of the CON law, and a loss of license, among other sanctions. As a result of these sanctions, Medicare and Medicaid certification may also be affected. In addition, a CON may be subject to revocation in the event utilization projections forming the basis for the initial approval are not achieved. Beaumont Health’s management is not aware of any proceeding or investigation in which a violation of the CON laws by an Obligated Group Member is alleged by any governmental agency.

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

On a regular basis, health facilities, including those of the Obligated Group, are subject to numerous legal, regulatory, professional and private licensing, certification and accreditation requirements. These include, but are not limited to, requirements relating to Medicare and Medicaid participation and payment, State licensing agencies, private payors and the Joint Commission. Renewal and continuance of certain of these licenses, certifications and accreditations are based on inspections, surveys, audits, investigations or other reviews, some of which may require or include affirmative action or response by the health facility. These activities generally are conducted in the normal course of business of health care facilities. Nevertheless, an adverse determination could result in a loss or reduction in an Obligated Group Member’s scope of licensure, certification, or accreditation, or could reduce the payment received or require repayment of amounts previously remitted.

Management currently anticipates no difficulty, renewing or continuing currently held licenses or certifications and no materially adverse change in accreditations; nor does it anticipate a reduction in third-party payments from such events which would materially adversely affect the operations or financial condition of Beaumont Health. Nevertheless, actions in any of these areas could result in the loss of utilization or revenue or Beaumont Health’s ability to operate all or a portion of its facilities, and, consequently, could adversely affect the ability of the Members of the Obligated Group to make payments of principal, interest and premium, if any, on the Bonds.

## **Antitrust**

Enforcement of antitrust laws against health care providers is becoming more common, and antitrust liability may arise in a wide variety of circumstances including medical staff privilege disputes, third party contracting, physician relations, employee compensation and joint venture, merger, affiliation and acquisition activities. In some respects, the application of federal and state antitrust laws to health care is still evolving, and enforcement activity by federal and state agencies appears to be increasing. At various times, health care providers may be subject to an investigation by a governmental agency charged with the enforcement of the antitrust laws, or may be subject to administrative or judicial action by a federal or state agency or a private party. Violation of the antitrust laws could be subject to criminal or civil enforcement by federal and state agencies, as well as by private litigants. Among the remedies available against persons found liable of violating antitrust prohibitions are treble damages, payment of plaintiff's attorney fees, and, in the case of a consolidation, divestiture, any of which could be significant.

The Federal Trade Commission (the "*FTC*") has publicly acknowledged increasing enforcement action in the areas of hospital and physician combinations. In January 2014, the *FTC*, the State of Idaho and two private competitors successfully challenged the 2012 combination of St. Luke's Health System and the Saltzer Medical Group in Idaho on antitrust grounds, and a federal judge ordered divestiture. In April 2014, the Sixth Circuit upheld the *FTC*'s challenge to a merger between St. Luke's and ProMedica in the Toledo, Ohio area. In May and June 2014 remarks to providers considering consolidation, senior *FTC* officials commented that market share in the local health care market and a combination's predicted effect on consumer pricing are the most significant predictors of the level of antitrust attention a merger will attract. Management is not aware of any interest by the *FTC* in the Beaumont Health consolidation, but cannot guarantee that it will not face antitrust scrutiny in the future.

Other common areas of potential antitrust liability are joint activities among providers with respect to payor contracting, medical staff credentialing, and allegations of exclusion of competitors from market opportunities. From time to time, Beaumont Health is or will be involved in a variety of activities that could receive scrutiny under the antitrust laws, and it cannot be predicted when or to what extent liability may arise. With respect to payor contracting, an Obligated Group Member may, from time to time, be involved in joint contracting activity with other hospitals or providers. The precise degree to which this or similar joint contracting activities may expose the participants to antitrust risk from governmental or private sources is dependent on a myriad of factual matters which may change from time to time.

Hospitals, including the hospitals owned and operated by Members of the Obligated Group, regularly have disputes regarding credentialing and peer review, and may be subject to liability in this area. In addition, hospitals occasionally indemnify medical staff members who are involved in such credentialing or peer review activities, and may also be liable with respect to such indemnity. Court decisions have also established private causes of action against hospitals which use their local market power to promote ancillary health care businesses in which they have an interest. Such activities may result in monetary liability for the participating hospitals under certain circumstances where a competitor suffers business damage.

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

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

which apply to mergers, sale, disposition or purchase of assets, or with respect to joining or withdrawing from the Obligated Group.

### **Environmental Laws and Regulations**

Hospitals and nursing facilities are subject to a wide variety of federal, state, and local environmental and occupational health and safety laws and regulations which address, among other things, hospital operations or facilities and properties owned or operated by hospitals. Among the types of regulatory requirements faced by hospitals and nursing facilities are: air and water quality control requirements; waste management requirements; specific regulatory requirements applicable to asbestos, polychlorinated biphenyls, and radioactive substances; requirements for providing notice to employees and members of the public about hazardous materials handled by or located at the facilities of the Obligated Group; requirements for training employees in the proper handling and management of hazardous materials and wastes; and other requirements.

In their role as owners and/or operators of properties or facilities, hospitals and nursing facilities may be subject to liability for investigating and remedying any hazardous substances which have come to be located on the property, including any such substances that may have migrated off of the property. Typical hospital operations include, but are not limited to, in various combinations, the handling, use, storage, transportation, disposal and/or discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants, or contaminants. As such, hospital operations are particularly susceptible to the practical, financial, and legal risks associated with compliance with such laws and regulations. Such risks may result in damage to individuals, property, or the environment; may interrupt operations and/or increase their cost; may result in legal liability, damages, injunctions or fines; and may result in investigations, administrative proceedings, penalties or other governmental agency actions. There can be no assurance that Members of the Obligated Group will not encounter such risks in the future, and such risks may result in material adverse consequences to the operations or financial condition of the Obligated Group.

At the present time, Beaumont Health's management is not aware of any pending or threatened claims, investigation, or enforcement action regarding such environmental issues which, if determined adversely to an Obligated Group Member would have a material impact on the financial position of the Obligated Group.

### **Lack of Secondary Market for the Bonds**

The market for the Bonds may be restricted or very limited at any given time. The Underwriters plan to engage in secondary market trading of the Bonds (subject to applicable state securities laws). However, the Underwriters are not obligated to engage in secondary market trading of the Bonds, and cannot give assurances that there will be a continuing secondary market in the Bonds. In addition, adverse developments with respect to the Obligated Group, its properties or operations may adversely affect bid and asked prices for the Bonds in any secondary market. In some states specific conditions must be met in order to qualify for an exemption from registration for secondary market sales.

Beaumont has agreed to supply information as described under the heading "CONTINUING DISCLOSURE" as required by Rule 15c2-12. Failure to provide such information, if required, may materially and adversely affect any secondary market trading on the Bonds.

### **Interest Rate Swaps and Other Hedge Risks**

Any interest rate swap or other hedge agreement to which a Member of the Obligated Group may be a party may, at any time, have a negative value to the Obligated Group. If either a swap or other hedge counterparty or the Obligated Group terminates such an agreement when the agreement has a negative

value to the Obligated Group, the Obligated Group would generally be obligated to make a termination payment to the counterparty in the amount of such negative value, and such payment could be substantial and potentially materially adverse to the Obligated Group's financial condition. A counterparty may generally only terminate such an agreement upon the occurrence of defined termination events such as nonpayment by the Obligated Group and any insurer thereof, or in the event rating agencies withdraw or downgrade the ratings of the Obligated Group and an insurer of the Obligated Group's obligation under such an agreement, if any, below specified levels. At this time, no Member of the Obligated Group is a party to an interest rate swap or hedge agreement.

## **Investments**

Investment income has historically constituted a significant portion of the excess of revenue over expenses of the Members of the Obligated Group. No assurance can be given that the investments of the Obligated Group will produce returns consistent with historical performance or that losses on Beaumont Health's investments will not occur in the future. See the discussion appearing under the caption "INVESTMENT MANAGEMENT/ASSET ALLOCATION" in APPENDIX A.

## **Other Risk Factors**

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

- (1) Adoption of additional legislation relating to the Health Care Reform Act.
- (2) Reduced need for hospitalization or other services arising from future medical and scientific advances.
- (3) Reduced demand for services resulting from decreases in population or changing demographics within Beaumont Health's service area.
- (4) Increased unemployment or other economic conditions in Beaumont Health's service areas, which could increase the proportion of patients who are unable to pay fully for the cost of their care. In addition, increased unemployment caused by a general downturn in the economy of such a service area or the State by the closing of operation of one or more major employers in such a service area may result in a loss of BCBSM or other health insurance benefits for certain patients.
- (5) Any substantial increase in the quantity of indigent care provided which is mandated in order to, for example, maintain an Obligated Group Member's tax-exempt status.
- (6) Efforts by insurers and governmental agencies to limit the cost of hospital services, to reduce the number of beds and to reduce the utilization of hospital facilities by such means as preventive medicine, improved occupational health and safety and outpatient care, or comparable regulations or attempts by third-party payors to control or restrict the operations of certain health care facilities.
- (7) Developments adversely affecting the federal or state tax-exempt status of nonprofit organizations.
- (8) Cost and availability of any insurance, such as professional liability, fire, automobile and general comprehensive liability coverages that health care facilities of a similar size and type generally carry.

(9) The occurrence of natural disasters, which could damage Beaumont Health's facilities, interrupt utility service to the facilities or otherwise impair the operation of and the generation of revenues from the facilities. Beaumont Health's facilities are covered by general property insurance in an amount which management considers generally sufficient to provide for the replacement of such facilities in the event of most natural disasters.

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

(11) Adoption of legislation mandating participation in Medicaid or creating a national certificate of need program and/or mandated peer review programs.

(12) Changes in health care delivery as a result of scientific or technological advances and/or increased competition.

(13) Labor shortages (including nurses and other health care professionals), employees' strikes, and other adverse labor actions that could result in a substantial reduction in revenues without corresponding decreases in costs.

(14) Limitations on the availability of, and increased compensation necessary to secure and retain, nursing, technical and other professional personnel.

(15) Increased costs in funding the pension plans of the Members of the Obligated Group. *See* the discussion appearing under the caption "PENSION PLANS" in APPENDIX A.

## NEGOTIABILITY

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

## BONDS NOT A DEBT OF THE AUTHORITY

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

## LITIGATION

### The Authority

There is no pending litigation of any nature now served upon the Authority or, to the Authority's knowledge, threatened against the Authority to restrain or enjoin the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds or any proceedings of the Authority taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the Bonds or the existence of or powers of the Authority.

## **Beaumont Health**

There is no pending litigation served upon Beaumont Health, or to the knowledge of its officers, threatened against any of them, to restrain or enjoin the issuance, sale, execution or delivery of the Bonds, the Loan Agreement or the Note or that otherwise would adversely affect the tax-exempt status of the interest on the Bonds.

## **Medical Malpractice Litigation**

Between 1986 and 2003, WBH did not require independent staff physicians to carry professional liability insurance. Effective March 31, 2003, the Board of Directors adopted a policy requiring independent staff members to carry coverage with minimum limits of \$100,000 per occurrence and \$300,000 in annual aggregate, at the time of the next reappointment or admission to the Medical Staff.

In 1986 and subsequently, Michigan enacted a series of statutes commonly referred to as the Tort Reform Acts. Tort Reform was intended to address a perception of runaway jury verdicts in such cases and, toward that end, instituted certain pre-litigation procedural requirements in medical malpractice actions, greater control over discovery, more rigorous judicial review of the qualifications and competency of expert witnesses and clearer requirements as to proving claims of negligence or defect at trial. In addition, the legislation provides for caps on recovery for non-economic damages, such as those associated with pain, suffering and emotional injuries.

At any given time, Members of the Obligated Group have a number of lawsuits pending based on alleged medical malpractice. The Members employ various special counsel to defend its interest in this kind of litigation. Given the coverage provided by captive insurance companies (*see* the discussion under the caption “INSURANCE” in APPENDIX A) and commercial coverage, it is the opinion of Beaumont Health’s management, based on its consultation with such special counsel and with its in-house general counsel, that, except as disclosed in the following paragraph, the resolution of such suits currently pending will not materially adversely affect the financial condition of Beaumont.

### *Other Litigation*

There are other lawsuits pending against Members of the Obligated Group that do not involve claims based upon alleged medical malpractice. Beaumont Health’s management believes that if such pending matters were decided unfavorably to any such Obligated Group Member, there would be no material adverse effect on the financial condition of the Obligated Group. In addition, to the knowledge of Beaumont Health’s management, there are no lawsuits threatened against any Obligated Group Member that would have a material adverse effect on the financial condition of the Obligated Group.

## **LEGAL MATTERS**

The legality of the authorization, issuance, sale and delivery of the Bonds is subject to the approval of Miller, Canfield, Paddock and Stone, P.L.C., Ann Arbor, Michigan, Bond Counsel to the Authority, and the Attorney General of the State of Michigan, whose approving opinions will be delivered upon the issuance and delivery of the Bonds.

Certain legal matters will be passed on for the Underwriters by their counsel, Hawkins Delafield & Wood LLP and for the Obligated Group by its counsel, Dickinson Wright PLLC, Ann Arbor, Michigan. Each of the firms referenced in the immediately preceding sentence serve or have served as bond counsel to the Authority in connection with matters not related to the Bonds. Except for Miller, Canfield, Paddock and Stone, P.L.C. in its capacity as Bond Counsel and the Attorney General of the State of Michigan, none of such firms is passing upon the legality of the Bonds.

## TAX MATTERS

In the opinion of Bond Counsel and the Attorney General of the State of Michigan (the “*Attorney General*”), under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. It should be noted, however, that with respect to corporations (as defined for federal income tax purposes) such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on such corporations. Bond Counsel and the Attorney General are also of the opinion that, under existing law, the Bonds and the interest thereon are exempt from all state, city, county and other taxation provided by the laws of the State of Michigan, except estate, inheritance and gift taxes and taxes on transfers. Bond Counsel and the Attorney General will express no opinion regarding any other federal or state tax consequences arising with respect to the Bonds and the interest thereon.

The opinions on federal tax matters is based on the accuracy of certain representations and certifications, and continuing compliance with certain covenants, of the Authority and the Obligated Group contained in the transcript of proceedings and which are intended to evidence and assure the foregoing, including that the Bonds are and will remain obligations the interest on which is excludable from gross income for federal income tax purposes. The Authority and the Obligated Group have covenanted to take the actions required of it for the interest on the Bonds to be and to remain excludable from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion. The opinions of Bond Counsel and the Attorney General assume the accuracy such certifications and representations and the continuing compliance with by the Authority and the Obligated Group with such covenants. Noncompliance with these covenants by the Authority or the Obligated Group may cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. After the date of issuance of the Bonds, neither Bond Counsel nor the Attorney General will undertake to determine (or to so inform any person) whether any actions taken or not taken, or any events occurring or not occurring, or any other matters coming to Bond Counsel’s or the Attorney General’s attention, may adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or the market prices of the Bonds.

The opinions of Bond Counsel and the Attorney General are based on current legal authority and cover certain matters not directly addressed by such authority. They represent Bond Counsel’s and the Attorney General’s legal judgment as to the excludability of interest on the Bonds from gross income for federal income tax purposes but is not a guarantee of that conclusion. The opinion is not binding on the Internal Revenue Service (“*IRS*”) or any court. Neither Bond Counsel nor the Attorney General can give and neither has given any opinion or assurance about the effect of future changes in the Internal Revenue Code of 1986, as amended (the “*Code*”), the applicable regulations, the interpretations thereof or the enforcement thereof by the IRS.

Ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, corporations subject to the branch profits tax, financial institutions, certain insurance companies, certain S corporations, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry the Bonds. Bond Counsel and the Attorney General will express no opinion regarding any such consequences.

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

Under existing law, if the initial public offering price to the public (excluding bond houses and brokers) of a Bond is less than the stated redemption price of such Bonds at maturity, then such Bond is considered to have “original issue discount” equal to the difference between such initial offering price and the amount payable at maturity (such Bonds are referred to as “OID Bonds”). Such discount is treated as

interest excludable from federal gross income to the extent properly allocable to each registered owner thereof. The original issue discount accrues over the term to maturity of each such OID Bonds on the basis of a constant interest rate compounded at the end of each six-month period (or shorter period) from the date of original issue with straight-line interpolations between compounding dates. The amount of original issue discount accruing during each period is added to the adjusted basis of such OID Bonds to determine taxable gain upon disposition (including sale, redemption or payment on maturity) of such OID Bonds.

The Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of OID Bonds who purchase such OID Bonds after the initial offering of a substantial amount thereof. Owners who do not purchase such OID Bonds in the initial offering at the initial offering prices should consult their own tax advisors with respect to the tax consequences of ownership of such OID Bonds.

All holders of the OID Bonds should consult their own tax advisors with respect to the allowance of a deduction for any loss on a sale or other disposition of an OID Bond to the extent such loss is attributable to accrued original issue discount.

### **Amortizable Bond Premium**

For federal income tax purposes, the excess, of the initial offering price to the public bond houses and brokers) at which a Bond is sold over the amount payable at maturity thereof constitutes for the original purchasers of such Bonds (collectively, the “*Original Premium Bonds*”) an amortizable bond premium. Bonds other than Original Premium Bonds may also be subject to an amortizable bond premium determined generally with regard to the taxpayer’s basis (for purposes of determining loss on a sale or exchange) and the amount payable on maturity or, in certain cases, on an earlier call date (such bonds being referred to herein collectively with the Original Premium Bonds as the “Premium Bonds”). Such amortizable bond premium is not deductible from gross income. The amount of amortizable bond premium allocable to each taxable year is generally determined on the basis of the taxpayer’s yield to maturity determined by using the taxpayer’s basis (for purposes of determining loss on sale or exchange) of such Premium Bonds and compounding at the close of each six-month accrual period. The amount of amortizable bond premium allocable to each taxable year is deducted from the taxpayer’s adjusted basis of such Premium Bonds to determine taxable gain upon disposition (including sale, redemption or payment at maturity) of such Premium Bonds.

All holders of the Premium Bonds should consult with their own tax advisors as to the amount and effect of the amortizable bond premium.

### **Information Reporting and Backup Withholding**

Information reporting requirements apply to interest paid after March 31, 2007 on tax-exempt obligations, including the Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, “Request for Taxpayer Identification Number and Certification,” or unless the recipient is one of a limited class of exempt recipients, including corporations. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to “backup withholding,” which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a “payor” generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing the Bonds through a brokerage account has executed a Form W-9 in connection with the establishment of such account no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Bonds from gross income for

federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's federal income tax once the required information is furnished to the IRS.

### **Future Developments**

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds and, unless separately engaged, bond counsel is not obligated to defend the Authority or the Obligated Group in the event of an audit examination by the IRS. The IRS has a program to audit tax-exempt obligations to determine whether the interest thereon is includible in gross income for federal income tax purposes. If the IRS does audit the Bonds, under current IRS procedures, the IRS will treat the Authority or the Obligated Group as the taxpayer and the beneficial owners of the Bonds will have only limited rights, if any, to obtain and participate in judicial review of such audit.

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

FURTHER, NO ASSURANCE CAN BE GIVEN THAT ANY ACTIONS OF THE INTERNAL REVENUE SERVICE, INCLUDING, BUT NOT LIMITED TO, SELECTION OF THE BONDS FOR AUDIT EXAMINATION, OR THE COURSE OR RESULT OF ANY EXAMINATION OF THE BONDS, OR OTHER BONDS WHICH PRESENT SIMILAR TAX ISSUES, WILL NOT AFFECT THE MARKET PRICE OF THE BONDS.

INVESTORS SHOULD CONSULT WITH THEIR TAX ADVISORS AS TO THE TAX CONSEQUENCES OF THEIR ACQUISITION, HOLDING OR DISPOSITION OF THE BONDS, INCLUDING THE IMPACT OF ANY PENDING OR PROPOSED FEDERAL OR STATE OF MICHIGAN TAX LEGISLATION.

### **UNDERWRITING**

The Bonds are being purchased by Morgan Stanley & Co. LLC on behalf of the underwriters (together, the "*Underwriters*") at a purchase price of \$322,028,678.99 (original par amount of \$300,000,000 plus an original issue premium of \$23,514,381 less an underwriters' discount of \$1,485,702.01).

The Underwriters may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the public offering prices stated on the inside cover page, which may be changed after the initial offering by the Underwriters. The Underwriters will be required to purchase all the Bonds, if any are purchased. Beaumont Health will be required to deliver to the Underwriters and the Authority on the date the Bonds are sold, its letters of representation constituting the agreement of Beaumont Health, in accordance with their terms, to indemnify the Underwriters and the Authority against losses, claims, damages and liabilities arising out of any statement or information contained in this Official Statement pertaining to Beaumont Health that is incorrect in any material respect.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC, an underwriter of the Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

The Underwriters and their respective affiliates are full-service financial institutions engaged in various activities that may include securities trading, commercial and investment banking, municipal advisory, brokerage, and asset management. In the ordinary course of business, the Underwriters and their respective affiliates may actively trade debt and, if applicable, equity securities (or related derivative securities) and provide financial instruments (which may include bank loans, credit support or interest rate swaps). The Underwriters and their respective affiliates may engage in transactions for their own accounts involving the securities and instruments made the subject of this securities offering or other offering of the Authority and Beaumont Health. The Underwriters and their respective affiliates may make a market in credit default swaps with respect to municipal securities in the future. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of this securities offering or other offerings of the Authority and Beaumont Health.

## CONTINUING DISCLOSURE

### General

The Credit Group Representative on behalf of the Members of the Obligated Group will covenant for the benefit of the Bondholders and the Beneficial Owners (as hereinafter defined under this caption) of the Bonds, pursuant to a Continuing Disclosure Undertaking (the “*Disclosure Agreement*”) to be executed and delivered by the Credit Group Representative at the closing, to provide or cause to be provided (i) each year, certain financial information and operating data relating to Beaumont Health (the “*Annual Report*”) by not later than the last day of the fifth month after the last day of the fiscal year of Credit Group Representative, commencing with the Annual Report for the fiscal year ended December 31, 2015; *provided, however*, that if audited financial statements are not available by such date, they will be provided when and if available and unaudited financial statements will be included in the Annual Report; and (ii) timely notices of the occurrence of certain enumerated events. Currently the fiscal year of the Credit Group Representative commences on January 1. “*Beneficial Owners*” means, under this caption only, any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

The first complete fiscal year for which audited financial information for Beaumont Health will be available will be for the year ending December 31, 2015. Financial information for Members of the Obligated Group, Designated Affiliates and other affiliates (which are not Credit Group Members) will be included within such financial statements. See the discussion appearing under the caption “SUMMARY OF FINANCIAL RESULTS” as to the availability of audited financial information for Beaumont Health.

The Credit Group Representative on behalf of the Members of the Obligated Group has additionally covenanted that it will provide not later than 60 days after the end of each fiscal quarter, unaudited financial information for Beaumont Health for such fiscal quarters, including a statement of financial position, a statement of revenues, expenses and changes in net assets, a statement of operations and management’s discussion of recent financial performance (the “*Quarterly Financial Information*”).

*Report*” and together with the Annual Financial Information, the “*Reports*”). The Reports will be filed with the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system. The Reports and notices of enumerated events will be filed in accordance with the requirements of SEC Rule 15c2-12(b)(5). The specific nature of the information to be contained in the Annual Financial Information Report, the Quarterly Financial Information Report or the notices of enumerated events is set forth in the Continuing Disclosure Certificate, the form of which is attached hereto as APPENDIX F. These covenants will be made to assist the Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

## **RATINGS**

Moody’s and Standard & Poor’s have assigned ratings on the Bonds of “A1” and “A”, respectively. No application was made to any other rating agency for the purpose of obtaining an additional rating on the Bonds. Any explanation of the significance of such ratings may only be obtained from the rating agency furnishing the same. Generally, rating agencies base their ratings on such information and materials and on investigations, studies and assumptions by the rating agencies. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating agencies, if in the judgment of such rating agencies circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

## **INDEPENDENT AUDITORS**

The consolidated financial statements of William Beaumont Hospital as of and for the years ended December 31, 2013 and 2014, included in APPENDIX B-1 to this Official Statement have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing herein.

The consolidated financial statements of Oakwood Healthcare, Inc. and Subsidiaries as of and for the years ended December 31, 2013 and 2014, included in APPENDIX B-2 to this Official Statement have been audited by Ernst & Young LLP, independent auditors, as stated in their report appearing herein.

The combined financial report of Botsford General Hospital and Affiliates d/b/a Botsford Health Care as of and for the year ended December 31, 2014, included in APPENDIX B-3 to this Official Statement, have been audited by Plante & Moran, PLLC, independent auditors, as stated in their report appearing herein.

## OTHER MATTERS

Only the information set forth under “THE AUTHORITY” was furnished by the Authority. Beaumont Health furnished the information relating to Beaumont Health under “INTRODUCTORY STATEMENT,” “PLAN OF FINANCE” and “BONDHOLDERS’ RISKS,” the information under “ESTIMATED ANNUAL DEBT SERVICE REQUIREMENTS” and the information in APPENDIX A to this Official Statement.

Any statements in this Official Statement involving matters of opinion, whether or not expressly stated as such, are so intended and are not representations of fact. The summaries or descriptions of provisions of the Act, the Bonds, the Loan Agreement, the Bond Indenture, the Amended and Restated Master Indenture and the Supplemental Indenture, and all references to other materials not purported to be quoted in full, are only brief outlines of some of the provisions thereof and do not purport to summarize or describe all of the provisions thereof. Section and table headings and captions are included for convenience only and should not be construed as modifying the text of this Official Statement.

## MICHIGAN FINANCE AUTHORITY

By: /s/ Mary G. Martin  
Mary G. Martin  
Executive Director

## APPROVED:

**BEAUMONT HEALTH,**  
for itself and on behalf of the Members of  
the Obligated Group

By: /s/ John Keuten  
John Keuten  
Executive Vice President and  
Chief Financial Officer

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APPENDIX A

INFORMATION CONCERNING BEAUMONT HEALTH

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*The information contained herein as APPENDIX A to this  
Official Statement has been obtained from the Members of the Credit Group.*

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## OVERVIEW

On September 1, 2014, Beaumont Health, a newly created Michigan non-profit corporation (“*Beaumont*”), became the sole corporate member of William Beaumont Hospital (“*WBH*”), Oakwood Healthcare, Inc. (“*Oakwood*”) and Botsford General Hospital (“*Botsford*”) and combined the operations of WBH, Oakwood and Botsford (each a Michigan non-profit corporation), and their subsidiaries and affiliates, under a new system referred to as Beaumont Health (“*Beaumont Health*” or the “*System*”). A comprehensive health care network of eight hospitals with a combined 3,337 licensed beds and 168 other ambulatory patient care sites, Beaumont Health is dedicated to advancing quality of care and access to care throughout Wayne, Oakland and Macomb counties in southeast Michigan.

Beaumont Health’s founding members, WBH, Oakwood and Botsford, are each referred to as a “*System Organization*” and, collectively, as the “*System Organizations*.”

The objectives in creating Beaumont Health centered on meeting the needs of the community by establishing the critical mass and the enhanced scale necessary for population health management and to deliver quality outcomes, establish aligned incentives and assure access to capital. Beaumont Health’s goal is to serve as a regional leader differentiated by its values, clinical capabilities and industry performance. For the year ended December 31, 2014, the System Organizations collectively represented a revenue base of approximately \$4.0 billion with approximately 175,000 inpatient admissions and 2.9 million outpatient visits, making Beaumont Health the largest health care provider in southeast Michigan and the largest health system by discharges in the entire State of Michigan.

### Mission, Vision and Values



## History of the System Organizations

WBH opened in 1955 as a 238-bed community hospital in Royal Oak, Michigan. The Royal Oak hospital has grown to become a 1,070-bed major academic and referral center with Level I trauma status. A second WBH hospital opened in Troy in 1977 as a 200-bed acute care community teaching hospital and is now among the nation's busiest community hospitals with 458 licensed beds. In 2007, WBH became a regional health provider when it acquired a 250-bed community hospital located in Grosse Pointe, Michigan.

Oakwood was originally incorporated in 1948. Oakwood is anchored by a 632-bed flagship tertiary care hospital in Dearborn, Michigan, and also includes three community based hospitals located in Wayne, Trenton and Taylor, Michigan; ambulatory care centers, outpatient pharmacies, a home health care agency, home-based professional services and supplies, a captive insurance company and long term care facilities, consisting of a skilled nursing facility and a senior living retirement community with independent and assisted living apartments.

Botsford traces its history to 1944, when Dr. Allen Zieger opened the 20-bed Zieger Clinic Hospital, later Zieger Osteopathic Hospital, in Detroit. In 1965, Zieger Osteopathic opened Botsford at its current location in Farmington Hills, which currently operates as a 330-bed acute care hospital. A wholly owned subsidiary of Botsford, Botsford Continuing Care Corporation, owns and operates a skilled nursing facility with 179 licensed beds, a 64-unit assisted living facility and a 51-unit independent living facility.

In addition, each of the System Organizations has wholly owned subsidiaries, and participates in various joint ventures, which conduct health care-related business in furtherance of the related System Organization's mission. See "WHOLLY OWNED SUBSIDIARIES AND JOINT VENTURES" below for a discussion of such subsidiaries and joint ventures.

## Beaumont Health Hospitals and Care Facilities

The following table lists each of Beaumont Health's eight acute care hospitals, their respective location and licensed bed count:

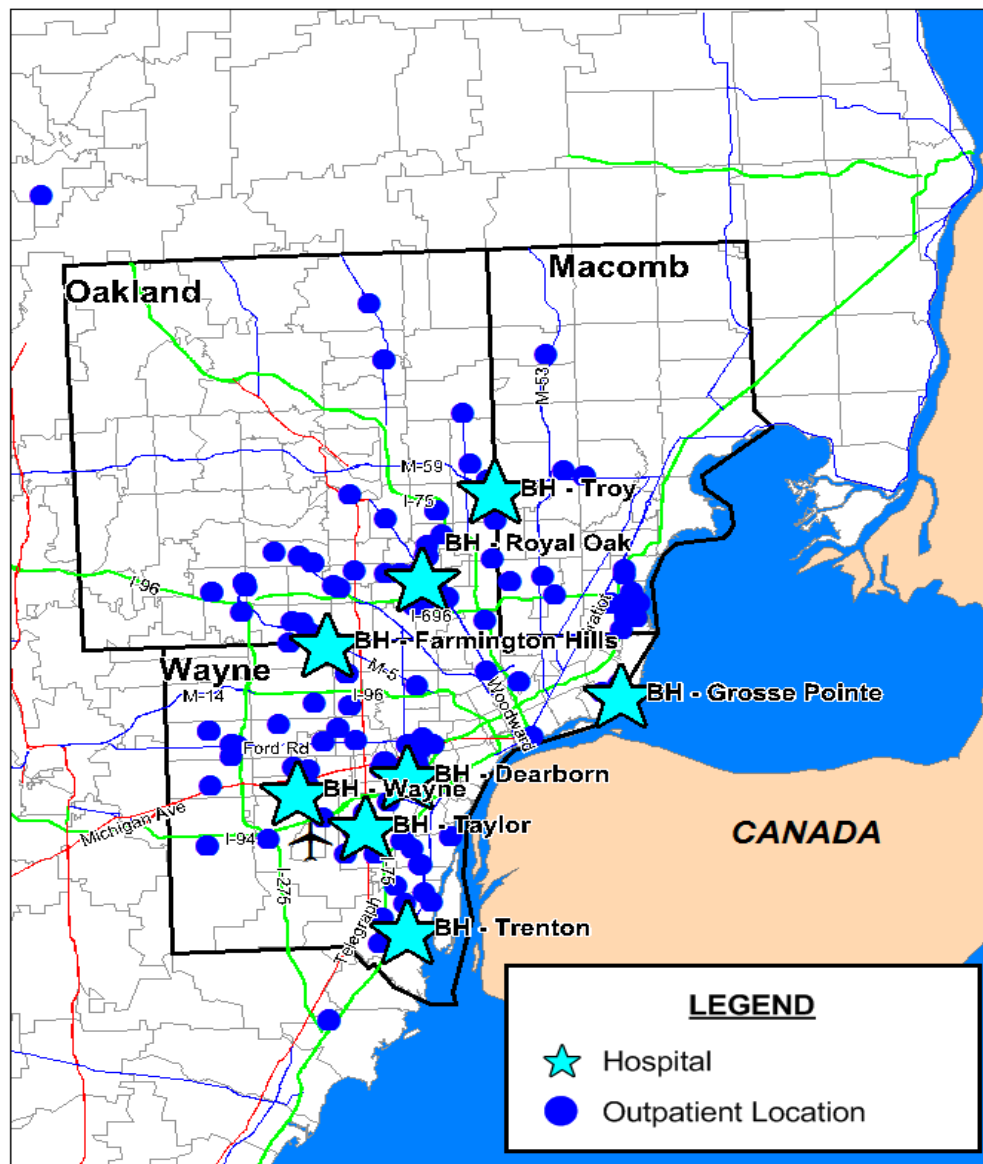
Hospital	Licensed Beds
Beaumont – Royal Oak	1,070
Beaumont – Dearborn	632
Beaumont – Troy	458
Beaumont – Farmington Hills	330
Beaumont – Grosse Pointe	250
Beaumont – Wayne	215
Beaumont – Southshore (Trenton)	193
Beaumont – Taylor	189

The Beaumont Health hospitals are nationally recognized and have received numerous awards and distinctions. *U.S News & World Report* ranks Beaumont – Royal Oak as the #2 hospital in Michigan, with 9 nationally ranked specialties (Gastroenterology and GI Surgery, Geriatrics, Gynecology, Cardiology & Heart Surgery, Diabetes & Endocrinology, Nephrology (Kidney), Neurology & Neurosurgery, Orthopedics and Pulmonology), names Beaumont – Troy as high-performing in Diabetes & Endocrinology, Gastroenterology & GI Surgery, Geriatrics, Nephrology, Neurology & Neurosurgery, Orthopedics, Pulmonology and Urology, names Beaumont – Grosse Pointe as high-performing in Orthopedics and Pulmonology and names Beaumont – Dearborn as high-performing in Nephrology.

Beaumont – Royal Oak holds a five star rating by the University HealthSystem Consortium (“UHC”), an alliance of the nation’s leading nonprofit academic medical centers. For the fifth consecutive year, UHC selected Beaumont Hospital – Royal Oak as one of 13 winners of its 2015 Bernard A. Birnbaum, M.D., Quality Leadership Award. See “AWARDS/DISTINCTIONS” below for a discussion of other awards and recognitions bestowed on Beaumont Health services.

In addition, Oakland University William Beaumont School of Medicine (the “*School of Medicine*”), which opened in 2011, has an innovative curriculum that is built upon an outstanding clinical faculty, most of whom are Beaumont Health physicians. The Beaumont Research Institute, established in 1966, conducts research and is a productive contributor to clinical trials. These educational and research programs are an important part of Beaumont Health’s growing reputation as an academic health system. See “ACADEMIC/EDUCATIONAL AFFILIATIONS” and “MEDICAL RESEARCH” below.

The map of the System’s primary service area (Wayne, Oakland and Macomb counties) below shows the location of Beaumont Health’s hospitals and outpatient locations:



## BEAUMONT HEALTH CORPORATE ORGANIZATION

On January 5, 2015, Beaumont was admitted to the Obligated Group and became the successor Obligated Group Agent. **As of the date of issuance of the Bonds, Beaumont, each of the System Organizations, Oakwood United Hospitals, Inc. and Oakwood Health Promotions, Inc. will be Members of the Obligated Group.** (Oakwood United Hospitals, Inc. and Oakwood Health Promotions, Inc. are wholly owned subsidiaries of Oakwood.) The Amended and Restated Master Indenture creates the Credit Group, which is comprised of the Members of the Obligated Group and Designated Affiliates. **As of the date of issuance of the Bonds, Botsford Continuing Care Corporation, a Michigan non-profit corporation (“BCC”) will be the only Designated Affiliate.**

For the year ended December 31, 2013, Beaumont, the System Organizations, Oakwood United and Oakwood Promotions generated, in the aggregate, 97.3% of the pro forma combined unrestricted revenue and owned, in the aggregate, 96.2% of the pro forma combined total assets of Beaumont Health. For the year ended December 31, 2014, Beaumont, the System Organizations, Oakwood United and Oakwood Promotions generated, in the aggregate, 98.7% of the pro forma combined unrestricted revenue and owned, in the aggregate, 95.1% of the pro forma combined total assets of Beaumont Health. See “SUMMARY OF FINANCIAL RESULTS” below.

The following is a corporate organizational chart of Beaumont Health, showing operating divisions and wholly owned subsidiaries of Beaumont or Members of the Obligated Group, all as of the date of issuance of the Bonds:

## Members of the Obligated Group

Beaumont Health

William Beaumont Hospital

Oakwood Healthcare, Inc.

Botsford General Hospital

Oakwood  
United

Oakwood  
Health

*Other entities in which a System Organization is the sole corporate member*

*(Not Members of the Obligated Group)*

Beaumont Indemnity  
Company Ltd.  
*For Profit*

Beaumont Physicians  
Insurance Company  
*For Profit*

Oakwood Healthcare  
Foundation

Oakwood Home  
Care Services

Macomb Township  
ASC LLC  
*For Profit*

Beaumont West  
Bloomfield ASC LLC  
*For Profit*

Oakwood Infusion  
Services LLC  
*For Profit*

Dearborn Real Estate  
Development LLC  
*For Profit*

Beaumont United  
Care Partners LLC  
*For Profit*

Beaumont Nursing  
Home Services, Inc.  
*For Profit*

Oakwood Affiliated  
Ventures  
*For Profit*

Oakwood Southshore  
Surgery Center, LLC  
*For Profit*

Oakwood Enterprises,  
Inc.  
*For Profit*

Midwest Medical  
Center  
*For Profit*

Southshore Real Estate  
Development  
*For Profit*

Botsford Continuing  
Care  
Corporation  
*Designated  
Affiliate*

Community  
Emergency  
Medical  
Service, Inc.

Parastar, Inc.  
*For Profit*

*Depiction shows organization as of the closing date.  
All entities are nonprofit corporations, except as noted.*

## BEAUMONT CORPORATE GOVERNANCE

### Beaumont Corporate Powers

As the sole corporate member of the System Organizations, Beaumont is organized to operate exclusively for their benefit and carry out their purposes. The System Organizations each have their own respective governing boards (each a “*System Organization Board*”). So long as a System Organization Board continues to exist, at least one of its members must serve on the Board of Directors of Beaumont (the “*Board of Directors*,” or the “*Board*”). Currently, the members of Beaumont’s Board of Directors also serve as members of the Board of Directors of the System Organizations.

Beaumont’s Board of Directors retains certain reserved powers with respect to the management and operation of the System Organizations, including the power to: (a) change the System Organization’s strategic plans or purposes; (b) amend the System Organization’s Articles of Incorporation or Bylaws; (c) sell, transfer or dispose of the System Organization’s assets or cause the System Organization to purchase assets, in a single transaction or series of integrated transactions, with a value in excess of an amount established from time to time by Beaumont’s Board; (d) sell, transfer, dispose of or close a facility of the System Organization with a value in excess of an amount established from time to time by Beaumont’s Board; (e) adopt the System Organization’s annual capital and operating budgets, and approve deviations from line items in the budgets in excess of an amount established from time to time by Beaumont’s Board; (f) incur or guarantee debt of the System Organization in excess of an amount established from time to time by Beaumont’s Board; (g) select or remove the System Organization’s Chief Executive Officer or equivalent position; (h) appoint or remove the members of the System Organization’s Board of Directors; (i) determine the System Organization’s participation in any new joint venture; (j) create a new System Organization of which the System Organization is the sole owner or member; (k) cause the System Organization to amend the governing documents of any other subsidiary entity of which the System Organization is the sole owner or member, and take such action solely at the direction of Beaumont; and (l) cause the System Organization to appoint or remove members of the governing body of any other subsidiary entity of which the System Organization is the sole owner or member, and take such action solely at the direction of Beaumont.

In addition, until September 1, 2019, the following actions require the affirmative vote of at least two-thirds of Beaumont’s Directors: amendment of Beaumont’s Articles of Incorporation; creation of a new subsidiary entity; merger, consolidation, sale or dissolution of a subsidiary entity or sale or disposition of all or substantially all of a subsidiary entity’s assets; selection of Beaumont’s Chief Executive Officer; disposition of the assets of a foundation within Beaumont Health (excluding transfers in the ordinary course of business, pursuant to approved budgets, or in accordance with the restrictions or requirements of donors); and liquidation, merger or consolidation of any captive insurance program owned by a subsidiary entity.

*Because the membership of Beaumont’s Board and the System Organizations’ Boards are identical and the above-listed powers are reserved to Beaumont as sole corporate member of the System Organizations, the discussion under the caption “BEAUMONT CORPORATE GOVERNANCE” relates to Beaumont alone, rather than including any discussion of the Board of Directors, leadership or governance of the System Organizations.*

### Beaumont Board of Directors

Beaumont is governed by its Board of Directors, which is composed of not less than 11 nor more than 17 directors who are residents of the communities Beaumont Health serves. The President and Chief Executive Officer and the Executive Vice President and Chief Medical Officer are voting *ex officio*

members of the Board. All other Directors are elected to three-year terms by the Board of Directors (in each case, following the expiration of the terms listed below) and may be re-elected without limitation as to number of terms. Terms are staggered so that not more than one-third of the Directors are elected (or re-elected) in any year. Members serve without compensation. The current Directors of Beaumont are:

Directors & Officers	Occupation	Term Expires August 31,
John Lewis, Chair	Managing Director, Donnelly Penman & Partners <i>Board Chair, Oakwood</i>	2018
Gerson Cooper, Vice Chair	Retired President and CEO, Botsford Health Care <i>Board Chair, Botsford</i>	2018
Stephen Howard, Vice Chair	Founder, President and CEO, Spearhead Group <i>Board Chair, WBH</i>	2018
Julie Fream, Secretary	President and CEO, Original Equipment Suppliers Association	2020
John Nemes, C.P.A., Treasurer	President, Sallan, Nemes, Lyman & Strakovits PC	2020
John Fox	President and CEO, Beaumont Health	<i>Ex Officio</i>
David Wood, M.D.	Executive Vice President and Chief Medical Officer, Beaumont Health	<i>Ex Officio</i>
Harris Mainster, D.O.	General Surgeon, Botsford	2019
Malcolm Henoeh, M.D	Senior Vice President and Chief Medical Officer, Oakwood	2019
Timothy O'Brien	Co-founder and Policy Principal, Sustainable Water Works Inc.; and Principal, TOB Consulting	2020
Martha Quay	Owner, Veranda Inc.	2018
Thomas Saeli	Chief Executive Officer, JRB Enterprises/Duro-Last Roofing	2019
S. Evan Weiner	Executive Vice President and Chief Operating Officer, Edward C. Levy Co.	2020
Christopher Blake	President and Owner, The Blake Company, Mutschler Kitchens and Blake Properties LLC	2020

### **Committees of the Board of Directors**

Beaumont's Bylaws designate eight standing committees (Executive Committee, Governance and Nominating Committee, Audit and Compliance Committee, Organization and Compensation Committee, Finance Committee, Investment Committee, Quality and Safety Committee, and Strategic Planning Committee). Every committee must have at least two Directors among its members and the chair of each committee (except for the Investment Committee) must be a Director. All committee chairpersons and

committee members are recommended by the Chair of the Board and appointed by the Board for a one-year term, and are eligible for reappointment to a committee, without limitation.

Beaumont strives to observe the highest level of integrity to benefit its patients, its payors, its designees and the communities it serves and to ensure that clinical, business and academic decision making is not compromised by financial or other relationships with industry.

The Corporate Compliance Office, with the assistance of Human Resources and specific individual departments, coordinates upon hire and each calendar year thereafter, a process of obtaining Conflict of Interest/Disclosure of Remuneration Statements from all employees. All areas of Beaumont Health follow the Human Resources hiring process protocol to assure compliance with the Conflict of Interest Program. At any time a designee becomes involved in a relationship that is, or may be perceived to be, a conflict of interest, the designee is required to complete a Conflict of Interest/Disclosure of Remuneration Statement and forward to Beaumont Health's Corporate Compliance Officer. A conflict of interest or need to disclose remuneration may exist if a designee or any member of their immediate family receives compensation in any form for services rendered in any capacity to any organization or individual that has any past, present or prospective business dealings with Beaumont Health, if such compensation might be reasonably construed as tending to prevent the designee from acting solely and wholly in Beaumont Health's best interests.

### **Executive Leadership**

The Board of Directors has delegated the day-to-day operations of Beaumont Health to the President and Chief Executive Officer of Beaumont. The President and Chief Executive Officer leads an experienced team of health care executives and professionals, each of whom served in a senior leadership role at a System Organization prior to the creation of Beaumont Health. The principal members of the current senior leadership are described below.

#### ***John Fox, President and Chief Executive Officer (Age 63)***

John Fox is President and CEO of Beaumont Health. Mr. Fox came to Beaumont Health in March 2015 from Emory Healthcare where he served as President and Chief Executive Officer. Emory Healthcare is Georgia's largest and most comprehensive health care system that is one of the South's leading academic medical centers with seven hospitals, approximately 16,000 employees, more than 1,800 physicians and 200 locations throughout metropolitan Atlanta. While Mr. Fox was at Emory Healthcare, the system became the only healthcare organization with two hospitals ranked in the University's Health System Consortium's top 10 list for the 2013 UHC Quality Leadership Awards and the only Georgia system with two Magnet-designated hospitals. Prior to joining Emory Healthcare, Mr. Fox was Executive Vice President of Clarian Health, a large health system/academic medical center in Indianapolis. Before that, he was vice president and CFO at Johns Hopkins Hospital in Baltimore. He began his career as an MBA/CPA at Coopers and Lybrand.

His professional memberships have included the American Health Plans Association, the American College of Healthcare Executives, the Council of Teaching Hospitals and Health Systems Board, the Health Care Systems Governing Council of the American Hospital Association, the Healthcare Institute, MedShare Board, the United Healthcare Executive Advisory Committee, the Atlanta Committee for Progress, the Metro Atlanta Chamber of Commerce and the Atlanta Rotary Club. He is former Chair of the Georgia Hospital Association. Mr. Fox earned a Bachelor's degree from Washington University, St. Louis, and has a Master's degree in Business Administration from the University of Cincinnati.

***Paul E. LaCasse, D.O., MPH, Executive Vice President, Post-Acute Care Division & Diversified Business Operations (Age 60)***

Dr. Paul E. LaCasse is Executive Vice President of the post-acute care division and diversified business operations at Beaumont Health. In this role, Dr. LaCasse manages post-acute services including medical transportation companies, home services, senior living facilities and services, laboratory and pathology services, specialty and retail pharmacy, joint ventures and diversified business entities.

Dr. LaCasse also continues to serve temporarily as President and CEO of Beaumont Hospital – Farmington Hills. Dr. LaCasse began his career as an emergency medicine physician at Botsford where he served in senior administrative capacities, including Medical Director of Emergency Medicine, Vice President of Medical Affairs and Chief Medical Officer, Executive Vice President and Chief Operating Officer, before being named President and CEO.

Dr. LaCasse served as Chairman of the Board of the Michigan Health and Hospital Association from 2003 to 2004. He served on the American Osteopathic Association Commission on Osteopathic College Accreditation and currently serves on the governing board of the Michigan State University College of Osteopathic Medicine Statewide Campus System and was the Chair of the American Osteopathic Association’s Bureau of Hospitals. He received the Walter F. Patenge Medal of Public Service from Michigan State University College of Osteopathic Medicine in 2006. The American Hospital Association, in partnership with the Michigan Health and Hospital Association, named Dr. LaCasse as the only recipient from the State of Michigan of its 2014 Grassroots Champions Award. Dr. LaCasse earned his Bachelor’s degree from the University of Michigan, a Doctorate of Osteopathic Medicine from Michigan State University College of Osteopathic Medicine and his Master’s degree in Public Health in health service management and policy from the University of Michigan. He completed the American Osteopathic Association Health Policy Fellowship in 1996. Board-certified in emergency medicine, he is also a fellow of the American College of Osteopathic Emergency Medicine.

***Carolyn Wilson, RN, MBA, Chief Operating Officer (Age 53)***

Carolyn Wilson, RN, MBA, is scheduled to start as Executive Vice President and Chief Operating Officer for Beaumont Health on Monday, January 18, 2016. Initially, all eight hospital Presidents will report to Ms. Wilson, along with service improvement and accreditation.

Ms. Wilson comes to Beaumont Health from Fairview Health Services (“Fairview”) in Minneapolis, which is comprised of the University of Minnesota Medical Center (“UMMC”), five community hospitals, nearly 100 primary and specialty care clinics, 53 senior housing locations and 30-plus retail pharmacies, employing more than 21,000 health professionals. At Fairview, Ms. Wilson served as Executive Vice President and Chief Operating Officer overseeing operations of UMMC, community hospitals and specialty clinics, shared clinical services, system facility services, home care, long-term care and hospice. Ms. Wilson also served as President of UMMC and Co-President of University of Minnesota Health, reporting to the CEO of Fairview and the University of Minnesota Health Board. Before joining Fairview, Ms. Wilson held a series of increasingly-responsible positions at the University of Chicago and University of Chicago Medical Center (“UCMC”) from 1998-2011. She served as UCMC Chief Operating Officer and Associate Dean, Vice President for Faculty Practice Administration, Chief Operating Officer for the University of Chicago Practice Plan and Director of Managed Care Operations. Earlier in her career, she was an executive at Ingalls Memorial Hospital in Harvey, Illinois, and spent eight years in a series of director positions with responsibility for operations, infection control, quality management and nursing education at Oak Park and Westlake Hospitals in Illinois. She earned a Master’s degree in Business Administration from Benedictine University, and a Bachelor of Science in Nursing degree at Rush University. Ms. Wilson has been frequently recognized as

a “hospital and health system leader to know” and as a “woman health care leader to know” by Becker’s Hospital Review.

***John Keuten, Executive Vice President and Chief Financial Officer (Age 67)***

John Keuten is the Executive Vice President and Chief Financial Officer of Beaumont Health and is responsible for all fiscal activities for Beaumont Health, as well as affiliated businesses and joint ventures. Mr. Keuten joined Beaumont Health from Oakwood, where he continues to serve as Executive Vice President and Chief Financial Officer. Mr. Keuten previously served as Chief Executive Officer of Oakwood Enterprises, a for-profit corporation for health-related ventures operating under the umbrella of Oakwood. Before joining Oakwood, he was Chief Financial Officer of Genesys Regional Medical Center in Grand Blanc, Michigan. Before his tenure with Genesys, he held senior financial positions at other Michigan-based hospital systems, including Providence Hospital and Medical Centers, Mount Clemens General Hospital and the Henry Ford Health System. Mr. Keuten earned his Master of Business Administration and his Bachelor of Accounting degrees from the University of Detroit.

***J. Paul Conway, Senior Vice President & Chief Human Resources Officer (Age 64)***

J. Paul Conway is the Senior Vice President & Chief Human Resources Officer for Beaumont Health. He joined Beaumont Health from Oakwood, where he began his tenure as Senior Vice President of Human Resources in 2006. Prior to joining Oakwood, Mr. Conway was employed at Ford Motor Company. His leadership career at Ford included serving as Director of Human Resources for two business units and as Director of Executive Compensation and Benefits for Ford worldwide. Mr. Conway also serves on the board of directors of DFCU Financial in Dearborn, Michigan and is a member of World at Work and the American College of Healthcare Executives. Mr. Conway earned his Master of Business Administration degree and his Master of Labor and Industrial Relations degree from the University of Illinois, and his Bachelor’s degree in Psychology from Loyola University in Chicago.

***Subra Sripada, Chief Transformation Officer & System Chief Information Officer (Age 48)***

Subra Sripada joined Beaumont Health from WBH and is responsible for information technology; strategic planning and business development, Supply Chain and the Value Acceleration Office. Mr. Sripada joined WBH in November 2008 as Associate Chief Information Officer, later advancing to Vice President and Chief Information Officer and then Senior Vice President and Chief Information Officer. Prior to joining WBH, Mr. Sripada served in a leadership role at PricewaterhouseCoopers, a global management consulting firm, where he consulted on health information technology and business strategy in the U.S. and internationally. He has also held leadership positions at Cap Gemini Ernst and Young and worked for six years at Henry Ford Health System. Mr. Sripada serves on several Healthcare Advisory Boards of IT companies. In addition, he also serves on the Michigan Governor’s Cyber Security Council, State Chief Information Officer Cabinet and American Heart Association’s Metro Detroit board of directors. Mr. Sripada earned his Bachelor of Science in Mechanical Engineering degree from Osmania University in India and his Master in Industrial and Systems Engineering degree from Kansas State University.

***Gordon J. Walker, Chief Legal Officer (Age 66)***

Gordon J. Walker is the System’s General Counsel and also continues to serve as Senior Vice President and General Counsel for WBH. In this role, he is responsible for all legal activities of Beaumont and its affiliated entities, including the supervision of employed and retained outside attorneys in their representation of Beaumont in a myriad of matters. Mr. Walker joined WBH’s legal affairs staff in 2006 after a 23-year career at Butzel Long, a Michigan-based law firm with offices in several states

and international alliance offices. He was a Litigation Partner with state and federal trial and appellate experience while focusing his activities as a member of the firm's health law practice group. While at Butzel Long, Mr. Walker represented Beaumont and many other Michigan and national health clients and specialty certification boards in health law matters including antitrust litigation; health care regulation; compliance, antifraud and abuse issues; corporate integrity agreements; commercial, employment and physician contractual matters; medical staff credentialing, bylaw and policy matters; and governance issues. Mr. Walker has lectured at hospitals, professional group seminars and meetings on a variety of health law-related topics and taught at Central Michigan University's Extension Centers throughout Southeast Michigan for a number of years in legal aspects of health care administration. He was recognized by Crain's Detroit Business with a General and In-House Counsel of the Year Award in 2013. Mr. Walker earned his Bachelor's degree from the University of Michigan, his Master in Business degree from Central Michigan University and a Law degree from Michigan State University College of Law.

***David Wood Jr., M.D., Chief Medical Officer (Age 58)***

Dr. Wood is the Chief Medical Officer of Beaumont Health. He is responsible for promoting growth in clinical services across the health system through integrated clinical programs and strong education and research programs. Dr. Wood came to Beaumont from the University of Michigan Health System. A nationally and internationally recognized cancer surgeon, he was Chief of University of Michigan's Division of Urologic Oncology from 2002-2011. Before joining the University of Michigan Health System, Dr. Wood held a series of leadership positions with the Detroit Medical Center, Wayne State University and the Karmanos Cancer Institute, including chief medical officer of the Karmanos Cancer Hospital. An active researcher, Dr. Wood has participated in 25 grant-funded studies and served as principal investigator or co-investigator of three clinical trials at the University of Michigan Comprehensive Cancer Center. He has presented at numerous conferences around the world, authored more than 175 articles in peer-reviewed journals and more than 20 book chapters and has co-authored two books. Dr. Wood received his medical degree from the University of Michigan. He served his residency at the Cleveland Clinic Foundation and a three-year fellowship in urologic oncology at Memorial Sloan-Kettering Cancer Center in New York.

***Margaret Cooney-Casey, Chief Development Officer (Age 68)***

Margaret Cooney-Casey is the Chief Development Officer of Beaumont Health and also serves as President of the Beaumont Foundation, a position she assumed in 2000. Under her leadership, revenue generated by the Beaumont Foundation for the benefit of Beaumont Health totaled nearly \$375 million. Before joining Beaumont, Ms. Cooney-Casey served as vice president of development for the St. Joseph Mercy Health System in Ann Arbor, overseeing fund development programs for three hospitals and two major ambulatory facilities. Ms. Cooney-Casey also served as Vice President of Marketing and Public Affairs during her tenure with St. Joseph Mercy Health System. Her earlier experience includes positions with the Detroit Symphony Orchestra and the University of Detroit Mercy. Ms. Cooney-Casey has served on the boards of many area non-profits and has held several leadership positions in the Association for Healthcare Philanthropy. She is also a member of the National Society of Fund Raising Executives and a board member of the Health Management Academy, Mercy Education Project and City Year. She also co-chaired the senior advisory council for the Michigan Chapter of the Association of Fundraising Professionals for nearly 10 years. Ms. Cooney-Casey received the Spirit of Entrepreneurship Award in the 2013 Entrepreneur of the Year Awards presented by Ernst & Young and the Dr. J. S. Lore Outstanding Fundraising Executive for 2013, presented by AFP. Ms. Cooney-Casey earned her Bachelor's degree from Marygrove College and her Master's degree from Oakland University.

***Dawn Geisert, Senior VP and Chief Compliance Officer (Age 42)***

Dawn Geisert is the Senior Vice president and Chief Compliance Officer for Beaumont Health. She has responsibility for the Beaumont Health Corporate Compliance, Internal Audit and Enterprise Risk Management Programs. In her role she oversees and leads Business Ethics and Corporate Compliance programs and staff, including education and training programs, compliance plan development and reporting mechanisms, compliance investigations, vulnerability and risk assessment as well as administering the conflict of interest policy and programs. In conjunction with the Audit and Compliance Committee of the Beaumont Health Board, she also ensures the development and implementation of systems and internal controls to create a high level of regulatory and policy compliance, including conducting audits of billing operations and the review of contracts for compliance or conflicts of interest.

Prior to being appointed Chief Compliance Officer at Beaumont Health, Ms. Geisert served as the Chief Compliance Officer for Health Alliance Plan, a subsidiary of Henry Ford Health System, where she oversaw the company's compliance program, including training, education, policies and procedures, as well as auditing and monitoring. Prior to joining Henry Ford Health System, she had an 18-year career with Blue Cross Blue Shield of Michigan and Blue Care Network of Michigan serving as a Senior Attorney in the Office of General Counsel, Assistant General Counsel, and as a Senior Analyst in the Corporate Compliance and HIPAA Project Offices.

Ms. Geisert holds a Juris Doctorate from the Michigan State University College of Law, a Master of Science in General Administration from Central Michigan University and a Bachelor of Arts in Psychology from the University of Michigan. She is also an alumnus of the Michigan Chamber Foundation's Leadership Michigan program.

***Mary A. Zatina, Senior VP of Government Relations and Community Affairs (Age 55)***

Mary A. Zatina is Senior Vice President of Government Relations and Community Affairs at Beaumont Health. Previously, she served as Senior Vice President, Government Relations and Corporate Communications at Oakwood Healthcare Inc., leading marketing, communications, public relations, community health and government relations. Ms. Zatina joined Oakwood from the Office of the Governor, State of Michigan, where she served as an advisor to Governor Jennifer M. Granholm and Chief of Staff to First Gentleman Daniel Granholm Mulhern. Prior to working in state government, she was the Senior Vice President and Director of Corporate Communications and Strategy at Campbell-Ewald and Director of Corporate Communications for the MichCon/MCN Energy Group. Ms. Zatina's career has also included senior management positions in the radio and television industries.

Ms. Zatina is a member of the American Arab Chamber of Commerce; the Michigan Fitness Foundation Board of Directors; Southwest Solutions Board and Development Committee of the Greening of Detroit; and was a founding member of the Arab-American Women's Business Council and the Chicago Boulevard East Block Club. Additionally, she was named a Crain's Detroit Business "40 Under 40" Honoree. A resident of Detroit, Ms. Zatina received her Bachelor of Arts degree with honors in Mass Communications and English at Wayne State University.

**Employees**

As of September 30, 2015, the Beaumont Health workforce consisted of 25,714 full-time equivalent employees, of which approximately 2,500 employees are represented by either Service Employees International Union Healthcare Michigan ("SEIU") or American Federation of State, County and Municipal Employees, AFL-CIO, Council 25, Local 2568 ("AFSCME"), as described below.

Within Oakwood, SEIU and AFSCME represent staff working in Food and Nutrition, Environmental Services and additional support service roles, such as Nurse Aides, Boiler Operators and Painters. The SEIU contract expires on June 30, 2018. There are two AFSCME contracts: one contract covers employees at Beaumont Health – Dearborn and will expire on December 31, 2015; a replacement contract is currently in negotiations. A second AFSCME contract covers employees at Oakwood’s long term care facility, Oakwood Common Retirement Community and Oakwood Rehabilitation and Skilled Nursing Center, and expires December 31, 2016.

Within Botsford, SEIU represents staff working as certified nursing assistants, housekeeping assistants, laundry assistants, recreational assistants, ward secretaries, greeters and restorative aides. The SEIU three-year contract expired July 31, 2015 and a new contract is under negotiations.

Management considers its relationships with its employees to be very strong. In 2016 management at Beaumont Health expects to conform and align the compensation and employee benefits historically offered by the System Organizations. Employee and workforce issues are among the system-wide initiatives identified by senior leadership as key elements of the first phase of integrating the System Organizations in Beaumont Health. *See* “INTEGRATION MODEL AND STRATEGIC DIRECTION – Centralized Management and Services” below.

## AWARDS / DISTINCTIONS

Beaumont Health’s hospitals and other patient care sites have received numerous national and local awards and distinctions, some of which are listed below.

<i>U.S. News &amp; World Report (2015-2016)</i>	<ul style="list-style-type: none"> <li>• Beaumont – Royal Oak is ranked as the #2 hospital in Michigan, with 9 nationally ranked specialties (Gastroenterology and GI Surgery, Geriatrics, Gynecology, Cardiology &amp; Heart Surgery, Diabetes &amp; Endocrinology, Nephrology (Kidney), Neurology &amp; Neurosurgery, Orthopedics and Pulmonology); recognized as high performing in Urology; and recognized as a “Most Connected” hospital</li> <li>• Beaumont – Troy is ranked #8 in Michigan and is nationally recognized as high-performing in Diabetes &amp; Endocrinology, Gastroenterology &amp; GI Surgery, Geriatrics, Nephrology, Neurology &amp; Neurosurgery, Orthopedics, Pulmonology and Urology; recognized as high performing in Urology; and recognized as a “Most Connected” hospital</li> <li>• Beaumont – Grosse Pointe is ranked #16 in Michigan and is nationally recognized as high-performing in Orthopedics and Pulmonology; recognized as high performing in Urology; and recognized as a “Most Connected” hospital</li> <li>• Beaumont – Dearborn is ranked #23 in Michigan and is nationally recognized as high-performing in Nephrology and recognized as high performing in Urology; recognized as a “Most Connected” hospital</li> </ul>
The Joint Commission	<ul style="list-style-type: none"> <li>• Beaumont – Royal Oak: Advanced Comprehensive Stroke Center (2014), Advanced Palliative Care Certification (2014), Gold Seal of Approval – Joint Replacement Knee (2014), Gold Seal of Approval – Spine Surgery (2014) and “Top Performer on Key Quality Measures” (2012 - 2014)</li> <li>• Beaumont – Troy: Primary Stroke Center Certification (2014) and “Top Performer on Key Quality Measures” (2014)</li> <li>• Beaumont – Grosse Pointe: Primary Stroke Center Certification (2014) and “Top Performer on Key Quality Measures” (2012 - 2014)</li> <li>• Beaumont – Dearborn, Primary Stroke Center Certification (2014), Gold Seal of Approval – Joint Replacement Hip (2014) and Joint Replacement Knee (2014)</li> <li>• Beaumont – Taylor: Gold Seal of Approval – Joint Replacement Hip (2014) and Joint Replacement Knee (2014) and “Top Performer on Key Quality Measures” (2012 and 2013)</li> <li>• Beaumont – Southshore (Trenton): Gold Seal of Approval – Joint Replacement Hip (2015) and Joint Replacement Knee (2015)</li> </ul>
University HealthSystem Consortium	<ul style="list-style-type: none"> <li>• Beaumont – Royal Oak: Quality Leadership Award (5th consecutive year), ranked nationally in 2015 for mortality, effectiveness, safety, quality, equity, patient centeredness and efficiency</li> </ul>
American Nurses Credentialing Center	<ul style="list-style-type: none"> <li>• Beaumont – Royal Oak (first re-designation in 2008 and re-designation in 2014) and Beaumont – Troy (first re-designation in 2014): Magnet Recognition for Nursing Excellence (re-designation extends Magnet status for four years)</li> </ul>
Health & Hospitals Networks	<ul style="list-style-type: none"> <li>• Beaumont – Dearborn named among “Most Wired” (2015-2016)</li> </ul>
HIMSS Analytics	<ul style="list-style-type: none"> <li>• Beaumont – Troy and Ambulatory Care Centers: Stage 7 Certification</li> </ul>
American College of Radiology	<ul style="list-style-type: none"> <li>• Beaumont – Royal Oak, Beaumont – Troy and Beaumont – Grosse Pointe: Accredited by the American College of Radiology and designated as Breast Imaging Centers of Excellence</li> </ul>
American College of Surgeons	<ul style="list-style-type: none"> <li>• Beaumont – Royal Oak: Level 1A Bariatric Surgery Center; Level I Adult Trauma Center; Level 2 Pediatric Trauma Center; Level 1A Accredited Educational Institute (Marcia &amp; Eugene Applebaum Simulation Learning Institute); Integrated Network Cancer Center Program</li> <li>• Beaumont – Troy: National Accreditation Program for Breast Centers</li> <li>• Beaumont – Wayne: Verified Level 3 Trauma Center serving Wayne, Westland, Garden City, Inkster and Romulus areas</li> <li>• Beaumont – Farmington Hills: Verified Level 2 Trauma Center serving western Wayne County</li> </ul>
Scientific Registry of Transplant Recipients	<ul style="list-style-type: none"> <li>• Beaumont – Royal Oak: Ranked #1 in the nation for one-year survival after kidney transplant (2015)</li> </ul>

## INTEGRATION MODEL AND STRATEGIC DIRECTION

Beaumont Health's strategic plan for 2016 through 2018 consists of 5 foundational strategic imperatives which will allow the organization to be successful in a new and evolving healthcare environment as well as 3 transformational strategic imperatives which will allow Beaumont Health to differentiate itself from the competition. For each of the imperatives, management has established certain key initiatives to achieve the imperatives, and has constructed detailed, specific actions to accomplish the initiatives. Metrics have been established to measure the success of those actions. The 5 foundational strategic imperatives are:

*Clinical Alignment.* To achieve a clinically and economically – aligned medical community differentiated by its value equation of low cost, high quality, and industry-leading efficiency.

*Patient and Family Centered Care.* To engage patients and families across the full continuum of care differentiated by transparency, collaboration, and culture of trust.

*Quality, Safety and Service.* To achieve industry – leading performance with respect to patient safety, quality, clinical outcomes, experience, and financial performance.

*Learning Organization.* To create a Learning Organization which values and excels at creating, acquiring, and transferring knowledge as fundamental to achieving its strategic goal.

*Employer of Choice.* To be recognized as the employer of choice in southeast Michigan and beyond.

The 3 transformational strategic imperatives are:

*Beaumont Network.* To provide access to a broader, better coordinated network of care and opportunity to integrate clinical care across the region. Provides a platform for growth, security and broader market presence to effectively transform from volume to value.

*Consumer Brand.* To develop a consumer brand focused on identity that can be consistently supported in the delivery of healthcare services.

*Innovative Programs.* To be recognized regionally and nationally for leadership in distinctive clinical programs and services that meet the needs of healthcare consumers.

### Integration of System Organizations

Post-closing of the affiliation on September 1, 2014, Beaumont Health established integration teams to develop synergy targets and to identify the estimated cost and timeline of implementing initiatives to achieve those synergies. The first tier of integration efforts have been focused on eliminating duplicative infrastructure across the combined organization and on achieving savings within key functional areas, including finance and business, information technology, supply chain, revenue cycle and outreach lab. A monthly tracking process has been established at the Board, senior management and functional leader level to track progress toward generating synergies within each area. This process is expected to result in approximately \$140 million of net synergies to be realized by Beaumont over a three year period. Through October 31, 2015, Beaumont has achieved \$69 million of net synergies which is significantly ahead of the pace established by the integration teams. In addition to removing duplicative infrastructure and consolidating functions within the organization, Beaumont Health has launched its next two tiers of integration efforts, which are focused on generating operational and clinical integration synergies. Beaumont Health also has introduced a value acceleration focus for driving ongoing efficiencies within the organization.

## Information Technology

Beaumont Health has selected Epic for its Electronic Medical Record and Revenue Cycle Information solution and PeopleSoft as the Enterprise Resource Planning solution. It is the intent of Beaumont Health to migrate to common platforms and standardize processes and systems over time. The Epic and PeopleSoft initiatives were prioritized as critical first steps in bringing the organization together.

Beaumont has fully implemented the Epic Clinical Information System, which includes electronic health record, computerized physician order entry, e-prescribing, and patient portal access to an individual's medical record for test results and medications. Oakwood has fully implemented the same Epic platform in the inpatient setting and will be migrating to the Epic Ambulatory EMR/Practice Management solution in the latter part of 2016. Botsford was migrated to the Beaumont Health platform of Epic Inpatient and Revenue Cycle on October 1, 2015 and to Epic Ambulatory on November 12, 2015.

A key focus for Beaumont Health in 2016 will be consolidation of the two separate Epic instances into a single common patient database. The availability, accessibility, and integration of the full complement of patient data within this unified database will enable Beaumont to make the best care decisions possible for its patients. This transition to a single Epic instance is estimated to be completed in the fall of 2016 with the founding Oakwood ambulatory offices coming up on the newly formed single instance of Epic shortly after its completion in the fourth quarter of 2016.

Beaumont – Troy and 144 ambulatory Epic sites remain at HIMSS Analytics Stage 7 designation, which is reserved for healthcare organizations that demonstrate the highest level of EHR sophistication through integration and sharing of patient data aimed at improving performance, quality and patient safety. The Oakwood System Organization is at HIMSS Analytics Stage 6 designation and will be pursuing Stage 7 designation at a future time post Epic system consolidation.

Oakwood is currently utilizing the PeopleSoft ERP solution for Human Capital Management, Financials, Supply Chain Management and Payroll. The balance of Beaumont Health is expected to convert to PeopleSoft ERP for Supply Chain and Finance in the second quarter of 2016 and to the Human Capital Management and Payroll systems in early 2017. Anticipated cost of such conversion will be approximately \$15 million over the two year period.

Several IT infrastructure activities to enable Beaumont Health to communicate and share systems data were completed in 2015 including establishing network connectivity, common email, file sharing and provisioning solutions. Costs relating to such initiatives were approximately \$7 million during fiscal year 2015. Additional infrastructure activity to include technology platform refresh scalable for Epic's single instance, video conferencing expansion and multi-carrier cellular coverage through the health system are planned for 2016. Management currently anticipates that the cost of such activities will be approximately \$12 million.

Other strategic areas of focus identified for 2016 include consolidation of the Beaumont Health laboratory platforms, consolidation to a single picture archiving and communication system (PACS), implementation of a common cardiology information system (Epic's Cupid) and a standardized Echo platform (Xcelera), and the launch of Epic Beacon as the standardized oncology platform for Beaumont Health.

## BEAUMONT HEALTH FACILITIES AND SERVICES

### Acute Care Hospitals

The descriptions of Beaumont Health's acute care hospitals that follow are presented in descending order by licensed bed count. Each of the hospitals is licensed by the Michigan Department of Licensing and Regulatory Affairs and fully accredited by either The Joint Commission or, in the case of Beaumont - Farmington Hills, the American Osteopathic Association. For the location of each of Beaumont Health's acute care hospitals and their major competitors, *see* the map under "Service Area" below.

***Beaumont – Royal Oak.*** Beaumont – Royal Oak ("Beaumont – Royal Oak") is a tertiary full service teaching hospital with 1,070 beds, with Level I adult trauma and Level II pediatric trauma status, serving Royal Oak and surrounding communities for over 60 years. Beaumont – Royal Oak has 40 accredited residency and fellowship programs with over 450 residents and fellows. Beaumont Health is the exclusive clinical partner for the Oakland University William Beaumont School of Medicine, with over 1,500 Beaumont doctors on faculty. Beaumont – Royal Oak also contains Beaumont Children's Hospital, a designated specialty hospital with comprehensive health services for infants, children and adolescents in nearly every medical and surgical subspecialty. Beaumont – Royal Oak also has a full range of advanced diagnostic and treatment tools including cardiac catheterization labs, interventional vascular lab, echocardiogram, Flash CT, MRI, lithotripsy, EKG, PET/CT, robotic, endoscopic and laparoscopic surgery. Beaumont – Royal Oak was ranked the #2 hospital in Michigan by U.S. News & World Report (2015-2016), with "Best Hospital" rankings in 9 specialties (Cardiology & Heart Surgery, Diabetes & Endocrinology, Gastroenterology & GI Surgery, Geriatrics, Gynecology, Kidney, Neurology/Neurosurgery, Orthopedics, and Pulmonology). Beaumont – Royal Oak has been recognized as a UHC Top 10 Quality Leadership Award winner for five consecutive years for top performance in mortality, effectiveness, safety, quality, equity, patient centeredness and efficiency.

***Beaumont – Dearborn.*** Beaumont - Dearborn ("*Beaumont - Dearborn*") is a tertiary full service teaching hospital with 632 beds which offers state-of-the-art emergency medicine, general medicine and surgery that has served Dearborn and surrounding communities for over 50 years. Beaumont - Dearborn is home to medical residency programs in partnership with the Wayne State University School of Medicine and Michigan State University. Beaumont - Dearborn offers residents high-tech medical care in a community setting. Beaumont - Dearborn offers 24-hour emergency care; cardiac care; women's health; surgical services (including minimally/non-invasive outpatient procedures); physical and occupational therapy; oncology; laboratory and radiology. Beaumont - Dearborn also has a full range of advanced diagnostic and treatment tools including cardiac Doppler, echocardiogram, 64 slice CT, three Tesla (3T) MRI, lithotripsy, EKG, PET/CT, robotic surgery, Cyber knife, stress thallium, and laser surgery. Beaumont - Dearborn was ranked the #23 hospital in Michigan by U.S. News and World Report (2015-2016) with national ranking as "high performing" in Nephrology.

***Beaumont – Troy.*** Beaumont – Troy ("*Beaumont – Troy*") opened in 1977 and has grown to be a 458 bed full-service hospital which offers state-of-the-art emergency medicine, general medicine, and obstetrics including high risk, neonatology/NICU services, and surgery. Beaumont – Troy offers 24-hour emergency care, inpatient rehabilitation, cardiac care, women's health, surgical services (including minimally/non-invasive outpatient procedures), physical and occupational therapy; dialysis, oncology; laboratory and radiology, as well as a full range of advanced diagnostic and treatment tools including cardiac catheterization labs, interventional vascular lab, echocardiogram, Flash CT, three Tesla (3T) MRI, lithotripsy, EKG, PET/CT, robotic surgery. Beaumont – Troy was ranked the #8 hospital in Michigan by U.S. News and World Report (2015-2016) with national ranking as "high performing" in eight specialties

(Diabetes & Endocrinology, Gastroenterology & GI Surgery, Geriatrics, Nephrology, Neurology & Neurosurgery, Orthopedics, and Pulmonology & Urology).

***Beaumont – Farmington Hills.*** Beaumont – Farmington Hills (“*Beaumont – Farmington Hills*”) is a 330 bed teaching hospital that has served Farmington Hills and its surrounding communities in southern Oakland and western Wayne counties for 50 years. Beaumont – Farmington Hills is a Level II trauma center as recognized by the American College of Surgeons and is also fully accredited by the American Osteopathic Association. Beaumont – Farmington Hills offers a wide array of health care services including cardiology, surgical services, oncology, rehabilitation, physical and occupational therapy, orthopedics, oncology, podiatry, family medicine, women’s health, older adult services, pediatric services, laboratory, imaging, radiology and pharmacy. Beaumont – Farmington Hills has medical residency programs in partnership with the Michigan State University College of Osteopathic Medicine that offers residents advanced medical care training in a community hospital setting.

***Beaumont – Grosse Pointe.*** Beaumont – Grosse Pointe (“*Beaumont – Grosse Pointe*”) is a 250 bed hospital acquired from the Sisters of Bon Secours in October 2007. Beaumont – Grosse Pointe offers medical, surgical, emergency, obstetric, pediatric and critical care services and also has a range of advanced diagnostic and treatment offerings including a Flash CT, MRI, PET/CT, EKG, cardiac catheterization lab and robotic surgery. Beaumont – Grosse Pointe was ranked the #16 hospital in Michigan by U.S. News and World Report (2015-2016) with national ranking as “high performing” in two medical specialties (Orthopedics and Pulmonology).

***Beaumont – Wayne.*** Beaumont – Wayne (“*Beaumont - Wayne*”) is a 215 bed community hospital which has served western Wayne County since 1957. Beaumont – Wayne provides 24-hour emergency care; cardiac care with the latest diagnostic testing services, women’s health, surgical services including minimally/non-invasive outpatient procedures, rehabilitation medicine with physical and occupational therapy, oncology; laboratory and radiology including CT and MRI.

***Beaumont – Southshore (Trenton).*** Beaumont – Southshore (“*Beaumont - Southshore*”) is a 193 bed community hospital that has served Trenton and surrounding communities for over 40 years. Services offered include: 24-hour emergency care; cardiac care, including the latest diagnostic testing services; women’s health; surgical services, including minimally/non-invasive outpatient procedures; rehabilitation medicine with physical and occupational therapy, speech/language pathology and audiology; laboratory and radiology, including CT and MRI.

***Beaumont – Taylor.*** Beaumont – Taylor (“*Beaumont - Taylor*”) is a 189 bed community hospital that has served Taylor and Downriver residents for more than 30 years. Beaumont – Taylor provides orthopedic and physical medicine, and rehabilitation residency programs in partnership with Wayne State University. Services offered include: 24-hour emergency care, orthopedic surgery, including the latest in hip and knee replacement; rehabilitation medicine with physical and occupational therapy, speech/language pathology; pain management clinic; laboratory and radiology, including advanced CT and MRI; behavioral health, and hyperbaric therapy service.

### **Ambulatory Care Centers**

There are 168 ambulatory care centers within Beaumont Health, all located in the primary service area. The System includes outpatient and post-acute sites of care; numerous community-based medical centers and primary and specialty care clinics in Macomb, Oakland and Wayne counties, Family Medicine Centers, physician offices, ambulatory surgical centers, diagnostic radiology, laboratory and rehabilitation services. Among these 168 centers, three provide general medical ambulatory care, 145 provide physician office services, 10 are rehabilitation centers, three locations provide dialysis services,

three are general fitness centers, one location provides employee health services and three locations offer general medical & non-medical services.

### **Continuum of Care**

Beaumont Health and its affiliates also own and operate facilities and services along the “continuum of care,” with locations in Bloomfield Hills, Shelby Township, St. Clair Shores, Southfield, West Bloomfield, Dearborn and Farmington Hills (consisting of 1,888 such units in the aggregate), including seven nursing centers (consisting of 1,348 such units in the aggregate), three assisted living facilities (consisting of 249 such units in the aggregate) and two facilities with independent living units (consisting of 291 such units in the aggregate); a home health care agency, providing nursing, infusion, medical equipment and hospice services; and a health center in Royal Oak, with outpatient rehabilitation services, an interventional pain center, an anticoagulation medicine service, a hyperbaric medicine program and the Beaumont Weight Control Center.

Beaumont Health anticipates that its home health care agencies will be merged into a single agency during 2016.

The following table provides an overview of Beaumont Health’s facilities and services along the “continuum of care,” including the facility name, number of units, type of services provided, staffing and location.

<u>Facility</u>	<u>Beds</u>	<u>Service</u>	<u>Staffing</u>	<u>Location</u>
Evergreen Health & Living Center*	195	Nursing Center	150	Southfield
Shorepoint Nursing Center*	200	Nursing Center	180	St. Clair Shores
Shorepointe Village*	93	Assisted Living	59	St. Clair Shores
Woodward Hills Nursing Center*	190	Nursing Center	172	Bloomfield Hills
Shelby Nursing Center*	212	Nursing Center	159	Shelby Township
West Bloomfield Nursing & Convalescent Center*	172	Nursing Center	120	West Bloomfield
Oakwood Rehabilitation & Skilled Nursing Center	200	Nursing Center	267	Dearborn
Oakwood Common	92	Assisted Living	88	Dearborn
Oakwood Common	240	Independent Living	total	Dearborn
Botsford Rehabilitation & Continuing Care Center	179	Nursing Center	196	Farmington Hills
Senior Living Center	64	Assisted Living	4	Farmington Hills
Independent Living Apartments	51	Independent Living	0	Farmington Hills

\* 50% interest owned by Beaumont Nursing Home Services, Inc., a wholly owned subsidiary of WBH. See “WHOLLY OWNED SUBSIDIARIES AND JOINT VENTURES” below.

### **MEDICAL STAFF**

As of September 30, 2015, Beaumont Health has a total medical staff of 5,603, of which 897 are employed physicians.

In January, 2015, the subsidiary medical groups within Beaumont Health – Beaumont Medical Group, Oakwood Physicians, Integrated and Botsford Clinic System – began the process of integrating into a single, multi-specialty group totaling nearly 900 physicians. The name selected for the unified group was Beaumont Medical Group (“BMG”) and the administrative and physician leadership has been

combined into a single structure. The consolidated BMG is governed by a Management Council with 18 members, 14 of which are physicians representing BMG's divisions of Primary Care, Specialty Services and Hospital Based Services.

Through integration, BMG is focused on (1) ensuring physician members are engaged and have a voice in the decision making process for their clinical practices, (2) piloting value based care models to advance population health objectives for Beaumont Health, (3) ensuring the financial sustainability of the employed physician clinical practice and (4) advancing the growth objectives of Beaumont Health through physician recruitment, manpower planning and new program development. A key area of focus in Beaumont's growth strategy is primary care, ensuring that Beaumont has a robust primary care base and that it is prepared for impending physician retirements and the manpower needs associated with population health.

### **BEAUMONT CARE PARTNERS**

Beaumont Health is in the process of launching a new Clinical Integration Network ("CIN") called Beaumont Care Partners ("BCP"). This entity will be focused on aligning both independent and employed physicians across Beaumont Health around improving quality and lowering costs in order to more effectively prepare for population health. The CIN structure allows for joint contracting with payors between the physicians in the network and the health system with the goal of providing increased value to the patient.

All Beaumont Health physicians will be invited to participate in BCP, so long as they agree to defined participation criteria. In 2016, BCP plans to come together as a new organization and primarily focus on physician enrollment, infrastructure development and payor strategy development. The intent is to be able to secure a network and demonstrate value such that BCP is able to go to market in the 3<sup>rd</sup> quarter of 2016 and enter into payor contracts effective January 1, 2017.

### **ACADEMIC/ EDUCATIONAL AFFILIATIONS**

The System Organizations will maintain their existing medical school relationships, as described below.

#### **School of Medicine and Other Medical School Affiliations**

In August 2011, the inaugural class of 50 students matriculated in the new Oakland University William Beaumont School of Medicine, for which WBH serves as the exclusive clinical partner. All clinical rotations have, to date, taken place within Beaumont – Royal Oak, Beaumont – Troy and Beaumont – Grosse Pointe. Management is currently investigating the expansion of clinical rotations to other Beaumont Health hospitals. The first cohort of students graduated in May 2015. There are currently 400 medical students enrolled at the School of Medicine. In addition, WBH and Oakland University conduct a Master's degree program to train nurses to become certified registered nurse anesthetists. Currently, more than 50 nurses are in the program.

Since July 1986, WBH and the University of Michigan Medical School have had an affiliation agreement to coordinate student medical education and research. A similar agreement with Wayne State University's School of Medicine has existed since 1979.

Oakwood's master affiliation agreement with Wayne State University has been in place since 1973, and was updated and reaffirmed in 2012 to facilitate mutual objectives in teaching, research and health care services. In addition, Oakwood entered into an affiliation in 2006 with the Wayne State

University School of Medicine and MSU to develop programs in graduate medical education, clinical services, and research. This affiliation has been extended indefinitely.

Botsford currently has an affiliation with 28 leading Colleges of Osteopathic Medicine located throughout the United States. These affiliations, in combination, place Botsford's program among the largest osteopathic teaching programs in the country.

Neither the School of Medicine nor any of the entities listed above with which the System Organizations have an affiliation are Members of the Obligated Group or Designated Affiliates.

### **Residency and Fellowship Programs**

WBH sponsors 19 Residencies and 21 subspecialty Fellowships with a total current enrollment of 451 Residents and Fellows. All programs are fully accredited by the Accreditation Council for Graduate Medical Education ("ACGME"), and one program is additionally accredited by the American Osteopathic Association ("AOA"). WBH also sponsors five additional Fellowships for which ACGME accreditation is not available in Emergency Medicine, Ophthalmology (oculoplastic surgery and vitreoretinal disease & surgery), Radiation Oncology (braechytherapy and Gamma Knife), Radiology (body and breast imaging) and Surgery (breast disease).

Oakwood currently has 240 residents in its medical education programs with approximately 180 allopathic residents and 60 osteopathic residents. Beaumont - Dearborn has residency and fellowship positions in Internal Medicine, Geriatric Medicine, Cardiovascular Diseases, Obstetrics and Gynecology, Diagnostic Radiology, and Transitional Year. Beaumont - Wayne sponsors programs in Family Medicine and Podiatric Medicine and Surgery. In addition to the Beaumont - Dearborn and Beaumont - Wayne-sponsored graduate medical education programs, many additional residents choose to do rotations at Oakwood to gain residency experience, including Wayne State University subspecialty surgery residents in Orthopedics, Otolaryngology and Urology as well as a Physical Medicine and Rehabilitation program that trains at Oakwood facilities. Beaumont - Taylor has an Ophthalmology residency program and a Transitional Year residency. Beaumont - Southshore has osteopathic residencies in Internal Medicine, Obstetrics, Diagnostic Radiology, Emergency Medicine, General Surgery and Dermatology. The ambulatory network also provides valuable primary care exposure for the residents who rotate through three clinics: Westland Center, Canton Center, and the Dearborn Midwest Medical Centers.

Oakwood is also accredited for osteopathic GME training throughout the system by the American Osteopathic Association. In addition, Beaumont - Southshore has established a relationship with Michigan State University's College of Osteopathic Medicine for eight internship and residency programs. In addition to the training that will take place at Beaumont - Southshore, specialty rotations will also be available to trainees through Beaumont - Dearborn as well at MSU. Oakwood provides osteopathic graduate medical education training to approximately 60 interns and residents.

The medical student program at Beaumont – Farmington Hills provides clinical rotations to medical students enrolled at any College of Osteopathic Medicine that have signed an Affiliation Agreement with Beaumont – Farmington Hills. Beaumont – Farmington Hills is a base institution for Michigan State University College of Osteopathic Medicine, meaning these students rotate at Beaumont – Farmington Hills for the entire third year of their training and have a secured spot on Beaumont – Farmington Hills' services. These base students are assigned to Beaumont – Farmington Hills one year ahead of time and once the schedule is determined for the base students, the remaining rotations open up to all other affiliated colleges. Beaumont – Farmington Hills has 15 residencies and five subspecialty fellowships with a current enrollment of 181 residents and fellows.

## **Other Affiliations**

Beaumont Health also has a number of educational affiliations with colleges and community colleges for training programs for various allied health professionals, including an education affiliation with Oakland University for accelerated training of registered nurses and has several collaborations with University of Michigan – Dearborn.

## **MEDICAL RESEARCH**

### **The Beaumont Research Institute**

The Beaumont Research Institute (the “*Institute*”) was established in 1966. The establishment of the Institute strengthened WBH’s ability to conduct medical research, offer the most advanced level of patient care and provide a research training experience for the medical staff and participants in graduate medical education programs. The Institute provides educational research experience to resident physicians and fellows, research nurses and research staff. The Institute is a highly productive contributor to clinical trials across the nation. It has more than 1,000 Institutional Review Board-approved clinical trials/projects with over 80,000 registered patients from a broad spectrum of the health care continuum including prevention, screening, treatment and follow-up. Several research programs have achieved international recognition, including Cardiovascular, Cancer, Radiation Oncology, Surgery, Urology and Orthopedics.

The Institute has a state-of-the-art research and pathology facility which provides over 120,000 square feet of clinical laboratory, BioBank, and research space, assisting investigators in meeting health care demands as well as conducting additional research. Other support provided by the Institute to investigators and research programs include, among others, an Institutional Review Board, Coordinating Center, Research Finance and Accounting Grants and Contracts Administration, Legal, Biostatistical, Grant Development, Research Education, Research Compliance, Research Patient Billing, Human Resources and Clerical Services.

### **Collaboration and Clinical Trials**

Beaumont Health actively participates in a growing network of facilities in southeastern Michigan engaged in clinical research, including partnerships with Wayne State University, The University of Michigan and St. Joseph Mercy Health System.

Beaumont Health also participates in clinical trials of national merit in oncology, cardiology, neurology, urology and other disciplines. In addition, the Clinical Trials division offers industry-sponsored research trials studying a variety of conditions including new ways to treat traumatic brain injury, targeted medications to treat cancer, and new safer heart valves and stents. Oakwood also has physicians who develop their own investigator-initiated trials which range from evaluating processes to improve the quality of patient care to new therapeutic interventions. To educate fellows in research methodologies, fellowship programs incorporate the basics of research design, statistical analysis, and the critical review of studies into lecture schedules. Research faculty who have advanced training in statistics and research design are also available to offer fellows the opportunity to collaborate in a variety of research projects.

The Clinical Trials Office at Botsford is the administrative home of the Institutional Review Board (“*IRB*”). The IRB is a specially constituted administrative review board established to assure the protection of all human subjects recruited as volunteers to participate in research. The Clinical Trials Office provides research education and support to resident physicians and fellows, advanced practice

nurses and research staff. Other assistance provided by the Clinical Trials Office or its partners, to research investigators include, IRB oversight, Research Finance, Clinical Trial Agreements, Biostatistical, Research Education, Research Compliance, and Research Patient Billing. The Clinical Trials Program is a contributor to national drug and device clinical trials including such medical specialties as cardiology, orthopedics, gastroenterology, radiology, gynecology, podiatric and emergency medicine, and oncology. It has approximately 36 open investigator initiated and industry sponsored clinical trials.

## **WHOLLY-OWNED SUBSIDIARIES AND JOINT VENTURES**

### **System Organization Wholly-Owned Subsidiaries**

The System Organizations have various wholly-owned subsidiaries which, with the exception of Oakwood United Hospitals, Inc. and Oakwood Health Promotions, Inc., are not Members of the Obligated Group. As such, unless otherwise noted, none of such subsidiaries is obligated to pay debt service on the Note or under the Loan Agreement. The entities listed below are noted as core System Organization subsidiaries, as each has contributed at least \$4 million to the total revenues of its respective System Organization corporate parent in each of the past three fiscal years ended December 31, 2014. *See also* the organization chart appearing under “BEAUMONT HEALTH CORPORATE ORGANIZATION” above.

***Beaumont Nursing Home Services, Inc.*** – Owns a 50% share in joint ventures known as West Bloomfield Nursing and Convalescent Center, Inc. (a 172-bed nursing home in West Bloomfield, Michigan); Shelby Nursing Center (a 212-bed nursing home in Shelby Township, Michigan); Woodward Hills Nursing Center (a 190-bed nursing home in Bloomfield Hills, Michigan); Evergreen Nursing Center (a 195-bed nursing home in Southfield, Michigan), ShorePointe Nursing Center (a 200-bed nursing home in St. Clair Shores, Michigan) and ShorePointe Village (a 93-unit assisted living facility). Each entity is comprised of a real estate limited partnership/limited liability company and a joint venture operating company.

***Oakwood United Hospitals, Inc. (“Oakwood United”)*** – A Michigan non-profit corporation that is exempt from federal income tax as a Section 501(c)(3) organization. Oakwood United is the owner of three of the four inpatient facilities in the Oakwood system (Beaumont – Wayne, Beaumont – Taylor and Beaumont – Southshore). Oakwood United is the former United Care, Inc., which was integrated into the Oakwood system in 1991. These hospital facilities are leased to Oakwood pursuant to long-term leases. Oakwood United is a Member of the Obligated Group.

***Oakwood Health Promotions, Inc. (“Oakwood Promotions”)*** – A Michigan non-profit corporation that is exempt from federal income tax as a Section 501(c)(3) organization. Oakwood Promotions is governed by a Board of Trustees consisting of four individuals, three of whom are employed by Oakwood and one of whom is a resident of Oakwood Common (as described below). Oakwood Promotions is the owner and operator of Oakwood Common, a retirement community situated on 29 acres near Oakwood’s main campus in Dearborn, Michigan. Oakwood Common offers 240 independent living and 92 assisted living apartments, as well as a 200 bed-skilled nursing facility, Oakwood Rehabilitation and Skilled Nursing Center. Oakwood Promotions is a Member of the Obligated Group.

***Oakwood Enterprises, Inc. (“OE”)*** – A for-profit Michigan corporation that develops business to support the Oakwood system. OE is wholly owned by Oakwood Affiliated Ventures which is wholly-owned by Oakwood. OE’s activities include real estate development, operation of a private duty nursing service, investment in health care related business ventures and various other health services organizations. OE owns seven medical office buildings principally occupied by Oakwood clinical and

administrative departments. OE is governed by an eight member Board of Directors, appointed by Oakwood. OE will not be a Member of the Obligated Group or a Designated Affiliate on the date of issuance of the Bonds.

***Botsford Continuing Care Corporation (“BCC”) –*** A Michigan non-profit corporation that is exempt from federal income tax under Section 501(c)(3) owns and operates a residential facility in Farmington Hills offering independent living (condominium and apartment units), assisted living (Senior Living Center), and rehabilitation, chronic and memory-assisted care (Botsford Rehabilitation & Continuing Care Center). BCC is a Designated Affiliate and a member of the Credit Group.

***Community Emergency Medical Service, Inc. (“CEMS”) –*** CEMS is a Michigan non-profit corporation that is exempt from federal income tax under Section 501(c)(3) and is a direct provider of emergency and non-emergency medical transportation to the general public and to health care providers. Although CEMS was initially focused on opportunities in southeast Michigan, it has expanded to other markets, including southwest and central Ohio (with OhioHealth and The Ohio State University Wexner Medical Center), Chicago (with Loyola University Medical Center) and Texas (with Baylor Scott & White). CEMS is the sole shareholder of Parastar, Inc., a Michigan business corporation, that manages emergency and non-emergency medical transportation services. Botsford is the sole member of CEMS. Since 2008, CEMS has had a joint venture arrangement with WBH. Since 1997, CEMS has had a joint venture arrangement with Oakwood. CEMS is not a member of the Obligated Group.

#### **Beaumont Health Joint Ventures**

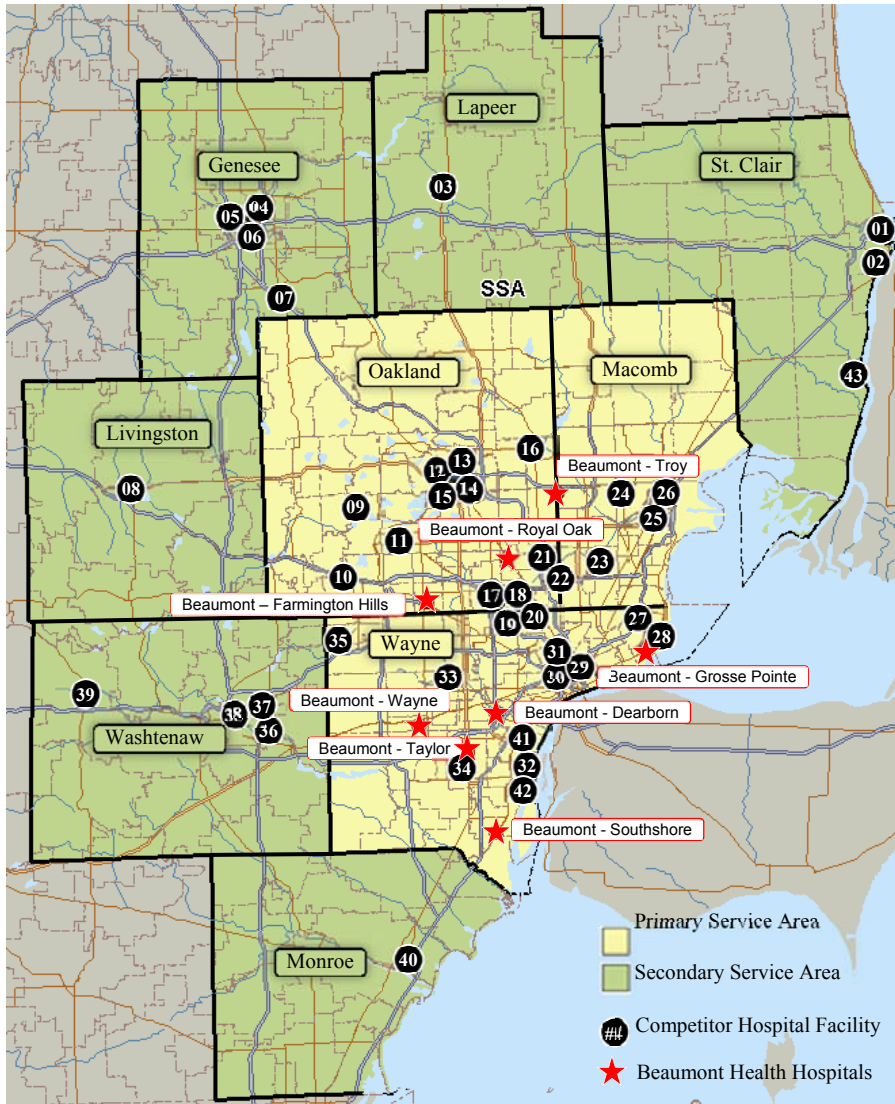
The System Organizations participate in numerous joint ventures in furtherance of their strategic initiatives, none of which is a Member of the Obligated Group or a Designated Affiliate. The joint ventures listed below are joint ventures in which a participating System Organization, or a wholly owned subsidiary of a System Organization, holds a 40% or greater interest.

<u><b>Name</b></u>	<u><b>Type of Service</b></u>	<u><b>Initial Investment Date</b></u>
Beaumont Mobile Imaging (MX Diagnostics, LLC)	Mobile Imaging, providing Patient Care Services for WBH	2012
Beaumont Kidney Specialty Services, LLC	Provides Kidney Specialty Services	2010
Beaumont Medical Transportation Services, Inc.	Medical Transportation Services for Patients	2008
Eight Star Ltd. Partnership	Owns the Real Property in which the Bloomfield Nursing and Convalescent Center is located	1988
Evergreen N.C Joint Venture	Operating Entity for Evergreen Nursing Center	1995
Evergreen N.C. Ltd. Partnership	Owns the Real Property in which the Evergreen Nursing Center is located	1995
Schoenherr Road Ltd. Partnership	Owns the Real Property in which the Shelby Nursing Center is located	1990
Shelby N.C. Joint Venture	Operating Entity for the Shelby Nursing Center	1992
WBH ALF #1, LLC	Operating Entity for Shorepointe Village	2008
WBH ALF #2, LLC	Owns the Real Property in which the Shorepointe Village is located	2008

<u>Name</u>	<u>Type of Service</u>	<u>Initial Investment Date</u>
WBH NCC #1, LLC	Operating Entity for Shorepointe Nursing Center	2008
WBH NCC #2, LLC	Owns the Real Property in which the Shorepointe Nursing Center is located	2008
WBNCC Joint Venture	Operating Entity for West Bloomfield Nursing and Convalescent Center	1988
Woodward Hills N.C. Joint Venture	Operating Entity for Woodward Hills Nursing Center	1997
Woodward Hills N.C. Ltd. Partnership	Owns the Real Property in which the Woodward Hills Nursing Center is located	1996
Dearborn Schaeffer Office Company, LLC	Owner of Medical Office Building - Dearborn Town Center, for which Oakwood holds the Master Tenant lease and occupies approximately 73% of the building	2008
Michigan Bio-Tech Partners, LLC	Imaging Facility	2011
Performax Physical Therapy, Inc.	Physical Therapy	2010
Michigan Mobile PET Imaging, Inc.	Mobile PET Scanner	2005
Integrity Home Health Care Inc.	Home Health Care	2011
MyNuratek Of Michigan, LLC MyNuratek USA, LLC	Educational Platform to Promote Healthy Behaviors	2011
Oakwood Accountable Care Organization, LLC	Reduce Healthcare Costs and Manage Population Wellness	2012
OakMed, LLC	Private Duty Nursing Services	2013
Dearborn Surgery Center, LLC	Outpatient Surgery Center adjacent to Beaumont - Dearborn	2003
Michigan Mobile Imaging, LLC	Mobile Imaging Services and Mobile Ultrasound and X-Ray Services	2001
Vibra of Southeastern Michigan, LLC	Long Term Acute Care within Beaumont – Taylor and operator of a facility in Lincoln Park	2014
HealthLink Medical Transportation Services, Inc.	Ambulance Services	1997
Regional Emergency Medical Service, Inc.	Ambulance Services	1996
DMCare Express, Inc.	Ambulance Services	2007
CEMS of Ohio Inc. dba MedCare Ambulance	Ambulance Services	2009
Mercy Health Medical Transportation, LLC	Ambulance Services	2012
Edward Ambulance Service	Ambulance Services	2011
Botsford Care Partners, LLC	Physician Group	2012

## SERVICE AREA

The locations of Beaumont Health's acute care hospitals and those of their major competitors are shown in the map below of Beaumont Health's primary service area (Wayne, Oakland and Macomb counties, which represented approximately 95% of Beaumont Health's discharges during 2012, 2013 and 2014).



No.	Hospital Name	No.	Hospital Name
1	McLaren Port Huron	25	McLaren Macomb
2	St. Joseph Mercy Port Huron	26	Select Specialty, Macomb
3	McLaren Lapeer Region	27	St. John Hospital, Detroit
4	Hurley Medical Center	28	Select Specialty, Grosse Pointe
5	McLaren Flint		DMC Harper University
6	Select Specialty, Flint		DMC Children's Hospital
7	Genesys Health System	29	DMC Detroit Receiving Hospital
8	St. Joseph Mercy Livingston		DMC Hutzel Women's Hospital
9	DMC Huron Valley-Sinai		DMC Rehabilitation Institute of MI
10	Providence Park, Novi	30	Karmanos Cancer Institute
11	Henry Ford West Bloomfield	31	Henry Ford, Detroit
12	Doctors Hospital of Michigan	32	Henry Ford, Wyandotte
13	McLaren Oakland	33	Prime, Garden City Hospital
14	St. Joseph Mercy Oakland	34	Vibra, Taylor
15	Select Specialty, Pontiac	35	St. Mary Mercy, Livonia
16	Crittendon Hospital	36	St. Joseph Mercy, Ann Arbor
17	Providence Hospital Medical Center	37	Select Specialty, Ann Arbor
18	Oakland Regional Hospital	38	University of Michigan Health
19	Sinai-Grace Hospital	39	St. Joseph Mercy Chelsea
20	Select Specialty, NW Detroit	40	ProMedica Monroe Regional
21	DMC Surgery Hospital	41	Vibra of Southeast Michigan
22	St. John Mac-Oak-Madison Hts.	42	Select Specialty, Wyandotte
23	St. John Mac-Oak-Warren	43	St. John River District Hospital
24	Henry Ford Macomb Hospital		

The following tables show the estimated population in Beaumont Health's primary service area (and for Wayne, Oakland and Macomb Counties separately) in 2015 and projected population in 2020:

**Beaumont Health Primary Service Area (Wayne, Oakland, Macomb Counties)**

Age Group	2015	% of Total	2020	% of Total	# Chg	% Chg
0-14	718,206	18.5%	680,098	17.5%	-38,108	-5.3%
15-17	164,258	4.2%	158,188	4.1%	-6,070	-3.7%
18-24	358,130	9.2%	360,432	9.3%	2,302	0.6%
25-34	473,795	12.2%	485,700	12.5%	11,905	2.5%
35-54	1,054,520	27.2%	981,073	25.2%	-73,447	-7.0%
55-64	533,476	13.7%	550,183	14.1%	16,707	3.1%
65+	579,726	14.9%	673,546	17.3%	93,820	16.2%
BH PSA Total	<u>3,882,111</u>	<u>100.0%</u>	<u>3,889,220</u>	<u>100.0%</u>	<u>7,109</u>	<u>0.2%</u>

Source: Neilson Company/Truven Health Analytics

**Wayne County**

Age Group	2015	% of Total	2020	% of Total	# Chg	% Chg
0-14	343,039	19.6%	320,423	18.9%	-22,616	-6.6%
15-17	76,524	4.4%	70,792	4.2%	-5,732	-7.5%
18-24	172,380	9.9%	161,594	9.5%	-10,786	-6.3%
25-34	220,143	12.6%	226,581	13.3%	6,438	2.9%
35-54	458,268	26.2%	415,845	24.5%	-42,423	-9.3%
55-64	230,833	13.2%	225,882	13.3%	-4,951	-2.1%
65+	246,768	14.1%	276,602	16.3%	29,834	12.1%
Wayne County Total	<u>1,747,955</u>	<u>100.0%</u>	<u>1,697,719</u>	<u>100.0%</u>	<u>-50,236</u>	<u>-2.9%</u>

Source: Neilson Company/Truven Health Analytics

**Oakland County**

Age Group	2015	% of Total	2020	% of Total	# Chg	% Chg
0-14	223,924	17.6%	214,318	16.4%	-9,606	-4.3%
15-17	52,849	4.2%	52,648	4.0%	-201	-0.4%
18-24	110,090	8.7%	120,694	9.2%	10,604	9.6%
25-34	148,816	11.7%	150,400	11.5%	1,584	1.1%
35-54	357,354	28.1%	338,595	25.9%	-18,759	-5.2%
55-64	183,593	14.4%	196,730	15.0%	13,137	7.2%
65+	195,804	15.4%	236,221	18.0%	40,417	20.6%
Oakland County Total	<u>1,272,430</u>	<u>100.0%</u>	<u>1,309,606</u>	<u>100.0%</u>	<u>37,176</u>	<u>2.9%</u>

Source: Neilson Company/Truven Health Analytics

## Macomb County

Age Group	2015	% of Total	2020	% of Total	# Chg	% Chg
0-14	151,243	17.6%	145,357	16.5%	-5,886	-3.9%
15-17	34,885	4.0%	34,748	3.9%	-137	-0.4%
18-24	75,660	8.8%	78,144	8.9%	2,484	3.3%
25-34	104,836	12.2%	108,719	12.3%	3,883	3.7%
35-54	238,898	27.7%	226,633	25.7%	-12,265	-5.1%
55-64	119,050	13.8%	127,571	14.5%	8,521	7.2%
65+	137,154	15.9%	160,723	18.2%	23,569	17.2%
Macomb County Total	861,726	100.0%	881,895	100.0%	20,169	2.3%

Source: Neilson Company/Truven Health Analytics

## Primary Service Area Median Household Income

The following tables show the median household income in Beaumont's primary service area (and for Wayne, Oakland and Macomb Counties separately) in 2015:

### Beaumont Health Primary Service Area (Wayne, Oakland, Macomb Counties)

2015 Household Income	Household Count	% of Total
<\$15K	227,818	14.8%
\$15-25K	174,123	11.3%
\$25-50K	365,243	23.8%
\$50-75K	263,196	17.1%
\$75-100K	178,648	11.6%
Over \$100K	327,483	21.3%
BH PSA Total	1,536,511	100.0%

Average Household Income \$69,548

Wayne County Average Household Income \$55,189

Oakland County Average Household Income \$89,220

Macomb County Average Household Income \$68,486

Source: Neilson Company/Truven Health Analytics

## COMPETITION

Beaumont Health's major competitors in the primary service area are listed in the following table, showing the number and percentage of licensed beds by hospital facility and system.

Hospital System	Licensed Beds	System Total	Percent of Total Licensed Beds
<b>Beaumont Health</b>			
<i>Beaumont - Royal Oak</i>	1,070		
<i>Beaumont – Dearborn</i>	632		
<i>Beaumont – Troy</i>	458		
<i>Beaumont – Farmington Hills</i>	330		
<i>Beaumont - Grosse Pointe</i>	250		
<i>Beaumont – Wayne</i>	215		
<i>Beaumont – Southshore</i>	193		
<i>Beaumont – Taylor</i>	189	3,337	28.4%
<b>Henry Ford Health System</b>			
<i>Henry Ford Hospital</i>	877		
<i>Henry Ford Macomb Hospital</i>	446		
<i>Henry Ford Wyandotte Hospital</i>	360		
<i>Henry Ford Macomb Hospital - Warren Campus</i>	203		
<i>Henry Ford West Bloomfield Hospital</i>	191	2,077	17.7%
<b>Ascension Health (St. John Providence)</b>			
<i>St. John Hospital and Medical Center</i>	772		
<i>Providence Hospital Medical Center</i>	384		
<i>St. John Macomb-Oakland - Macomb</i>	376		
<i>Providence Park Hospital – Novi</i>	212		
<i>St. John Macomb-Oakland – Oakland</i>	159	1,903	16.2%
<b>Detroit Medical Center</b>			
<i>DMC Harper University Hospital</i>	470		
<i>DMC Sinai-Grace Hospital</i>	404		
<i>DMC Detroit Receiving Hospital</i>	273		
<i>DMC Children's Hospital of Michigan</i>	228		
<i>DMC Huron Valley-Sinai Hospital</i>	158		
<i>DMC Hutzel Women's Hospital</i>	114		
<i>DMC Rehabilitation Institute of Michigan</i>	97	1,744	14.9%
<b>Trinity Health in southeastern Michigan<sup>(1)</sup></b>			
<i>St. Joseph Mercy Oakland</i>	443		
<i>St. Mary Mercy Hospital – Livonia</i>	304	747	6.4%
<b>McLaren Health Care in southeastern Michigan</b>			
<i>McLaren Oakland</i>	305		
<i>McLaren Macomb</i>	288		
<i>Karmanos Cancer Institute</i>	123	716	6.1%
<b>Other<sup>(2)</sup></b>	1,218		10.3%
<i>Source: Beaumont Health</i>			

<sup>(1)</sup> Trinity Health owns other hospitals in southeastern Michigan that do not directly compete with Beaumont Health.

<sup>(2)</sup> Includes the following stand-alone hospitals: Doctors Hospital of Michigan, Garden City Hospital (owned by Prime Healthcare Services), Crittenton Hospital Medical Center, John D. Dingell Department of Veterans Affairs Medical Center, Select Specialty Hospital, Oakland Regional Hospital and Straith Surgery Hospital. Crittenton Hospital Medical Center is now part of Ascension Health.

## BEAUMONT HEALTH MARKET SHARE

### Health System Primary Market Share

The following table shows Beaumont Health's pro forma market share within Oakland, Macomb and Wayne counties (based upon market share statistics for WBH, Oakwood and Botsford) for the years ended December 31, 2011, 2012, 2013 and 2014, compared to other health care systems with acute care facilities drawing patients from the three county area.

Health System	Year Ended December 31,							
	2011		2012		2013		2014	
	Hospital Discharges	Market Share	Hospital Discharges	Market Share	Hospital Discharges	Market Share	Hospital Discharges	Market Share
Beaumont Health	160,946	30.1%	162,477	30.6%	160,172	31.0%	166,001	31.9%
Ascension Health (St. John Providence)	93,787	17.5%	92,903	17.5%	90,528	17.5%	87,000	16.7%
Henry Ford Health System	95,641	17.9%	91,598	17.2%	83,740	16.2%	79,258	15.2%
Detroit Medical Center	73,208	13.7%	73,939	13.9%	73,229	14.2%	75,676	14.5%
Trinity Health in southeastern Michigan	43,431	8.1%	43,294	8.1%	43,352	8.4%	44,062	8.5%
McLaren Health Care in southeastern Michigan	22,998	4.3%	22,489	4.2%	22,594	4.4%	21,445	4.1%
University of Michigan	12,682	2.4%	13,203	2.5%	13,140	2.5%	13,751	2.6%
Crittenton Hospital	12,002	2.2%	11,917	2.2%	11,747	2.3%	10,609	2.0%
Prime Healthcare	9,283	1.7%	8,838	1.7%	8,484	1.6%	9,237	1.8%
Select Specialty	2,160	0.4%	2,149	0.4%	2,174	0.4%	2,056	0.4%
All Other	<u>8,974</u>	<u>1.7%</u>	<u>8,431</u>	<u>1.6%</u>	<u>7,204</u>	<u>1.4%</u>	<u>11,674</u>	<u>2.2%</u>
PSA Total	<u>535,112</u>	<u>100%</u>	<u>531,238</u>	<u>100%</u>	<u>516,364</u>	<u>100%</u>	<u>520,769</u>	<u>100%</u>

*Source: Michigan Inpatient Database*

## Statewide Market Share

The following table shows Beaumont Health's pro forma market share within the State of Michigan (based upon market share statistics for WBH, Oakwood and Botsford) for the years ended December 31, 2011, 2012, 2013 and 2014, compared to other health care systems with acute care in the State of Michigan.

Health System	Year Ended December 31,							
	2011		2012		2013		2014	
	Hospital Discharges	Market Share	Hospital Discharges	Market Share	Hospital Discharges	Market Share	Hospital Discharges	Market Share
Beaumont Health	169,454	14.2%	170,913	14.6%	168,923	14.7%	175,319	15.3%
Ascension Health	154,293	12.9%	152,366	13.0%	148,484	12.9%	143,823	12.5%
Trinity Health in southeastern Michigan	115,106	9.6%	113,476	9.7%	112,472	9.8%	112,548	9.8%
McLaren Health Care	111,138	9.3%	108,561	9.2%	104,553	9.1%	102,170	8.9%
Henry Ford Health System	101,664	8.5%	97,605	8.3%	89,766	7.8%	85,574	7.4%
Detroit Medical Center	76,523	6.4%	77,302	6.6%	76,448	6.6%	78,895	6.9%
Spectrum Health	75,210	6.3%	72,036	6.1%	72,195	6.3%	73,672	6.4%
University of Michigan	45,404	3.8%	46,136	3.9%	46,356	4.0%	48,547	4.2%
Sparrow Health System	36,554	3.1%	36,935	3.1%	38,438	3.3%	37,348	3.2%
Bronson Healthcare	34,221	2.9%	32,706	2.8%	32,590	2.8%	33,212	2.9%
Other	<u>275,702</u>	<u>23.1%</u>	<u>266,015</u>	<u>22.7%</u>	<u>259,499</u>	<u>22.6%</u>	<u>258,476</u>	<u>22.5%</u>
Total	<u>1,195,269</u>	<u>100%</u>	<u>1,174,051</u>	<u>100%</u>	<u>1,149,724</u>	<u>100%</u>	<u>1,149,584</u>	<u>100%</u>

Source: Michigan Inpatient Database

The following table shows Beaumont Health's pro forma admissions (based upon admission statistics for WBH, Oakwood and Botsford) categorized by physician specialty (excluding newborns) for 2013 and 2014 and Beaumont Health's admissions categorized by physician specialty (excluding newborns) in 2015 through September 30, 2015.

## Inpatient Activity by Physician Specialty (Excluding Newborns)

### Beaumont Health

	Year Ended December 31,		Nine Months Ended September 30,	Nine Months Ended September 30,
	Pro Forma 2013	Pro Forma 2014	(Actual) 2014	(Actual) 2015
	Admissions	Admissions	Admissions	Admissions
Medical Services	99,683	102,296	77,727	78,502
Surgical Services	35,261	38,590	26,797	29,920
OB/GYN Pediatrics	25,029	25,881	19,705	19,810
Behavioral Health	4,246	4,071	3,119	2,906
Rehabilitation	3,828	4,053	2,971	3,306
Total	<u>168,047</u>	<u>174,891</u>	<u>130,319</u>	<u>134,444</u>

Source: Beaumont Health

## Market Share in Primary Service Area and by County

The following tables show Beaumont Health's inpatient market share within its primary service area and by county for 2011, 2012, 2013 and 2014:

### Beaumont Health Primary Service Area (Wayne, Oakland, Macomb Counties)

	Year Ended December 31,							
	2011		2012		2013		2014	
	Hospital Discharges	Market Share	Hospital Discharges	Market Share	Hospital Discharges	Market Share	Hospital Discharges	Market Share
Beaumont Health Hospitals								
Beaumont - Royal Oak	52,466	9.80%	54,075	10.20%	53,404	10.30%	54,846	10.50%
Beaumont - Dearborn	31,053	5.80%	30,264	5.70%	29,459	5.70%	30,502	5.90%
Beaumont - Troy	27,622	5.20%	28,440	5.40%	29,220	5.60%	31,665	6.10%
Beaumont – Farmington Hills	15,780	2.90%	14,984	2.80%	14,475	2.80%	14,008	2.70%
Beaumont – Grosse Pointe	10,019	1.90%	10,669	2.00%	10,660	2.10%	10,908	2.10%
Beaumont - Wayne	8,476	1.60%	8,208	1.50%	7,877	1.50%	8,237	1.60%
Beaumont - Taylor	8,104	1.50%	8,047	1.50%	7,474	1.40%	7,708	1.50%
Beaumont – Southshore	<u>7,426</u>	<u>1.40%</u>	<u>7,790</u>	<u>1.50%</u>	<u>7,603</u>	<u>1.50%</u>	<u>8,127</u>	<u>1.60%</u>
BH PSA Total	<u>160,946</u>	<u>30.1%</u>	<u>162,477</u>	<u>30.6%</u>	<u>160,172</u>	<u>31.0%</u>	<u>166,001</u>	<u>31.9%</u>

Source: Michigan Inpatient Database

### Wayne County

	Year Ended December 31,							
	2011		2012		2013		2014	
	Hospital Discharges	Market Share	Hospital Discharges	Market Share	Hospital Discharges	Market Share	Hospital Discharges	Market Share
Beaumont Health Hospitals								
Beaumont - Royal Oak	8,793	3.20%	9,035	3.30%	8,809	3.40%	9,081	3.40%
Beaumont - Dearborn	30,446	11.10%	29,634	10.90%	28,848	11.00%	29,869	11.30%
Beaumont - Troy	429	0.20%	444	0.20%	416	0.20%	428	0.20%
Beaumont – Farmington Hills	9,988	3.60%	9,941	3.70%	9,419	3.60%	9,299	3.50%
Beaumont – Grosse Pointe	5,472	2.00%	5,953	2.20%	6,034	2.30%	6,113	2.30%
Beaumont - Wayne	8,385	3.10%	8,098	3.00%	7,804	3.00%	8,138	3.10%
Beaumont - Taylor	7,401	2.70%	7,745	2.90%	7,570	2.90%	8,077	3.00%
Beaumont – Southshore	<u>7,972</u>	<u>2.90%</u>	<u>7,940</u>	<u>2.90%</u>	<u>7,336</u>	<u>2.80%</u>	<u>7,535</u>	<u>2.80%</u>
BH PSA Total	<u>78,886</u>	<u>28.8%</u>	<u>78,790</u>	<u>29.0%</u>	<u>76,236</u>	<u>29.0%</u>	<u>78,540</u>	<u>29.6%</u>

Source: Michigan Inpatient Database

**Oakland County**

	Year Ended December 31,							
	2011		2012		2013		2014	
	Hospital Discharges	Market Share	Hospital Discharges	Market Share	Hospital Discharges	Market Share	Hospital Discharges	Market Share
Beaumont Health Hospitals								
Beaumont - Royal Oak	35,620	24.70%	36,722	25.30%	36,247	25.40%	36,911	25.60%
Beaumont - Dearborn	463	0.30%	446	0.30%	443	0.30%	467	0.30%
Beaumont - Troy	10,193	7.10%	10,426	7.20%	10,602	7.40%	11,469	8.00%
Beaumont – Farmington Hills	5,631	3.90%	4,864	3.40%	4,822	3.40%	4,456	3.10%
Beaumont – Grosse Pointe	223	0.20%	202	0.10%	199	0.10%	228	0.20%
Beaumont - Wayne	77	0.10%	91	0.10%	58	0.00%	78	0.10%
Beaumont - Taylor	16	0.00%	30	0.00%	17	0.00%	29	0.00%
Beaumont – Southshore	90	0.10%	62	0.00%	80	0.10%	114	0.10%
BH PSA Total	<u>52,313</u>	<u>36.3%</u>	<u>52,843</u>	<u>36.5%</u>	<u>52,468</u>	<u>36.9%</u>	<u>53,752</u>	<u>37.3%</u>

Source: Michigan Inpatient Database

**Macomb County**

	Year Ended December 31,							
	2011		2012		2013		2014	
	Hospital Discharges	Market Share	Hospital Discharges	Market Share	Hospital Discharges	Market Share	Hospital Discharges	Market Share
Beaumont Health Hospitals								
Beaumont - Royal Oak	8,053	6.90%	8,318	7.30%	8,348	7.50%	8,854	7.90%
Beaumont - Dearborn	144	0.10%	184	0.20%	168	0.20%	166	0.10%
Beaumont - Troy	17,000	14.50%	17,570	15.30%	18,202	16.30%	19,768	17.70%
Beaumont – Farmington Hills	161	0.10%	179	0.20%	234	0.20%	253	0.20%
Beaumont – Grosse Pointe	4,324	3.70%	4,514	3.90%	4,427	4.00%	4,567	4.10%
Beaumont - Wayne	14	0.00%	19	0.00%	15	0.00%	21	0.00%
Beaumont - Taylor	9	0.00%	15	0.00%	16	0.00%	21	0.00%
Beaumont – Southshore	42	0.00%	45	0.00%	58	0.10%	59	0.10%
BH PSA Total	<u>29,747</u>	<u>25.4%</u>	<u>30,844</u>	<u>26.9%</u>	<u>31,468</u>	<u>28.1%</u>	<u>33,709</u>	<u>30.2%</u>

Source: Michigan Inpatient Database

## Primary Service Area Discharges

The following table shows the percentage of Beaumont Health's discharges within its primary service area by county for the year ended December 31, 2014.

County	Beaumont Health Discharges	% of Beaumont Health Discharges from Primary Service Area
Wayne	78,540	47%
Oakland	53,752	32%
Macomb	33,709	20%
Total	166,001	100%

*Source: Michigan Inpatient Database*

## HISTORICAL UTILIZATION STATISTICS

### Pro Forma Beaumont Health

The chart that follows shows the historical utilization statistics for Beaumont Health (based upon statistics for WBH, Oakwood and Botsford) on a combined pro forma basis for the years ended December 31, 2012, 2013 and 2014 and the nine-month period ended September 30, 2014 and the historical utilization statistics for Beaumont Health for the nine-month period ended September 30, 2015:

Pro Forma Beaumont Health	Year Ended December 31,			Nine Months Ended September 30,	
	2012	2013	2014	2014	2015
Number of Beds	3,311	3,351	3,337	3,337	3,337
Admissions (excluding newborns)	169,798	168,047	174,891	130,319	134,444
Inpatient days (excluding newborns)	817,483	801,033	833,047	624,613	642,399
Newborn Admissions	15,284	15,997	16,244	12,166	12,751
Percent of Occupancy	67.5%	65.5%	68.4%	68.6%	70.5%
Length of Stay (days)	4.81	4.77	4.76	4.79	4.79
Total Patients Seen in Emergency	483,613	492,677	506,853	377,772	409,940
Outpatient Ancillary Visits	2,775,503	2,787,177	2,871,445	2,124,584	2,234,998
Total Surgical Patients					
Inpatient	48,372	44,726	45,218	33,614	34,551
Outpatient	88,051	84,735	82,825	62,463	65,630
Home Care Admissions	20,086	20,282	21,046	15,514	16,353
Nursing Home Admissions	10,934	10,544	9,660	7,187	7,428
Nursing Home Patient Days	448,843	424,362	412,942	308,380	310,513

## SUMMARY OF FINANCIAL RESULTS

The consolidated financial statements for WBH for the fiscal years ended December 31, 2014 and 2013 included in APPENDIX B-1 have been audited by WBH's independent auditors. The consolidated financial statements for Oakwood for the fiscal years ended December 31, 2014 and 2013 included in APPENDIX B-2 have been audited by Oakwood's independent auditors. The consolidated financial statements for Botsford, for the fiscal years ended December 31, 2014 and 2013 included in APPENDIX

B-3 have been audited by Botsford's independent auditors. The pro forma consolidated financial information presented below for Beaumont Health has been derived by Beaumont management from WBH, Oakwood and Botsford audited consolidated financial statements for the periods presented. The pro forma amounts are based on the historical presentation by WBH, Oakwood and Botsford. Such proforma information does not include presentation or elimination entries or the effects of accounting policies adopted by Beaumont Health post-merger, however, management has determined that such entries are not material to the summary consolidated proforma information presented below.

The financial information for the nine-month period ended September 30, 2015 is derived from unaudited consolidated financial statements of Beaumont Health. The financial information for the nine-month period ended September 30, 2014 is derived from unaudited consolidated financial statements of WBH, Oakwood, and Botsford and does not include eliminations or reclassifications or the effects of accounting policies adopted by Beaumont Health. However, such items are not considered material to the summary consolidated financial information presented. The unaudited consolidated financial statements include all adjustments, consisting of normal recurring and other accruals, which Beaumont Health considers necessary for a fair presentation of the financial position, the results of operations and changes in net assets and cash flows for these periods. Operating results for these interim periods are not necessarily indicative of the results for the entire year ended December 31, 2015 or the year ended December 31, 2014, as applicable. The data should be read in conjunction with the consolidated financial statements, related notes to the financial statements, and other financial information included herein.

Consolidated financial statements for Beaumont Health have not been audited since Beaumont Health became the sole corporate parent of WBH, Oakwood and Botsford on September 1, 2014. An audit of the consolidated financial statements for Beaumont Health will be performed as of and for the year ended December 31, 2015.

The summary consolidated financial statements for Beaumont Health include the Balance Sheet and Statement of Operations and Changes in Net Assets of all consolidated subsidiaries as of December 31, 2014, 2013 and 2012 and as of September 30, 2015 and 2014. Such summary consolidated financial statements include financial information with respect to other entities not included in the Obligated Group or Credit Group that are included in such summary consolidated financial statements in accordance with generally accepted accounting principles. For the fiscal year ended December 31, 2013, the Members of the Obligated Group represented 97.3% of Beaumont Health's pro forma consolidated Total Revenue and 96.2% of Beaumont Health's pro forma consolidated Total Assets. For the fiscal year ended December 31, 2014, the Members of the Obligated Group represented 98.7% of Beaumont Health's pro forma consolidated Total Revenue and 95.1% of Beaumont Health's pro forma consolidated Total Assets.

The following summary of consolidated financial information should be read in conjunction with the sections herein entitled "MANAGEMENT DISCUSSION AND ANALYSIS" and the audited consolidated financial statements and related notes that appear in APPENDICES B-1, B-2 and B-3.

# **Beaumont Health Summary Consolidated Statements of Operations and Changes in Unrestricted Net Assets**

*(\$ in thousands)*

	Fiscal Year Ended December 31,			Nine Months Ended, September 30,	
	Pro Forma 2012	Pro Forma 2013	Pro Forma 2014	Pro Forma 2014	Actual 2015
Net patient service revenue less provision for bad debts	\$3,545,679	\$3,548,747	3,733,984	\$2,760,754	2,889,445
Other operating revenue	233,915	228,506	233,573	162,787	172,699
Total revenue	3,779,594	3,777,253	3,967,557	2,923,541	3,062,144
Depreciation and amortization	254,208	258,679	262,363	195,853	190,672
Interest expense	76,828	72,645	60,345	47,570	37,162
Other expenses	3,359,712	3,414,102	3,508,993	2,591,401	2,714,341
Total expenses	3,690,748	3,745,426	3,831,701	2,834,824	2,942,175
Operating income	88,846	31,827	135,856	88,717	119,969
Nonoperating:					
Investment income and net gains and losses on investments	93,816	111,289	45,819	38,729	(25,701)
Other, net	(21,938)	(4,438)	(128,688)	(128,759)	(45,081)
Excess of revenue over expenses from consolidated operations	160,724	138,678	52,987	(1,313)	49,187
Net assets released from restrictions-capital acquisitions and other changes	4,065	8,520	6,425	5,713	4,105
Gain (loss) attributable to non-controlling interests	(36)	(520)	(324)	(148)	98
Pension and other postretirement benefits	(129,796)	361,021	(200,867)	(186)	(6,020)
Increase (decrease) in unrestricted net assets	\$34,957	\$507,699	(\$141,779)	\$4,066	\$47,370

**Beaumont Health Summary Consolidated Balance Sheets**  
*(\$ in thousands)*

	As of December 31,			As of September 30,
	Pro Forma 2012	Pro Forma 2013	Pro Forma 2014	Actual 2015
Cash and cash equivalents	\$271,867	\$193,555	\$250,140	\$325,339
Short-term investments	13,628	14,483	13,496	16,492
Other current assets	670,458	651,680	652,056	688,450
Total current assets	\$955,953	\$859,718	\$915,692	\$1,030,281
Investments	661,067	839,509	817,978	1,043,068
Property, plant & equipment, net	2,010,580	1,963,202	1,910,744	1,887,852
Assets whose use is limited or restricted	595,139	652,316	626,459	307,094
Other assets	142,935	147,086	135,990	131,611
Total assets	\$4,365,674	\$4,461,831	\$4,406,863	\$4,399,906
Current portion of long-term debt	\$43,069	\$63,658	\$47,747	\$33,598
Current portion of general and professional liability	25,228	27,377	26,375	26,375
Other current liabilities	444,744	450,042	452,757	477,556
Long-term debt	1,463,890	1,402,743	1,357,132	1,353,663
Professional and general liability	175,560	171,016	180,380	154,043
Other long-term liabilities	769,153	384,204	518,308	464,765
Total liabilities	2,921,644	2,499,040	2,582,699	2,510,000
Total net assets	1,444,030	1,962,791	1,824,164	1,889,906
Total liabilities and net assets	\$4,365,674	\$4,461,831	\$4,406,863	\$4,399,906

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Beaumont Health, as the largest provider in southeastern Michigan, generates market essentiality with a broad, diverse clinical presence in its region providing care for patients across the care continuum. These resources and geographic footprint provide Beaumont Health with the opportunity to be a population health manager as the industry shifts from volume-based to population-based health management.

Beaumont Health has developed an integration model and disciplined plan to establish priorities to reduce costs, achieve the benefits of scale, and align opportunities. (See the discussion under the caption "INTEGRATION MODEL AND STRATEGIC DIRECTION" above.) Achievements through October 31, 2015 include over \$69 million in savings from revenue cycle, information technology, quality integration, vendor consolidation, supply chain cost reductions, and refunding debt under a common debt structure and one master borrowing document. Targeted financial performance metrics and debt and capital management processes have been established by Beaumont Health's centralized Finance Committee. Large cost reductions are expected to take place in fiscal years 2016 and 2017 as additional synergies take effect once core capabilities are centralized and a common IT platform has been in effect across the entire system.

### Capital Planning and Allocation

Beaumont Health has adopted a formal policy and process with regard to its capital budget for both routine and strategic growth initiatives. Management and the Strategic Planning Committee of the Board of Directors are in the process of arriving at a multi-year Strategic Plan. The future capital spend will be linked to the Strategic Plan. The amount of available capital is determined based upon annual depreciation expense and estimated operating cash flow. Strategic capital is evaluated based upon earnings growth, rates of return and operational efficiency. Capital expenditures are monitored and management is prepared to reduce capital spending if internally generated funds are insufficient to complete all components of the capital plan.

In total, Beaumont Health anticipates that the System will expend approximately \$300 million for routine and strategic capital in fiscal year 2016, and an estimated \$300 million annually for routine and strategic capital in fiscal year 2017 and fiscal year 2018, subject to operating performance and continued review. In addition to routine capital replacement, larger strategic capital spending over the next three years includes an approximately \$120 million North Pavilion emergency center expansion and renovation at the Beaumont – Royal Oak campus, \$37 million at Beaumont – Troy for expansion, renovation and the sixth floor bed tower build-out, \$46 million for a new Proton Therapy Center, and a major portion of Botsford's approximately \$160 million five-year master facility expansion and renovation plan.

The following narrative provides an overview of financial and operating comparative results for Beaumont Health for the nine month period ended September 30, 2015 versus September 30, 2014, and for each of the three System Organizations for the fiscal year ended December 31, 2014 versus December 31, 2013.

### Year to Date Nine Month Period Ended September 30, 2015 Compared to Nine Month Period Ended September 30, 2014

Beaumont Health 2015 total revenues of \$3,062.1 million exceeded 2014 total revenues of \$2,923.5 million by \$138.6 million, or 4.7%.

Beaumont Health 2015 total operating expenses of \$2,942.2 million exceeded 2014 total operating expenses of \$2,834.8 million by \$107.4 million, or 3.8%. Based on this improved performance in revenue and continued cost controls and synergies from the affiliation, operating income rose from \$88.7 million in 2014 to \$120.0 million in 2015, or \$31.3 million (up 35.3%).

Beaumont Health 2015 nonoperating loss of \$70.8 million included a loss on debt defeasance of \$46.1 million. 2014 nonoperating loss of \$90.0 million included a loss on debt defeasance of \$120.0 million. Excluding the loss on debt defeasance, nonoperating went from 2014 income of \$30.0 million to 2015 loss of \$24.7 million, a decline of \$54.7 million – mainly due to investment performance.

Including the loss on debt defeasance, excess of revenue over expenses from consolidated operations increased to \$49.2 million in 2015 versus a loss of \$1.3 million in 2014, a \$50.5 million improvement.

Unrestricted cash and investments were \$1,385.2 million at September 30, 2015 versus \$1,405.8 million at December 31, 2014. Days cash on hand was 137.4 days at September 30, 2015 versus 143.8 days at December 31, 2014.

Total debt at September 30, 2015 was \$1,387.3 million, compared to the December 31, 2014 balance of \$1,404.9 million.

Beaumont Health adopted two accounting policies. Under the first, Beaumont Health shows the results of the Quality Assurance Assessment Program (QAAP) net in the net revenue line for all affiliates versus showing receipts as revenue and payments as expenses (both methods are acceptable under generally accepted accounting principles.) The second related to the capitalization threshold being set at \$1,000 for all of Beaumont Health. These policies were effective January 1, 2015, as a result, the prior years and period results do not reflect these changes in policies.

Beaumont management is working with external appraisal firms to determine the fair value of certain assets on the balance sheet of Beaumont Health. These assets include buildings, vacant properties and certain intangible assets. It is anticipated that there will be a year-end \$70 million non-cash charge against operations due to the impairment of these assets. The impairment loss on these assets will be recorded as a nonoperating loss in the Statement of Operations and Changes in Unrestricted Net Assets for the year ended December 31, 2015. This adjustment is not anticipated to have a significant impact on the cash flow of the Obligated Group and is not reflected in the portions of the fiscal year 2015 financial information contained in this Official Statement.

## **Year Ended December 31, 2014 Compared to Year Ended December 31, 2013**

### **WBH**

Total revenue for the twelve months ended December 31, 2014 was \$2,402.0 million, compared to \$2,274.9 million for the twelve month period ended December 31, 2013, an increase of \$127.1 million or 5.6%. Inpatient admissions, emergency visits and deliveries were all favorable compared to the prior year.

Total operating expenses for the twelve months ended December 31, 2014 were \$2,305.2 million compared to \$2,268.2 million for the year ended December 31, 2013, an increase of \$38.0 million or 1.7%. Major contributors to the year-over-year increase were increases in supply expenses due to increased patient volumes and higher drug costs, and higher than expected professional liability expense

due to actuarial reserve adjustments. These increased costs were partially offset by savings generated from the advance refunding of WBH's Series V bonds.

2014 operating income was \$96.8 million, or \$90.1 million above the \$6.7 million for the twelve months ended December 31, 2013.

*Oakwood*

Total revenue for the twelve months ended December 31, 2014 was \$1,209.0 million, compared to \$1,160.5 million for the twelve month period ended December 31, 2013, an increase of \$48.5 million or 4.2%. This increase was primarily driven by a 4% increase in inpatient volume as well as strength in outpatient and ambulatory visits, which increased by 2.3% and 3.1%, respectively.

Total operating expenses for the twelve months ended December 31, 2014 were \$1,184.0 million compared to \$1,145.7 million for the year ended December 31, 2013, an increase of \$38.3 million or 3.3%.

2014 operating income was \$37.0 million, or \$13.2 million above the \$23.8 million for the twelve months ended December 31, 2013.

*Botsford*

Total revenue for the twelve months ended December 31, 2014 was \$342.8 million, compared to \$331.5 million for the twelve month period ended December 31, 2013, an increase of \$11.3 million or 3.4%. This increase in revenues was aided by favorable performance in outpatient volumes and outpatient payor mix and a decline in charity care. These year-over-year increases were partially offset by declines in inpatient volume and less favorable inpatient payor mix.

Total operating expenses for the twelve months ended December 31, 2014 were \$340.8 million compared to \$330.2 million for the year ended December 31, 2013, an increase of \$10.6 million or 3.2%. Salaries, wages and benefit increases accounted for \$6.7 million of the increase.

2014 operating income before impairment loss was \$2.0 million, or \$0.6 million above the \$1.4 million for the twelve months ended December 31, 2013.

## BEAUMONT HEALTH OPERATIONAL PERFORMANCE METRICS

The following table compares three key profitability ratios for Beaumont Health for the years ended December 31, 2012, 2013 and 2014 and the nine-month period ended September 30, 2015, based on pro forma or actual Beaumont Health Statements of Operations and Changes in Net Assets for the applicable periods, as shown above.

### Beaumont Health Operational Profitability Metrics

*(\$ in thousands)*

	Fiscal Year Ended December 31,			Nine Months Ended
	2012	2013	2014	September 30, 2015
Operating cash flow margin <sup>(1)</sup>	11.11%	9.61%	11.56%	11.36%
Operating margin <sup>(2)</sup>	2.35%	0.84%	3.42%	3.92%
Excess of revenue over expenses	4.25%	3.67%	1.34%	1.61%
Excess of revenue over expenses excluding one-time items <sup>(3)</sup>	4.72%	3.76%	4.64%	3.11%

<sup>(1)</sup> Calculated based on (operating income + depreciation and amortization + interest expense) / total revenues.

<sup>(2)</sup> Calculated based on operating income/total revenues.

<sup>(3)</sup> Calculation is adjusted for one-time gains/losses: (i) Loss on defeasance of debt, and (ii) impairment loss.

## BEAUMONT HEALTH CAPITALIZATION RATIO

The following table reflects Beaumont Health's historical long-term indebtedness as a percentage of total capitalization as of December 31, 2012, 2013 and 2014 and as of September 30, 2015, based on pro forma or actual Beaumont Health Balance Sheets for the applicable periods, as shown above.

### Beaumont Health Capitalization Ratio

*(\$ in thousands)*

	As of December 31			As of September 30,	Pro-Forma as of
	2012	2013	2014	2015	September 30, 2015
Master Indenture debt relating to tax-exempt debt	\$1,267,509	\$1,248,010	\$1,221,631	\$1,233,294	\$1,556,808
Capital leases, taxable debt and other financing arrangements	239,450	218,391	183,248	153,967	153,967
Total debt	1,506,959	1,466,401	1,404,879	1,387,261	1,710,775
Unrestricted net assets	1,349,023	1,856,722	1,714,943	1,762,313	1,762,313
Total capitalization	\$2,855,982	\$3,323,123	\$3,119,822	\$3,149,574	\$3,473,088
Capitalization ratio	52.77%	44.13%	45.03%	44.05%	49.26%

## BEAUMONT HEALTH LIQUIDITY RATIO

The following table sets forth Beaumont Health's unrestricted cash and total debt (including current portion of long-term debt) as of December 31, 2012, 2013 and 2014 and as of September 30, 2015, based on pro forma or actual Beaumont Health Balance Sheets for the applicable periods, as shown above.

### Beaumont Health Liquidity Ratio

*(\$ in thousands)*

	As of December 31			As of September 30,
	2012	2013	2014	2015
Unrestricted cash & investments	1,219,745	1,359,406	1,405,768	1,385,171
Total debt	1,506,959	1,466,401	1,404,879	1,387,261
Unrestricted Days Cash and Investments on Hand	129.6	142.3	143.8	137.4
Unrestricted cash to long-term debt	80.9%	92.7%	100.1%	99.8%

**BEAUMONT HEALTH PRO FORMA MAXIMUM ANNUAL  
DEBT SERVICE COVERAGE RATIO**

The following table sets forth Beaumont Health's pro forma coverage of maximum annual debt service on indebtedness of the System Organizations for the years ended December 31, 2012, 2013 and 2014 based on pro forma Beaumont Health Statements of Operations and Changes in Net Assets for the applicable periods.

**Beaumont Health Pro Forma Maximum Annual Debt Service Coverage Ratio**

*(\$ in thousands, except within footnotes)*

	Fiscal Year Ended December 31		
	2012	2013	2014
Excess of revenue over expenses	\$160,724	\$138,678	\$52,987
Adjustments:			
Depreciation and amortization	254,208	258,679	262,363
Interest <sup>(1)</sup>	78,074	73,412	60,926
Loss on defeasance of debt	17,460	2,264	119,965
Impairment loss	401	1,104	11,318
Unrealized (gains) or loss on investments	(61,471)	(35,079)	13,846
Income available for debt service	\$449,396	\$439,058	\$521,405
Historical annual debt service	133,815	131,208	140,083
Historical annual debt service coverage	3.36	3.35	3.72
Pro forma maximum annual debt service <sup>(2)</sup>	114,833	114,833	114,833
Pro forma maximum annual debt service coverage	3.91	3.82	4.54

<sup>(1)</sup> Amount includes non-operating interest expense of \$1,246,000, \$767,000 and \$581,000 for the years ended December 31, 2012, 2013 and 2014, respectively.

<sup>(2)</sup> Reflects the maximum annual debt service obligation of Beaumont Health Credit Group; debt service on variable rate indebtedness is calculated based on an assumed interest rate of 2.50%.

## LONG-TERM DEBT

The table below shows the consolidated long-term debt of Beaumont Health (by obligated entities) as of September 30, 2015 and on a pro forma basis as of September 30, 2015, including the Series 2016A Bonds.

### Beaumont Health Long-Term Debt

*(\$ in thousands)*

	As of September 30, 2015	Pro-Forma As of September 30, 2015
Beaumont Health Obligated Group		
Michigan Finance Authority Hospital Revenue Refunding Bonds Series 2015A	\$398,435	\$398,435
Michigan Finance Authority Hospital Revenue Bonds Series 2016A	--	300,000
City of Royal Oak Hospital Finance Authority Series 2012C	67,755	67,755
City of Royal Oak Hospital Finance Authority Series 2012Z	50,000	50,000
City of Royal Oak Hospital Finance Authority Hospital Revenue Refunding Bonds Series 2014D	409,930	409,930
Michigan State Hospital Finance Authority Hospital Revenue and Refunding Bonds Series 2007A	9,825	9,825
Michigan Finance Authority Hospital Revenue and Refunding Bonds Series 2012	142,065	142,065
Michigan Finance Authority Hospital Revenue Refunding Bonds Series 2013	48,145	48,145
Term Loan	12,137	12,137
Mortgage Notes and Others <sup>(1)</sup>	141,830	141,830
Total*	<u>\$1,280,122</u>	<u>\$1,580,122</u>

<sup>(1)</sup> Includes capital leases, mortgage and other notes payable.

\* Excludes unamortized bond discount / premium

## INVESTMENT MANAGEMENT / ASSET ALLOCATION

Beaumont Health is in the process of centralizing the investment management function at Beaumont Health and the Board of Directors has established an Investment Committee whose purpose is to determine, review and monitor investment policy for the System, including risk management, asset allocation, and selection of external investment managers. The Investment Committee will meet four to six times per year and has retained Fund Evaluation Group (FEG) as its outside advisor.

The Investment Committee continues to follow its established investment management policies and practices in accordance with board approved asset allocation policy and with board approved investment managers. As of September 30, 2015, the total operating fund investments were valued at approximately \$1.385 billion. The table below represents the non-pension investment allocation of Beaumont Health, as of September 30, 2015.

## Beaumont Health Operating and Capital Fund Asset Allocations as of September 30, 2015

Asset Class / Manager	Pro Forma Beaumont Health
<b>Cash</b>	<b>20.2%</b>
Total Short Bonds	8.2%
Total Intermediate Bonds	12.5%
Total Core Plus Bonds	6.2%
Total Emerging Market Debt	2.3%
Total Opportunistic Credit	5.2%
Total Unconstrained Fixed Income	6.3%
<b>Total Fixed Income</b>	<b>40.3%</b>
Total Small Cap Equities	3.6%
Total Large Cap Equities	5.5%
Total Global Equities	10.7%
Total International Equities	4.9%
Total Convertibles	1.6%
<b>Total Equities</b>	<b>26.3%</b>
<b>Total Hedge Fund of Funds</b>	<b>13.2%</b>
<b>Total Portfolio</b>	<b>100.0%</b>

### SOURCES OF NET REVENUE

Payments on behalf of certain patients are made by Blue Cross Blue Shield of Michigan, the State of Michigan under the Medicaid program and the Federal government under the Medicaid and Medicare Programs. Commercial insurance carriers, some health maintenance organizations (“HMOs”) and preferred provider organizations (“PPOs”) generally pay for services on a basis other than published charges.

Patients who do not qualify for other insurance coverage or assistance are also served. Based on charity care guidelines, self-pay patients are all offered a discount and charges may be discounted based on those families’ income in relation to the federal poverty guidelines.

The following is a breakdown of net revenues by payor for the years ended December 31, 2012, 2013 and 2014.

#### Pro Forma Beaumont Health

	Sources of Net Revenue		
	Fiscal Year-Ended		
	December 31,		
	2012	2013	2014
Medicare	45.1%	43.4%	44.0%
Medicaid	8.0%	8.7%	9.6%
Blue Cross	23.2%	24.2%	24.1%
Managed Care	13.4%	13.9%	13.0%
Commercial	5.6%	5.5%	5.5%
Self-Pay and Other	4.7%	4.3%	3.8%
	100.0%	100.0%	100.0%

*Note: Data is based on patient’s classification at time of admission, which may differ from the actual source of payment.*

## **MANAGED CARE**

Beaumont Health and its affiliated physicians have been actively engaged in managed care payer contracts for many years. Beaumont Health works with several closely affiliated physician and accountable care organizations (“ACO”) that are actively participating in local health plan, governmental, and employer based programs. These programs focus on improving health care access and improving clinical outcomes while reducing costs. Active participation in these pilot and demonstration projects has assisted Beaumont Health and its physicians in establishing the foundation and infrastructures necessary to succeed in population health and the potential re-introduction of risk based contracts. One of the affiliated organizations has held a Medicare Shared Savings Program (“MSSP”) contract with the Center for Medicare and Medicaid Services (“CMS”) since 2012. This ACO received a shared savings distribution for surpassing the minimum shared savings threshold required by CMS.

The Physician Network Development Team of the Clinical Leadership Council is working with the leaders of these physician and accountable care groups to explore opportunities that may arise from the formation of a high performing narrow network affiliated with Beaumont Health.

WBH, Oakwood and Botsford are paid via many reimbursement methods including discounted fee for service from BCBSM, BCN, Cofinity, HAP, United Healthcare and Aetna. These payers represent over 90% of the total payments received through managed care contracts. While WBH and Oakwood participate in a few HMO risk contracts, the risk is typically limited to a very small portion of the health care premium dollar. Botsford does not currently participate in any HMO risk contracts.

## **MEDICARE, BLUE CROSS BLUE SHIELD AND MEDICAID REIMBURSEMENT**

See “Medicare Reimbursement,” “Blue Cross Blue Shield of Michigan” and “Medicaid Reimbursement” under “BONDHOLDERS’ RISKS” in the forepart of the Official Statement for information about such third-party payor programs.

## **LICENSES, ACCREDITATIONS, CERTIFICATIONS, MAJOR CONTRACTS, APPROVALS & MEMBERSHIPS**

Beaumont Health’s eight hospitals are licensed by the Michigan Department of Community Health and fully accredited by either The Joint Commission or, in the case of Beaumont – Farmington Hills and Beaumont - Southshore, the American Osteopathic Association. In addition, the hospitals hold the following major certifications, approvals and memberships:

### **Certifications/Contracts/Approvals**

- Medicare and Medicaid
- Blue Cross and Blue Shield of Michigan
- Residency Programs are approved by the Accreditation Council for Graduate Medical Education
- Educational Commission for Foreign Medical Graduates
- Cancer Program Approved by American College of Surgeons
- School of Radiologic Technology and Therapeutic Radiologic Technology approved by the Joint Review Committee on Education in Radiologic Technology
- School for Medical Technology approved by National Accrediting Agency for Clinical Laboratory Schools
- School for Nuclear Medicine Technologists approved by Joint Review Committee on Educational Programs in Nuclear Medicine Technology
- Psychiatric Unit and Partial Hospital Psych Program (licensed and certified)

- Beaumont Graduate Program of Nurse Anesthesia approved by Council on Accreditation of Nurse Anesthesia Programs

## **Memberships**

- American Hospital Association
- American Osteopathic Association
- Council of Teaching Hospitals of the Association of American Medical Colleges
- Michigan Association of Medical Educators
- Southeast Michigan Center for Medical Education
- Voluntary Hospitals of America
- National Association of Children's Hospitals and Related Institutions
- Alliance of Independent Academic Medical Centers

## **FUNDRAISING ACTIVITIES**

Beaumont Health is currently evaluating the best strategy for building upon the historic success of the System Organizations' existing foundations to support the mission of the newly created system and enhance its programs and facilities. During 2015, as of November 30, 2015, the three System Organizations' foundations raised approximately \$41 million in the aggregate.

**The Beaumont Foundation**, the fundraising arm of and an operating unit within WBH, was founded in 1987 with the mission to support WBH and its advancement into the top ranks of U.S. hospitals. Over the past 15 years, the Beaumont Foundation has raised an average of \$26 million per year, with an estimated \$34 million pledged in 2015, as of November 30, 2015.

**The Botsford Foundation** operates under the 501(c)3 designation of Beaumont Hospital – Farmington Hills (formerly Botsford Hospital.) The Botsford Foundation seeks and manages philanthropic support for Beaumont Hospital – Farmington Hills and the Botsford Commons Senior Community. In 2014, The Botsford Foundation raised \$1,019,000 and, as of November 30, 2015, has raised approximately \$820,000 in 2015 for facility improvements, innovative programs, advanced technology, patient support and community health initiatives.

**The Oakwood Healthcare Foundation** is a §501(c)(3) exempt organization that operates exclusively for educational, scientific and charitable purposes in support of the mission of Beaumont Health (specifically the hospitals and communities supported by Oakwood). The Oakwood Healthcare Foundation's purpose is to promote philanthropic investment of time, talent and treasure in support of Beaumont Health's not-for-profit mission to provide compassionate, extraordinary care every day. The Oakwood Healthcare Foundation has raised an average of \$8.5 million per year with an estimated \$6.7 million secured in 2015, as of November 30, 2015. In 2013, the Oakwood Healthcare Foundation embarked on a \$60 million campaign, securing over \$33.7 million in cash and pledges to date.

## **INSURANCE**

The System Organizations each self-insure for medical professional, commercial general, and certain other liabilities and purchase excess coverage from captive insurance companies which in turn limits their risk through the purchase of reinsurance through unrelated reinsurers.

During 2015, Beaumont Health has established a comprehensive program of other commercial insurances, including but not limited to property insurance to cover buildings, contents, and earnings

against loss from fire and other perils, automobile liability, excess workers' compensation, directors' and officers' liability and fiduciary liability, among others.

## **PENSION PLANS**

WBH, Oakwood and Botsford currently have separate pension plans.

### 2015 Pension Annuity Purchase

Beaumont Health recently entered into an agreement to transfer certain pension assets to Massachusetts Mutual Life Insurance Company ("*MassMutual*"), to settle approximately \$70 million of Beaumont's pension obligations for 1,317 retirees and beneficiaries.

Under the agreement, both the William Beaumont Hospital Employees' Retirement Plan and the Oakwood Healthcare Inc. Cash Balance Plan purchased a group annuity contract from MassMutual, which will then assume the obligation to make future annuity payments to affected retirees. The group annuity contract includes an irrevocable commitment by MassMutual to make annuity payments to affected retirees covered under the contract. There will be no change to the monthly retirement benefit payments currently received by retirees and their beneficiaries. All other plan participants will remain in their respective plans, which is well-funded to ensure benefit payments to future retirees and beneficiaries.

The transaction is designed to further Beaumont Health's objective of reducing risk in the pension plan and better managing the ongoing cost volatility, while continuing to meet its obligation to all current participants. The annuity purchase requires no immediate cash contribution from Beaumont Health and will be funded by existing pension plan assets.

### WBH

See Note 7 "PENSIONS AND OTHER POST-RETIREMENT BENEFIT PLANS" in APPENDIX B-1 for a description of pension and other retirement plans at WBH and their respective projected obligations, changes in plan assets and liabilities at December 31, 2014. An actuarial valuation of the WBH's defined benefit plan for funding purposes as of December 31, 2014 indicated plan assets of \$1,041.7 million, which represents 82.1% of present value of projected benefit obligations.

### Oakwood

See Note 8 "Retirement Plans" in APPENDIX B-2 for a description of pension and other retirement plans at Oakwood and their respective projected obligations, changes in plan assets and liabilities at December 31, 2014. An actuarial valuation of the Oakwood's defined benefit plan for funding purposes as of December 31, 2014 indicated that combined Union and non-Union Plan assets of \$317.5 million, which represents 75.0% of present value of projected benefit obligations.

Oakwood currently maintains a defined contribution plan for all new employees. Employees hired on or after January 1, 2010 receive a Retirement Savings Account contribution, fully funded by the employer on an annual basis. No employee contributions are required to receive an annual Retirement Savings Account contribution. The plan also includes a discretionary employer match feature, based on a percentage of an employee's compensation deferrals with a designated cap.

Oakwood maintains two cash balance retirement plans for substantially all employees who were hired prior to January 1, 2010. Cash balance plan participants are not eligible for the employer's annual

Retirement Savings Account contributions described above. Employer contributions to the cash balance plans are based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants. Oakwood's funding policy for the cash balance plans is based on the terms of the respective plans and the recommendation of its actuaries considering minimum funding requirements under the Pension Protection Act. Plan assets, principally comprised of cash and cash equivalents, equity and fixed income investments, are invested in a cash balance master trust. Oakwood annually recognizes the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of the two cash balance plans on its consolidated balance sheets.

### Botsford

See Note 9 "Pension Plan and Other Employee Benefits" in APPENDIX B-3 for a description of pension and other retirement plans at Botsford and their projected obligations, changes in plan assets and liabilities at December 31, 2014. An actuarial valuation of the Botsford's defined benefit plan for funding purposes as of December 31, 2014 indicated that plan assets amount to \$110.6 million and the market value of assets represents 72.1% of the present value of the projected benefit obligation. Based on actuarial projections, contributions will be required for the next several years to meet minimum funding standards. Another actuarial valuation of Botsford's defined benefit plan for funding purposes will be completed for the fiscal year ended December 31, 2015.

Botsford also has a defined contribution plan that covers substantially all employees. The 401(a) plan requires an employer contribution of two percent of eligible employee's total compensation as defined by the plan. Under the executive defined contribution program, eligible executives and physicians with base compensation of at least \$150,000 receive an additional contribution amount equal to four percent of net base salary. Botsford has a 403(b) plan for employees who have worked 780 hours during a plan year and are employed as of the last day of the plan year. Botsford may make an annual discretionary ten percent matching contribution of amount deferred up to \$600 for eligible employees whose base compensation is \$100,000 or less.

## **LITIGATION AND INVESTIGATIONS**

WBH, Oakwood and Botsford are subject to numerous claims and lawsuits alleging medical malpractice. All such claims and lawsuits are covered by insurance (after payment of retained liability amounts determined to be reasonable by management) deemed by management to be adequate and none of those claims or lawsuits are anticipated to have a material adverse effect on the financial condition of the Credit Group.

There are other lawsuits pending against Beaumont Health subsidiaries that do not involve claims based upon alleged medical malpractice. Beaumont's management believes that if such pending matters were decided unfavorably to Beaumont, there would be no material adverse effect on its financial condition. In addition, to the knowledge of Beaumont's management, there are no lawsuits threatened against any Beaumont Health subsidiaries that would have a material adverse effect on the financial condition of the Credit Group.

In January 2014, WBH initiated arbitration proceedings and related lawsuits against Morgan Stanley and other underwriters alleging, among other things, a breach of certain duties owed to WBH in connection with auction-rate securities issued to benefit WBH.

In April 2011, WBH received a Civil Investigative Demand from the United States Attorney's office requiring production of a large number of documents. Management has been informed that the thrust of the investigation concerns allegations of relationships between WBH and its physicians to

determine whether there exists a violation of the Stark or Federal Anti-Fraud laws as a civil false claim. Management understands that, at this time, the investigation is a civil investigation only. To date, WBH has not received a demand, and management does not anticipate a demand forthcoming in the near future. WBH intends to vigorously defend any demand if or when proffered.

In 2012 and 2013, CEMS, a wholly owned subsidiary of Botsford, and other joint venture ambulance companies, including affiliates of WBH and Oakwood, received CIDs from the United States Attorney's office requiring production of a large number of documents. CEMS is the sole member of Parastar, a for-profit entity, and its financial statements are consolidated with Beaumont. For information about CEMS, see "WHOLLY OWNED SUBSIDIARIES AND JOINT VENTURES" herein. Management has been informed that the thrust of the investigation concerns relationships between CEMS, the related WBH and Oakwood affiliates and certain physicians to determine whether there exists a violation of the Stark or Federal Anti-Fraud laws as a civil false claim. Management understands that, at this time, the investigation is a civil investigation only. To date, neither CEMS nor the related WBH and Oakwood affiliates have received a demand, and management does not anticipate a demand is forthcoming in the near future. Beaumont intends to vigorously defend any demand if or when proffered.

In 2013, Botsford was audited by the U.S. Department of Labor ("DOL"), specifically related to the Botsford Hospital Retirement Plan ("DBP") and the Flexible Benefits Plan. In September 2015, the DOL issued a letter to Botsford outlining what it believes are alleged Title I of the Employee Retirement Income Security Act of 1974 (ERISA) violations relating to the DBP. Botsford has been cooperating with the DOL in order to resolve each of the issues raised and, based on what has been provided and accomplished to date, it is anticipated that Botsford will satisfy the DOL's requests and there will be no further governmental enforcement action taken. There have been no findings forthcoming to date from the DOL regarding the Flexible Benefits Plan.

*See the discussion appearing under the caption "BONDHOLDERS' RISKS – Audits, Exclusions, Fines, Enforcement and Other Action – Stark" in the front portion of this Official Statement for a discussion of currently active investigations relating to Credit Group.*

# William Beaumont Hospital and Consolidated Subsidiaries

Consolidated Financial Statements as of and for the  
Years Ended December 31, 2014 and 2013, and  
Independent Auditors' Report

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
William Beaumont Hospital  
Royal Oak, Michigan

We have audited the accompanying consolidated financial statements of William Beaumont Hospital and consolidated subsidiaries (the "Hospital"), which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Hospital as of December 31, 2014 and 2013, and the results of its operations and changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Deloitte + Touche LLP*

March 26, 2015

# WILLIAM BEAUMONT HOSPITAL AND CONSOLIDATED SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2014 AND 2013 (In thousands)

	2014	2013
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 120,664	\$ 102,157
Short-term investments	13,496	9,250
Accounts receivable:		
Patients and third-party payors—net of allowance for doubtful accounts of \$55,133 and \$63,553 in 2014 and 2013, respectively	314,084	305,152
Other	16,625	39,382
Estimated third-party payor settlements under Blue Cross, Medicare, and Medicaid programs	26,104	18,575
Inventories, prepaid expenses, and other current assets	54,265	46,204
Current portion—cash, investments, and pledges whose use is limited or restricted	<u>8,487</u>	<u>19,054</u>
Total current assets	553,725	539,774
PROPERTY, PLANT, AND EQUIPMENT—Net	1,303,560	1,327,407
INVESTMENTS	665,117	679,485
INVESTMENTS IN NONCONSOLIDATED ENTITIES	7,770	8,067
GOODWILL	3,732	3,732
INTANGIBLES AND OTHER ASSETS (Intangible assets total \$32,834 at December 31, 2014 and 2013)	52,820	53,882
CASH, INVESTMENTS, AND PLEDGES WHOSE USE IS LIMITED OR RESTRICTED:		
Board designated	322	313
Bond reserve funds	18,765	59,484
Professional liability	52,564	65,151
Deferred compensation and other	43,813	39,010
Donor-restricted assets	<u>75,055</u>	<u>68,752</u>
Total cash, investments, and pledges whose use is limited or restricted—net of current portion	<u>190,519</u>	<u>232,710</u>
TOTAL	<u>\$2,777,243</u>	<u>\$2,845,057</u>

(Continued)

# WILLIAM BEAUMONT HOSPITAL AND CONSOLIDATED SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2014 AND 2013 (In thousands)

	2014	2013
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Trade accounts payable	\$ 59,751	\$ 78,250
Accrued liabilities:		
Employee benefits and payroll-related liabilities	120,857	109,517
Other	<u>36,911</u>	<u>40,553</u>
Total accrued liabilities	157,768	150,070
Current portion of professional and general liability	15,100	16,291
Current portion of long-term debt	15,018	30,134
Current portion of estimated third-party payor settlements	<u>7,314</u>	<u>21,001</u>
Total current liabilities	<u>254,951</u>	<u>295,746</u>
<b>LONG-TERM LIABILITIES (NET OF CURRENT PORTION):</b>		
Long-term debt	913,381	928,646
Estimated third-party payor settlements under Blue Cross, Medicare, and Medicaid programs	19,420	13,371
Professional and general liability	82,764	67,590
Other long-term liabilities	93,813	92,756
Pension liability	227,143	150,048
Postretirement benefits other than pensions	<u>9,406</u>	<u>9,054</u>
Total long-term liabilities (net of current portion)	<u>1,345,927</u>	<u>1,261,465</u>
Total liabilities	<u>1,600,878</u>	<u>1,557,211</u>
<b>NET ASSETS:</b>		
Unrestricted:		
The Hospital	1,094,692	1,213,704
Noncontrolling interest	<u>644</u>	<u>666</u>
Total unrestricted	1,095,336	1,214,370
Temporarily restricted	54,303	49,477
Permanently restricted	<u>26,726</u>	<u>23,999</u>
Total net assets	<u>1,176,365</u>	<u>1,287,846</u>
<b>TOTAL</b>	<u><b>\$2,777,243</b></u>	<u><b>\$2,845,057</b></u>

See notes to consolidated financial statements.

(Concluded)

# WILLIAM BEAUMONT HOSPITAL AND CONSOLIDATED SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013 (In thousands)

	2014	2013
REVENUES:		
Patient service revenue (net of contractual allowances and discounts)	\$2,366,596	\$2,252,143
Provision for bad debts	<u>(76,637)</u>	<u>(93,131)</u>
Net patient service revenue less provision for bad debts	2,289,959	2,159,012
Other operating revenue	96,802	98,559
Hospital's portion of investee's income	6,993	8,402
Net assets released from restrictions—operations	<u>8,249</u>	<u>8,927</u>
Total revenues	<u>2,402,003</u>	<u>2,274,900</u>
EXPENSES:		
Salaries, wages, benefits, and other	1,261,869	1,267,261
Supplies and other expenses	806,466	763,594
Professional liability and general insurance	19,991	11,629
Depreciation and amortization	177,352	174,745
Interest	<u>39,520</u>	<u>50,983</u>
Total expenses	<u>2,305,198</u>	<u>2,268,212</u>
OPERATING INCOME	<u>96,805</u>	<u>6,688</u>
NONOPERATING:		
Investment income and net gains and losses on investments	25,521	58,305
Loss on extinguishment of debt	(119,965)	
Other—net	<u>(1,215)</u>	<u>682</u>
Total nonoperating	<u>(95,659)</u>	<u>58,987</u>
EXCESS OF REVENUES OVER EXPENSES FROM CONSOLIDATED OPERATIONS	1,146	65,675
INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	<u>(213)</u>	<u>(258)</u>
EXCESS OF REVENUES OVER EXPENSES ATTRIBUTABLE TO THE HOSPITAL	<u>\$ 933</u>	<u>\$ 65,417</u>

(Continued)

# WILLIAM BEAUMONT HOSPITAL AND CONSOLIDATED SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

(In thousands)

	2014	2013
UNRESTRICTED NET ASSETS:		
Excess of revenues over expenses from consolidated operations	\$ 1,146	\$ 65,675
Net assets released from restrictions—capital acquisitions	5,409	6,525
Changes in noncontrolling interests	(235)	(412)
Other changes in unrestricted net assets	(75)	
Pension and other postretirement adjustments	<u>(125,279)</u>	<u>270,419</u>
(Decrease) increase in unrestricted net assets	<u>(119,034)</u>	<u>342,207</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions and pledges—net of allowance	18,246	15,868
Investment income	551	1,485
Net contributions reclassified to permanently restricted net assets	(258)	(17)
Change in value of split-interest agreements	(55)	3
Net assets released from restrictions	<u>(13,658)</u>	<u>(15,452)</u>
Increase in temporarily restricted net assets	<u>4,826</u>	<u>1,887</u>
PERMANENTLY RESTRICTED NET ASSETS:		
Contributions and pledges—net of allowance	2,469	2,291
Net contributions reclassified from temporarily restricted net assets	<u>258</u>	<u>17</u>
Increase in permanently restricted net assets	<u>2,727</u>	<u>2,308</u>
(DECREASE) INCREASE IN NET ASSETS	(111,481)	346,402
NET ASSETS—Beginning of year	<u>1,287,846</u>	<u>941,444</u>
NET ASSETS—End of year	<u>\$ 1,176,365</u>	<u>\$ 1,287,846</u>

See notes to consolidated financial statements.

(Concluded)

# WILLIAM BEAUMONT HOSPITAL AND CONSOLIDATED SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013 (In thousands)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
(Decrease) increase in net assets	\$ (111,481)	\$ 346,402
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Restricted contributions and investment income	(10,475)	(10,284)
Depreciation and amortization	177,352	174,745
Provision for bad debts	77,944	93,317
Investment income and net gains and losses on investments	(25,521)	(58,305)
Loss on sale of property, plant, and equipment	198	88
Hospital's portion of investee's income	(6,993)	(8,402)
Loss on extinguishment of debt	10,075	
Pension and other postretirement liability adjustments	125,279	(270,419)
Changes in noncontrolling interest	235	412
(Increase) decrease in:		
Accounts receivable—net	(64,161)	(90,187)
Estimated third-party payor settlement receivables	(7,529)	(6,001)
Inventories, prepaid expenses, and other	(8,061)	3,367
(Decrease) increase in:		
Trade accounts payable, accrued liabilities, and other	(1,753)	746
Estimated third-party payor settlement payables	(7,638)	11,579
Professional and general liability	13,983	(3,528)
Other long-term liabilities	(10,451)	(3,706)
Pension and other postretirement benefits and changes	(47,832)	(11,264)
Net cash provided by operating activities	<u>103,171</u>	<u>168,560</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property, plant, and equipment	(151,123)	(136,486)
Proceeds from sales of property, plant, and equipment	1,087	230
Purchases of investments	(779,963)	(1,169,129)
Proceeds from sales of investments	832,680	1,068,158
Release of bond reserve funds	38,012	
Distributions from nonconsolidated entities	5,085	6,322
Other—net	(1,973)	780
Net cash used in investing activities	<u>(56,195)</u>	<u>(230,125)</u>

(Continued)

# WILLIAM BEAUMONT HOSPITAL AND CONSOLIDATED SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013 (In thousands)

	2014	2013
CASH FLOWS FROM FINANCING ACTIVITIES:		
Restricted contributions and interest	\$ 10,475	\$ 10,284
Changes in noncontrolling interest	(235)	(412)
Proceeds from issuance of long-term debt	469,729	
Debt issuance costs and prepayment costs	(3,544)	(40)
Principal payments of long-term debt	<u>(504,894)</u>	<u>(19,201)</u>
Net cash used in financing activities	<u>(28,469)</u>	<u>(9,369)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	18,507	(70,934)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>102,157</u>	<u>173,091</u>
CASH AND CASH EQUIVALENTS—End of year	<u><u>\$ 120,664</u></u>	<u><u>\$ 102,157</u></u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest—net of amount capitalized	<u>\$ 41,005</u>	<u>\$ 50,390</u>
Cash paid for income taxes	<u>\$ 3,044</u>	<u>\$ 2,702</u>
Increase in accounts payable related to construction	<u>\$ 3,113</u>	<u>\$ 688</u>
Increase in restricted net assets related to donated beneficial interests in trusts	<u><u>\$ 1,727</u></u>	<u><u>\$ 1,550</u></u>
See notes to consolidated financial statements.		(Concluded)

# WILLIAM BEAUMONT HOSPITAL AND CONSOLIDATED SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

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### 1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Organization**—William Beaumont Hospital (the “Hospital”) is a Michigan nonprofit corporation and provides a continuum of care as an integrated health care delivery system, primarily to southeastern Michigan residents. The Hospital owns and operates three nonprofit acute care hospitals, including a 1,070 licensed-bed hospital located in the city of Royal Oak, a 458 licensed-bed hospital located in Troy, and a 250 licensed-bed hospital located in Grosse Pointe. Additionally, the Hospital has an ownership interest or leases hospital-related medical office buildings, clinics, nursing homes, an assisted living facility, and other related ambulatory care facilities.

The Hospital operates two captive insurance companies: Beaumont Indemnity Company, Ltd., which was incorporated in the Cayman Islands on December 12, 2005, and Beaumont Physicians Insurance Company, which was incorporated in the State of Michigan on December 13, 2010. Both are wholly owned subsidiaries of the Hospital and provide professional and general liability coverage to the Hospital, its affiliates, and voluntary medical staff.

Effective September 1, 2014, the Hospital, Oakwood Healthcare, Inc. (OHI), and Zieger Healthcare Corporation, the sole member of Botsford General Hospital (“Botsford”), consummated the affiliation referred to in their Affiliation Agreement dated June 23, 2014 (as consummated, the “Agreement”), pursuant to which Beaumont Health, a newly formed Michigan nonprofit corporation was created. As part of the Agreement, Beaumont Health, which is a tax-exempt organization under Internal Revenue Code (IRC) Section 501(c) (3), became the sole corporate member of the Hospital, OHI, and Botsford.

**Basis of Consolidated Financial Statements**—The consolidated financial statements include the accounts of all wholly owned, majority-owned, and controlled organizations. Investments where the Hospital holds less than 20% ownership interest and does not exercise significant influence are accounted for using the cost method of accounting. All other investments, whereby the Hospital holds up to 50% ownership interest and exercises significant influence, are accounted for using the equity method of accounting. All intercompany transactions and account balances have been eliminated in consolidation.

**Use of Estimates**—The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management of the Hospital to make assumptions, estimates, and judgments that affect the amounts reported in the consolidated financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. The Hospital considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its consolidated financial statements, including the following: recognition of net patient service revenues, including contractual and charity care allowances and provisions for bad debt, reserves for losses, expenses related to employee health care, professional and general liabilities, and liabilities for pensions and other postretirement benefits. Management relies on historical experience and other assumptions believed to be reasonable under the circumstances in making its judgments and estimates. Actual results may differ from those estimates.

**Cash Equivalents**—Cash equivalents are liquid investments carried at cost with a maturity of three months or less from the date of purchase. Carrying values approximate fair value.

**Short-Term Investments**—Short-term investments are certificate of deposit and commercial paper with maturities of 91 days to 365 days. Carrying values approximate fair value.

**Accounts Receivable, Allowance for Doubtful Accounts, Estimated Third-Party Payor**

**Settlements, and Net Patient Service Revenue**—Patient and third-party payor accounts receivable and net patient service revenue are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Substantially all of the Hospital's receivables are related to providing health care services to patients.

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided. Based on historical experience, a significant portion of the Hospital's self-pay patients (which consists of patients without insurance coverage) will be unable or unwilling to pay for the services provided.

Patient accounts receivable are reduced by an allowance for amounts that could become uncollectible in the future. The Hospital's estimate for its allowance for doubtful accounts is based on management's assessment of historical and expected net collection by payor. The Hospital updates, on a quarterly basis, the historical collection rates for each of its major payor sources of revenue used to estimate the allowance for doubtful accounts and contractual allowances. Management performs an analysis on a monthly basis to evaluate the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts (which includes uncollectible deductibles and co-payments on accounts for which the third-party payor has not yet paid or for payors who are known to be having financial difficulties). For receivables associated with self-pay patients, the Hospital records a significant provision for bad debts in the period of service based on past experience.

The Hospital's allowance for doubtful accounts for self-pay patients decreased from 83% of self-pay accounts receivable at December 31, 2013, to 79% of self-pay accounts receivable at December 31, 2014. This decrease is attributable to Medicaid expansion and the Affordable Care Act. In addition, the Hospital's self-pay write-offs decreased \$6,325,000 from \$50,867,000 for 2013 to \$44,542,000 in 2014. The Hospital has not changed its charity care or uninsured discount policies during 2013 or 2014. The Hospital does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors.

Under Blue Cross, Medicare, and Medicaid programs, estimated retroactive adjustments under reimbursement agreements are included in net patient service revenue and estimated third-party payor settlements. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Other accounts receivable include receivables from Medicare and state Medicaid meaningful use programs and other miscellaneous receivables.

**Inventories**—Inventories consist of drugs, supplies, and retail goods and are stated at the lower of weighted-average cost or market.

**Property, Plant, and Equipment**—Property, plant, and equipment are recorded at cost less accumulated depreciation. Expenditures for renewals and betterments are capitalized. Maintenance and repairs are charged to current operations. Depreciation for financial reporting purposes is computed on the straight-line basis over the estimated useful lives of the assets ranging from three to 50 years. Internal-use software is also included in equipment and is recorded at cost less accumulated amortization with useful lives ranging from three to seven years.

**Investments and Investment Earnings**—Investments, inclusive of assets limited or restricted as to use, include marketable debt and equity securities. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value and are classified as trading securities. Investments also include investments in commingled funds and funds of hedge funds. Commingled funds that hold securities directly are stated at the fair value of the underlying securities, as determined by the administrator, based on readily determinable market values. Certain commingled funds and the funds of hedge funds vehicles are stated at fair value based on their net asset value (NAV).

Investment earnings (including equity earnings, realized gains and losses on investments, holding gains and losses on trading securities, and interest and dividends) are included in nonoperating gains and losses, unless the income or loss is restricted by donor or law.

**Fair Value of Financial Instruments**—The Hospital follows the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*. This guidance defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The fair value hierarchy is as follows:

*Level 1*—Quoted (unadjusted) prices for identical assets in active markets

*Level 2*—Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets in active markets
- Quoted prices for identical or similar assets in nonactive markets (few transactions, limited information, noncurrent prices, high variability over time, etc.)
- Inputs other than quoted prices that are observable for the asset (interest rates, yield curves, volatilities, default rates, etc.)
- Inputs that are derived principally from or corroborated by other observable market data

*Level 3*—Unobservable inputs that cannot be corroborated by observable market data

Fair values of trading securities are based on quoted market prices, where available. The Hospital obtains pricing for each security from investment managers and the Hospital's consultants or a third-party pricing service (the "pricing service"), which generally uses Level 1 or Level 2 inputs for the determination of fair value in accordance with the fair value hierarchy. Security prices are normally derived through recently reported trades for identical or similar securities, making adjustments through the reporting date based upon available observable market information. For securities not actively traded, the pricing service may use quoted market prices of comparable instruments or discount cash flow analysis, incorporating inputs that are currently observable in the markets for similar securities. Inputs that are often used in the valuation methodologies include, but are not limited to, nonbinding broker quotes, benchmark yields, credit spread, default rates, and prepayment spreads. As the Hospital is responsible for the determination of fair value, it performs analyses on the prices received from the

pricing service relative to the prices expected by the investment managers to determine whether the prices are reasonable estimates of fair value. As a result of these reviews, the Hospital has not adjusted the prices obtained from the pricing service.

An instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

**Investment Risks**—Investment securities are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in values in the near term could materially affect the amounts reported in the accompanying consolidated balance sheets and consolidated statements of operations and changes in net assets.

**Derivative Financial Instruments**—The Hospital periodically utilizes financial instruments (swaps) to hedge interest rate exposure. The Hospital's policies prohibit trading in derivative financial instruments for speculative purposes.

**Investments in Nonconsolidated Entities**—These investments are primarily accounted for using the equity method. There is one investment accounted for using the cost method.

**Interests in Consolidated Subsidiaries**—The Hospital has a 100% ownership in the ambulatory surgical center in West Bloomfield that went into service in 2008. The financial activity of the center is fully consolidated in the Hospital's consolidated financial statements. The Hospital also holds a 60% interest in a joint venture to provide nonemergency medical transportation services. An emergency medical transportation services company holds the remaining 40% interest. In 2008, the Hospital also established and holds a 55.9% interest in the joint venture, Beaumont Kidney Specialty Services, LLC. Nine physicians hold the remaining 44.1%.

**Intangibles and Other Assets**—Intangibles and other assets include unamortized bond issue costs, bed licenses, and naming rights. Bond issue costs are amortized to expense over the life of the related bond issue. Bed licenses and the naming rights have an indefinite useful life and are evaluated annually for impairment in accordance with FASB ASC 350-20-35-18, *Intangibles—Goodwill and Other*.

**Goodwill**—In accordance with FASB ASC 350-20-45-1, *Goodwill—Other Presentations*, goodwill is evaluated annually for impairment.

**Cash and Investments Whose Use is Limited**—Cash and investments whose use is limited include assets held by trustees under indenture agreements, deferred compensation funds, and self-insurance arrangements. The current portion of cash and investments whose use is limited includes the assets that are required for current liabilities for bond-financed construction, debt service, and professional liability.

**Assets Whose Use is Restricted**—Assets whose use is restricted include invested contributions, the beneficial interests in trusts, and pledges receivable from donors or grantors whose use is either temporarily or permanently restricted. Pledges that are expected to be collected in the next year are included in current assets. Contributions received with donor-imposed temporary restrictions are reported as contributions and pledges of temporarily restricted net assets. When a donor restriction expires, which is typically the result of the purpose of a restriction being accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions in the consolidated statements of operations and changes in net assets. This includes contributions for which the restrictions are met in the same reporting period as when received.

Pledges receivable for restricted contributions are recorded in temporarily restricted net assets, net of amounts estimated to be uncollectible. Pledges receivable, due to be collected beyond one year, are discounted to their net present value. The discount rate utilized approximates the risk-free investment rate of the Hospital. Expenses incurred in soliciting pledges and contributions were \$7,061,000 and \$6,490,000 for 2014 and 2013, respectively, and are included in the accompanying consolidated financial statements.

Donations of property are reported as temporarily restricted net assets at their estimated fair value, at the time received, and are then transferred to unrestricted net assets as capital acquisitions when the assets are placed in service. Contributions received, which are restricted for additions to property, plant, and equipment, are transferred to unrestricted net assets when expenditures are incurred.

**Nonoperating Activities**—Nonoperating activities consist principally of net income from retail property; investment income, net of related investment costs, which were \$1,426,000 and \$1,550,000 in 2014 and 2013, respectively; gains on sale of property, plant, and equipment; changes in the market value of derivative instruments; realized gains and losses on investments; and holding gains and losses on investments. Investment income and realized gains and losses on investments of donor-restricted assets are added to the temporarily restricted net asset balance.

**Other Operating Revenue**—Other operating revenue consists of cafeteria and other retail sales, grants, rental income, unrestricted donations, revenue from Medicare and state Medicaid meaningful use programs, and other miscellaneous income.

**Borrowing Costs**—Interest incurred on assets acquired with proceeds of tax-exempt borrowings is capitalized up to the date the asset is placed into service and is net of any interest earned on construction and debt service funds established with proceeds of the related tax-exempt borrowings. Interest costs are not capitalized on assets established with donor-restricted assets. Net interest capitalized was \$2,573,000 and \$3,330,000 during 2014 and 2013, respectively. Debt issue costs are deferred and amortized using the interest method over the life of the obligations to which they pertain.

**Discounts and Premiums on Bonds**—Discounts and premiums on bonds issued are amortized using the effective interest method over the life of the bond.

**Functional Expenses**—FASB ASC 958-205-45-5, *Presentation of Financial Statements for Not-for-Profit Entities*, requires that the expenses reported in the consolidated statements of operations and changes in net assets also be shown by their functional classification. The functional classifications of such expenses for the years ended December 31, 2014 and 2013, are as follows (in thousands):

	2014	2013
Patient care	\$ 1,899,816	\$ 1,888,078
General and administrative	<u>405,382</u>	<u>380,134</u>
Total	<u>\$ 2,305,198</u>	<u>\$ 2,268,212</u>

**Excess of Revenue over Expenses**—The consolidated statements of operations and changes in net assets include excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from excess of revenue over expenses, are consistent with industry practice, contributions of long-lived assets received or gifted (including assets acquired using contributions, which by donor restriction were to be used for the purposes of acquiring such assets), net change in retirement plan-related items, discounted operations, and cumulative effects of such changes on accounting principles.

**Income Taxes**—The Hospital has been recognized by the Internal Revenue Service as an organization exempt from income taxes under IRC Section 501(a) as an organization described in IRC Section 501(c)(3). Certain of the Hospital’s subsidiaries and other operations of the Hospital are subject to federal income taxes. Provisions for such taxes are included in operating expenses.

The Hospital follows the FASB guidance for accounting for uncertainty in income taxes, which provides criteria for the recognition and measurement of uncertain tax positions. This guidance requires that an uncertain tax position should be recognized only if it is “more likely than not” that the position is sustainable based on its technical merits. Recognizable tax positions should then be measured to determine the amount of benefit recognized in the consolidated financial statements. The Hospital files U.S. federal and state returns, and no returns are currently under examination. The statute of limitations on the Hospital’s U.S. federal tax returns remains open for the years ended December 31, 2011, through the present. The Hospital continues to evaluate its tax positions pursuant to the principles of FASB guidance and has determined that there is no material impact on the Hospital’s consolidated financial statements.

**Adoption of New Accounting Pronouncements**—In April 2013, the FASB issued Accounting Standards Update (ASU) No. 2013-06, “Not-for-Profit Entities” which relates to not-for-profit (NFP) entities recognizing and measuring services received from personnel of an affiliate. The scope of this ASU includes all services received from personnel of any affiliate for which the affiliate does not seek compensation from the recipient NFP. Affiliates may include other NFPs, for-profit entities, individuals, or other parties that qualify as affiliates. Other provisions of this ASU include: an NFP should recognize all personnel services (not solely those that are specialized) that directly benefit the recipient NFP, including certain shared services, and a recipient NFP should measure services received from personnel of an affiliate at the cost recognized by the affiliate for the personnel providing those services. However, in unusual circumstances, the cost amount for the personnel services received may significantly differ from the value received. In such cases, the recipient NFP can elect to measure those personnel services received at fair value. This ASU is effective for the Hospital in 2015. The adoption of this guidance will not have a significant impact on the Hospital’s consolidated financial statements.

In April 2014, the FASB issued ASU No. 2014-08, “Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.” This guidance amends the definition of a discontinued operation and requires entities to provide additional disclosures about discontinued operations as well as disposal transactions that do not meet the discontinued operations criteria. This guidance is effective for the Hospital beginning January 1, 2016, with early adoption permitted. The Hospital has not yet evaluated the impact this guidance may have on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers.” This guidance outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. This guidance is effective for the Hospital beginning January 1, 2018. The Hospital has not yet evaluated the impact this guidance may have on its consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, “Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern.” This guidance outlines when and how reporting entities must disclose going-concern uncertainties in their financial statements. This new standard requires management to perform interim and annual assessments of an entity’s ability to continue as a going concern within one year of the date of issuance of the entity’s financial statements. Further, an entity must provide certain disclosures if there is “substantial doubt about the entity’s ability to continue as a going concern.” This ASU is effective for the Hospital in 2016. The adoption of this guidance will not have a significant impact on the Hospital’s consolidated financial statements.

## 2. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment at cost as of December 31, 2014 and 2013, consist of the following (in thousands):

	2014	2013
Land and land improvements	\$ 176,058	\$ 174,371
Buildings and building improvements	2,121,625	2,050,574
Furniture and equipment	1,019,550	981,440
Property leased to others under operating leases	88,705	86,741
Construction in progress	<u>79,701</u>	<u>64,076</u>
Total property, plant, and equipment	3,485,639	3,357,202
Less accumulated depreciation and amortization	<u>(2,182,079)</u>	<u>(2,029,795)</u>
Property, plant, and equipment—net	<u>\$ 1,303,560</u>	<u>\$ 1,327,407</u>

Commitments for costs related to the construction and remodeling of Hospital facilities approximated \$49,785,000 and \$24,816,000 at December 31, 2014 and 2013, respectively. At December 31, 2014, equipment includes internally used software costs that are approximated at \$150,659,000 and accumulated amortization of \$130,173,000. At December 31, 2013, equipment includes internally used software costs that are approximated at \$142,633,000 and accumulated amortization of \$118,120,000.

## 3. INVESTMENTS

**Marketable Securities**—The fair value amounts of marketable securities are based on quoted market prices, if available, or are estimated using quoted market prices for similar securities.

**Other Investments**—The Hospital invests in various commingled funds and funds of hedge funds, which are included in investments and assets limited or restricted as to use in the consolidated balance sheets. Commingled funds and funds of hedge funds are recorded at fair value.

The funds of hedge funds are designed to attempt to produce positive investment returns regardless of market activity. These investments utilize a “funds-of-funds” approach resulting in diversified, multistrategy, and multimanager investments. Underlying investments in the funds-of-funds may include other funds, equities, fixed-income securities, commodities, currencies, and derivatives. Audited information is only available annually based on the funds of hedge funds’ year-end. Carrying values are based on the NAV. Management obtains and considers the audited consolidated financial statements of the funds of hedge funds when evaluating the overall reasonableness of the fair value.

In addition to a review of external information provided and the use of an investment consultant, management’s internal procedures include things such as a review of returns against benchmarks and discussions with the fund manager on performance, changes in personnel, and changes in process, along with evaluations of current market conditions for this investment. The funds of hedge funds’ managers also meet with the Hospital’s management and the investment committee of the board of directors on a periodic basis.

Because of the inherent uncertainty of valuations of the funds of hedge funds, values may differ materially from the values that would have been used had a ready market existed.

Investments as of December 31, 2014 and 2013, are as follows (in thousands):

	<b>2014</b>	<b>2013</b>
Cash and cash equivalents	\$ 17,592	\$ 22,924
Certificates of deposit	17,000	16,500
Commercial paper	7,996	
US government securities	30,347	77,457
State and local government securities	3,753	2,889
Federal agency obligations	7,284	23,514
Asset-backed securities	40,332	74,153
Mortgage-backed securities:		
Commercial	29,735	32,264
Residential	11,450	14,650
Corporate obligations	36,504	119,301
Equities	176,858	185,154
Equity mutual funds	26,743	21,872
Fixed-income mutual funds	43,856	51,266
Real estate mutual funds	228	110
	<u>449,678</u>	<u>642,054</u>
 Total marketable investments		
Beneficial interests in trusts	9,357	7,630
Commingled funds	251,358	133,545
Funds of hedge funds	145,788	135,821
	<u>406,503</u>	<u>317,000</u>
 Total investments	<u>\$ 856,181</u>	<u>\$ 919,050</u>

Investments are reported in the consolidated balance sheets as of December 31, 2014 and 2013, in the following captions (in thousands):

	<b>2014</b>	<b>2013</b>
Current portion, cash, and investments whose use is limited or restricted—excluding pledges of \$5,974 and \$4,724 in 2014 and 2013, respectively	\$ 2,513	\$ 14,330
Short-term investments	13,496	9,250
Investments	665,117	679,485
Cash and investments whose use is limited or restricted—excluding pledges receivable of \$15,464 and \$16,725 in 2014 and 2013, respectively	<u>175,055</u>	<u>215,985</u>
 Total investments	<u>\$ 856,181</u>	<u>\$ 919,050</u>

Investment activity for the years ended December 31, 2014 and 2013, is composed of the following (in thousands):

	2014	2013
Nonoperating:		
Interest and dividend income	\$ 12,759	\$ 13,025
Net realized gains on investments sold	12,899	45,064
Net recognized (losses) gains on trading securities held at year-end	<u>(137)</u>	<u>216</u>
Investment income, realized gains, and recognized gains on trading securities held at year-end	25,521	58,305
Temporarily restricted investment income	<u>551</u>	<u>1,485</u>
Total	<u>\$ 26,072</u>	<u>\$ 59,790</u>

**Investments in Nonconsolidated Entities**—These investments are accounted for using the equity method except for one investment of \$75,000 accounted for using the cost method as of December 31, 2014 and 2013.

The Hospital has 50% limited partnership interests in six real estate partnerships and six joint venture arrangements to own and operate a 93-unit assisted living facility and five nursing and convalescent centers, with a total of 1,001 beds (see Note 12). During 2014 and 2013, the Hospital recorded revenues of approximately \$293,000 and \$275,000, respectively, from these related parties for medical management services.

The Hospital has a 10.8% interest in a joint venture limited liability company established to own and operate mobile and fixed equipment used in the treatment of kidney stones using shockwave lithotripsy. Individual physicians and other hospitals hold the remaining interests. During 2014 and 2013, the Hospital recorded lease expenses of approximately \$1,281,000 and \$1,295,000, respectively, to this related party.

The Hospital has a 10.4% interest in a joint venture limited liability company established to own and operate a gamma knife used for advanced radiation treatments for brain tumors and neurological conditions. Individual physicians hold the remaining interests. During 2014 and 2013, the Hospital incurred lease expenses of approximately \$2,220,000 to this related party.

The Hospital has a 20% interest in a real estate joint venture limited liability company established to own and operate a 40,000 square-foot medical office building in Warren, Michigan. Currently, a private development company holds the remaining 80%. The Hospital currently leases 19,978 square feet of space to provide diagnostic services. During 2014 and 2013, the Hospital incurred lease expenses of approximately \$919,000 and \$899,000, respectively, to this related party.

The Hospital has a 19% interest in a real estate joint venture limited liability company established to own and operate a 171,000 square-foot medical office building in West Bloomfield, Michigan. The Hospital's interest in this entity was acquired in October 2006 in conjunction with a sale of the medical office building, which was expanded in 2007 to add an additional 87,500 square feet. Currently, a private development company holds the remaining 81%.

The Hospital has an 18.2% interest in a real estate joint venture limited liability company established to own and operate a 100,490 square-foot medical office building in Sterling Heights, Michigan. Individual physicians and physician groups own the remaining interest. The Hospital's interest in the entity was

acquired in April 2011. The Hospital currently leases approximately 36,566 square feet of space to provide ambulatory infusion services. During 2014 and 2013, the Hospital incurred lease expenses of approximately \$1,462,000 and \$1,445,000, respectively, to this related party.

The Hospital has a 50% interest in Jones Lang LaSalle at Beaumont Hospitals (JLLBH), which is a real estate and construction management company. JLLBH is a limited liability company. The Hospital had a liability to JLLBH amounting to \$11,133,000 and \$7,208,000 at December 31, 2014 and 2013, respectively.

In 2013, the Hospital held a 45% interest in an ambulatory surgical center in Macomb Township. Physicians who are also members of the Hospital's medical staff and a third-party management holding company owned the remaining 55% of the Macomb Township location. The ambulatory surgical center began patient care operations in 2007 to promote and support health care for the benefits of the community in Macomb County and surrounding areas. During 2014, North Macomb Ambulatory Surgical Center became a wholly owned subsidiary of the Hospital.

The Hospital acquired a 50% interest in a joint venture limited liability company established to develop, own, equip, and operate mobile diagnostic imaging suppliers in November 2012. A management holding company holds the remaining 50% interest. The limited liability company began business on January 1, 2013. During 2014 and 2013, the Hospital contributed \$0 of capital to the joint venture.

The Hospital's portion of investees' income is reflected on a separate line in the consolidated statements of operations and changes in net assets for both 2014 and 2013. The Hospital received distributions from these investees of \$5,085,000 and \$6,322,000 in 2014 and 2013, respectively.

The unaudited summarized financial position and results of operations for the entities accounted for under the equity method as of and for the years ended December 31, 2014 and 2013, is as follows (in thousands):

	<b>2014</b>				
	<b>Medical Office Buildings</b>	<b>Outpatient and Diagnostic</b>	<b>Nursing Homes and Assisted Living</b>	<b>Other</b>	<b>Total</b>
Total assets	\$ 63,001	\$ 5,523	\$ 75,241	\$ 1,905	\$ 145,670
Total liabilities	81,604	688	115,882	13,497	211,671
Equity	(18,603)	4,835	(40,641)	(11,592)	(66,001)
Revenue—net	9,939	9,528	62,905	47,182	129,554
(Deficiency) excess of revenue over expenses	(965)	6,766	5,941	-	11,742
	<b>2013</b>				
	<b>Medical Office Buildings</b>	<b>Outpatient and Diagnostic</b>	<b>Nursing Homes and Assisted Living</b>	<b>Other</b>	<b>Total</b>
Total assets	\$ 66,473	\$ 24,723	\$ 77,285	\$ 7,707	\$ 176,188
Total liabilities	73,539	22,403	121,118	15,811	232,871
Equity	(7,066)	2,320	(43,833)	(8,104)	(56,683)
Revenue—net	9,272	103,693	121,152	46,563	280,680
(Deficiency) excess of revenue over expenses	(1,421)	5,410	10,984	-	14,973

#### 4. PLEDGES RECEIVABLE

The maturity schedule for pledges receivable, net of allowance for doubtful accounts of \$4,131,000 and a present value discount of \$1,682,000 (determined using 0.2% for less than one year and 3.8% for greater than one year), as of December 31, 2014, is as follows (in thousands):

Less than one year	\$ 5,974
One to five years	13,772
Greater than five years	<u>1,692</u>
Total (included in current and noncurrent cash, investments, and pledges whose use is limited or restricted)	<u>\$21,438</u>

At December 31, 2013, the pledges receivable, net of allowance of \$6,314,000 and a present value discount of \$3,057,000 (determined using 0.08% for less than one year and 5% for greater than one year), was \$21,449.

#### 5. LONG-TERM DEBT AND OTHER FINANCING AGREEMENTS

The composition of long-term debt and capital lease obligations at December 31, 2014 and 2013, is as follows (in thousands):

	2014	2013
Series 2009V; interest of 6.25% to 8.25%; refunded 2014—net of bond issue discount of \$0—2014 and \$12,417—2013	\$ -	\$ 380,578
Series 2009W; interest of 4.0% to 6.375%; due through 2039—net of bond issue discount of \$1,073—2014 and \$601—2013	190,097	261,334
Series 2012Y; indexed floating interest rate bonds (0.78% at December 31, 2014 and 2013); mature in 2017	50,000	50,000
Series 2012Z; indexed floating interest rate bonds (0.96% and 0.97% at December 31, 2014 and 2013, respectively); mature in 2019	50,000	50,000
Series 2012A; indexed floating interest rate bonds (0.73% at December 31, 2014 and 2013); mature in 2035	41,765	41,765
Series 2012B; indexed floating interest rate bonds (1.05% and 1.06% at December 31, 2014 and 2013, respectively); mature in 2019	41,760	41,760
Series 2012C; interest of 2.80%; due through 2022	67,755	67,755
Series 2014D; interest of 2.00% to 5.00%; due through 2039—gross of bond issue premium of \$28,654—2014	438,584	-
Mortgage payable; interest rate of 7.38%; collateralized by land and a medical building with a net book value of \$23,096 in 2014 and \$24,193 in 2013	27,556	28,461
Term loan; indexed floating interest rate (0.76% at December 31, 2014 and 2013); maturity in 2016	13,824	24,216
Other installment notes payable/capital lease obligations; interest ranging from 2.23% to 12.15%; collateralized by assets with a net book value of \$2,720 in 2014 and \$1,733 in 2013; including accreted interest of \$144—2014 and \$186—2013	<u>7,058</u>	<u>12,911</u>
Total	928,399	958,780
Less current portion	<u>(15,018)</u>	<u>(30,134)</u>
Long-term debt—net	<u>\$ 913,381</u>	<u>\$ 928,646</u>

**Bonds**—Series V, W, Y, Z, A, B, C, and D have been issued through the City of Royal Oak Hospital Finance Authority. In addition, the loan agreements provide for a number of designated events of default.

Series Y and Z bonds bear interest at an indexed floating interest rate adjusted weekly. This rate is based upon a percentage of the current London InterBank Offered Rate (LIBOR) plus 0.66% and 0.85%, respectively, and interest is payable monthly.

Series A and B bonds bear interest at an indexed floating interest rate adjusted weekly. This rate is based upon a percentage of the current LIBOR plus 0.61% and 0.94%, respectively, and interest is payable monthly.

Series C bonds bear interest at a fixed interest rate of 2.80%, payable monthly.

In May 2014, the Hospital issued fixed-rate bond Series 2014 D in the amount of \$437,430,000 to advance refund the fixed-rate Series 2009 V bonds. Premium on issuance of the Series 2014 D bonds is \$30,743,000. The Hospital incurred a nonoperating noncash loss on this advance refunding of \$119,965,000.

The Hospital's advance refunding of the Series 2009 V bonds was treated as a defeasance. Amounts related to this repayment of principal and interest for the bond defeasance are on deposit with a trustee who is responsible for the subsequent repayment of these bonds pursuant to their terms. The funds are invested in U.S. government securities sufficient for the repayment of the outstanding obligations. At December 31, 2014, the total bonds still outstanding related to the defeasance, which have been excluded from the accompanying consolidated financial statements, were \$466,392,000.

Beaumont Hospital has agreed to a mortgage lien on the Beaumont-Royal Oak main hospital building site and improvements constructed thereon and a mortgage lien on the Beaumont-Troy main hospital building site and improvements constructed thereon to the Bank of New York Mellon. The mortgages secure all outstanding obligations on a parity basis, and the supplemental indenture requires such mortgages to remain in place so long as the bonds (Series V, W, Y, Z, A, B, and C) are outstanding.

The current portion of the long-term debt includes \$3,302,000 of net original issue premium that will be amortized in 2015.

**Mortgages Payable**—The Hospital has an ambulatory care center with an original mortgage of \$31,517,000 with a fixed interest rate of 7.38% that matures in 2027.

**Term Loan**—The Hospital entered into a \$45,000,000 taxable term loan with PNC Bank in order to refinance several prior fixed-rate financings. The loan's interest rate is adjusted monthly based on the 30-day LIBOR plus a spread of 60 basis points and requires monthly fixed principal payments. The loan requires a balloon payment at maturity in 2016.

**Other Installment Notes Payable**—On February 1, 2010, the Liaison Committee on Medical Education awarded preliminary accreditation to the Oakland University William Beaumont School of Medicine, a new, privately funded, allopathic medical school, which began student instruction in the fall of 2011. In 2015, the Oakland University William Beaumont School of Medicine received full accreditation from the Liaison Council for Medical Education. As part of this partnership with Oakland University, students will take part in clinical training and applied research at the Hospital. As a result, the Hospital has recognized \$5,442,000 and \$7,039,200 of long-term obligation to Oakland University for naming rights installment payments at December 31, 2014 and 2013, respectively. These payments are to be made annually through 2017.

The remaining other installment notes relate to term loans with lenders and property lessors for purchases of equipment and leasehold improvements, with terms of repayment ranging from three to five years.

Annual principal payments on long-term debt as of December 31, 2014, are due as follows (in thousands):

**Years Ending  
December 31**

2015	\$ 11,716
2016	32,073
2017	82,091
2018	31,443
2019	113,558
Thereafter	<u>629,937</u>
Subtotal	900,818
Plus net unamortized original issue premium	<u>27,581</u>
Total	<u>\$ 928,399</u>

**Lines of Credit**—The Hospital has available a \$40,000,000 secured line of credit with PNC Bank. The secured line of credit expires on June 13, 2015. The Hospital did not renew or replace a \$40,000,000 secured line of credit with Comerica Bank that expired on December 5, 2014. There were no outstanding balances on the lines of credit at December 31, 2014 and 2013.

## 6. OTHER LONG-TERM LIABILITIES

The composition of other long-term liabilities as of December 31, 2014 and 2013, is as follows (in thousands):

	2014	2013
Postemployment liability	\$ 14,950	\$ 18,565
Deferred compensation plan liability (Note 11)	43,018	38,186
Deferred payroll taxes	633	633
Asset retirement obligation	5,209	4,999
Nursing home support agreements (Note 12)	20,894	21,622
JLLBH equity	8,113	8,113
Other	<u>996</u>	<u>638</u>
Total	<u>\$ 93,813</u>	<u>\$ 92,756</u>

**Asset Retirement Obligation**—Asset retirement obligations represent legal or contractual obligations associated with the retirement of tangible long-lived assets that are incurred upon the acquisition, construction, development, or normal operation of that long-lived asset. The guidance requires the Hospital to recognize asset retirement obligations in the period in which they are incurred, if a reasonable estimate of fair value can be made. The asset retirement obligations are accreted to their present value at the end of each reporting period. The associated estimated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and depreciated over its useful life.

The Hospital annually evaluates its leased and owned properties for potential asset retirement obligations. Based on these reviews, the Hospital has identified obligations primarily related to the removal of certain materials previously utilized in the construction process and storage tanks. The changes in the total liability for asset retirement obligations for the years ended December 31, 2014 and 2013, are as follows (in thousands):

	<b>2014</b>	<b>2013</b>
Liability—beginning of year	\$ 5,144	\$ 4,870
Accretion expense	257	257
Future remediation assumption changes	<u>(117)</u>	<u>17</u>
Liability—end of year	<u>\$ 5,284</u>	<u>\$ 5,144</u>
Current portion	\$ 75	\$ 145
Long-term portion	<u>5,209</u>	<u>4,999</u>
Total	<u>\$ 5,284</u>	<u>\$ 5,144</u>

## 7. PENSIONS AND OTHER POSTRETIREMENT BENEFIT PLANS

**Employees' Retirement Plan**—The Hospital has a defined benefit pension plan ("Employees' Retirement Plan") that covers substantially all employees. Prior to 2008, benefits under the plan were based generally on an employee's highest five consecutive years of earnings out of the 10 years preceding retirement. Effective January 1, 2008, the Hospital changed the benefit calculation of the Employees' Retirement Plan to be based on a cash balance formula for 2008 and future years of service. Pension benefits earned prior to January 1, 2008, were not reduced or eliminated, but will be increased to reflect credited years of service earned prior to 2008 and final average pay. Under the amended plan, eligible employees are credited with 5% of base pay earned for each year after 2007. Credited account balances are increased through an interest credit each December 31, based on the 30-year U.S. Treasury rate as of August 1 of the prior plan year. In December 2010, the Employees' Retirement Plan became a multiple employer plan. Effective February 1, 2013, the Hospital amended the plan to allow current employees who terminate employment after January 1, 2013, to take a lump-sum payout if the value of the benefit is less than \$100,000. Effective December 31, 2013, the Hospital amended the plan to freeze compensation used to determine the final average pay benefit for benefit service provided prior to January 1, 2008.

**Supplemental Pension Plans**—The Hospital has nonqualified supplemental pension plans covering certain employees, as designated by the compensation committee of the board of directors. The plans provide for lump-sum benefit payments from the Hospital's general assets so that total payments are the same or more than the payments that would have been payable from the Hospital's principal defined benefit pension plan if it were not for limitations imposed by income tax regulations. The Hospital has accrued liabilities based on actuarial valuations. These supplemental pension plans are unfunded.

**403(b) Plan**—The Hospital has a matching 403(b) plan. Employees may make elective deferrals to the plan up to the limits contained in IRC Section 402(g). Matching amounts become 100% vested after three years of service, and employee elective deferrals are 100% vested from the date of contribution. During 2014, the Hospital announced its intent to make a matching contribution for active participants that would be funded in early 2015. The expense included in the 2014 consolidated financial statements related to this transaction amounted to \$7,500,000. In 2013, the Hospital did not make matching contributions.

**Postretirement Health Care Plan**—The Hospital has a contributory defined benefit postretirement health care plan that covers certain employees of the Hospital and their covered dependents. Employees meeting certain eligibility criteria and retiring before January 1, 2007, are eligible for subsidized medical benefits capped at the 2006 Hospital subsidy indexed no more than 5% per year. Employees meeting certain eligibility criteria and retiring on or after January 1, 2007, are eligible for a retiree medical account providing a defined dollar subsidy based on years of service at retirement. Effective January 1, 2012, subsidies for medical coverage past age 65 were eliminated for all current and future retirees.

The following table sets forth the changes in projected benefit obligations, accumulated postretirement obligations, changes in plan assets, and liability of the plans for both the pension plans and the postretirement healthcare plan reconciled with the amounts included in the Hospital's consolidated financial statements as of December 31, 2014 and 2013, as follows (in thousands):

	<b>Pension Plans</b>		<b>Postretirement Plan</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Change in benefit obligation:				
Benefit obligation—beginning of year	\$ 1,170,975	\$ 1,361,248	\$ 9,551	\$ 9,699
Service cost	31,213	31,208	417	469
Interest cost	55,457	51,377	456	377
Amendments	1,370	(48,691)		
Actuarial loss (gain)	128,739	(175,357)	453	10
Benefits paid	(49,278)	(48,810)	(1,045)	(1,004)
Annuities purchased	(69,154)			
	<u>1,269,322</u>	<u>1,170,975</u>	<u>9,832</u>	<u>9,551</u>
Benefit obligation—end of year				
Change in plan assets:				
Fair value of plan assets—beginning of year	1,020,533	929,270		
Actual return of plan assets	68,645	68,625		
Employer contributions	70,977	71,448		
Benefits paid	(49,278)	(48,810)		
Annuities purchased	(69,154)			
	<u>1,041,723</u>	<u>1,020,533</u>	<u>-</u>	<u>-</u>
Fair value of plan assets—end of year				
Accrued liability	<u>\$ (227,599)</u>	<u>\$ (150,442)</u>	<u>\$ (9,832)</u>	<u>\$ (9,551)</u>
Included in current liabilities	\$ (456)	\$ (394)	\$ (426)	\$ (497)
Liability—long term	<u>(227,143)</u>	<u>(150,048)</u>	<u>(9,406)</u>	<u>(9,054)</u>
Accrued liability	<u>\$ (227,599)</u>	<u>\$ (150,442)</u>	<u>\$ (9,832)</u>	<u>\$ (9,551)</u>
Components of net periodic benefit cost:				
Service cost	\$ 31,213	\$ 31,208	\$ 417	\$ 469
Interest cost	55,457	51,377	456	377
Expected return on plan assets	(72,878)	(61,760)		
Settlement cost	185	992		
Amortization of prior service (credit) cost	(2,142)	5,296	(1,803)	(1,803)
Amortization of unrecognized net loss	<u>12,102</u>	<u>33,737</u>	<u>1,174</u>	<u>1,294</u>
Net periodic benefit cost	<u>\$ 23,937</u>	<u>\$ 60,850</u>	<u>\$ 244</u>	<u>\$ 337</u>

The amounts included in unrestricted net assets, including amounts arising during the year and amounts reclassified into net periodic benefit cost, as of December 31, 2014 and 2013, are as follows (in thousands):

	<b>Pension Plans</b>		
	<b>Net Gain (Loss)</b>	<b>Prior Service Cost</b>	<b>Total</b>
Included in net assets—January 1, 2013	\$ 403,033	\$ 28,945	\$ 431,978
Reclassified into net periodic benefit cost	(33,737)	(5,296)	(39,033)
Arising during the year	<u>(183,214)</u>	<u>(48,691)</u>	<u>(231,905)</u>
Included in net assets—December 31, 2013	<u>\$ 186,082</u>	<u>\$ (25,042)</u>	<u>\$ 161,040</u>
Included in net assets—January 1, 2014	\$ 186,082	\$ (25,042)	\$ 161,040
Reclassified into/from net periodic benefit cost	(12,102)	2,142	(9,960)
Arising during the year	<u>132,786</u>	<u>1,370</u>	<u>134,156</u>
Included in net assets—December 31, 2014	<u>\$ 306,766</u>	<u>\$ (21,530)</u>	<u>\$ 285,236</u>
	<b>Postretirement Plan</b>		
	<b>Net Gain (Loss)</b>	<b>Prior Service Cost</b>	<b>Total</b>
Included in net assets—January 1, 2013	\$ 9,829	\$ (9,265)	\$ 564
Reclassified into/from net periodic benefit cost	(1,294)	1,803	509
Arising during the year	<u>10</u>	<u>_____</u>	<u>10</u>
Included in net assets—December 31, 2013	<u>\$ 8,545</u>	<u>\$ (7,462)</u>	<u>\$ 1,083</u>
Included in net assets—January 1, 2014	\$ 8,545	\$ (7,462)	\$ 1,083
Reclassified into/from net periodic benefit cost	(1,174)	1,803	629
Arising during the year	<u>454</u>	<u>_____</u>	<u>454</u>
Included in net assets—December 31, 2014	<u>\$ 7,825</u>	<u>\$ (5,659)</u>	<u>\$ 2,166</u>

Amounts included in unrestricted net assets and not yet recognized in operations as of December 31, 2014 and 2013, consist of (in thousands):

	<b>Pension Plans</b>		<b>Postretirement Plan</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Unrecognized prior service credit	\$ (21,530)	\$ (25,042)	\$ (5,659)	\$ (7,462)
Actuarial losses	<u>306,766</u>	<u>186,082</u>	<u>7,825</u>	<u>8,545</u>
Total amount not yet recognized in operations	<u>\$ 285,236</u>	<u>\$ 161,040</u>	<u>\$ 2,166</u>	<u>\$ 1,083</u>

The estimated amounts to be amortized from unrecognized net assets into net periodic benefit cost during 2015 are as follows (in thousands):

	<b>Pension Plans</b>	<b>Postretirement Plan</b>
Amortization of prior service credits	\$ (1,861)	\$ (1,803)
Amortization of net actuarial loss	<u>21,132</u>	<u>975</u>
Net amount to be recognized in 2015	<u>\$ 19,271</u>	<u>\$ (828)</u>

The Hospital's portion of the multiple employer plan assets and accumulated benefit obligations that exceed the amounts of plan assets measured as of December 31, 2014 and 2013, are as follows (in thousands):

	<b>2014</b>	<b>2013</b>
Fair value of plan assets	\$ 1,041,723	\$ 1,020,533
Accumulated benefit obligation	<u>1,261,098</u>	<u>1,165,335</u>
Unfunded status	<u>\$ (219,375)</u>	<u>\$ (144,802)</u>

**Plan Assets**—Plan assets are recorded at their fair value and consist of various securities. The various types of securities are as follows:

Cash and cash equivalents, U.S. equities, are recorded at fair value based on observable quoted prices for identical assets in active markets. As a result, these financial assets have been classified as Level 1 investments.

U.S. government, state and local government, federal agency, asset-backed, commercial and residential mortgage-backed, derivative, and corporate obligation securities are recorded at fair value based on observable inputs derived from quoted prices for similar assets in active markets. As a result, these securities have been classified as Level 2 investments.

Fixed-income mutual funds are recorded at fair value based on observable quoted prices for identical assets in active markets. As a result, these financial assets have been classified as Level 1 investments.

Commingled funds are recorded at fair value based on the underlying investments in the funds, which consist primarily of securities with quoted prices in active markets. Commingled funds also include a fund whose fair value is based on the NAV per share calculated by the investment manager and administrator; the fund provides for quarterly liquidity with 60 days' notice. As a result, these funds have been classified as Level 2 investments.

Funds of hedge funds, which are offshore fund vehicles, directly invest in a variety of hedge funds and have redemption requirements. Fair values are based on the NAV per share provided by the fund managers along with audited financial information. The investment strategies of the underlying hedge funds are primarily focused on fixed-income and equity-based investments; however, due to the private nature of the investments, pricing inputs (active market quoted prices) are not readily observable and require significant judgment in determining fair value. Due to the redemption restrictions, the fair value measurements used to estimate their fair value are a Level 3 input.

Private equity funds do not have a readily determinable market value. Fair values are based on information provided by the fund managers along with audited financial information using either a market approach or an income approach, each of which requires a significant degree of judgment. There is no active trading market for these investments, and they are for the most part illiquid. Due to the significant unobservable inputs, the fair value measurements used to estimate their fair value are a Level 3 input.

The total pension plans' asset portfolio for both employer groups by asset category as of December 31, 2014, is as follows (in thousands):

	Level 1	Level 2	Level 3	Total
Asset category:				
Cash and cash equivalents	\$ 35,579	\$ -	\$ -	\$ 35,579
U.S. equities	309,121			309,121
Fixed-income mutual funds	44,754			44,754
US government securities		43,744		43,744
State and local government securities		10,654		10,654
Federal agency securities		35,836		35,836
Residential mortgage securities		5,541		5,541
Commercial mortgage securities		429		429
Asset-backed securities		522		522
Corporate obligations		171,650		171,650
Derivatives—swaps and options		750		750
Commingled funds		196,758		196,758
Funds of hedge funds			110,854	110,854
Private equity funds			119,898	119,898
Total multiple employer plan assets	<u>\$ 389,454</u>	<u>\$ 465,884</u>	<u>\$ 230,752</u>	<u>\$ 1,086,090</u>

	Level 3 Investments		
	Private Equity Funds	Funds of Hedge Funds	Total
December 31, 2013—balance	\$ 86,941	\$ 103,272	\$ 190,213
Purchases	34,179		34,179
Redemptions/distributions	(15,839)		(15,839)
Net gain on assets held at December 31, 2014	6,203	7,582	13,785
Net gain on assets sold in 2014	<u>8,414</u>		<u>8,414</u>
December 31, 2014—balance	<u>\$ 119,898</u>	<u>\$ 110,854</u>	<u>\$ 230,752</u>

The table below discloses the nature and risks of investments on which fair value is measured by NAV per share as follows:

	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
Multistrategy hedge funds <sup>(a)</sup>	\$ 78,644	\$ -	Quarterly	100 days
Multistrategy hedge funds <sup>(b)</sup>	32,210		Annually, May 31	185 days
Opportunistic credit fund <sup>(c)</sup>	<u>54,787</u>	<u>          </u>	Quarterly	60 days
	<u>\$ 165,641</u>	<u>\$ -</u>		

- <sup>(a)</sup> This category invests in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The composite portfolio's strategies include investments in approximately 28% distressed debt, 27% long/short equities, 17% asset-backed securities, 15% global macro, and 13% special situations. Quantitative inputs for these securities are developed by the funds of hedge funds manager and not by the Hospital. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the funds of hedge funds manager.
- <sup>(b)</sup> This category invests in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The composite portfolio's strategies include investments in approximately 37% energy and commodities, 29% in systematic trading, 26% credit relative and arbitrage, 25% asset finance, and 4% other. The allocations stated above represent the levered exposure and will not add to 100%. Quantitative inputs for these securities are developed by the funds of hedge funds manager and not by the Hospital. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the funds of hedge funds manager.
- <sup>(c)</sup> This commingled fund invests in many different substrategies within corporate credit. The composite portfolio's strategies include investments in approximately 56% high yield, 36% bank debt, and 8% distressed credit. Quantitative inputs for these securities are developed by the investment manager and fund administrator and not by the Hospital. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the investment manager and fund administrator.

The total pension plans' asset portfolio for both employer groups by asset category as of December 31, 2013, is as follows (in thousands):

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Asset category:				
Cash and cash equivalents	\$ 58,130	\$ -	\$ -	\$ 58,130
U.S. equities	296,106			296,106
Fixed-income mutual funds	45,855			45,855
US government securities		66,620		66,620
State and local government securities		11,301		11,301
Federal agency securities		14,647		14,647
Residential mortgage securities		11,254		11,254
Commercial mortgage securities		10,349		10,349
Asset-backed securities		32,521		32,521
Corporate obligations		181,643		181,643
Derivatives—swaps and options		(225)		(225)
Commingled funds		143,053		143,053
Funds of hedge funds			103,272	103,272
Private equity funds			86,941	86,941
	<hr/>	<hr/>	<hr/>	<hr/>
Total multiple employer plan assets	<u>\$ 400,091</u>	<u>\$ 471,163</u>	<u>\$ 190,213</u>	<u>\$ 1,061,467</u>

At December 31, 2013, the Hospital reevaluated the observable inputs used in the fair value calculation of its fixed-income mutual funds and made a \$45,855,000 transfer from Level 2 to Level 1. The amounts reported represent the fair value as of the balance sheet date.

	<b>Level 3 Investments</b>		
	<b>Private Equity Funds</b>	<b>Funds of Hedge Funds</b>	<b>Total</b>
January 1, 2013—balance	\$ 75,368	\$ 85,115	\$ 160,483
Purchases	18,675	11,000	29,675
Redemptions/distributions	(18,178)		(18,178)
Net gain on assets held at December 31, 2013	9,728	7,157	16,885
Net gain on assets sold in 2013	1,348		1,348
	<hr/>	<hr/>	<hr/>
December 31, 2013—balance	<u>\$ 86,941</u>	<u>\$ 103,272</u>	<u>\$ 190,213</u>

The table below discloses the nature and risks of investments on which fair value is measured by NAV per share as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multistrategy hedge funds <sup>(a)</sup>	\$ 73,698	\$ -	Quarterly	100 days
Multistrategy hedge funds <sup>(b)</sup>	29,574		Annually, May 31	185 days
Opportunistic credit fund <sup>(c)</sup>	<u>54,431</u>	<u>          </u>	Quarterly	60 days
	<u>\$ 157,703</u>	<u>\$ -</u>		

- <sup>(a)</sup> This category invests in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The composite portfolio's strategies include investments in approximately 26% long/short equities, 25% distressed debt, 18% global macro, 17% asset-backed securities, 11% special situations, and 3% relative value. Quantitative inputs for these securities are developed by the funds of hedge funds manager and not by the Hospital. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the funds of hedge funds manager.
- <sup>(b)</sup> This category invests in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The composite portfolio's strategies include investments in approximately 36% asset finance, 28% credit relative value and arbitrage, 27% energy and commodities, and 9% other. Quantitative inputs for these securities are developed by the funds of hedge funds manager and not by the Hospital. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the funds of hedge funds manager.
- <sup>(c)</sup> This commingled fund invests in many different substrategies within corporate credit. The composite portfolio's strategies include investments in approximately 60% high yield, 21% bank debt, 5% aviation/Asset backed securities ("ABS"), 4% high-grade credit, 4% distressed credit, 3% tobacco municipal debt, and 3% cash. Quantitative inputs for these securities are developed by the investment manager and fund administrator and not by the Hospital. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the investment manager and fund administrator.

**Disclosures about Investment Policies and Strategies**—The Hospital makes investment allocation decisions in order to achieve returns in excess of the plan's actuarial return assumption while remaining consistent with the plan's risk posture and long-term investment horizon. The Hospital establishes objectives, policies, and guidelines; allocates assets in an appropriate and prudent fashion in accordance with fiduciary requirements of Employee Retirement Income Security Act of 1974; and ensures that plan assets are sufficient to meet the obligations of the plans as they come due.

Investment management of the plans is delegated to professional investment management firms that must adhere to policy guidelines and objectives. An independent investment consultant is used to measure and report on investment performance; to perform asset/liability modeling studies and recommend changes to objectives, guidelines, manager, or asset class structure; and to keep the Hospital informed of current investment trends and issues.

Based on consideration of the plans' projected benefit obligation and long-term investment horizon, the plans' ability to tolerate risk is in the moderate-to-aggressive range. Asset allocation is consistent with this level of risk, with assets diversified among multiple asset classes. Minimum and maximum ranges are established for each asset class to control risk and maximize the effectiveness of the plans' asset allocation strategy. Asset allocation is reviewed and rebalanced quarterly. To protect against the risk associated with a single security, issuer, or event, no single security may comprise more than 10% of the portfolio at market value, except for U.S. government or agency securities. No more than 5% of the portfolio may be held in cash other than on a temporary basis. Derivative instruments may only be utilized when consistent with the manager's stated style and objectives and may not be used for speculative purposes. Margin purchases are prohibited. Investment is also prohibited in antiques, stamps, gold, silver, commodities, and companies that manufacture tobacco products. Specific investment guidelines, restrictions, and investment return objectives exist for each asset class and corresponding investment manager. Certain investment strategies (swaps, puts, calls) are deployed to extend duration of the plan's assets in order to achieve a closer match with the duration of the plan's liabilities or to reduce exposure during swings in interest rates. These techniques are designed to reduce the volatility in the plan asset/liability ratios.

The target and actual allocations for the pension plans' assets as of December 31, 2014, are as follows:

	<b>Target %</b>	<b>Actual %</b>
Global equities	22.0 %	23.5 %
Small cap domestic equities	6.0	5.3
Emerging market equities	7.0	6.5
Long government/credit fixed income	35.0	26.3
Emerging market fixed income	5.0	4.1
Alternate credit fixed income	5.0	5.0
Unconstrained fixed income		6.6
Enhanced cash		
Funds of hedge funds	10.0	10.2
Private equity fund of funds	10.0	11.0
Cash		1.5
	<u>100.0 %</u>	<u>100.0 %</u>

The expected long-term rate of return on plan assets assumption is based on modeling studies completed with the assistance of the Hospital's actuaries and investment consultants. The models take into account asset class allocation, asset class returns, inflation, and bond yields for both domestic and foreign markets. They are also calibrated to take into consideration historical experience, including a random variable to reflect real-life uncertainty of the future and to project a large number of future economic scenarios. The consequences of adopting various investment policies on the future financial health of the plans under each of the scenarios are then evaluated. These studies, along with the historical 0.6% above-market returns that the plans have generated, indicated that expected future returns, weighted by asset allocation, support an expected long-term asset return assumption of 7.5% and 7.15% for the years ended 2014 and 2013, respectively.

The weighted-average assumptions used to determine benefit obligations for the pension plans as of December 31, 2014 and 2013, are as follows:

	<b>2014</b>	<b>2013</b>
Discount rate—Employees' Retirement Plan	4.40 %	4.90 %
Discount rate—Supplemental Pension Plans	3.00	2.40
Discount rate—Postretirement Benefit Plan	4.40	4.90
Rate of compensation increase—Employees' Retirement Plan and Supplemental Executive Retirement Plan (SERP)	3.00	3.00
Rate of compensation increase—Senior Executive Retirement Agreement (SERA)	NA	NA
Expected return on plan assets	7.50	7.15

The weighted-average assumptions used for the pension and postretirement plans to determine net periodic benefit costs for the years ended December 31, 2014 and 2013, are as follows:

	<b>2014</b>	<b>2013</b>
Discount rate—Employees' Retirement Plan	4.90 %	3.90 %
Discount rate—Supplemental Pension Plans	2.40	1.80
Discount rate—Postretirement Benefit Plan	4.90	4.00
Rate of compensation increase—Employees' Retirement Plan and SERP	3.00	3.00
Rate of compensation increase—SERA	NA	NA
Expected return on plan assets	7.50	7.15

The Hospital's funding policy is to contribute annually not less than the minimum required by applicable laws and regulations. The Hospital made contributions to the Employees' Retirement Plan in 2014 and 2013 of \$70,000,000 and \$63,796,888, respectively. Pension contributions are expected to be up to \$70,000,000 during 2015.

For the years ended December 31, 2014 and 2013, the health care trend rate on covered benefits is assumed to be 6.6% and 7.0%, respectively, decreasing gradually to 5.0% by 2019 and all years thereafter.

The Hospital expects to pay the following for pension benefits and expected postretirement benefits (in thousands):

	<b>Pension Plans</b>	<b>Postretirement Plans</b>
2015	\$ 60,284	\$ 436
2016	65,123	389
2017	68,771	386
2018	71,808	410
2019	72,830	421
2020–2024	383,627	2,305

## 8. RESTRICTED NET ASSETS

Restricted net assets as of December 31, 2014 and 2013, are available for the following activities (in thousands):

	2014	2013
Patient care	\$ 32,458	\$ 20,530
Education, training, and research	7,232	6,226
Property, plant, and equipment	<u>14,613</u>	<u>22,721</u>
Total temporarily restricted net assets	54,303	49,477
Permanently restricted net assets	<u>26,726</u>	<u>23,999</u>
Total restricted net assets	<u>\$ 81,029</u>	<u>\$ 73,476</u>

The Hospital's restricted net assets (funds) consist of approximately 361 funds whose use is restricted by explicit donor-imposed stipulations. There are 56 funds that are permanently restricted and 305 temporarily restricted funds, none of which are term endowments. There is one unrestricted fund designated by the board of directors to function as a restricted fund. As required by GAAP, net assets associated with restricted funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Uniform Prudent Management of Institutional Funds Act (UPMIFA), along with other relevant state laws, guides the Hospital's investment policies for restricted funds.

UPMIFA requires the Hospital to exercise ordinary and prudent care in good faith in its discretion to invest and appropriate some or all of the net appreciation or depreciation of investments. In absence of a relevant law or donor stipulations, fiduciary responsibility to exercise ordinary care and prudence does not extend donor stipulations to the earnings and losses on investments.

The Hospital utilizes investment and spending policies for restricted net assets with the intent to preserve assets and provide a reliable stream of funding to support donor intentions. These policies are in place to assure prudent investment, a moderate level of investment risk, and to achieve returns in excess of the rate of inflation and commensurate with the funds' time horizon. An independent investment consultant is used to measure and report on investment performance. A reconciliation of net assets is included in the consolidated statements of operations and changes in net assets.

Recognized gains and losses on securities held are reflected in the nonoperating unrestricted activity. Investment income and realized gains and losses from the investment of permanently restricted funds not directed by donor stipulations to be retained in the endowment principal are immediately appropriated to an accompanying temporarily restricted fund that meets the donor-imposed stipulations. Permanently restricted net assets are not reduced by losses, which are charged to the accompanying temporarily restricted fund to the extent an unexpended balance is remaining in the temporarily restricted fund. In the event a temporarily restricted fund has been depleted, losses are charged to unrestricted net assets. No restricted funds are maintained in a deficit status.

The Hospital has remainder interests in certain trusts held by third-party trustees. At the time of initial recognition, interests in charitable remainder trusts are recorded as contributions. Subsequent revaluations are reported as changes in value of interests in trusts.

## 9. NET PATIENT SERVICE REVENUE AND PATIENT RECEIVABLES

Net patient service revenues paid by third parties are based upon contractual agreements, which generally include a fixed rate adjusted for acuity for each inpatient admission according to its diagnosis. Outpatient services are generally paid based on a fee-for-service schedule or a percentage of charges. Based upon these agreements, the Hospital has reduced gross charges and the resulting net patient service revenue has been reflected in the accompanying consolidated financial statements using the most current information available. The percentages of revenue for Medicare and Blue Cross were 44% and 28%, respectively, for 2014 and 2013.

Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized for the years ended December 31, 2014 and 2013, from these major payor sources is as follows (in thousands):

	<b>2014</b>	<b>2013</b>
Medicare	\$ 1,042,430	\$ 984,360
Blue Cross	662,968	639,867
Managed Care	309,977	321,560
Medicaid	142,510	124,644
Commercial	118,026	82,165
Self Pay	54,121	65,013
Other	<u>36,564</u>	<u>34,534</u>
Total	<u><u>\$ 2,366,596</u></u>	<u><u>\$ 2,252,143</u></u>

Net patient receivables from major third-party payors as of December 31, 2014 and 2013, are as follows (in thousands):

	<b>2014</b>	<b>2013</b>
Medicare	\$ 85,458	\$ 89,489
Blue Cross	1,573	10,139
Medicaid	<u>1,675</u>	<u>977</u>
Total	<u><u>\$ 88,706</u></u>	<u><u>\$ 100,605</u></u>

Third-party payor settlements are generally subject to audit of reimbursable costs and medical necessity. At December 31, 2014, Medicare 2011 through 2014, Medicaid 2011 through 2014, and Blue Cross 2014 cost reports were not final settled. The estimated third-party payor settlements receivable or payable are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as settlements and other information become available.

## 10. UNCOMPENSATED CARE AND COMMUNITY BENEFIT

The following uncompensated care and community benefit information is reported consistent with the American Hospital Association Guidance on Reporting of Community Benefits.

The Hospital follows the policy of providing health care service to all patients regardless of their ability to pay. Consequently, the Hospital provides health care services free of charge or at amounts less than its full costs of providing care to certain categories of patients. The unreimbursed cost of this uncompensated care as of December 31, 2014 and 2013, was as follows (in thousands):

	2014	2013
Medicare	\$ 40,238	\$ 54,052
Medicaid	86,227	80,232
Other charity care	<u>6,607</u>	<u>8,601</u>
Total charity	133,072	142,885
Bad debts at cost	<u>26,943</u>	<u>33,517</u>
Total cost of uncompensated care	<u>\$ 160,015</u>	<u>\$ 176,402</u>

The method used to estimate the cost of providing uncompensated care was determined by calculating the Hospital's overall direct and indirect cost using the Hospital's cost accounting system and multiplying that ratio to the cost of uncompensated charges.

Additionally, the Hospital provides resources and services that support health screening, health promotion, medical education, research, patient transportation, and needs within the community. The unreimbursed cost of these programs as of December 31, 2014 and 2013, was as follows (in thousands):

	2014	2013
Medical education/research	\$ 48,013	\$ 47,069
Community programs	47,727	51,012
Donations	<u>121</u>	<u>147</u>
Total community benefit	<u>\$ 95,861</u>	<u>\$ 98,228</u>

## 11. DEFERRED COMPENSATION

The deferred compensation plans cover eligible employees electing to defer payments for part of their compensation. Amounts due under the plans are fully vested. Investments are reported at fair value, with an equal outstanding deferred compensation liability.

## 12. COMMITMENTS AND CONTINGENCIES

**Professional and General Liability**—The Hospital self-insures medical professional and general liability claims. Excess coverage is purchased on a claims-made basis from its wholly owned captive insurance company. In general, medical professional liability claims in excess of \$10,000,000 and general liability claims in excess of \$2,000,000 per claim are 100% reinsured by the captive through unrelated reinsurance companies.

The Hospital recorded expenses of \$15,494,000 in 2014 and \$7,786,000 in 2013 for the estimated costs of medical professional claims, their associated defense, and excess insurance costs.

The liability for self-insurance represents the ultimate net losses and loss adjustment expenses for incurred claims and is discounted at 3% in 2014 and 2013. Loss reserves are determined based on assumptions that are reviewed and adjusted as necessary.

The Hospital is party to lawsuits (including alleged medical professional liability claims) incidental to the operation of the hospitals. Management believes that the ultimate disposition of such litigation will not result in liabilities that are materially in excess of amounts currently accrued in the consolidated balance sheets of the Hospital.

In 2011, an Oakland County jury returned a verdict of \$144.5 million dollars in the case of Markell Vanslebrouck vs. the Hospital et al, Case No. 2006-754585-NH. After a number of statutorily required adjustments, including application of the cap on noneconomic damages and reduction of future damages to present value, the verdict was reduced to a judgment of approximately \$42 million. Beaumont appealed to the Michigan Court of Appeals. In October 2014, the Michigan Court of Appeals affirmed the judgment of the trial court. Beaumont's total reserve toward this claim remains at the low end of the range of anticipated losses. Beaumont is pursuing further appeal in the Michigan Supreme Court.

**Nursing Homes**—Under certain conditions, the Hospital has agreed to make limited loans or capital contributions to its nursing home joint venture arrangements, referenced in Note 3, in order for them to maintain certain debt service ratios relating to aggregate outstanding bank financing of \$104,122,000 in outstanding mortgage balances and \$11,999,000 in line of credit draws. The Hospital is at risk for its share of these support agreements and, accordingly, has reported its share of the obligation as of December 31, 2014 and 2013, of \$20,894,000 and \$21,622,000, respectively, as a long-term liability, which represents approximately 50% of the negative equity in such nursing homes (see Note 6).

In 2008, the nursing home joint venture incurred indebtedness of \$15,413,000 in conjunction with the purchase of a 50% interest in a nursing home and assisted living facility, reducing the Hospital's ownership to 50%. As with the previous loans, under certain conditions, the Hospital agreed to make limited loans or capital contributions to the nursing home partnership arrangements in order for them to maintain certain debt service ratios related to these new loans.

### 13. LEASES

The Hospital leases certain buildings and equipment under noncancelable operating lease agreements. Total rental expense for operating leases was approximately \$32,327,000 and \$27,161,000 in 2014 and 2013, respectively. Future minimum lease payments under these leases are as follows: 2015—\$26,563,000; 2016—\$24,162,000; 2017—\$20,988,000; 2018—\$18,350,000; 2019—\$16,313,000; and thereafter—\$73,042,000.

The Hospital also leases available space in its medical office buildings and certain other facilities to third parties with lease terms ranging from one to 10 years. Rental income for 2014 and 2013 was approximately \$6,140,000 and \$6,678,000, respectively. Minimum future rental income under these agreements is as follows: 2015—\$4,189,000; 2016—\$2,419,000; 2017—\$1,390,000; 2018—\$832,000; 2019—\$628,000; and thereafter—\$17,076,000.

## 14. FAIR VALUES OF FINANCIAL INSTRUMENTS

Investments are recorded at their fair value and consist of various securities. The various types of securities are as follows:

Cash, cash equivalents, certificates of deposit, and commercial paper are carried at cost, which approximates fair value. These financial assets have been classified as Level 1 investments.

Equities, equity, fixed-income, and real estate mutual funds are recorded at fair value based on observable unadjusted quoted prices for identical assets in active markets. These financial assets have been classified as Level 1 investments.

U.S. government, state and local government, federal agency obligation, asset-backed, commercial and residential mortgage-backed, and corporate obligation securities are recorded at fair value based on observable inputs derived from quoted prices for similar assets in active markets. As a result, these securities have been classified as Level 2 investments.

Commingled funds are recorded at fair value based on the underlying investments in the funds, which consist primarily of securities with quoted prices in active markets. Commingled funds include funds whose fair value is based on an NAV per share calculated by the investment manager and administrator. One fund provides monthly liquidity with 15 days' notice while the other fund provides quarterly liquidity with 60 days' notice. As a result, these funds have been classified as Level 2 investments.

Funds of hedge funds do not have a readily determinable market value. Fair values are based on the NAV per share provided by the fund managers along with audited financial information. Due to redemption restrictions, such securities have been classified as Level 3 investments.

Beneficial interest in trust funds are recorded at fair value based on the underlying investments in the funds, which consist primarily of securities with quoted prices in active markets. As a result, these funds have been classified as Level 2 investments.

In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest-level input that is significant to the fair value measurement in its entirety. The Hospital's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including consideration of inputs specific to the asset.

Information about the Hospital's financial assets and liabilities recorded at fair value and measured on a recurring basis as of December 31, 2014, according to the valuation techniques the Hospital used to determine their fair values (there were no assets or liabilities measured on a nonrecurring basis as of December 31, 2014) is as follows (in thousands):

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Cash and cash equivalents	\$ 17,592	\$ -	\$ -	\$ 17,592
Certificates of deposit	17,000			17,000
Commercial paper	7,996			7,996
US government securities		30,347		30,347
State and local government securities		3,753		3,753
Federal agency obligations		7,284		7,284
Asset-backed securities		40,332		40,332
Commercial mortgage securities		29,735		29,735
Residential mortgage securities		11,450		11,450
Corporate obligations		36,504		36,504
Equities	176,858			176,858
Equity mutual funds	26,743			26,743
Fixed-income mutual funds	43,856			43,856
Real estate mutual funds	228			228
Total marketable investments	290,273	159,405	-	449,678
Beneficial interest in trust		9,357		9,357
Commingled funds		251,358		251,358
Funds of hedge funds			145,788	145,788
Total assets at fair value	<u>\$ 290,273</u>	<u>\$ 420,120</u>	<u>\$ 145,788</u>	<u>\$ 856,181</u>

	<u>Level 3 Investments</u> <u>Funds of</u> <u>Hedge Funds</u>
December 31, 2013—balance	\$ 135,821
Purchases	
Net gain on assets held at December 31, 2014	<u>9,967</u>
December 31, 2014—balance	<u>\$ 145,788</u>

The table below discloses the nature and risks of investments on which fair value is measured by NAV per share:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multistrategy hedge funds <sup>(a)</sup>	\$ 103,600	\$ -	Quarterly	100 days
Multistrategy hedge funds <sup>(b)</sup>	42,188		Annually, May 31	185 days
Opportunistic credit fund <sup>(c)</sup>	71,332		Quarterly	60 days
Unconstrained global fixed income multistrategy hedge fund <sup>(d)</sup>	<u>89,647</u>	<u>          </u>	Monthly	15 days
	<u>\$ 306,767</u>	<u>\$ -</u>		

- <sup>(a)</sup> This category invests in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The composite portfolio's strategies include investments in approximately 28% distressed debt, 27% long/short equities, 17% asset-backed securities, 15% global macro, and 13% special situations. Quantitative inputs for these securities are developed by the funds of hedge funds manager and not by the Hospital. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the funds of hedge funds manager.
- <sup>(b)</sup> This category invests in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The composite portfolio's strategies include investments in approximately 37% energy and commodities, 29% in systematic trading, 26% credit relative value and arbitrage, 25% asset finance, and 4% other. The allocations stated above represent the levered exposure and will not add to 100%. Quantitative inputs for these securities are developed by the funds of hedge funds manager and not by the Hospital. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the funds of hedge funds manager.
- <sup>(c)</sup> This commingled fund invests in many different substrategies within corporate credit. The composite portfolio's strategies include investments in approximately 56% high yield, 36% bank debt, and 8% distressed credit. Quantitative inputs for these securities are developed by the investment manager and fund administrator and not by the Hospital. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the investment manager and fund administrator.
- <sup>(d)</sup> This commingled fund features an unconstrained fixed-income approach that allows it to invest across the spectrum of bonds and currencies. The composite portfolio's exposure to bonds includes approximately 67% to international government/agency bonds, 11% to corporate bonds, 10% in sovereign bonds, and 12% in cash. Currency exposure includes 71% to the U.S. dollar, 41% to Asia (Non-Japan), 28% Non-US America, and 19% Periphery Europe; short currency positions include (35%) to the Euro and (24%) to the Japanese Yen. Quantitative inputs for these securities are developed by the investment manager and fund administrator and not by the Hospital. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the investment manager and fund administrator.

Information about the Hospital's financial assets and liabilities recorded at fair value and measured on a recurring basis as of December 31, 2013, according to the valuation techniques the Hospital used to determine their fair values (there were no assets or liabilities measured on a nonrecurring basis as of December 31, 2013) is as follows (in thousands):

	<b>Quoted Prices in Active Markets (Level 1)</b>	<b>Other Observable Inputs (Level 2)</b>	<b>Unobservable Inputs (Level 3)</b>	<b>Total</b>
Cash and cash equivalents	\$ 22,924	\$ -	\$ -	\$ 22,924
Certificates of deposit	16,500			16,500
US government securities		77,457		77,457
State and local government securities		2,889		2,889
Federal agency obligations		23,514		23,514
Asset-backed securities		74,153		74,153
Commercial mortgage securities		32,264		32,264
Residential mortgage securities		14,650		14,650
Corporate obligations		119,301		119,301
Equities	185,154			185,154
Equity mutual funds	21,872			21,872
Fixed-income mutual funds	51,266			51,266
Real estate mutual funds	110			110
	<hr/>	<hr/>	<hr/>	<hr/>
Total marketable investments	297,826	344,228	-	642,054
Beneficial interest in trust		7,630		7,630
Commingled funds		133,545		133,545
Funds of hedge funds			135,821	135,821
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets at fair value	<u>\$297,826</u>	<u>\$485,403</u>	<u>\$135,821</u>	<u>\$919,050</u>

At December 31, 2013, the Hospital reevaluated the observable inputs used in the fair value calculation of its fixed-income mutual funds and made a \$37,681,000 transfer from Level 2 to Level 1. The amounts reported represent the fair value as of the balance sheet date.

	<b><u>Level 3 Investments</u></b> <b><u>Funds of</u></b> <b><u>Hedge Funds</u></b>
January 1, 2013—balance	\$ 116,290
Purchases	10,000
Net gain on assets held at December 31, 2013	<u>9,531</u>
December 31, 2013—balance	<u>\$ 135,821</u>

The table below discloses the nature and risks of investments on which fair value is measured by NAV per share:

	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
Multistrategy hedge funds <sup>(a)</sup>	\$ 97,085	\$ -	Quarterly	100 days
Multistrategy hedge funds <sup>(b)</sup>	38,736		Annually, May 31	185 days
Opportunistic credit fund <sup>(c)</sup>	<u>53,579</u>	<u>          </u>	Quarterly	60 days
	<u>\$ 189,400</u>	<u>\$ -</u>		

- (a) This category invests in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The composite portfolio's strategies include investments in approximately 26% long/short equities, 25% distressed debt, 18% global macro, 17% asset-backed securities, 11% special situations, and 3% relative value. Quantitative inputs for these securities are developed by the funds of hedge funds manager and not by the Hospital. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the funds of hedge funds manager.
- (b) This category invests in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The composite portfolio's strategies include investments in approximately 36% asset finance, 28% credit relative value and arbitrage, 27% energy and commodities, and 9% other. Quantitative inputs for these securities are developed by the funds of hedge funds manager and not by the Hospital. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the funds of hedge funds manager.
- (c) This commingled fund invests in many different substrategies within corporate credit. The composite portfolio's strategies include investments in approximately 60% high yield, 21% bank debt, 5% aviation/ABS, 4% high-grade credit, 4% distressed credit, 3% tobacco municipal debt, and 3% cash. Quantitative inputs for these securities are developed by the investment manager and fund administrator and not by the Hospital. The fair values of the investments in this category have been estimated using the NAV per share of the investments, which are determined by the investment manager and fund administrator.

The estimated fair value amounts have been determined by the Hospital using available market information and appropriate valuation methodologies. These estimates are subjective in nature and involve uncertainties and matters of considerable judgment. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Hospital could realize in a current market exchange. The use of different assumptions, judgments, and/or estimation methodologies may have a material effect on the estimated fair value amounts.

**Fair Values**—The fair values of the Hospital's financial instruments not recorded at fair value as of December 31, 2014 and 2013, are as follows (in thousands):

	<b>2014</b>	<b>2013</b>
Cash and cash equivalents	\$ 120,664	\$ 102,157
Long-term debt	1,074,890	1,122,803

**Cash and Cash Equivalents**—The carrying amounts of the Hospital’s cash and cash equivalents approximate their fair values and are based on observable unadjusted quoted market prices for identical assets in active markets. As a result, these financial instruments would be classified as a Level 1 investment.

**Long-Term Debt**—The fair values of the Hospital’s variable-rate debt approximate their carrying values. The fair value of the Hospital’s fixed-rate long-term debt is estimated using discounted cash flow analysis based on the Hospital’s current incremental borrowing rates for similar types of borrowing arrangements. A significant portion of the inputs used to calculate the fair values of the Hospital’s long-term debt are unobservable and cannot be corroborated by observable market data. As a result, all long-term debt would be classified as Level 3. The carrying amounts reported in the consolidated balance sheets are \$928,399,000 and \$958,780,000 at December 31, 2014 and 2013, respectively.

## 15. NET ASSETS

**Unrestricted Net Assets**—Changes in consolidated unrestricted net assets attributable to the Hospital and the noncontrolling interest in consolidated subsidiary for the years ended December 31, 2014 and 2013, are as follows (in thousands):

	Beaumont Hospitals	Noncontrolling Interests in Consolidated Subsidiary	Total
Unrestricted net assets—January 1, 2013	\$ 871,343	\$ 820	\$ 872,163
Excess of revenues over expenses	65,417	258	65,675
Other changes in unrestricted net assets:			
Pension and postretirement adjustments	270,419		270,419
Distributions to noncontrolling interests in consolidated subsidiary		(412)	(412)
Net assets released from restrictions—capital acquisitions	6,525		6,525
Increase (decrease) in unrestricted net assets	342,361	(154)	342,207
Unrestricted net assets—December 31, 2013	1,213,704	666	1,214,370
Excess of revenues over expenses	933	213	1,146
Other changes in unrestricted net assets:			
Pension and postretirement adjustments	(125,279)		(125,279)
Other changes in unrestricted net assets	(75)		(75)
Distributions to noncontrolling interests in consolidated subsidiary		(235)	(235)
Net assets released from restrictions—capital acquisitions	5,409		5,409
Decrease in unrestricted net assets	(119,012)	(22)	(119,034)
Unrestricted net assets—December 31, 2014	\$ 1,094,692	\$ 644	\$ 1,095,336

## 16. SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 26, 2015, the date the consolidated financial statements were issued. The following subsequent events were noted that require disclosure under FASB ASC 855, *Subsequent Events*:

On January 28, 2015, OHI's master indenture was amended and restated to admit the Hospital and Botsford as members of the obligated group under the Master Indenture. In addition, Botsford Continuing Care Corporation was designated as a designated affiliate under the Master Indenture. On the same date, Beaumont Health issued \$398,435,000 of debt for the purpose of refunding various debt amounts outstanding and held by the Beaumont Health subsidiaries. As part of this transaction, Series 2009W, Series 2012A, Series 2012B, and Series 2012 Y bonds in the amount of \$324,695,000 held by the Hospital at December 31, 2014, were advance refunded.

\* \* \* \* \*

**CONSOLIDATED FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**Oakwood Healthcare, Inc. and Subsidiaries**  
**Years Ended December 31, 2014 and 2013**  
**With Reports of Independent Auditors**

Ernst & Young LLP



Oakwood Healthcare, Inc. and Subsidiaries

Consolidated Financial Statements and  
Supplementary Information

Years Ended December 31, 2014 and 2013

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## Report of Independent Auditors

The Board of Trustees  
Oakwood Healthcare, Inc.

We have audited the accompanying consolidated financial statements of Oakwood Healthcare, Inc. and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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



## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Oakwood Healthcare, Inc. and subsidiaries at December 31, 2014 and 2013, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

*Ernst & Young LLP*

March 26, 2015

# Oakwood Healthcare, Inc. and Subsidiaries

## Consolidated Balance Sheets (Dollars in Thousands)

	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 102,449	\$ 60,809
Patient accounts receivable, less allowance for doubtful accounts	116,252	111,233
Current portion of assets with limited use	28,087	26,588
Inventories	12,495	13,079
Prepaid expenses and other current assets	23,730	20,320
Total current assets	<u>283,013</u>	<u>232,029</u>
Assets with limited use:		
Capital expansion fund	323,758	311,284
Professional liability funds	70,459	71,092
Funds held by trustee	2,627	2,504
Other board-designated and donor-restricted funds	17,311	14,850
Escrow deposits	1,119	128
	<u>415,274</u>	<u>399,858</u>
Other assets:		
Investments	79,064	89,431
Deferred bond issue costs, less accumulated amortization of \$1,192 in 2014 and \$885 in 2013	3,972	4,285
Investments in unconsolidated affiliates	15,482	18,369
Pledges receivable	7,056	13,470
Goodwill	16,224	16,224
Other assets	18,959	19,926
	<u>140,757</u>	<u>161,705</u>
Property and equipment:		
Land	38,082	38,082
Buildings and improvements	605,351	601,405
Equipment	767,111	747,360
Construction-in-progress	9,041	4,013
	<u>1,419,585</u>	<u>1,390,860</u>
Accumulated depreciation	<u>(927,726)</u>	<u>(882,547)</u>
	<u>491,859</u>	<u>508,313</u>
Total assets	<u><u>\$ 1,330,903</u></u>	<u><u>\$ 1,301,905</u></u>

	December 31	
	2014	2013
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 88,902	\$ 76,777
Salaries, wages, and amounts withheld	32,104	26,443
Accrued vacation and sick pay	14,359	14,415
Amounts due to third-party payors	25,391	18,959
Resident deposits	14,079	13,017
Deferred revenue	6,997	2,365
Current portion of accrued other postretirement benefits	1,162	1,323
Current portion of claims liability	8,275	8,086
Current portion of long-term debt	23,428	22,417
Total current liabilities	214,697	183,802
Long-term liabilities:		
Other noncurrent liabilities	1,501	1,596
Accrued pension obligation	105,845	80,597
Accrued compensation and other postretirement benefits	14,528	15,562
Claims liability	84,836	90,459
Long-term debt, less current portion	375,449	400,329
Total long-term liabilities	582,159	588,543
Total liabilities	796,856	772,345
Net assets:		
Unrestricted	507,303	498,294
Unrestricted – noncontrolling interest	642	731
Temporarily restricted	18,093	23,181
Permanently restricted	8,009	7,354
Total net assets	534,047	529,560

Total liabilities and net assets	<u>\$ 1,330,903</u>	<u>\$ 1,301,905</u>
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*See accompanying notes.*

Oakwood Healthcare, Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets  
(Dollars in Thousands)

	<b>Year Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
<b>Revenue</b>		
Unrestricted revenue, gains, and other support:		
Patient service revenue	\$ 1,193,676	\$ 1,176,811
Less provision for doubtful accounts	(64,659)	(91,720)
Net patient service revenue	1,129,017	1,085,091
Other revenue	79,965	75,407
Total revenue	1,208,982	1,160,498
<b>Expenses</b>		
Salaries and wages	522,345	499,140
Employee benefits	90,614	88,823
Insurance	15,754	16,695
Supplies	181,614	171,729
Purchased services and other	288,316	282,949
Interest expense	18,596	19,174
Depreciation and amortization	66,739	67,147
Total expenses	1,183,978	1,145,657
Operating income before self-insurance trust and resident deposit investment return, gain on sale, and nonrecurring expenses	25,004	14,841
Self-insurance trust and resident deposit investment return	4,438	10,319
Gain on sale of interest in Caretech	9,371	—
Nonrecurring expenses	(1,769)	(1,380)
Operating income	37,044	23,780
<b>Nonoperating gains (losses)</b>		
Interest expense	(581)	(767)
Impairment charges	(1,640)	(1,104)
Share of net gain (loss) of affiliates	4,391	(984)
Interest, dividends, and realized gains, net	27,786	17,491
Unrealized (losses) gains, net	(11,690)	28,966
Total nonoperating gains, net	18,266	43,602
Excess of revenues over expenses before loss on debt refinancing	55,310	67,382
Loss on debt refinancing	—	(1,676)
Excess of revenues over expenses	55,310	65,706

Oakwood Healthcare, Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets (continued)  
(Dollars in Thousands)

	<b>Year Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
<b>Changes in unrestricted net assets</b>		
Excess of revenue over expenses	\$ 55,310	\$ 65,706
Other changes in unrestricted net assets:		
Pension and postretirement liability adjustments	(46,687)	60,500
Noncontrolling interest adjustments	(89)	(108)
Net assets released from restrictions for capital	937	1,044
Other changes in net assets	(551)	711
Increase in unrestricted net assets	8,920	127,853
<b>Changes in temporarily restricted net assets</b>		
Gifts, contributions, and pledges, net of allowances	(2,123)	8,223
Net investment income	313	1,040
Net assets released from restrictions for capital and operating purposes	(3,278)	(3,771)
(Decrease) increase in temporarily restricted net assets	(5,088)	5,492
<b>Changes in permanently restricted net assets</b>		
Gifts and contributions	655	868
Increase in permanently restricted net assets	655	868
Increase in net assets	4,487	134,213
Net assets at beginning of year	529,560	395,347
Net assets at end of year	\$ 534,047	\$ 529,560

See accompanying notes.

# Oakwood Healthcare, Inc. and Subsidiaries

## Consolidated Statements of Cash Flows

(Dollars in Thousands)

	<b>Year Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
<b>Operating activities</b>		
Increase in net assets	\$ 4,487	\$ 134,213
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	66,739	67,147
Unrealized losses (gains) on investments, net	13,507	(32,150)
Loss on debt refinancing	—	1,676
Equity interest in joint ventures	(20,829)	(655)
Impairment loss on affiliate	1,640	1,104
Restricted contributions and investment income	1,155	(10,131)
Pension and postretirement liability adjustments	46,687	(60,500)
Contributions to pension plans	(34,245)	(30,150)
(Increase) decrease in accounts receivable, net of provision for uncollectible accounts charged to operations of \$64,659 in 2014 and \$91,720 in 2013	(5,019)	16,970
(Increase) decrease in:		
Inventories	542	(529)
Other assets	(1,855)	1,205
Pledges receivable	6,414	(3,681)
Increase (decrease) in:		
Accounts payable and other accrued expenses	12,125	(5,689)
Accrued compensation and amounts withheld	4,571	(2,992)
Amounts due to third-party payors	6,432	(3,408)
Resident deposits	1,062	713
Deferred revenue	4,632	(99)
Pension liability	12,645	20,152
Claims liability	(6,059)	(1,598)
Other noncurrent liabilities	(408)	(1,618)
Net cash provided by operating activities	114,223	89,980
<b>Investing activities</b>		
Property and equipment additions, net	(51,710)	(60,660)
Increase in investments	(20,055)	(34,116)
Proceeds from sale of interest in affiliates	21,630	—
Decrease in investments in affiliates	1,179	164
Net cash used in investing activities	(48,956)	(94,612)

Oakwood Healthcare, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (continued)  
(Dollars in Thousands)

	Year Ended December 31	
	2014	2013
<b>Financing activities</b>		
Restricted contributions and investment income	\$ (1,155)	\$ 10,131
Deferred bond issue costs	—	(668)
Deferred bond premiums	—	5,855
Proceeds from long-term debt	—	48,145
Payments of long-term debt	(22,472)	(74,735)
Net cash used in financing activities	(23,627)	(11,272)
Net increase (decrease) in cash and cash equivalents	41,640	(15,904)
Cash and cash equivalents at beginning of year	60,809	76,713
Cash and cash equivalents at end of year	<u>\$ 102,449</u>	<u>\$ 60,809</u>

See accompanying notes.

# Oakwood Healthcare, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (Dollars in Thousands)

December 31, 2014

### 1. Organization and Accounting Policies

#### Organization

Oakwood Healthcare, Inc., a Michigan nonprofit organization, and its subsidiaries are collectively referred to as OHI or the Company. OHI is a regional health system headquartered in Dearborn, Michigan, which provides comprehensive health care and related services to residents of southeastern Michigan. Effective September 1, 2014, the Company became a member of Beaumont Health, a new nonprofit health system serving southeastern Michigan. Beaumont Health includes OHI, William Beaumont Hospital, and Botsford General Hospital and their subsidiaries and affiliates.

OHI's services include inpatient and outpatient services, physician services, long-term care, senior and assisted living, rehabilitation services, home-health care, and other health-related activities. OHI consists of four acute care hospitals (the Hospitals) and subsidiaries, including a foundation, an assisted and independent living center, a nursing home, a captive insurance company, a certified home health agency, a for-profit company engaged in health-related businesses, and various other health care entities. All subsidiaries are governed and related through common control. Substantially all expenses of OHI are related to providing health care services.

#### Mission

OHI focuses its governance and management activities toward fulfilling its mission, which is to provide excellence in care, healing, and health to the individuals and communities served. The Company's charitable purpose includes accepting patients regardless of their ability to pay for services. OHI has a charity care policy, which provides for free or discounted care to uninsured and underinsured members of the communities in which the Company operates. Based on the Company's policy, charity care is provided to a patient with a demonstrated inability to pay. A patient is eligible for charity care consideration based upon meeting certain income eligibility criteria as established by the Federal Poverty Income Guideline Sliding Scale.

The amount of charity care provided, determined on the basis of cost, was estimated at \$9,237 and \$16,890 for the years ended December 31, 2014 and 2013, respectively. The Company computes the cost of charity care using a cost to charge ratio methodology, which includes all direct and indirect costs.

## Oakwood Healthcare, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **1. Organization and Accounting Policies (continued)**

##### **Principles of Consolidation**

All majority-owned corporations for which operating control is present are consolidated. All significant intercompany account balances and transactions have been eliminated in consolidation. Investments in entities where OHI owns less than 50% but has significant operational influence over the operating and financial policies are recorded under the equity method of accounting.

##### **Performance Indicator**

The performance indicator is the excess of revenue over expenses. For purposes of presentation, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenue and expenses. Transactions that are not directly related to the delivery of health care services are excluded from operating results. Changes in net assets, which are excluded from the excess of revenue over expenses, include permanent transfers of assets to and from affiliates for other than goods and services, contributions of property and equipment (including assets acquired using contributions that by donor restrictions were to be used for the purposes of acquiring such assets), net assets released from restrictions for capital, changes in ownership related to entities with a noncontrolling interest, and changes in the pension and postretirement obligations related to prior service cost and unrecognized gains and losses.

##### **Operating and Nonoperating Activities and Nonrecurring Expenses**

OHI meets the needs of individuals and the communities in its service area through a complement of general and specialized health care services, including inpatient acute care, outpatient services, long-term care, home health care, and other health care services. Activities directly associated with the fulfillment of the mission are considered to be operating activities. Other activities not central to OHI's primary mission are considered to be nonoperating.

Nonrecurring expenses on the accompanying consolidated statements of operations and changes in net assets include amounts related to the flooding experienced at Oakwood Hospital – Dearborn and Beaumont Health affiliation costs in 2014 and the implementation and training of personnel on new information systems in 2013.

## Oakwood Healthcare, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **1. Organization and Accounting Policies (continued)**

##### **Temporarily and Permanently Restricted Net Assets**

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

##### **Cash Equivalents**

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

##### **Investments**

Investments in equity securities and debt securities are measured at fair value on the accompanying consolidated balance sheets. Fair values are based on quoted market prices, if available, or estimated using quoted market prices for similar securities. Donated items are stated at fair value at the date of contribution. Investment income (including realized gains and losses on investments, interest, and dividends) is reported as interest, dividends, and gains or nonoperating gains (losses) unless the income is restricted by donor or law. Unrealized gains and losses, other than those included in self-insurance trust and resident deposit investment return, are reported separately within the performance indicator.

##### **Inventories**

Inventories, which principally consist of medical supplies and pharmaceuticals, are stated at the lower of first-in, first-out cost or market.

##### **Investments in Unconsolidated Affiliates**

Investments in unconsolidated affiliated companies where OHI does not have operational control are accounted for on either the equity or cost method.

## Oakwood Healthcare, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **1. Organization and Accounting Policies (continued)**

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

Property and equipment are stated on the basis of cost or, if donated, at approximate fair value at the date of donation and are depreciated over their estimated useful lives by the straight-line method. The estimated useful life for long-lived assets ranges from 3 to 40 years. Interest costs incurred as part of related construction projects are capitalized during the period of construction. The Company had commitments of \$21,567 and \$17,259 for the acquisition of property and equipment at December 31, 2014 and 2013, respectively.

Costs incurred in connection with the development and implementation of internal-use software are expensed or capitalized depending on whether they are incurred in the preliminary project stage, application development stage, or post-implementation stage. Amounts capitalized are amortized over the useful life of the developed asset following project completion. Capitalized costs and accumulated amortization amounted to \$163,170 and \$115,230, respectively, at December 31, 2014, and \$162,634 and \$107,722, respectively, at December 31, 2013. Amortization expense of \$10,372 and \$12,159 was recognized in the years ended December 31, 2014 and 2013, respectively.

##### **Deferred Bond Issue Costs**

Deferred bond issue costs are amortized principally by the bonds outstanding method over the lives of the bonds.

##### **Goodwill**

Goodwill is the excess of the acquisition cost of a business over the fair value of the identifiable net assets acquired. OHI has recorded goodwill of \$16,224 at December 31, 2014 and 2013. Goodwill is subject to annual impairment assessments.

##### **Impairment of Long-Lived Assets**

Impairment losses are recognized in operations, as appropriate, when expected future cash flows are less than the assets' carrying value, or carrying value exceeds fair value. During 2014 and 2013, OHI recognized impairment charges of \$1,640 and \$1,104, respectively, related to the write-down of an investment in joint venture and a medical office building, respectively.

## Oakwood Healthcare, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **1. Organization and Accounting Policies (continued)**

##### **Net Patient Service Revenue and Accounts Receivable Valuation**

Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Estimated settlements are recorded in the period the related services are rendered and adjusted in future periods as final settlements are determined. Management believes that adequate provision has been made in the accompanying consolidated financial statements for any adjustments that may result from final settlements.

The majority of OHI's services are rendered under fixed-price provisions of third-party payment programs (primarily Medicare, Medicaid, and Blue Cross Blue Shield of Michigan). Under these provisions, payment rates for patient care are determined prospectively on various bases, and OHI's revenues are limited to such amounts. Payments are also received for capital and medical education costs, subject to certain limits. Additionally, OHI entered into agreements with commercial insurance carriers, certain health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements includes prospectively determined per case rates, per diem rates, and discounts from established charges.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. In the normal course of business, OHI is subject to audits by third-party payors, requests for information, and reviews of past payment practices. The Company believes that it is in substantial compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of material wrongdoing. Compliance with laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of accounts receivable, the Company analyzes its historical experience and identifies trends for each of its major payor sources to estimate the appropriate allowance for doubtful accounts and the provision for doubtful accounts. Management regularly reviews data about these major payor sources in evaluating the adequacy of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party health care coverage, the Company analyzes contractually due amounts and provides an

## Oakwood Healthcare, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **1. Organization and Accounting Policies (continued)**

allowance for uncollectible accounts and provision for bad debts. All charges for patients without insurance are discounted to an amount that approximates the Company's lowest negotiated commercial insurance rates. For accounts receivable associated with self-pay accounts (which includes both patients without insurance and patients with deductible and co-payment balances due for which third-party coverage exists for part of the bill), the Company records a significant provision for doubtful accounts in the period of service on the basis of its past collection experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts. The provision for doubtful accounts has been reported as a deduction from patient service revenue in the accompanying consolidated statements of operations and changes in net assets.

The Hospitals and certain other subsidiaries provide care to patients who meet certain criteria under charity care policies without charge or at amounts less than their established rates. OHI does not anticipate collection of amounts determined to qualify as charity care, and, accordingly, these amounts are not reported as patient service revenue.

#### **Deferred Revenue**

Deferred revenue includes cash received under third-party payor contracts, grant awards in which services have not yet been provided, unearned professional liability premiums, and unearned advances from insurance claims.

#### **Electronic Health Record Incentive Payments**

The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act (HITECH). The provisions were designed to increase the use of electronic health record (EHR) technology and establish the requirements for a Medicare and Medicaid incentive payment program beginning in 2011 for eligible providers that adopt and meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. Initial Medicaid incentive payments are available to providers that adopt, implement, or upgrade certified EHR technology. Providers must demonstrate meaningful use of such technology in subsequent years to qualify for additional Medicaid incentive payments.

## Oakwood Healthcare, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **1. Organization and Accounting Policies (continued)**

The Company accounts for HITECH incentive payments under the grant accounting model. Income from Medicare incentive payments is recognized ratably as revenue over the compliance period after the Company has determined that it will comply with the meaningful use criteria over the entire applicable compliance period. The Company recognizes revenue from Medicaid incentive payments after it has determined compliance with the meaningful use criteria, or other requirements of the Medicaid program. Incentive payments totaling \$10,316 and \$11,263 for the years ended December 31, 2014 and 2013, respectively, are included in total revenue in the accompanying consolidated statements of operations and changes in net assets. Income from incentive payments is subject to retrospective adjustment as the incentive payments are calculated using Medicare cost report data that is subject to audit. Additionally, the Company's compliance with the meaningful use criteria is subject to audit by the federal government.

#### **Resident Deposits**

The current portion of assets with limited use includes deposits received from residents of Oakwood Health Promotions, Inc. (OHP), a wholly owned subsidiary of OHI, which are refunded when residents leave the facility. These deposits amounted to \$14,079 and \$13,017 at December 31, 2014 and 2013, respectively.

#### **Professional and General Liability Insurance Coverage**

Effective April 1, 1986, OHI is self-insured for professional and general liability claims arising from services to patients. Claims occurring prior to April 1, 1986, are covered by insurance policies.

Under the self-insurance program, the primary insurance coverage, subject to a self-insured retention (first dollar coverage for all non-hospital subsidiaries), is provided through Oakwood Assurance Company, Ltd., a wholly owned subsidiary of OHI. This program provides primary coverage to hospitals, other affiliates, and certain medical staff members. Premiums under the policy are determined based upon the experience of the individual subsidiaries and certain medical staff members.

## Oakwood Healthcare, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 1. Organization and Accounting Policies (continued)

The OHI program also provides for varying levels of excess insurance coverage through participation in a multi-provider limited purpose insurance company and commercial insurance. The aggregate limits of the excess coverage are applied on a combined basis, shared by all insureds.

For self-insured losses and retentions, the Company contributes amounts to an irrevocable trust fund to provide for potential losses. Patient liability losses are payable from the trust fund as determined on an occurrence basis, up to pre-established limits. Excess professional liability coverage has been purchased in amounts deemed adequate by the Company to cover claims in excess of the annual limits of the fund.

The Company records an accrual for self-insured claims and retentions, which includes an estimated liability for incidents that have occurred that are not covered by commercial insurance, based on estimates made by an independent actuary. Relying on data supplied by OHI, the actuary projects expected ultimate future claims cost, including inflation, using an annual rate of 3% at December 31, 2014 and 2013, and discounts the resulting amount to the present, using an annual rate of 4% at December 31, 2014 and 2013.

OHI reports the claims liabilities gross of expected recoveries on the accompanying consolidated balance sheets. The Company has recorded a receivable and increased the claims liability on the accompanying consolidated balance sheets for amounts due from third-party insurers of \$12,462 and \$11,837 at December 31, 2014 and 2013, respectively.

#### Income Taxes

OHI and the majority of its subsidiaries are nonprofit corporations under Section 501(c)(3) of the Internal Revenue Code and are, therefore, exempt from federal and Michigan income taxes except for certain unrelated business activities. OHI and its tax-exempt subsidiaries have been recognized by the Internal Revenue Service as public charities under Code Section 509(a). OHI also operates certain wholly owned subsidiaries that are for-profit companies subject to income taxes. Income taxes are not material to the accompanying consolidated financial statements.

The Company accounts for income taxes in accordance with Accounting Standards Codification (ASC) 740, *Income Taxes*. Accordingly, OHI has reviewed all tax positions, evaluated potential exposure, and found it not to be material.

## Oakwood Healthcare, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **1. Organization and Accounting Policies (continued)**

The Company files income tax returns in the U.S. federal jurisdiction and Michigan. With a few exceptions, the Company is no longer subject to U.S. federal, state, and local or non-U.S. income tax examinations by tax authorities for years before 2009.

#### **Use of Estimates**

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

#### **Reclassifications**

Certain 2013 amounts have been reclassified to conform to the 2014 presentation. There was no impact on total assets, net assets, or the excess of revenue over expenses as a result of the reclassifications.

#### **New Accounting Standard**

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, *Revenue from Contracts with Customers*. The ASU, issued jointly with the International Accounting Standards Board (IASB), issues guidance that will supersede nearly all previously issued revenue recognition under US generally accepted accounting principles, including that related to the presentation of the provision for doubtful accounts. The ASU requires an entity to recognize revenue when it provides services to customers at an amount that reflects the consideration to which it expects to be entitled in exchange for those services, including a collectability threshold for determining when revenue can be recognized on the transaction. The effective date of the guidance is for fiscal years beginning after December 15, 2016. The Company has not determined the effect of ASU 2014-09.

## Oakwood Healthcare, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 2. Accounts Receivable

Accounts receivable consist of the following:

	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
Gross patient accounts receivable	\$ 561,018	\$ 537,542
Contractual allowances	(365,120)	(322,796)
Allowance for doubtful accounts and charity care	(79,646)	(103,513)
Patient accounts receivable	<u>\$ 116,252</u>	<u>\$ 111,233</u>

OHI grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor arrangements. Significant concentrations of accounts receivable at December 31, 2014 and 2013, include Medicare (35% and 33%, respectively); Blue Cross (12% and 10%, respectively); Medicaid (29% and 26%, respectively); and commercial and self-pay (24% and 31%, respectively).

The Company's allowance for uncollectible accounts for self-pay patients was 87% and 92% of self-pay accounts receivable at December 31, 2014 and 2013, respectively. Self-pay write-offs decreased \$10,763 from \$90,573 in 2013 to \$79,810 in 2014. The decrease is primarily due to expansion of the Medicaid program. The Company does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant write-offs from third-party payors.

# Oakwood Healthcare, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

### 3. Net Patient Service Revenue

Net patient service revenue consists of the following:

	<b>Year Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
Gross patient service charges	<b>\$ 4,006,949</b>	\$ 3,751,713
Contractual provisions and other adjustments	<b>(2,778,273)</b>	(2,513,617)
Charity care charges	<b>(35,000)</b>	(61,285)
Patient service revenue	<b>1,193,676</b>	1,176,811
Less provision for doubtful accounts	<b>(64,659)</b>	(91,720)
Net patient service revenue	<b>\$ 1,129,017</b>	\$ 1,085,091

Net patient service revenue for the years ended December 31, 2014 and 2013, included amounts from Medicare (42% and 41%, respectively); Medicaid (15% and 14%, respectively); Blue Cross (18% and 17%, respectively); and commercial and managed care (25% and 28%, respectively) programs. Self-pay revenue for the years ended December 31, 2014 and 2013, represented 2% and 4%, respectively, of gross patient service charges.

The excess of revenue over expenses includes amounts related to the settlement of open cost reports, resolution of payment appeals, and settlement of contracts related to prior periods of \$6,292 and \$3,453, which has been recorded as an increase in net patient service revenue, for the years ended December 31, 2014 and 2013, respectively.

# Oakwood Healthcare, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

### 4. Cash and Cash Equivalents, Investments, and Assets With Limited Use

The Company's cash and investments are reported in the accompanying consolidated balance sheets as presented in the following table:

	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
Cash and cash equivalents	\$ 102,449	\$ 60,809
Current portion of assets with limited use	28,087	26,588
Assets with limited use	415,274	399,858
Investments	79,064	89,431
	<u>\$ 624,874</u>	<u>\$ 576,686</u>

Investments, including cash and cash equivalents, are summarized as follows:

	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
Cash and cash equivalents	\$ 110,712	\$ 68,885
United States government debt securities	50,301	67,747
Asset-backed debt securities	98,477	85,884
United States corporate debt securities	74,515	64,763
International corporate debt securities	8,709	9,224
United States marketable equity securities	158,679	174,549
International marketable equity securities	45,105	56,605
Limited partnerships	78,376	49,029
	<u>\$ 624,874</u>	<u>\$ 576,686</u>

## Oakwood Healthcare, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 4. Cash and Cash Equivalents, Investments, and Assets With Limited Use (continued)

Investment return is summarized as follows:

	<b>Year Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
Interest and dividends	\$ 16,184	\$ 12,069
Net realized gains	18,547	13,995
Net unrealized (losses) gains	(13,507)	32,150
Total investment gain, net	<u>\$ 21,224</u>	<u>\$ 58,214</u>
Included in operating income	\$ 4,815	\$ 10,717
Included in nonoperating gains	16,096	46,457
Reported separately within temporarily restricted investments	313	1,040
Total investment gain, net	<u>\$ 21,224</u>	<u>\$ 58,214</u>

Investment return on bonds, professional liability trust, and resident deposit escrow funds are included in operating income. All other investment return is included in nonoperating gains (losses).

#### 5. Assets and Liabilities Measured at Fair Value

ASC 820, *Fair Value Measurement*, emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, ASC 820 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

## Oakwood Healthcare, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **5. Assets and Liabilities Measured at Fair Value (continued)**

The Company follows the three-level fair value hierarchy to categorize these assets and liabilities recognized at fair value at each reporting period, which prioritizes the inputs used to measure such fair values. Level inputs are defined as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities on the reporting date. Investments classified in this level generally include exchange-traded equity securities, United States government debt securities, real estate investment trusts, pooled short-term investment funds, and exchange-traded mutual funds.

Level 2 – Inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Investments classified in this level generally include asset-backed debt securities, corporate debt securities, and collective funds.

Level 3 – Inputs that are unobservable for the asset or liability. Investments classified in this level generally include alternative investments and limited partnerships.

In instances where the determination of the fair value measurement is based upon inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level of input that is significant to the fair value measurement in its entirety. Management's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

As of December 31, 2014 and 2013, the assets and liabilities listed in the fair value hierarchy tables below utilize the following valuation techniques and inputs:

United States government debt securities – The fair value of investments in U.S. government, state, and municipal obligations is primarily determined using techniques consistent with the income approach. Significant observable inputs to the income approach include data points for benchmark constant maturity curves and spreads.

## Oakwood Healthcare, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 5. Assets and Liabilities Measured at Fair Value (continued)

Asset-backed debt securities – The fair value of U.S. agency and corporate asset-backed securities is primarily determined using techniques consistent with the income approach, such as a discounted cash flow model. Significant observable inputs include prepayment speeds and spreads, benchmark yield curves, volatility measures, and quotes.

Corporate and foreign debt securities – The fair value of investments in U.S. and international corporate bonds, including commingled funds that invest primarily in such bonds and foreign government bonds, is primarily determined using techniques that are consistent with the market approach. Significant observable inputs include benchmark yields, reported trades, observable broker-dealer quotes, issuer spreads, and security-specific characteristics, such as redemption options.

Marketable equity securities – The fair value of investments in U.S. and international equity securities is primarily determined based on the closed pricing reported on the applicable exchange on which the security is traded, or are estimated using quoted market prices for similar securities. Certain market equity securities are held in funds in which the fair value is determined using the calculated net asset value. The values of underlying investments are fair value estimates determined by external fund managers based on operating results, balance sheet stability, growth, and other business and market sector fundamentals. Although the underlying equity securities in collective funds are exchange-traded, the funds are not exchange-traded investments and are therefore classified as Level 2.

The types of instruments valued based on quoted prices that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include most municipal and provincial obligations, investment-grade and high-yield corporate bonds, real estate investment trusts and mortgage securities. Such instruments are generally classified within Level 2 of the fair value hierarchy.

# Oakwood Healthcare, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

### 5. Assets and Liabilities Measured at Fair Value (continued)

The following tables summarize the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2014 and 2013, aggregated by the level in the fair value hierarchy within which those measurements are measured:

	Fair Value at December 31, 2014	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 110,712	\$ 110,712	\$ —	\$ —
United States government debt securities	50,301	50,301	—	—
Asset-backed debt securities	98,477	—	98,477	—
Corporate debt securities:				
United States	74,515	—	74,515	—
International	8,709	—	8,709	—
Marketable equity securities:				
United States	158,679	122,210	36,469	—
International	45,105	45,105	—	—
Total investments	\$ 546,498	\$ 328,328	\$ 218,170	\$ —

	Fair Value at December 31, 2013	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 68,885	\$ 68,885	\$ —	\$ —
United States government debt securities	67,747	67,747	—	—
Asset-backed debt securities	85,884	—	85,884	—
Corporate debt securities:				
United States	64,763	—	64,763	—
International	9,224	—	9,224	—
Marketable equity securities:				
United States	174,549	128,285	46,264	—
International	56,605	56,605	—	—
Total investments	\$ 527,657	\$ 321,522	\$ 206,135	\$ —

Oakwood Healthcare, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**5. Assets and Liabilities Measured at Fair Value (continued)**

Certain financial instruments and all non-financial instruments have been excluded from this disclosure. Accordingly, the aggregate fair value amounts presented above do not represent the underlying value of the Company.

The carrying values of cash and cash equivalents, accounts receivable, and accounts payable are reasonable estimates of fair value due to the short-term nature of these financial instruments. Investments are recorded at fair value. The carrying value and fair value of the Company's long-term debt (Level 2), as estimated by discounted cash flow analyses using the current borrowing rate for similar types of borrowing arrangements and adjusted for credit, were \$394,325 and \$425,158, respectively, at December 31, 2014, and \$416,472 and \$423,365, respectively, at December 31, 2013. Other financial instruments reported as noncurrent assets and liabilities have carrying values that approximate fair value.

The Company has investments in certain limited partnerships, which are reported using the equity method of accounting. The estimated fair value of the investments in limited partnerships is based on valuations provided by the investment managers at December 31, 2014 and 2013. The components of the individual investments within these funds may not be readily determinable. The Company's recorded balance reflects net contributions to the partnership and an allocated share of realized and unrealized investment income and expenses.

Oakwood Healthcare, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)

**6. Rental Expense and Leasing Arrangements**

Operating leases are classified within purchased services and other in the accompanying consolidated statements of operations and changes in net assets. Rental expense totaled \$22,913 and \$23,968 for the years ended December 31, 2014 and 2013, respectively.

Future minimum payments for property and equipment leases in effect at December 31, 2014, are 2015 – \$13,323; 2016 – \$7,205; 2017 – \$4,164; 2018 – \$2,779; 2019 – \$1,902; and thereafter – \$2,193.

OHP, as a lessor, owns and maintains an assisted and independent living facility that is leased to various tenants under agreements that are generally cancelable. The cost and related accumulated depreciation of the related rental units are as follows:

	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
Assisted and independent living facility	\$ 31,793	\$ 31,681
Accumulated depreciation	(14,321)	(13,592)
	<u>\$ 17,472</u>	<u>\$ 18,089</u>

# Oakwood Healthcare, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

### 7. Debt Arrangements

Long-term debt consists of the following:

	December 31	
	2014	2013
Hospital Revenue and Refunding Bonds, Series 2013A bearing interest at 5% annually	\$ 48,145	\$ 48,145
Hospital Revenue and Refunding Bonds, Series 2012A bearing interest at 3% to 5% annually	142,065	147,675
Hospital Revenue and Refunding Bonds, Series 2007A bearing interest at 5% annually	81,150	85,510
Fixed rate installment note, bearing interest at 2.6% annually	26,205	34,350
Mortgage note payable, bearing interest at 6.52% annually, secured by property	45,556	46,381
Mortgage note payable, principal and interest payments due monthly at a variable rate (2.16% at December 31, 2014) secured by property	5,383	6,233
Mortgage note payable, principal and interest payments due monthly at a variable rate (1.66% at December 31, 2014) secured by property	13,009	13,728
Mortgage note payable, bearing interest at 6.57% annually, secured by property	14,266	14,427
Mortgage note payable, bearing interest at 6.85% annually, secured by property	1,654	1,734
Capital lease obligations	4,552	6,274
Total long-term debt	381,985	404,457
Bond premium, less accumulated amortization of \$4,289 in 2014 and \$2,892 in 2013	16,892	18,289
	398,877	422,746
Less current portion	23,428	22,417
	<u>\$ 375,449</u>	<u>\$ 400,329</u>

## Oakwood Healthcare, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 7. Debt Arrangements (continued)

The Michigan Finance Authority (MFA) and the Michigan State Hospital Finance Authority (MSHFA) have at various times issued Hospital Revenue Bonds on behalf of the Oakwood Obligated Group and loaned the proceeds to the Obligated Group under the terms of a Master Indenture. The loans are secured by the accounts receivable and general intangibles of the Obligated Group members pursuant to the Master Indenture. The Obligated Group is responsible for making all principal and interest payments on the bonds as they become due. The Obligated Group at December 31, 2014 consisted of Oakwood Healthcare, Inc.; Oakwood United Hospitals, Inc.; OHP and certain other subsidiaries.

The Series 2013A bonds were issued by MFA on behalf of the Obligated Group to refund certain portions of previously issued Revenue and Refunding Bonds Series 1998A. The Series 2013A bonds mature in annual amounts ranging from \$11,170 in 2028 to \$12,930 in 2031. The refinancing of the Series 1998A bonds resulted in a loss on extinguishment of \$1,676 principally related to unamortized bond issuance costs. The loss on extinguishment has been included in the 2013 consolidated statement of operations and changes in net assets.

The Series 2012A bonds were issued by MFA on behalf of the Obligated Group to refund certain portions of previously issued Revenue and Refunding Bonds Series 1998A, 2002A, and 2003A and to fund certain capital projects. The Series 2012A bonds mature in annual amounts ranging from \$5,795 in 2015 to \$5,370 in 2042.

The Series 2007A bonds were issued by MSHFA on behalf of the Obligated Group to refund previously issued Revenue and Refunding Bonds Series 1994A and 1995A and to fund certain capital projects. The Series 2007A bonds mature in annual amounts ranging from \$4,575 in 2015 to \$5,870 in 2037.

OHI entered into a fixed-rate installment note of \$34,350 in 2012, which bears interest at 2.6% annually. The proceeds from the note were used to refund certain portions of the Series 2003A bonds. The installment note is payable in annual principal amounts ranging from \$8,495 in 2015 to \$6,215 in 2018.

OHI has a mortgage note payable of \$45,556 and \$46,381 at December 31, 2014 and 2013, respectively, which is secured by the assets of Dearborn Schaefer Office Company. The mortgage note is payable in annual principal amounts ranging from \$980 in 2015 to \$5,486 in 2030.

## Oakwood Healthcare, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 7. Debt Arrangements (continued)

OHI has a revolving Credit and Term Loan Agreement (Revolving Credit Note) under which it may borrow up to \$10,000 on demand, subject to certain limitations. This committed line of credit bears interest according to a prime-based rate, a Federal Funds-based rate, or a Eurodollar-based rate, at the election of the borrower. The Revolving Credit Note expires on June 27, 2015. There were no balances outstanding under this arrangement as of December 31, 2014 and 2013.

OHI had a Line of Credit Agreement under which it may borrow up to \$10,000 on demand, subject to certain limitations. This committed line of credit bears interest according to a prime-based rate or Federal Funds-based rate, at the election of the borrower. The agreement expired on December 1, 2014. There were no balances outstanding under this arrangement as of December 31, 2013.

OHI has entered into debt guarantees that are excluded from the accompanying consolidated balance sheets. The guaranteed debt was used to finance or construct various professional and medical office buildings. Guarantees at December 31, 2014 and 2013, amounted to \$328 and \$3,500, respectively.

Under the terms of its Master Indenture and Loan Agreement (dated March 1, 1985), OHI is subject to various restrictive covenants. Management believes the Company is in compliance with its debt covenants at December 31, 2014.

Principal maturities of long-term debt for the four years following 2015 are: 2016 – \$23,401; 2017 – \$32,546; 2018 – \$17,605; and 2019 – \$23,888.

Interest paid amounted to \$19,387 in 2014 and \$19,494 in 2013.

The Company has commitments under various capital leases as follows:

2015	\$ 1,931
2016	1,920
2018	961
	<hr/>
	4,812
Less amounts representing interest	260
Minimum capital lease payments	<hr/> <hr/>
	\$ 4,552

## Oakwood Healthcare, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **7. Debt Arrangements (continued)**

Equipment relating to the capital lease obligations is included in property and equipment. The capitalized cost of this equipment was \$15,367 and \$15,567 at December 31, 2014 and 2013, respectively, and accumulated amortization was \$11,677 and \$10,179 at December 31, 2014 and 2013, respectively.

#### **8. Retirement Plans**

OHI has two cash balance pension plans (the Plan or Plans) covering substantially all of its employees. The plans are noncontributory for employees, and OHI contributions are based on years of service and compensation. OHI's funding policy is to contribute amounts based on the terms of the respective plans and the recommendations of an actuary considering minimum funding requirements determined in accordance with the Pension Protection Act. Plan assets, principally cash and cash equivalents, equity, and fixed-income investments, are invested in a master trust. Contributions to the plans are based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants. The assets of the plans are available to pay the benefits of eligible participants.

OHI also maintains a defined contribution plan that has a discretionary employer match feature, subject to employee contributions, up to 3% of the compensation an employee defers. Substantially all employees are eligible for the tax-deferred plan. At December 31, 2014, OHI had accrued \$6,603 for 2014 matching contributions, which will be paid in the first quarter of 2015. Matching contributions to the plan were \$4,131 for the year ended December 31, 2013.

Effective July 1, 2013, the Plan was closed to new participants. Employees hired after January 1, 2010, are eligible to participate in the defined contribution plan.

The Company recognizes the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its pension plans on the accompanying consolidated balance sheets.

# Oakwood Healthcare, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

### 8. Retirement Plans (continued)

The following tables set forth the benefit obligation and assets of the Company's two cash balance retirement plans (OHI Cash Balance Plan and Union Cash Balance Plan) at December 31, 2014 and 2013, as well as components of net periodic benefit cost for the years then ended and a reconciliation of the amounts recognized in the accompanying consolidated financial statements:

	<b>Year Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 380,889	\$ 420,021
Service cost	11,984	14,876
Interest cost	18,403	17,103
Actuarial loss (gain)	40,379	(38,173)
Benefits paid	(28,342)	(32,806)
Curtailments	—	(132)
Benefit obligation at end of year	423,313	380,889
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	300,292	269,010
Actual return on plan assets	11,273	33,938
Employer contributions	34,245	30,150
Benefits paid	(28,342)	(32,806)
Fair value of plan assets at end of year	317,468	300,292
Funded status and accrued benefit obligation	\$ 105,845	\$ 80,597
Accumulated benefit obligation	\$ 411,492	\$ 368,958

# Oakwood Healthcare, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

### 8. Retirement Plans (continued)

Included in unrestricted net assets are the following amounts that have not yet been recognized in net periodic pension cost:

	<b>Year Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
Unrecognized prior service credit	\$ (3,497)	\$ (4,083)
Unrecognized actuarial losses	128,137	82,370
Amounts included in unrestricted net assets	<u>\$ 124,640</u>	<u>\$ 78,287</u>

The adjustment to unrestricted net assets represents the net unrecognized actuarial losses and unrecognized prior service costs, which will be subsequently recognized as net periodic pension cost. Furthermore, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic pension cost in the same periods will be recognized as a component of unrestricted net assets. Those amounts will be subsequently recognized as a component of net periodic pension cost.

The prior service credit and actuarial losses included in unrestricted net assets and expected to be recognized in net periodic pension cost during 2015 are \$(586) and \$8,773, respectively.

Changes in plan assets and benefit obligations recognized in unrestricted net assets during 2014 and 2013 include:

	<b>Year Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
Current year actuarial (loss) gain	\$ (50,240)	\$ 51,826
Amortization of actuarial loss	4,473	9,564
Amortization of prior service credit	(586)	(586)
(Decrease) increase in unrestricted net assets	<u>\$ (46,353)</u>	<u>\$ 60,804</u>

Oakwood Healthcare, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)

**8. Retirement Plans (continued)**

The following summarizes pension expense recognized during the years ended December 31:

	<b>Year Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
Net periodic benefit cost consists of:		
Service cost – benefits earned during the period	\$ 11,984	\$ 14,876
Interest cost on projected benefit obligation	18,403	17,103
Expected return on assets	(21,134)	(20,418)
Amortization of prior service credit	(586)	(586)
Recognition of actuarial loss	4,473	9,564
Net periodic benefit cost	13,140	20,539
Defined contribution plan	6,682	4,006
Total benefit cost reflected in operating expense	\$ 19,822	\$ 24,545

The assumptions used to determine benefit obligations at December 31 are as follows:

	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
Weighted average discount rate	4.30%	5.05%
Rate of increase in compensation levels	2.70	2.80
Expected rate of return on assets	7.00	7.00

The assumptions used to determine net periodic benefit cost for years ended December 31 are as follows:

	<b>Year Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
Weighted average discount rate	5.05%	4.20%
Rate of increase in compensation levels	2.80	4.50
Expected rate of return on assets	7.00	7.50

## Oakwood Healthcare, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **8. Retirement Plans (continued)**

The underfunded status of the OHI Cash Balance Plan and the Union Cash Balance Plan of \$87,995 and \$17,850, respectively, at December 31, 2014, and \$66,697 and \$13,900, respectively, at December 31, 2013, is recognized on the accompanying consolidated balance sheets as accrued pension obligation. No plan assets are expected to be returned to the Company during the year ending December 31, 2015.

The plan assets are invested in a master trust and managed by several investment management firms. The plans' objective is to maximize total return without assuming undue risk exposure. The plan maintains a well-diversified asset allocation that best meets these objectives. Plan assets comprise cash, fixed income, and equity securities. Equity securities include all large- and mid-cap market capitalization sizes in addition to international and convertible securities. Fixed income securities include both U.S. government and corporate debt securities.

Investments in derivative securities are not permitted for the sole purpose of speculating on the direction of market interest rates. Included in this prohibition are leveraging, shorting, swaps, futures, options, forwards, and similar strategies.

In each investment account, investment managers are responsible for monitoring and reacting to economic indicators, such as gross domestic product, consumer price index, and the Federal monetary policy, which may affect the performance of their account. The performance of all managers and the aggregate asset allocations are formally reviewed on a quarterly basis, with a rebalancing of the asset allocation occurring at least once a year. The current asset allocation objective is to maintain 54% of plan assets in equity securities, 38% in fixed-income securities, and 8% in alternative investments, while allowing for a 10% deviation from the target.

In selecting the expected long-term return on plan assets, the plans considered the average rate of earnings on the funds invested or to be invested to provide for the benefits of these plans. This included considering the asset allocation and the expected returns likely to be earned over the life of the plans. This basis is consistent with the prior year. The actual return was approximately 5.00% for the year ended December 31, 2014, and approximately 14.10% for the year ended December 31, 2013.

# Oakwood Healthcare, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

### 8. Retirement Plans (continued)

OHI's pension plan weighted average asset allocations by asset category are as follows:

	<b>Year Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
Cash equivalents	2.12%	0.68%
Debt securities	54.42	46.26
Equity securities	43.46	53.06

The following tables summarize the Company's pension assets, by asset class and level, measured at fair value on a recurring basis as of December 31, 2014 and 2013, aggregated by the level in the fair value hierarchy within which those measurements are determined. As discussed in Note 5, the Company follows the three-level hierarchy to categorize plan assets and liabilities recognized at fair value, which prioritizes the inputs used to measure such fair values.

	<b>Fair Value Measurement Using</b>			
	<b>Quoted Prices in</b>			
	<b>Fair Value at</b>	<b>Active Markets</b>	<b>Significant</b>	<b>Significant</b>
	<b>December 31,</b>	<b>for Identical</b>	<b>Other</b>	<b>Unobservable</b>
	<b>2014</b>	<b>Assets and</b>	<b>Observable</b>	<b>Inputs</b>
		<b>Liabilities</b>	<b>Inputs</b>	<b>(Level 3)</b>
		<b>(Level 1)</b>	<b>(Level 2)</b>	
Cash and cash equivalents	\$ 14,076	\$ 14,076	\$ —	\$ —
United States government debt securities	45,413	45,413	—	—
Asset-backed debt securities	44,813	—	44,813	—
Corporate debt securities:				
United States	74,797	—	74,797	—
International	2,811	—	2,811	—
Marketable equity securities:				
United States	87,732	71,041	16,691	—
International	47,826	20,763	27,063	—
Total investments	\$ 317,468	\$ 151,293	\$ 166,175	\$ —

Oakwood Healthcare, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)

**8. Retirement Plans (continued)**

	Fair Value at December 31, 2013	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 6,343	\$ 6,343	\$ —	\$ —
United States government debt securities	52,484	52,484	—	—
Asset-backed debt securities	45,831	—	45,831	—
Corporate debt securities:				
United States	32,950	—	32,950	—
International	4,826	—	4,826	—
Marketable equity securities:				
United States	100,918	81,422	19,496	—
International	56,940	29,471	27,469	—
Total investments	<u>\$ 300,292</u>	<u>\$ 169,720</u>	<u>\$ 130,572</u>	<u>\$ —</u>

Information about the expected cash flows for the Company's pension plan is as follows:

Expected employer contribution – 2015	\$ 24,738
Expected benefit payments:	
2015	\$ 33,900
2016	35,700
2017	35,600
2018	36,200
2019	36,900
2020–2023	173,500

## Oakwood Healthcare, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 9. Other Postretirement Benefit Plans

OHI has a plan that provides health and certain other postretirement benefits to eligible employees who meet certain eligibility requirements. A segment of employees who retired prior to 1993 currently receives a subsidy equal to most of the cost of retiree medical benefits. All other retirees contribute toward the cost of their medical costs and receive a fixed subsidy from OHI. The postretirement health care plan requires retiree contributions, which are adjusted annually. OHI does not prefund these plans and has the right to modify or terminate any of these plans in the future. The Board of Trustees approved a change to the postretirement benefit plan, which resulted in elimination of the annual subsidy for employees who had not retired as of December 31, 2008.

The Company recognizes the funded status (i.e., the difference between the fair value of plan assets and the accumulated benefit obligations) of its postretirement benefit plan on the accompanying consolidated balance sheets. The adjustment to unrestricted net assets represents the net unrecognized actuarial gains and unrecognized prior service costs. These amounts will be subsequently recognized as net periodic postretirement benefit cost pursuant to the Company's historical accounting policy for amortizing such amounts. Furthermore, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic postretirement benefit cost in the same periods will be recognized as a component of unrestricted net assets. Those amounts will be subsequently recognized as a component of net periodic postretirement benefit cost on the same basis as the amounts recognized in unrestricted net assets at adoption of ASC 715.

The following table provides a reconciliation of the changes in OHI's benefit obligation and amounts recognized in the accompanying consolidated financial statements at December 31, 2014 and 2013:

	<b>Year Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 10,189	\$ 11,661
Interest cost	480	460
Actuarial (gain) loss	(461)	(524)
Benefits paid	(1,188)	(1,408)
Benefit obligation at end of year	<u>9,020</u>	<u>10,189</u>
Change in plan assets:		
Fair value at beginning of year	—	—
Employer contributions	1,188	1,408
Benefits paid	(1,188)	(1,408)
Fair value at end of year	<u>—</u>	<u>—</u>
Unfunded status and accrued benefit cost	<u>\$ 9,020</u>	<u>\$ 10,189</u>

# Oakwood Healthcare, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

### 9. Other Postretirement Benefit Plans (continued)

Included in unrestricted net assets are unrecognized actuarial gains of \$8,901 and \$9,235 at December 31, 2014 and 2013, respectively, which have not yet been recognized in net periodic postretirement benefit cost.

The amounts expected to be recognized in postretirement benefit costs during the year ended December 31, 2015, include actuarial gains of \$783.

Changes in the postretirement benefit obligation recognized in unrestricted net assets during 2014 and 2013 include:

	<b>Year Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
Current year actuarial gain (loss)	\$ 461	\$ 524
Amortization of actuarial gain	(795)	(828)
Decrease in unrestricted net assets	<u>\$ (334)</u>	<u>\$ (304)</u>

A summary of the components of net periodic postretirement benefit is as follows:

	<b>Year Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
Interest cost on accumulated postretirement benefit obligation	\$ 480	\$ 460
Amortization of actuarial gain	(795)	(828)
Net periodic postretirement benefit	<u>\$ (315)</u>	<u>\$ (368)</u>

For measurement purposes, a 7.67% rate of increase in the per capita cost of covered health care benefits was assumed for 2014. The rate is assumed to decrease gradually to 5.0% in 2022 and remain at that level thereafter. The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 4.30% and 5.05% at December 31, 2014 and 2013, respectively. The weighted average discount rate used in determining the net periodic postretirement benefit cost was 5.05% and 4.2% for the years ended December 31, 2014 and 2013, respectively.

# Oakwood Healthcare, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

### 9. Other Postretirement Benefit Plans (continued)

The health care cost trend rates assumptions have a significant effect on the amounts reported for the health care plans. To illustrate, a one-percentage point change in assumed health care cost trend rates would have the following effects:

	<b>One- Percentage Point Increase</b>	<b>One- Percentage Point Decrease</b>
Effect on total of service and interest cost components	\$ 22	\$ (20)
Effect on postretirement benefit obligation	371	(338)

Information about the expected cash flows for the other postretirement benefit plans is as follows:

Expected employer contributions 2015	\$ 1,200
Expected benefit payments:	
2015	\$ 1,200
2016	1,100
2017	1,100
2018	1,000
2019	900
2020–2024	3,400

## Oakwood Healthcare, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **10. Investment in Unconsolidated Affiliates**

At December 31, 2013, OHI had a 33% membership interest in Caretech Solutions Inc. (Caretech) with a net carrying value of the investment \$8,573 which was recorded on the equity method. In December 2014, OHI sold their membership interest in Caretech, resulting in a gain on sale of \$9,371. This gain has been included in nonrecurring expenses in the accompanying consolidated statements of operations and changes of net assets for the year ending December 31, 2014. Other revenue recorded related to the investment in Caretech for the years ended December 31, 2014 and 2013, was \$2,100 and \$666, respectively. OHI has entered into an information systems outsourcing arrangement with Caretech, which expires in June 2017. Services purchased from Caretech related to information systems amounted to \$22,479 and \$22,160 for the years ended December 31, 2014 and 2013, respectively. The related amounts payable to Caretech for these services were \$2,658 and \$2,805 at December 31, 2014 and 2013, respectively.

At December 31, 2014 and 2013, Oakwood Enterprises (OE) had a 50% membership interest in the Dearborn Surgery Center, which is recorded on the equity method. The carrying value of the interest as of December 31, 2014 and 2013, was \$1,287 and \$865, respectively. Other revenue of \$423 and \$374 was recorded for the years ended December 31, 2014 and 2013, respectively.

At December 31, 2014 and 2013, OE had a 17% membership interest in Investcare Partners Limited Partnership (Investcare). Investcare, a federally licensed small business investment company, provides venture capital financing for small businesses whose primary operations support the health care market. At December 31, 2013, the net carrying value of this investment was \$1,640 and recorded using the equity method. During 2014, Investcare went into receivership with the Small Business Administration (SBA) for liquidation. Due to the rights of the SBA, OHI does not expect to receive any proceeds upon liquidation, and OHI adjusted the investment value accordingly. Nonoperating losses generated by the investment in Investcare for the years ended December 31, 2014 and 2013, were \$1,640 and \$0, respectively.

At December 31, 2014 and 2013, the Company had a 50% membership interest in HealthLink Medical Transportation Services, Inc. (HealthLink). HealthLink was formed in 1997 to perform health care-related services and is recorded by the Company on the equity method. The net carrying value of the HealthLink interest at December 31, 2014 and 2013, was \$2,692 and \$2,189, respectively. Other revenue generated by the investment in HealthLink for the years ended December 31, 2014 and 2013, was \$1,245 and \$1,332, respectively.

## Oakwood Healthcare, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **10. Investment in Unconsolidated Affiliates (continued)**

At December 31, 2013, the Company had a 50% membership interest in OHS/University Physicians Group (OHS/UPG). OHS/UPG was formed in 2007 to develop outpatient health care programs and services. The net carrying value of the OHS/UPG interest at December 31, 2013, was \$0. At December 31, 2013 OHI had recorded an obligation of \$313, related to the debt of OHS/UPG guaranteed by the Company. During 2014, the Company sold their interest in OHS/UPG, resulting in a gain on sale of \$5,497, which is included in nonoperating gains (losses) in the accompanying consolidated statements of operations and changes in net assets as of December 31, 2014. In connection with the sale, OHI's guarantee of the debt of the joint venture was terminated.

At December 31, 2014 and 2013, the Company had a 50% membership interest in Michigan BioTech Partners, LLC (MI BioTech). MI BioTech performs health care-related services and is recorded by the Company on the equity method. The net carrying value of the MI BioTech interest at December 31, 2014 and 2013, was \$2,849 and \$2,894, respectively. Other revenue generated by the investment in MI BioTech for the years ended December 31, 2014 and 2013, was \$4 and \$151, respectively.

During 2014, the Company acquired a 40% membership interest in Vibra of Southeastern Michigan, LLC (Vibra). Vibra was formed in 2008 to perform health care-related services and is recorded by the Company on the equity method. The net carrying value of the Vibra interest at December 31, 2014, was \$5,264. Other revenue generated by the investment in Vibra for the year ended December 31, 2014 was \$1,264.

During 2014, the Company acquired a 25% membership interest Lassen Dialysis, LLC (Lassen). Lassen was formed in 2014 to perform health care-related services and is recorded by the Company on the equity method. The net carrying value of the Lassen interest at December 31, 2014 was \$1,305. Other revenue generated by the investment in Lassen for the year ended December 31, 2014, was \$74. In addition, the Company recognized a gain of \$1 million on the contribution of its assets to the joint venture.

At December 31, 2014 and 2013, the Company had approximately a 5% membership interest in Skylight Healthcare Systems. During 2013, the Company recognized an impairment charge of \$2,000 based on management's assessment of the recoverability of such amounts. The net carrying value, on the cost basis, of the Skylight Healthcare Systems' interest at December 31, 2014 and 2013, was \$0.

## Oakwood Healthcare, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 11. Functional Expenses

The Company fulfills the health care requirements of residents in the communities it serves by providing, as its principal function, a complete array of necessary health care services through an integrated network that includes four hospitals, ambulatory centers and programs, home health services, ancillary and professional services and supplies, a continuing care retirement community, and a free-standing skilled nursing facility. Expenses related to providing these services are as follows:

	<b>Year Ended December 31</b>	
	<b>2014</b>	<b>2013</b>
Health care and related services	\$ 949,066	\$ 931,217
Support services	233,595	212,784
Fundraising	3,086	3,036
	<u>\$ 1,185,747</u>	<u>\$ 1,147,037</u>

#### 12. Flood Damage

Nonrecurring expenses recorded in the accompanying consolidated statements of operations and changes in net assets for the year ended December 31, 2014, include costs associated with major flooding that occurred in August 2014 at Oakwood Hospital – Dearborn as a result of record rainfall in the metropolitan Detroit area. On September 25, 2014, the White House affirmed the federal disaster designation related to the flooding. Due to the extensive flooding and the related repairs, several hospital services continue to operate at a reduced capacity. Oakwood management is working closely with the Company's insurance carrier, the State of Michigan, and the Federal Emergency Management Agency in order to facilitate the required repairs and recovery costs associated with the flooding. It is anticipated the repair costs will ultimately be covered by insurance and federal funds.

## Oakwood Healthcare, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 12. Flood Damage (continued)

The Company maintains insurance coverage which will cover property damage, business interruption, and related costs, subject to a deductible. Through December 31, 2014, the Company has received initial payments from its insurance company related to this event. Amounts received but not yet expended are included in deferred revenue. The insurance deductible related to the flooding of \$1,500 is reflected in nonrecurring expenses in the accompanying consolidated statements of operations and changes in net assets for the year ended December 31, 2014. The Company also recognized gains of \$2,358 in nonrecurring expenses during the year ended December 31, 2014. The Company expects the ultimate settlement of the related insurance claim to take place during 2015. Future cash payments under the insurance policy will be recorded when received in operating income.

#### 13. Subsequent Events

The Company evaluates subsequent events, which are events that occur after the balance sheet date but before the financial statements are issued, for potential recognition in the consolidated financial statements as of the balance sheet date. For the year ended December 31, 2014, the Company evaluated the impact of subsequent events through March 26, 2015, representing the date on which the consolidated financial statements were issued. No recognized or nonrecognized subsequent events were identified for recognition or disclosure on the accompanying consolidated balance sheets or in the accompanying notes to the consolidated financial statements, except as disclosed below.

On January 28, 2015, OHI's Master Indenture was amended and restated to admit William Beaumont Hospital and Botsford General Hospital as Members of the Obligated Group under the Master Indenture. In addition, Botsford Continuing Care Corporation was designated as a Designated Affiliate under the Master Indenture. On the same date, Beaumont Health issued \$398,435 of debt for the purpose of refunding various debt amounts outstanding and held by the Beaumont Health subsidiaries. As part of this transaction, \$66,750 of the 2007A bonds held by the Company at December 31, 2014, were advance refunded.

In accordance with Accounting Standards Update (ASU) 2013-04, *Accounting for Joint and Several Liability for Which the Total Amount of the Obligation at the Reporting Date is Fixed*, Oakwood would be required to treat the debt obligation related to William Beaumont Hospital and Botsford General Hospital as a contingent liability and record a liability when it is probable that the entity will be required to pay an amount and the amount is reasonably estimable. At December 31, 2014, no liability is required to be recorded by the Company.

## Supplementary Information



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## Report of Independent Auditors on Supplementary Information

The Board of Trustees  
Oakwood Healthcare, Inc.

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

*Ernst & Young LLP*

March 26, 2015

# Oakwood Healthcare, Inc. and Subsidiaries

## Consolidating Balance Sheet (Dollars in Thousands)

December 31, 2014

	Obligated Group	Non-Obligated Group	Consolidating Adjustments	Consolidated
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 76,807	\$ 25,642	\$ —	\$ 102,449
Patient accounts receivable, less allowance for doubtful accounts	109,247	7,005	—	116,252
Current portion of assets with limited use	28,087	—	—	28,087
Inventories	12,319	176	—	12,495
Amounts due from affiliates	64,567	(51,909)	(12,658)	—
Prepaid expenses and other current assets	22,603	5,207	(4,080)	23,730
Total current assets	313,630	(13,879)	(16,738)	283,013
Assets with limited use:				
Capital expansion fund	323,758	—	—	323,758
Professional liability funds	22,024	48,435	—	70,459
Funds held by trustee	2,627	—	—	2,627
Other board-designated and donor-restricted funds	—	17,311	—	17,311
Escrow deposits	—	1,119	—	1,119
	348,409	66,865	—	415,274
Other assets:				
Investments	39,592	39,472	—	79,064
Deferred bond issue costs, less accumulated amortization	2,482	1,490	—	3,972
Investments in unconsolidated affiliates	29,063	3,946	(17,527)	15,482
Pledges receivable	—	7,056	—	7,056
Goodwill	15,210	1,014	—	16,224
Other assets	18,695	264	—	18,959
	105,042	53,242	(17,527)	140,757
Property and equipment:				
Land	35,032	3,050	—	38,082
Buildings and improvements	547,812	102,617	(45,078)	605,351
Equipment	758,705	8,406	—	767,111
Construction-in-progress	8,873	168	—	9,041
	1,350,422	114,241	(45,078)	1,419,585
Accumulated depreciation	(894,054)	(33,672)	—	(927,726)
	456,368	80,569	(45,078)	491,859
Total assets	\$ 1,223,449	\$ 186,797	\$ (79,343)	\$ 1,330,903

# Oakwood Healthcare, Inc. and Subsidiaries

## Consolidating Balance Sheet (continued) (Dollars in Thousands)

	Obligated Group	Non-Obligated Group	Consolidating Adjustments	Consolidated
<b>Liabilities and net assets</b>				
Current liabilities:				
Accounts payable and accrued expenses	\$ 86,413	\$ 3,161	\$ (672)	\$ 88,902
Salaries, wages, and amounts withheld	31,359	745	—	32,104
Accrued vacation and sick pay	14,050	309	—	14,359
Amounts due to third-party payors	25,391	—	—	25,391
Resident deposits	14,079	—	—	14,079
Deferred revenue	9,319	1,089	(3,411)	6,997
Current portion of accrued other postretirement benefits	1,162	—	—	1,162
Current portion of claims liability	8,275	—	—	8,275
Current portion of long-term debt	22,630	2,689	(1,891)	23,428
Total current liabilities	212,678	7,993	(5,974)	214,697
Long-term liabilities:				
Other noncurrent liabilities	500	1,001	—	1,501
Accrued pension obligation	105,845	—	—	105,845
Accrued compensation and other postretirement benefits	14,383	145	—	14,528
Claims liability	53,692	47,586	(16,442)	84,836
Long-term debt, less current portion	343,111	75,525	(43,187)	375,449
Total long-term liabilities	517,531	124,257	(59,629)	582,159
Total liabilities	730,209	132,250	(65,603)	796,856
Net assets:				
Unrestricted	493,126	27,917	(13,740)	507,303
Unrestricted – noncontrolling interest	—	642	—	642
Temporarily restricted	114	17,979	—	18,093
Permanently restricted	—	8,009	—	8,009
Total net assets	493,240	54,547	(13,740)	534,047
Total liabilities and net assets	\$ 1,223,449	\$ 186,797	\$ (79,343)	\$ 1,330,903

# Oakwood Healthcare, Inc. and Subsidiaries

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

Year Ended December 31, 2014

	Obligated Group	Non-Obligated Group	Consolidating Adjustments	Consolidated
<b>Revenue</b>				
Unrestricted revenue, gains, and other support:				
Patient service revenue	\$ 1,152,848	\$ 40,828	\$ —	\$ 1,193,676
Less provision for doubtful accounts	(63,666)	(993)	—	(64,659)
Net patient service revenue	1,089,182	39,835	—	1,129,017
Other revenue	65,590	32,893	(18,518)	79,965
Total revenue	1,154,772	72,728	(18,518)	1,208,982
<b>Expenses</b>				
Salaries and wages	501,746	20,599	—	522,345
Employee benefits	87,734	2,880	—	90,614
Insurance	7,017	8,737	—	15,754
Medical supplies	181,285	329	—	181,614
Purchased services and other	268,232	35,932	(15,848)	288,316
Interest expense	14,100	4,496	—	18,596
Depreciation and amortization	61,145	5,594	—	66,739
Total expenses	1,121,259	78,567	(15,848)	1,183,978
Operating income (loss) before self-insurance trust and resident deposit investment return, gain on sale, and nonrecurring expenses	33,513	(5,839)	(2,670)	25,004
Self-insurance trust and resident deposit investment return	4,438	—	—	4,438
Gain on sale of interest in Caretech	9,371	—	—	9,371
Nonrecurring expenses	(1,769)	—	—	(1,769)
Operating income (loss)	45,553	(5,839)	(2,670)	37,044
<b>Nonoperating gains (losses)</b>				
Interest expense	(581)	—	—	(581)
Impairment charges	—	(1,640)	—	(1,640)
Share of net gain (loss) of affiliates	4,432	(7)	(34)	4,391
Interest, dividends, and realized gains, net	25,132	2,654	—	27,786
Unrealized (losses) gains, net	(10,387)	(1,303)	—	(11,690)
Total nonoperating gains (losses)	18,596	(296)	(34)	18,266
Excess (deficit) of revenues over expenses	64,149	(6,135)	(2,704)	55,310

# Oakwood Healthcare, Inc. and Subsidiaries

## Consolidating Statement of Operations and Changes in Net Assets (continued) (Dollars in Thousands)

	Obligated Group	Non-Obligated Group	Consolidating Adjustments	Consolidated
<b>Changes in unrestricted net assets</b>				
Excess (deficit) of revenues over expenses	\$ 64,149	\$ (6,135)	\$ (2,704)	\$ 55,310
Other changes in unrestricted net assets:				
Pension and postretirement liability adjustments	(46,687)	—	—	(46,687)
Noncontrolling interest adjustments	—	(2,338)	2,249	(89)
Net assets released from restrictions for capital	—	937	—	937
Equity transfer to Foundation	(20,044)	20,044	—	—
Other changes in net assets	(911)	(3,913)	4,273	(551)
Net (decrease) increase in unrestricted net assets	(3,493)	8,595	3,818	8,920
<b>Changes in temporarily restricted net assets</b>				
Gifts, contributions, and pledges, net of allowances	—	(2,123)	—	(2,123)
Net investment income	—	313	—	313
Net assets released from restrictions for capital and operating purposes	—	(3,278)	—	(3,278)
Net decrease in temporarily restricted net assets	—	(5,088)	—	(5,088)
<b>Changes in permanently restricted net assets</b>				
Gifts and contributions	—	655	—	655
Increase in permanently restricted net assets	—	655	—	655
Net (decrease) increase in net assets	(3,493)	4,162	3,818	4,487
Net assets at beginning of year	496,733	50,385	(17,558)	529,560
Net assets at end of year	<u>\$ 493,240</u>	<u>\$ 54,547</u>	<u>\$ (13,740)</u>	<u>\$ 534,047</u>

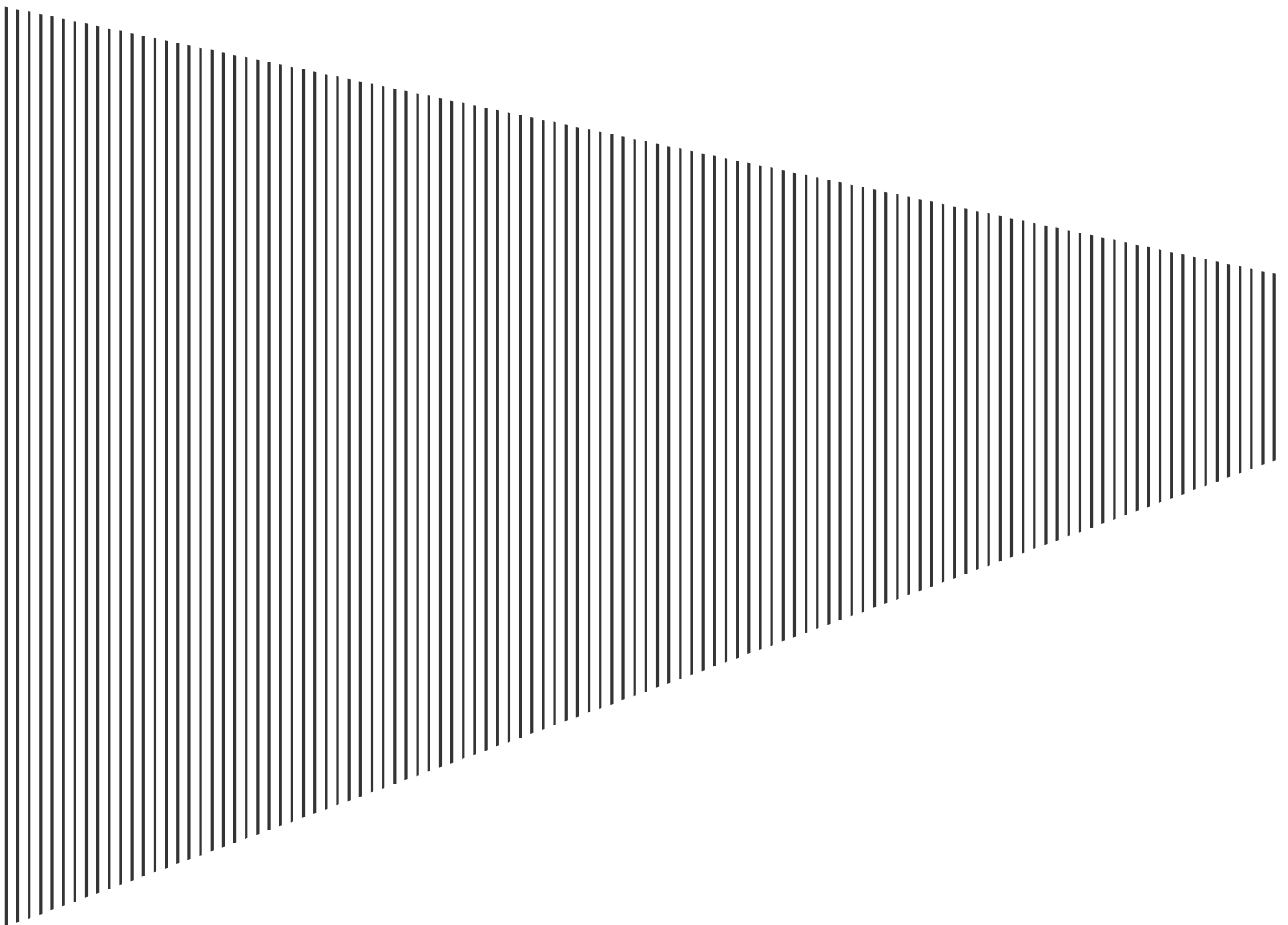
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**Botsford General Hospital and  
Affiliates  
d/b/a Botsford Health Care**

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**Combined Financial Report  
with Additional Information  
December 31, 2014**

# **Botsford General Hospital and Affiliates d/b/a Botsford Health Care**

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## Independent Auditor's Report

To the Audit Committee of Beaumont Health  
Botsford General Hospital and Affiliates  
d/b/a Botsford Health Care

We have audited the accompanying combined financial statements of Botsford General Hospital and Affiliates d/b/a Botsford Health Care, which comprise the combined balance sheet as of December 31, 2014 and 2013 and the related combined statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the combined financial statements.

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

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

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

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

To the Audit Committee of Beaumont Health  
Botsford General Hospital and Affiliates  
d/b/a Botsford Health Care

***Opinion***

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Botsford General Hospital and Affiliates d/b/a Bosford Health Care as of December 31, 2014 and 2013 and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Plante & Moran, PLLC*

March 26, 2015

# **Botsford General Hospital and Affiliates d/b/a Botsford Health Care**

## **Combined Balance Sheet**

	December 31			December 31	
	2014	2013		2014	2013
<b>Assets</b>			<b>Liabilities and Net Assets</b>		
<b>Current Assets</b>			<b>Current Liabilities</b>		
Cash and cash equivalents (Note 5)	\$ 27,026,987	\$ 30,589,418	Current portion of long-term obligations (Note 8)	\$ 9,300,920	\$ 11,106,882
Short-term investments (Note 5)	-	5,233,078	Accounts payable	13,625,844	16,999,838
Assets whose use is limited or restricted:			Accrued expenses and other current liabilities	25,604,004	23,048,351
Required for current liabilities (Note 5)	3,000,000	3,000,000	Estimated third-party payor settlements	2,282,271	4,426,390
Restricted assets - Current (Note 5)	836,341	1,057,281	Accrued defined contributions (Note 9)	3,417,898	2,947,434
Accounts receivable - Net of allowance for doubtful accounts of \$9,111,000 in 2014 and \$13,744,000 in 2013	34,150,983	32,343,187	Current portion of reserve for professional liability claims (Note 10)	3,000,000	3,000,000
Other receivables	3,132,742	4,747,688			
Receivable from affiliates	2,243,733	2,875,337			
Inventories	5,041,048	5,119,888			
Prepaid expenses	3,521,816	2,949,148			
Total current assets	78,953,650	87,915,025	Total current liabilities	57,230,937	61,528,895
<b>Long-term Investments</b> (Note 5)	73,797,464	70,593,487	<b>Accrued Pension Cost</b> (Note 9)	42,904,138	17,360,878
<b>Assets Whose Use is Limited or Restricted</b> (Note 5)	20,666,027	19,747,567	<b>Professional Liability Claims</b> - Net of current portion (Note 10)	12,779,268	12,966,677
<b>Investments in Affiliates</b> (Note 1)	8,809,222	7,845,722	<b>Other Long-term Liabilities</b>	3,293,698	3,404,840
<b>Net Property and Equipment</b> (Note 7)	115,325,458	127,482,450	<b>Condominium Reserve Fund</b> (Note 5)	455,000	455,000
<b>Other Assets</b>	1,165,158	1,285,115	<b>Long-term Obligations</b> - Net of current portion (Note 8)	68,302,094	73,768,371
			Total liabilities	184,965,135	169,484,661
			<b>Net Assets</b>		
			Unrestricted	111,661,757	143,327,419
			Temporarily restricted	1,065,087	1,065,607
			Permanently restricted	1,025,000	991,679
			Total net assets	113,751,844	145,384,705
Total assets	<b>\$ 298,716,979</b>	<b>\$ 314,869,366</b>	Total liabilities and net assets	<b>\$ 298,716,979</b>	<b>\$ 314,869,366</b>

See Notes to Combined Financial Statements.

**Botsford General Hospital and Affiliates  
d/b/a Botsford Health Care**

**Combined Statement of Operations and Changes in Net Assets**

	Year Ended December 31	
	2014	2013
<b>Unrestricted Revenue, Gains, and Other Support</b>		
Net patient service revenue	\$ 327,748,460	\$ 322,356,881
Provision for bad debts	(12,740,065)	(17,712,763)
Net patient service revenue less provisions for bad debts	315,008,395	304,644,118
Other revenue	27,581,732	26,763,028
Net assets released from restrictions - Operations	172,493	128,489
Total unrestricted revenue, gains, and other support	342,762,620	331,535,635
<b>Operating Expenses</b>		
Salaries, wages, and employee benefits	181,827,790	175,116,933
Defined benefit plan pension expense	(1,282,636)	402,161
Defined contribution plan pension expense	3,805,501	2,802,645
Purchased services	53,109,048	53,802,800
Supplies	44,961,756	44,152,125
Administrative expenses	26,002,620	24,040,612
Depreciation	17,815,932	16,710,055
Interest	2,684,677	2,564,809
Repairs and rentals	11,831,612	10,584,985
Total operating expenses (Note 4)	340,756,300	330,177,125
<b>Operating Income before Impairment Loss</b>	2,006,320	1,358,510
<b>Impairment Loss</b> (Note 7)	(9,677,675)	-
<b>Operating (Loss) Income after Impairment Loss</b>	(7,671,355)	1,358,510
<b>Nonoperating Items</b>		
Investment income (Note 6)	4,202,154	6,526,503
Loss on extinguishment of debt (Note 8)	-	(588,034)
Total nonoperating items	4,202,154	5,938,469
<b>Excess of Revenue, Gains, and Other Support (Under) Over Expenses</b>	(3,469,201)	7,296,979
<b>Other Changes in Unrestricted Net Assets</b>		
Pension-related changes other than net periodic pension cost (Note 9)	(28,826,317)	30,101,668
Contributions for capital acquisitions	300,072	122,449
Net assets released from restrictions - Capital acquisitions	329,784	117,847
Total other changes in unrestricted net assets	(28,196,461)	30,341,964
<b>Change in Unrestricted Net Assets</b>	(31,665,662)	37,638,943
<b>Temporarily Restricted Net Assets</b>		
Contributions, net	501,757	700,686
Net assets released from restrictions - Operations	(172,493)	(128,489)
Net assets released from restrictions - Capital	(329,784)	(117,847)
<b>Change in Temporarily Restricted Net Assets</b>	(520)	454,350
<b>Change in Permanently Restricted Net Assets - Contributions, net</b>	33,321	52,791
<b>(Decrease) Increase in Net Assets</b>	(31,632,861)	38,146,084
<b>Net Assets - Beginning of year</b>	145,384,705	107,238,621
<b>Net Assets - End of year</b>	<u>\$ 113,751,844</u>	<u>\$ 145,384,705</u>

# **Botsford General Hospital and Affiliates d/b/a Botsford Health Care**

## **Combined Statement of Cash Flows**

	Year Ended December 31	
	2014	2013
<b>Cash Flows from Operating Activities</b>		
(Decrease) increase in net assets	\$ (31,632,861)	\$ 38,146,084
Adjustments to reconcile (decrease) increase in net assets to cash from operating activities:		
Loss on extinguishment of debt	-	588,034
Provision for bad debts	12,740,065	17,712,763
Depreciation and amortization	18,272,430	16,786,653
Impairment loss	9,677,675	-
Equity in earnings of affiliates	(1,932,084)	(2,038,298)
(Gain) loss on sale of assets	(97,726)	323,235
Realized and unrealized gains and losses on investments	(2,149,976)	(4,760,338)
Pension-related changes other than net periodic pension cost	28,826,317	(30,101,668)
Contributions for capital acquisitions	(300,072)	(122,449)
Contributions for restricted assets	(529,666)	(507,141)
Changes in:		
Accounts receivable	(14,547,861)	(19,025,369)
Other receivables	2,338,395	(841,360)
Estimated third-party payor settlements	(2,867,568)	1,147,139
Inventories	78,840	(587,372)
Prepaid expenses	(572,668)	(746,327)
Other long-term assets	560	(243,882)
Accrued pension and accrued defined contribution costs	(2,812,593)	(2,014,086)
Accounts payable	(3,373,994)	(876,184)
Accrued expenses, other current liabilities, professional liability, and other	1,614,870	1,513,286
Net cash provided by operating activities	12,732,083	14,352,720
<b>Cash Flows from Investing Activities</b>		
Receipts from affiliates, net of investment	1,600,188	1,902,492
Purchases of property and equipment	(14,382,905)	(12,540,030)
Proceeds from sale of property and equipment	44,110	401,915
Purchases of investments	(32,729,237)	(54,367,818)
Proceeds from sale of investments	36,794,157	62,215,635
Changes in assets whose use is limited	(583,363)	(508,278)
Net cash used in investing activities	(9,257,050)	(2,896,084)
<b>Cash Flows from Financing Activities</b>		
Principal reduction of long-term obligations	(11,650,548)	(11,500,762)
Financing costs	-	(364,754)
Refunding of bonds	-	(30,305,000)
Proceeds from issuance of debt	4,083,418	38,733,000
Contributions for restricted net assets	529,666	507,141
Net cash used in financing activities	(7,037,464)	(2,930,375)
<b>(Decrease) Increase in Cash and Cash Equivalents</b>	<b>(3,562,431)</b>	<b>8,526,261</b>
<b>Cash and Cash Equivalents - Beginning of year</b>	<b>30,589,418</b>	<b>22,063,157</b>
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 27,026,987</b>	<b>\$ 30,589,418</b>

**Supplemental Disclosure of Cash Flow Information** - Cash paid for interest in 2014 and 2013 was \$2,518,000 and \$1,929,000, respectively. Capital lease obligations and the related assets entered into were \$321,000 and \$2,670,000 in 2014 and 2013, respectively.

## **Botsford General Hospital and Affiliates d/b/a Botsford Health Care**

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### **Notes to Combined Financial Statements December 31, 2014 and 2013**

#### **Note 1 - Corporate Organization and Statement of Accounting Policies**

**Organization** – The combined financial statements include the accounts of Zieger Health Care Corporation, Botsford General Hospital, Botsford Continuing Care Corporation and Community Emergency Medical Service, Inc.

Prior to September 1, 2014, Zieger Health Care Corporation (Zieger) was the sole member of Botsford General Hospital, Botsford Continuing Care Corporation, and Community Emergency Medical Service, Inc. On March 20, 2014, a Letter of Intent was approved by the respective boards of the Zieger Health Care Corporation, Beaumont Health System, and Oakwood Healthcare to form a new regional health system. The agreement was finalized with an effective date of September 1, 2014.

On September 1, 2014 Beaumont Health, a newly created Michigan nonprofit corporation (Beaumont), became the sole corporate member of William Beaumont Hospital (WBH), Oakwood Healthcare, Inc. (Oakwood) and Botsford General Hospital (Botsford) (the “System Organizations”) and combined the operations of WBH, Oakwood and Botsford (each a Michigan nonprofit corporation), and their subsidiaries and affiliates, under a new system referred to as Beaumont Health (“Beaumont Health” or the “System”). In addition, Botsford General Hospital d/b/a Botsford Hospital (the “Hospital”) became the sole member of Botsford Continuing Care Corporation (BCCC), and Community Emergency Medical Service, Inc. (CEMS). Zieger continues to exist as an oversight affiliated entity and is included in the combined financial statements of the Hospital.

Collectively, the Hospital, BCCC, CEMS, and Zieger are referred to as Botsford General Hospital and Affiliates d/b/a Botsford Health Care (BHC).

BHC incurred expenses for administrative services provided by WBH of approximately \$430,800 during 2014. Net accounts payable related to these services to WBH at December 31, 2014 were \$138,089.

The Hospital operates a full-service hospital, providing an array of ambulatory and inpatient services, for the benefit of the residents of southwestern Oakland County and northern Wayne County. BCCC owns and operates a 179-bed skilled nursing facility, a 64-unit assisted-living facility, and a 51-unit independent-living apartment building in Farmington Hills, Michigan. BCCC also provides services to an independent-living condominium development that consists of 86 separately-owned units located within its campus. CEMS provides emergency and non-emergency medical transportation to the general public and health care providers in southeast Michigan and southwest and central Ohio. CEMS is the sole member of Parastar, a for-profit entity, and is combined within BHC.

**Botsford General Hospital and Affiliates  
d/b/a Botsford Health Care**

**Notes to Combined Financial Statements  
December 31, 2014 and 2013**

**Note 1 - Corporate Organization and Statement of Accounting Policies  
(Continued)**

CEMS has investments in nine affiliates as follows:

- Regional Emergency Medical Transportation Service, Inc. - 40 percent
- HealthLink Medical Transportation Service, Inc. - 50 percent (100 percent investment by System entities)
- Community Ambulance Service - 25 percent
- DMCare Express, Inc. - 50 percent
- Scott & White EMS, Inc. - 20 percent
- Beaumont Medical Transportation Services - 40 percent (100 percent investment by System entities)
- MedCare Ambulance - 40 percent
- Edward Ambulance - 45 percent
- Mercy Health Medical Transportation, LLC - 50 percent

These investments are recorded under the equity method of accounting and are included in investment in affiliates on the balance sheet.

The summarized financial position and results of operations of these joint ventures as of and for the years ended December 31 are as follows:

	2014	2013
Total assets	<u>\$ 30,376,488</u>	<u>\$ 34,301,833</u>
Total liabilities	<u>\$ 11,695,614</u>	<u>\$ 15,541,577</u>
Net assets	<u>\$ 18,680,874</u>	<u>\$ 18,760,256</u>
Revenue - Net	<u>\$ 71,854,223</u>	<u>\$ 67,020,848</u>
Excess of revenue over expenses	<u>\$ 3,366,163</u>	<u>\$ 4,328,444</u>

**Botsford General Hospital and Affiliates  
d/b/a Botsford Health Care**

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**Notes to Combined Financial Statements  
December 31, 2014 and 2013**

**Note 1 - Corporate Organization and Statement of Accounting Policies  
(Continued)**

Parastar provided management, dispatch, vehicle repair services, and accounts receivable management to the joint ventures of \$11,353,834 and \$10,160,892 in 2014 and 2013, respectively.

**Basis of Presentation** - The accompanying combined financial statements include the accounts of BHC's members and Zieger as the operations of these entities are not autonomous of each other due to joint commitment under the Master Indenture (as discussed in Note 8) as of December 31, 2014 and common operations costs and management. All significant intercompany transactions and balances between BHC's members and Zieger have been eliminated. The accounting and reporting policies of BHC conform to accounting principles generally accepted in the United States of America and the combined financial statements are presented in accordance with the American Institute of Certified Public Accountants' Audit and Accounting Guide, *Health Care Entities*.

The following is a summary of significant accounting policies used by BHC:

**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 disclosures 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.

**Cash and Cash Equivalents** - Cash and cash equivalents consist of cash and its equivalents, which BHC considers to be highly liquid investments with original maturities of three months or less. Cash balances held as bank deposits exceed the federal depository insurance limit. BHC's cash is only insured up to the federal depository insurance limit.

**Accounts Receivable** - Accounts receivable for patients, insurance companies, and governmental agencies are based on gross charges. An allowance for doubtful accounts is determined based on historical loss rate factors and adjusted for economic conditions and other trends affecting BHC's ability to collect outstanding amounts. Uncollectible amounts are written off in the period that they are deemed uncollectible. Contractual adjustment policies are discussed in Note 2.

**Botsford General Hospital and Affiliates  
d/b/a Botsford Health Care**

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**Notes to Combined Financial Statements  
December 31, 2014 and 2013**

**Note 1 - Corporate Organization and Statement of Accounting Policies  
(Continued)**

**Investments** - Investments are stated at fair value. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value as determined by quoted market prices in active markets. Investment earnings (including realized gains and losses on investments, holding gains and losses on trading securities, interest, and dividends) Both are included in nonoperating items unless the income or loss is restricted by donor or law. Realized gains and losses on the sale of investments, which are accounted for using the specific identification method, along with interest income, are included in nonoperating items. Long-term investments and investments in assets whose use is limited consist primarily of U.S. government obligations, corporate and foreign bonds, cash equivalents, and equity investments.

**Restricted Net Assets and Pledges Receivable** - Net assets of BHC are classified as permanently restricted, temporarily restricted, or unrestricted, depending on the presence and characteristics of donor-imposed restrictions. Unrestricted contributions are included as revenue when received. Contributions received with donor-imposed temporary restrictions are reported as contributions of temporarily restricted net assets. Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity. When a donor restriction expires, that is, when the purpose of a restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statement of operations as net assets released from restrictions. This includes contributions for which the restrictions are met in the same reporting period as when received. Pledges receivable for restricted contributions are recorded in temporarily or permanently restricted net assets, net of amounts estimated to be uncollectible. The pledge receivables have been discounted at a rate of 6 percent as of December 31, 2014.

**Inventories** - Inventories are valued at the lower of cost (first-in, first-out method) or market. Inventories consist mainly of pharmaceuticals and operating room supplies.

**Property and Equipment** - Property and equipment are carried at cost less accumulated depreciation. Expenditures for renewals and betterments are capitalized. Maintenance and repairs are charged to current operations. Depreciation is provided using the straight-line method over the estimated service lives, which range from 3 to 40 years. Donated fixed assets are recorded at fair value as of the date of the gift as unrestricted support. The real estate properties that were contributed to the pension plan in 2006 are amortized over the contract term (10 years) on a straight-line basis.

**Botsford General Hospital and Affiliates  
d/b/a Botsford Health Care**

**Notes to Combined Financial Statements  
December 31, 2014 and 2013**

**Note 1 - Corporate Organization and Statement of Accounting Policies  
(Continued)**

**Professional and Other Liability Insurance** - BHC accrues an estimate of the ultimate expense, including litigation and settlement expense, for incidents of potential improper professional services and other liability claims occurring during the year as well as for those claims that have not been reported at year end. Any expected amount of insurance recoveries is recorded as a receivable, net of amounts estimated to be uncollectible.

**Charity Care** - As part of its service commitment to the community, the Hospital and CEMS make financial assistance available for services of all types to patients regardless of their ability to pay. Because the Hospital and CEMS do not pursue collection of the amounts, they are classified as charity care and are not reported as revenue. For all other services BHC's policy is to make every attempt to collect for the services provided.

**Net Patient Service Revenue** - BHC recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, BHC recognizes revenue on the basis of its standard rates for services provided less a discount provided by its policy implemented during 2013 in response to Patient Protection and Affordable Care Act of 2010. On the basis of historical experience, a significant portion of BHC's uninsured patients will be unable or unwilling to pay for the services provided. Thus, BHC records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows.

	2014	2013
Third-party payors	\$ 319,462,418	\$ 305,954,831
Self-pay	8,286,042	16,402,050
Total all payors	<u>\$ 327,748,460</u>	<u>\$ 322,356,881</u>

Effective April 1, 2014, the State of Michigan extended Medicaid to more low-income patients, which resulted in patients previously classified as self-pay to be eligible for Medicaid. The provision for bad debt recorded in 2014 and amount of charity care provided were significantly impacted by this program.

**Botsford General Hospital and Affiliates  
d/b/a Botsford Health Care**

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**Notes to Combined Financial Statements  
December 31, 2014 and 2013**

**Note 1 - Corporate Organization and Statement of Accounting Policies  
(Continued)**

Retroactively calculated adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations. Final determination of compliance of such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusions from the Medicare and Medicaid programs.

**Electronic Health Records Incentive Payments** - The American Recovery and Reinvestment Act of 2009 (ARRA) established funding in order to provide incentive payments to hospitals and physicians that implement the use of electronic medical record (EMR) technology by 2014. BHC may receive an incentive payment for up to four years, provided the Hospital demonstrates meaningful use of certified EMR technology for the EMR reporting period. The revenue from the incentive payments is recognized ratably over the EMR reporting period when there is reasonable assurance that the Hospital will comply with eligibility requirements during the EMR reporting period and that an incentive payment will be received. The Hospital recognized \$564,000 and \$2,115,000 from Medicare and Medicaid as EMR incentive revenue in 2014 and 2013, respectively, which is reflected within other operating revenue as the incentives are related to the Hospital's ongoing and central activities. Amounts receivable at December 31, 2014 and 2013 total \$564,000 and \$2,737,000, respectively, and are included in other receivables.

**Debt Issue Costs and Bond Discounts** - Debt issue costs and bond discounts are being amortized using the effective yield method over the term of the underlying indebtedness.

**Other Operating Income** - Other operating income includes income/loss from joint ventures of BHC and other non-patient-generated revenues of BHC that are directly attributable to the operations of BHC.

**Statement of Operations and Changes in Net Assets** - The combined statement of operations and changes in net assets includes the excess of revenue over expenses. Changes in other unrestricted net assets, consistent with industry practice, include pension-related changes other than net periodic pension cost and contributions of long-lived assets (including assets acquired using donor contributions that were to be used for such assets).

**Botsford General Hospital and Affiliates  
d/b/a Botsford Health Care**

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**Notes to Combined Financial Statements  
December 31, 2014 and 2013**

**Note 1 - Corporate Organization and Statement of Accounting Policies  
(Continued)**

**Income Taxes** - The Hospital and selected affiliates have been recognized by the Internal Revenue Service as an organization described under Internal Revenue Code (IRC) Section 501(c)(3) and as such is exempt from federal income taxes under IRC Section 501(a). Certain entities within BHC are subject to federal income taxes. Provisions for such taxes are not significant.

The accounting standard that refers to accounting for uncertainty in income taxes addresses the determination of how tax benefits claimed or expected to be claimed on a tax return should be recorded on the combined financial statements. Organizations must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The standard also provides guidance on derecognition, classification, interest and penalties on income taxes, and accounting in interim periods, and requires increased disclosures. The evaluated potential exposure related to uncertain tax positions was found to be immaterial.

With few exceptions, BHC is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2011.

**New Accounting Pronouncement** - During May 2014, the Financial Accounting Standards Board released Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606). The amendments in the ASU clarify the principles for recognizing revenue and develop a common revenue standard for U.S. GAAP that removes inconsistencies and weaknesses in revenue requirements, provides a more robust framework for addressing revenue issues, improves comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets, provides more useful information to users of financial statements through improved disclosure requirements, and simplifies the preparation of financial statements by reducing the number of requirements to which an entity must refer. The entity will be required to adopt and implement this accounting update as of and for the year ending December 31, 2017. Management has not yet assessed the effect of this accounting standards update on the combined financial statements.

**Subsequent Events** - The combined financial statements and related disclosures include evaluation of events up through and including March 26, 2015, which is the date the combined financial statements were issued.

**Botsford General Hospital and Affiliates  
d/b/a Botsford Health Care**

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**Notes to Combined Financial Statements  
December 31, 2014 and 2013**

**Note 2 - Net Patient Service Revenue and Contractual Adjustments**

A major portion of BHC's net patient revenue (approximately 77 percent in 2014 and 2013) was provided to patients under health benefit contracts with third-party payors (Medicare, Medicaid, and Blue Cross/Blue Shield of Michigan). Such contracts generally provide BHC with reimbursement at less than the normal billing rates. The basis for payment includes prospectively determined rates per discharge or daily rates, fee-for-service, or fee screen methodology. Differences between amounts reimbursed and normal billing rates are charged to contractual adjustments in the period the service is provided based on the most current information available.

Agreements with certain third parties require the Hospital and BCCC to file cost reports annually. These cost reports are subject to audit and retrospective adjustments. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. During 2014 and 2013, net patient service revenue was increased by approximately \$3,560,000 and \$2,688,000, respectively, due to the changes in estimates related to prior years, including final settlements.

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

The Medicare program has initiated a Recovery Audit Contractor (RAC) initiative, whereby claims subsequent to October 1, 2007 will be reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential significant overpayments. The RAC program began for Michigan hospitals in 2009. The Hospital received several audit requests throughout the year. The audits completed have resulted in minimal paybacks; however, if selected for further audits, the potential exists for significant overpayment of claims. The Hospital is unable to determine the extent of liability for overpayments found during the audits.

**Botsford General Hospital and Affiliates  
d/b/a Botsford Health Care**

**Notes to Combined Financial Statements  
December 31, 2014 and 2013**

**Note 2 - Net Patient Service Revenue and Contractual Adjustments  
(Continued)**

**Concentrations of Credit Risk** - BHC grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of gross receivables from patients and third-party payors at December 31 was as follows:

	Percent	
	2014	2013
Medicare	36	35
Medicaid	25	18
Blue Cross/Blue Shield of Michigan	10	10
Other third-party payors	16	17
Patients	13	20
Total	100	100

**Note 3 - Charity Care**

Charity care is determined based on established policies, using patient income and assets to determine payment ability. The amount reflects the cost of free or discounted health services, net of contributions and other revenues received, as direct assistance for the provision of charity care. The estimated cost of providing charity services is based on a calculation which applies a ratio of cost to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital and CEMS' total expenses divided by gross patient service revenue. Hospital and CEMS estimates that it provided \$780,500 and \$3,635,000 of services to indigent patients during 2014 and 2013, respectively.

**Botsford General Hospital and Affiliates  
d/b/a Botsford Health Care**

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**Notes to Combined Financial Statements  
December 31, 2014 and 2013**

**Note 4 - Functional Expenses**

BHC provides health care services to residents within its geographic location. Expenses related to providing these services are as follows:

	2014	2013
Health care services	\$ 265,276,862	\$ 262,182,965
Patient transportation services	32,578,644	27,572,057
General and administrative	42,900,794	40,422,103
Total operating expenses	<u>\$ 340,756,300</u>	<u>\$ 330,177,125</u>

**Note 5 - Investments and Fair Value Measurements**

Assets whose use is limited include board-designated assets and funds designated for professional liability. Other restricted assets consist of donor-restricted pledges, funds restricted for repurchase of condominiums to maintain affordable housing for seniors, and 457(b) investment funds held in a rabbi trust. The pledges are restricted for future hospital expansion and trauma services. Assets whose use is limited that are required for obligations classified as current liabilities are reported as current assets.

**Botsford General Hospital and Affiliates  
d/b/a Botsford Health Care**

**Notes to Combined Financial Statements  
December 31, 2014 and 2013**

**Note 5 - Investments and Fair Value Measurements (Continued)**

At December 31, assets whose use is limited (AWUIL) or restricted consisted of the following:

	2014	2013
Funds designated for professional liability:		
Cash and short-term investments	\$ 7,824,649	\$ 7,561,499
Equity securities	2,824,699	2,895,484
U.S. government obligations	4,321,537	4,708,421
Interest receivable	43,388	60,051
Total	15,014,273	15,225,455
Other restricted assets:		
Board-designated funds	396,220	575,142
Donor-restricted cash	1,301,366	826,588
Donor-restricted pledges	536,118	762,936
Other cash and mutual funds	6,799,391	5,959,727
Condominium/Apartment fund - Receivable	455,000	455,000
Total	9,488,095	8,579,393
Total assets whose use is limited or restricted	24,502,368	23,804,848
Less requirements for current liabilities	(3,000,000)	(3,000,000)
Less restricted assets, current	(836,341)	(1,057,281)
Noncurrent assets whose use is limited or restricted	<u>\$ 20,666,027</u>	<u>\$ 19,747,567</u>

**Botsford General Hospital and Affiliates  
d/b/a Botsford Health Care**

**Notes to Combined Financial Statements  
December 31, 2014 and 2013**

**Note 5 - Investments and Fair Value Measurements (Continued)**

Cash, cash equivalents, and other investments are managed on a shared basis on behalf of BHC. The shared investments are maintained in professionally managed funds and are stated at fair value based on market quotations and consist of the following at December 31:

	2014	2013
Shared investments:		
Cash and cash investments	\$ 30,946,000	\$ 34,388,268
Fixed income securities	49,101,951	45,565,823
Equity securities	20,920,118	25,027,662
Other	-	1,541,609
	<u>100,968,069</u>	<u>106,523,362</u>
Less:		
AWUIL funds	143,618	107,379
Long-term investments	73,797,464	70,593,487
Cash for operations	<u>27,026,987</u>	<u>30,589,418</u>
Total short-term investments	<u>\$ -</u>	<u>\$ 5,233,078</u>

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that BHC has the ability to access. Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset.

**Botsford General Hospital and Affiliates  
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**Notes to Combined Financial Statements  
December 31, 2014 and 2013**

**Note 5 - Investments and Fair Value Measurements (Continued)**

These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset. In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. BHC's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The following tables present information about BHC's assets measured at fair value on a recurring basis at December 31, 2014 and 2013, and the valuation techniques used by BHC to determine those fair values.

Cash, receivables, and pledges, included in assets whose use is limited, are not recorded at fair value on a recurring basis, and therefore are not included in the fair value disclosures below.

**Botsford General Hospital and Affiliates  
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**Notes to Combined Financial Statements  
December 31, 2014 and 2013**

**Note 5 - Investments and Fair Value Measurements (Continued)**

**Assets Measured at Fair Value on a Recurring Basis at December 31, 2014**

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2014
<i>Long-term Investments</i>				
Money market funds	\$ 3,775,395	\$ -	\$ -	\$ 3,775,395
Common stock:				
Large cap growth	9,247,137	-	-	9,247,137
Large cap value	6,960,641	-	-	6,960,641
International	2,589,970	-	-	2,589,970
Mid cap	2,090,769	-	-	2,090,769
Small cap	2,177,575	-	-	2,177,575
Corporate and foreign bonds:				
Corporate bonds - Domestic	-	25,611,818	-	25,611,818
Foreign bonds	-	3,519,799	-	3,519,799
U.S. Government obligations:				
U.S. Government	-	13,298,294	-	13,298,294
Federal agency	-	4,526,066	-	4,526,066
Total	<u>\$ 26,841,487</u>	<u>\$ 46,955,977</u>	<u>\$ -</u>	<u>\$ 73,797,464</u>
<i>AWUIL Funds</i>				
Common stock:				
Exchange traded funds	1,232,418	\$ -	\$ -	\$ 1,232,418
Large cap value	1,396,609	-	-	1,396,609
Mid cap	254,363	-	-	254,363
Corporate bonds	-	1,968,599	-	1,968,599
U.S. Government obligations:				
U.S. Government	-	1,811,688	-	1,811,688
Federal agency	-	541,249	-	541,249
Mutual funds:				
Intermediate/Long-term bonds	524,955	-	-	524,955
Large cap stock	1,050,875	-	-	1,050,875
Small/Mid cap stocks	1,134,243	-	-	1,134,243
International stocks	1,608,947	-	-	1,608,947
Multi-asset/Other	2,224,472	-	-	2,224,472
Guaranteed pool account fund	-	1,379,441	-	1,379,441
Treasury bills	1,871,112	-	-	1,871,112
Total	<u>\$ 11,297,994</u>	<u>\$ 5,700,977</u>	<u>\$ -</u>	<u>\$ 16,998,971</u>
Grand total	<u>\$ 38,139,481</u>	<u>\$ 52,656,954</u>	<u>\$ -</u>	<u>\$ 90,796,435</u>

**Botsford General Hospital and Affiliates  
d/b/a Botsford Health Care**

**Notes to Combined Financial Statements  
December 31, 2014 and 2013**

**Note 5 - Investments and Fair Value Measurements (Continued)**

**Assets Measured at Fair Value on a Recurring Basis at December 31, 2013**

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2013
<i>Short-term Investments</i>				
Exchange traded funds - Corporate	\$ 399,216	\$ -	\$ -	\$ 399,216
Corporate bonds	-	99,333	-	99,333
Certificate of deposits	-	1,002,968	-	1,002,968
Money market funds	3,731,561	-	-	3,731,561
Total	<u>\$ 4,130,777</u>	<u>\$ 1,102,301</u>	<u>\$ -</u>	<u>\$ 5,233,078</u>
<i>Long-term Investments</i>				
Common stock:				
Large cap growth	\$ 8,350,664	\$ -	\$ -	\$ 8,350,664
Large cap value	8,143,588	-	-	8,143,588
International	3,274,354	-	-	3,274,354
Mid cap	2,516,109	-	-	2,516,109
Small cap	2,743,450	-	-	2,743,450
Exchange traded funds	1,308,051	-	-	1,308,051
Corporate and foreign bonds:				
Corporate bonds - Domestic	-	13,927,619	-	13,927,619
Foreign bonds	-	5,192,111	-	5,192,111
U.S. Government obligations:				
U.S. Government	-	17,216,538	-	17,216,538
Federal agency	-	7,921,003	-	7,921,003
Total	<u>\$ 26,336,216</u>	<u>\$ 44,257,271</u>	<u>\$ -</u>	<u>\$ 70,593,487</u>
<i>AWUIL Funds</i>				
Common stock:				
Large cap value	\$ 731,095	\$ -	\$ -	\$ 731,095
Mid cap	2,185,378	-	-	2,185,378
Corporate bonds	-	2,078,617	-	2,078,617
U.S. Government obligations:				
U.S. Government	-	1,481,742	-	1,481,742
Federal agency	-	1,148,062	-	1,148,062
Mutual funds:				
Intermediate/Long-term bonds	448,971	-	-	448,971
Large cap stock	896,877	-	-	896,877
Small/Mid cap stocks	1,646,617	-	-	1,646,617
International stocks	400,154	-	-	400,154
Multi-asset/Other	1,959,706	-	-	1,959,706
Guaranteed pool account fund	-	1,282,451	-	1,282,451
Treasury bills	1,944,971	-	-	1,944,971
Total	<u>\$ 10,213,769</u>	<u>\$ 5,990,872</u>	<u>\$ -</u>	<u>\$ 16,204,641</u>
Grand total	<u>\$ 40,680,762</u>	<u>\$ 51,350,444</u>	<u>\$ -</u>	<u>\$ 92,031,206</u>

**Botsford General Hospital and Affiliates  
d/b/a Botsford Health Care**

**Notes to Combined Financial Statements  
December 31, 2014 and 2013**

**Note 5 - Investments and Fair Value Measurements (Continued)**

The fair value of the corporate and foreign bonds and U.S. government obligations at December 31, 2014 and 2013 were determined primarily based on Level 2 inputs. BHC estimates the fair value of these investments using quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices, discounted cash flow models, and other pricing models. These models are primarily industry standard models that consider various assumptions, including time value and yield curve as well as other relevant economic measures. The guaranteed pooled fund at December 31, 2014 and 2013 were determined primarily based on Level 2 inputs. BHC estimates the fair value of these investments at net asset value per share (or equivalent) of the fund, which is based on the fair value of the funds' underlying net assets which primarily relate to a guaranteed insurance contract.

BHC's policy is to recognize transfers in and transfers out of Level 1, 2, and 3 fair value classifications as of the actual date of the event of change in circumstances that caused the transfer. There were no transfers between levels during 2014 or 2013.

**Note 6 - Investment Income**

Investment income and gains/losses for assets limited as to use, cash equivalents, and other investments which are included in nonoperating income are comprised of the following for the years ended December 31:

	2014	2013
Interest income	\$ 2,052,178	\$ 1,766,165
Realized gains and losses	2,351,808	2,046,924
Change in unrealized gains and losses	(201,832)	2,713,414
Total return	<u>\$ 4,202,154</u>	<u>\$ 6,526,503</u>

**Botsford General Hospital and Affiliates  
d/b/a Botsford Health Care**

**Notes to Combined Financial Statements  
December 31, 2014 and 2013**

**Note 7 - Property and Equipment**

At December 31, net property and equipment consisted of the following:

	2014	2013
Land and improvements	\$ 10,171,715	\$ 9,492,532
Buildings and improvements	180,139,194	174,917,889
Buildings under financing	2,857,899	3,957,839
Equipment	136,388,865	127,500,324
Equipment under capital lease obligation	17,106,192	16,795,526
Total	346,663,865	332,664,110
Accumulated depreciation	(233,672,112)	(208,693,117)
Net	112,991,753	123,970,993
Construction in process	2,333,705	3,511,457
Total	<u>\$ 115,325,458</u>	<u>\$ 127,482,450</u>

Depreciation expense for the years ended December 31, 2014 and 2013 amounted to approximately \$17,816,000 and \$16,710,000, respectively. Accumulated amortization for equipment under capital lease obligations was \$11,914,000 and \$9,502,000 at December 31, 2014 and 2013, respectively.

Pursuant to the requirements of "sale-leaseback" accounting, the three remaining properties contributed to the pension plan in 2006 (buildings under financing) are legally owned by an unrelated third party. However, due to the provisions of the master lease agreement, the properties are recorded as a financing due to the guaranteed rate of return on the contingent rental obligation (see Note 12).

During 2013, the Hospital committed to a facility improvement project in the amount of \$7,500,000 to be completed during 2015. As of December 31, 2014, \$4,866,000 has been expended towards the project. During 2014, the Hospital formulated a master facility plan, as of December 31, 2014, there are \$2.7 million in commitments related to the plan.

As a result of the Beaumont Health affiliation, the System will migrate to a common information technology system, including both clinical and financial systems in a future year. BHC impaired the net book value of its existing information technology systems to reflect its remaining value over the expected period of use in the amount of \$9.7 million.

**Botsford General Hospital and Affiliates  
d/b/a Botsford Health Care**

**Notes to Combined Financial Statements  
December 31, 2014 and 2013**

**Note 8 - Long-term Obligations**

Long-term obligations consist of the following:

	2014	2013
City of Farmington Hills Hospital Finance Authority Revenue Refunding Bonds, Series 2012, face value \$37,453,584 with a fixed interest rate of 2.63 percent, payable in bi-annual installments decreasing from \$3,182,934 in 2015 to \$895,938 in 2025	\$ 29,216,752	\$ 33,385,796
General Electric Capital Corporation, loan payable, direct purchase, face value \$16,920,000 with a fixed interest rate of 4.65 percent payable bi-annually. Principal amounts are payable in annual installments increasing from \$905,000 in 2015 to \$1,710,000 in 2027	16,115,000	16,920,000
City of Farmington Hills Hospital Finance Authority Revenue Refunding Bonds, Series 2013 direct purchase with Key Government Finance, Inc., face value \$13,655,000 with a variable interest rate (weighted average rate for 2014 was approximately 1.32 percent and the rate at December 15, 2014 was 1.32 percent), payable in annual installments increasing from \$650,000 in 2015 to \$715,000 in 2038	13,025,000	13,655,000
Michigan Finance Authority Draw Down Revenue Bonds, Series 2013 direct purchase with General Electric Government Finance, Inc., face value \$11,158,000 with a fixed interest rate of 3.79 percent for the June 2013 draw, 4.08 percent for the December 2013 draw and 3.96 percent for the June 2014 draw, payable in annual installments ranging from \$600,000 in 2015 to \$425,000 in 2029	11,158,000	8,158,000
Hospital equipment lease payable, payable in monthly installments of \$61,055, imputed interest at 4.93 percent through January 2016, with a secured interest in such equipment	771,331	1,447,766
Hospital equipment notes payable, payable in monthly installments of \$37,293, imputed interest of 4.24 percent payable through 2015, with a secured interest in such equipment	359,637	782,133

**Botsford General Hospital and Affiliates  
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**Notes to Combined Financial Statements  
December 31, 2014 and 2013**

**Note 8 - Long-term Obligations (Continued)**

	2014	2013
Hospital equipment lease payable, payable in monthly installments of \$21,486, imputed interest at 5.00 percent through April 22, 2015, with a secured interest in such equipment	\$ 85,056	\$ 331,899
Hospital lease financing for electronic medical record implementation, payable in monthly installments of \$150,038, imputed interest at 5.0 percent through June 2015	741,219	2,460,579
Financing associated with the contribution of real estate properties to the defined benefit plan, face value \$9,300,000 as of April 12, 2006, payable in monthly installments of \$96,897 in 2015, increasing 2.50 percent per year through 2016	597,929	2,016,827
Hospital equipment lease financing for MRI, payable in monthly installments of \$34,392, imputed interest at 2.85 percent through November 2016, with a secured interest in such equipment	801,393	1,185,301
Hospital equipment lease financing for lab equipment, payable in monthly installments of \$19,121, imputed interest ranging from 1.15 to 6.00 percent through October 2019	984,828	1,185,510
Hospital financing for medical office building, payable in monthly installments ranging from \$14,246 to \$19,374, imputed interest of 4.05 percent through February 2026	1,760,647	1,804,880
Ambulance purchase financing with Key Bank for ambulance vehicles, payable in monthly installments of \$18,057, imputed interest at 1.71 percent through February 2019 with a secured interest in such equipment	902,848	-
Other capitalized leases	1,083,374	1,541,562
Total	77,603,014	84,875,253
Less current portion	(9,300,920)	(11,106,882)
Total long-term portion	<u>\$ 68,302,094</u>	<u>\$ 73,768,371</u>

**Botsford General Hospital and Affiliates  
d/b/a Botsford Health Care**

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**Notes to Combined Financial Statements  
December 31, 2014 and 2013**

**Note 8 - Long-term Obligations (Continued)**

All members of the Botsford General Hospital Obligated Group (the "Group") are jointly and severally liable for outstanding Group debt. The Group members are Zieger, the Hospital, CEMS, and BCCC.

The Group entered into a loan agreement with General Electric Capital Corporation in April 2013 and borrowed \$16,920,000. The proceeds were used to refund the indebtedness on the Series 1997A, and to pay the issuance costs of the debt. This transaction resulted in a loss on extinguishment of debt of approximately \$230,100, which has been included in other nonoperating items in the combined statement of operations and changes in net assets in 2013.

The City of Farmington Hills Hospital Finance Authority Hospital Revenue Refunding Bonds (Botsford Obligated Group), Series 2013, were issued in April 2013 in the amount of \$13,655,000 and financed as a tax exempt direct purchase with Key Government Finance, Inc., over the same period as the bonds. The proceeds were used to refund the indebtedness on the Series 2008A, and to pay the issuance costs of the bonds. This transaction resulted in a loss on extinguishment of debt of approximately \$357,900, which has been included in other nonoperating items in the combined statement of operations and changes in net assets in 2013.

The Michigan Finance Authority Healthcare Draw Down Revenue Bonds (Botsford Obligated Group), Series 2013, were issued in June 2013 in an amount up to \$15,108,000. Bond proceeds are disbursed every six months according to a drawdown schedule beginning June 1, 2013 and ending December 1, 2014. The proceeds were used to finance construction of the facility refresh project, purchase of equipment and to pay the issuance costs of the bonds. The proceeds for the June 2013 draw were \$5,508,000 at a fixed rate of 3.79 percent. Subsequent disbursements are subject to a per annum rate of 3.56 percent plus 60 percent of the difference between the Swap Rate and 1.95 percent. The proceeds for the December 2013 draw were \$2,650,000 at a fixed rate of 4.08 percent. The proceeds for the June 2014 draw were \$3,000,000 at a fixed rate of 3.96 percent. The December 2014 draw that was available did not occur.

**Botsford General Hospital and Affiliates  
d/b/a Botsford Health Care**

**Notes to Combined Financial Statements  
December 31, 2014 and 2013**

**Note 8 - Long-term Obligations (Continued)**

The Master Indenture and related amendments for the long-term obligations of the Group requires the Group to meet or maintain certain financial ratios including debt service coverage, cushion ratio, and days cash on hand. Pursuant to the waiver granted on October 28, 2002, financial covenants include a mortgage on the Group's three main campuses, a pledge of gross revenues, and cross defaults among outstanding bond and bank debts.

The Group has secured a \$5,000,000 revolving credit facility with Key Equipment Finance, Inc. In 2014, the Group borrowed \$1,083,418 for emergency vehicles. The outstanding balance as of December 31, 2014 is \$902,848.

**Repayment Schedule** - Scheduled future principal repayments on long-term obligations for the next five years and thereafter are as follows:

Years Ending December 31	Capital Leases and Property Financing	Less: Interest	Net Capital Leases and Property Financing	Long-term Debt	Total
2015	\$ 3,602,655	\$ (215,990)	\$ 3,386,665	\$ 5,914,255	\$ 9,300,920
2016	1,187,225	(114,904)	1,072,321	5,649,072	6,721,393
2017	635,451	(80,692)	554,759	5,549,883	6,104,642
2018	445,193	(61,451)	383,742	5,646,926	6,030,668
2019	315,622	(50,838)	264,784	5,666,891	5,931,675
Thereafter	1,323,783	(160,277)	1,163,506	42,350,210	43,513,716
Total	<u>\$ 7,509,929</u>	<u>\$ (684,152)</u>	<u>\$ 6,825,777</u>	<u>\$ 70,777,237</u>	<u>\$ 77,603,014</u>

On January 28, 2015, Michigan Finance Authority Hospital Revenue Refunding Bonds (Beaumont Health Credit Group), Series 2015A, were issued in the amount of \$398,435,000. The proceeds were used to refund certain indebtedness of the System and to pay the issuance costs of the bonds. Approximately \$70.4 million of the refunding related to BHC and refunded the following obligations of BHC:

- City of Farmington Hills Hospital Finance Authority Hospital Revenue Refunding Bond (Botsford Obligated Group), Series 2012
- General Electric Capital Corporation Loan Payable
- City of Farmington Hills Hospital Finance Authority Hospital Revenue Refunding Bond (Botsford Obligated Group), Series 2013
- Michigan Finance Authority Healthcare Draw Down Revenue Bond (Botsford Obligated Group Project), Series 2013
- Ambulance purchase financing with Key Bank

## **Botsford General Hospital and Affiliates d/b/a Botsford Health Care**

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### **Notes to Combined Financial Statements December 31, 2014 and 2013**

#### **Note 8 - Long-term Obligations (Continued)**

Effective on this date, the Master Indenture of the Botsford Obligated Group was terminated as well as the related financial covenants including the mortgage on the Group's three main campuses, a pledge of gross revenues, and cross defaults among outstanding bond and bank debts.

As of the date of issuance of the Series 2015A Bonds, Beaumont, each of the System Organizations (including Botsford General Hospital), Oakwood United Hospitals, Inc. and Oakwood Health Promotions, Inc. became members of the Beaumont Health Obligated Group (Oakwood United Hospitals, Inc. and Oakwood Health Promotions, Inc. are wholly owned subsidiaries of Oakwood.). The Amended and Restated Master Indenture creates the Credit Group, which is comprised of the members of the Beaumont Health Obligated Group and Designated Affiliates, as defined. As of the date of issuance of the Bonds, Botsford Continuing Care Corporation will be the only Designated Affiliate.

In the event the Hospital is required to make payments on the Series 2015A Bonds in excess of the agreed upon amount, the Hospital could seek to recover those amounts from the affiliate; however, the Hospital does not hold specific recourse or collateral rights in connection with the agreement.

#### **Note 9 - Pension Plan and Other Employee Benefits**

BHC has a noncontributory single employer pension plan (the "Plan") covering all eligible employees. The Plan is a defined benefit plan that is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). Normal retirement benefits, coordinated with Social Security, are principally based on years of service and annual compensation. Early retirement, disability, and death benefits are also available under the Plan.

Plan assets are stated at fair value and are comprised primarily of equity securities and debt securities issued by the U.S. government corporate and foreign bonds and its agencies. BHC makes annual contributions to the Plan equal to an amount necessary to meet or exceed the minimum funding requirements of ERISA. Contributions are intended to provide for benefits earned through the date the Plan was frozen.

On November 26, 2002, BHC's board of trustees approved a resolution to freeze the defined benefit plan effective December 31, 2002. No additional benefits were earned after that date and all eligible participants were vested.

**Botsford General Hospital and Affiliates  
d/b/a Botsford Health Care**

**Notes to Combined Financial Statements  
December 31, 2014 and 2013**

**Note 9 - Pension Plan and Other Employee Benefits (Continued)**

**Obligations and Funded Status:**

	2014	2013
Change in benefit obligation:		
Benefit obligation - Beginning of year	\$ 130,475,527	\$ 147,533,462
Interest cost	6,502,293	6,073,708
Actuarial loss (gain)	26,868,539	(17,782,442)
Benefits paid	<u>(10,293,113)</u>	<u>(5,349,201)</u>
Benefit obligation - End of year	153,553,246	130,475,527
Change in plan assets:		
Fair value of plan assets - Beginning of year	113,114,649	98,371,275
Actual return on plan assets	5,827,572	17,992,575
Employer contributions	2,000,000	2,100,000
Benefits paid	<u>(10,293,113)</u>	<u>(5,349,201)</u>
Fair value of plan assets - End of year	<u>110,649,108</u>	<u>113,114,649</u>
Unfunded status - End of year	<u>\$ (42,904,138)</u>	<u>\$ (17,360,878)</u>

Included in unrestricted net assets are amounts that have not yet been recognized in net periodic pension costs representing unrecognized losses of \$54.1 million and \$25.3 million at December 31, 2014 and 2013, respectively.

Components of net periodic benefit cost are as follows:

	2014	2013
Interest cost	\$ 6,502,293	\$ 6,073,708
Expected return on plan assets	(8,260,129)	(7,158,743)
Amortization of net loss	<u>482,384</u>	<u>1,491,963</u>
Net period benefit cost	<u>\$ (1,275,452)</u>	<u>\$ 406,928</u>

BHC uses the corridor amortization methodology for recognition of the estimated net loss for the defined benefit plan. Approximately \$1,425,000 of unrecognized losses will be recognized in 2015.

**Botsford General Hospital and Affiliates  
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**Notes to Combined Financial Statements  
December 31, 2014 and 2013**

**Note 9 - Pension Plan and Other Employee Benefits (Continued)**

**Assumptions:**

	2014	2013
Actuarial assumptions used to determine benefit obligations at December 31:		
Weighted average discount rate	4.40%	5.10%
Increase in future compensation levels	N/A	N/A
Actuarial assumptions used to determine net periodic benefit cost at December 31:		
Weighted average discount rate	5.10%	4.20%
Expected return on plan assets	7.50%	7.50%
Increase in future compensation levels	N/A	N/A

Management identified an operational failure associated with the suspension of benefit (SOB) notices to participants aged 65 or older. Regulations require that the notice indicate that while participants are still working they will not be receiving their pension, essentially putting them on notice that the value of their pension would erode if they did not start the benefit and the notice must include specific, additional details. The Plan document requires a SOB notice be given in order to suspend participant Plan benefits.

There was no evidence that SOB notices were provided to participants from 2006 through mid-2013, with the exception of 2009, who continued to work more than 40 hours per month after attaining normal retirement age. The IRS generally views such a failure as an operational error. In late 2013, an application was submitted to the IRS on behalf of BHC through the IRS Voluntary Compliance Program (VCP). Based on the actuarial valuation for the affected participants, BHC financial statements reflect an adjustment to the December 31, 2014 projected benefit obligation for approximately \$5,400,000, the impact of which is included in pension-related changes other than net period pension cost.

In 2014 the mortality method changed from the prescribed mortality under IRC §430(h)(3)(A) using the static table option with separate mortality rates for annuitant and non-annuitants to RP-2014 mortality tables for males and females backed up to 2007 using MP-2014 scales then generationally projected with mortality improvements from 2007 using modified MP-2014 scales.

**Botsford General Hospital and Affiliates  
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**Notes to Combined Financial Statements  
December 31, 2014 and 2013**

**Note 9 - Pension Plan and Other Employee Benefits (Continued)**

**Pension Plan Assets**

The assets of the Plan are to be invested for the exclusive purpose of providing benefits for the Plan's participants and their beneficiaries. The primary investment return goal of the Plan is to achieve superior long-term investment results. Investment results will be judged on a long-term basis consistent with the long-term nature of pension liabilities. Investment objectives include, but are not limited to, achieving a total rate of return on a long-term basis, that at a minimum, exceeds the actuarial expected long-term rate of return on assets, exceeding the annualized rate of return at a customized index with established benchmarks, and to minimize the likelihood of a sharp decline in asset value in any one year due to steep market declines. Over the long-term, asset allocation policy will be the key determinant of the return generated by the Plan assets and the associated volatility of the return.

In selecting the expected long-term rate of return on assets, BHC considered the average rate of earnings expected on the funds invested or to be invested to provide for the benefits of this Plan. This included considering the trusts' asset allocation and the expected returns likely to be earned over the life of the Plan. This basis was consistent with last year.

BHC's target allocation for investments is approximately 64 percent in equity securities, 34 percent in fixed income investments, including real estate, and 2 percent in cash. Equity securities include large-cap and mid-cap companies primarily located in the United States. Fixed income securities include corporate bonds of companies from diversified industries, mortgage-backed securities, U.S. Treasuries, and real estate.

The fair values of BHC's pension plan assets at December 31, 2014 and 2013 by major asset classes, except accrued income receivable which is not recorded at fair value on a recurring basis and therefore is not included in the foregoing fair value disclosure, are as follows:

**Botsford General Hospital and Affiliates**  
**d/b/a Botsford Health Care**

**Notes to Combined Financial Statements**  
**December 31, 2014 and 2013**

**Note 9 - Pension Plan and Other Employee Benefits (Continued)**

**Fair Value Measurements at December 31, 2014 and 2013**

	Level 1	Level 2	Level 3	Balance at December 31
<i>2014</i>				
<b>Common Stock:</b>				
Large cap growth	\$ 18,811,206	\$ -	\$ -	\$ 18,811,206
Large cap value	23,091,529	-	-	23,091,529
International	13,825,986	-	-	13,825,986
Mid cap	12,169,273	-	-	12,169,273
Small cap	8,804,359	-	-	8,804,359
<b>Corporate and Foreign Bonds: (a)</b>				
Corporate bonds	-	10,412,138	-	10,412,138
Mortgage/Asset-backed securities	-	4,534,454	-	4,534,454
Municipal bonds	-	607,181	-	607,181
<b>U.S. Government Obligations: (a)</b>				
U.S. government	-	6,243,778	-	6,243,778
Federal agency	-	1,641,801	-	1,641,801
<b>Real Estate</b>	-	-	5,350,000	5,350,000
<b>Money Market Fund</b>	4,970,999	-	-	4,970,999
<b>Interest Bearing Cash</b>	-	4,854	-	4,854
<b>Total</b>	<b>\$ 81,673,352</b>	<b>\$ 23,444,206</b>	<b>\$ 5,350,000</b>	<b>\$ 110,467,558</b>
<i>2013</i>				
<b>Common Stock:</b>				
Large cap growth	\$ 20,130,877	\$ -	\$ -	\$ 20,130,877
Large cap value	21,299,971	-	-	21,299,971
International	14,937,935	-	-	14,937,935
Mid cap	10,710,453	-	-	10,710,453
Small cap	9,463,571	-	-	9,463,571
<b>Corporate and Foreign Bonds: (a)</b>				
Corporate bonds	-	11,108,187	-	11,108,187
Mortgage/Asset-backed securities	-	4,289,822	-	4,289,822
Municipal bonds	-	462,204	-	462,204
<b>U.S. Government Obligations: (a)</b>				
U.S. government	-	7,260,194	-	7,260,194
Federal agency	-	2,262,988	-	2,262,988
<b>Real Estate</b>	-	-	6,675,000	6,675,000
<b>Money Market Fund</b>	4,503,407	-	-	4,503,407
<b>Interest Bearing Cash</b>	-	792	-	792
<b>Total</b>	<b>\$ 81,046,214</b>	<b>\$ 25,384,187</b>	<b>\$ 6,675,000</b>	<b>\$ 113,105,401</b>

- (a) This class invests primarily in fixed-income securities including government securities and commercial paper, with the objective of providing high income balanced with preservation of capital and maintenance of liquidity.

**Botsford General Hospital and Affiliates  
d/b/a Botsford Health Care**

**Notes to Combined Financial Statements  
December 31, 2014 and 2013**

**Note 9 - Pension Plan and Other Employee Benefits (Continued)**

The above table presents information about the pension plan assets measured at fair value at December 31, 2014 and 2013, and the valuation techniques used by BHC to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Plan has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. BHC's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each plan asset.

The following table summarizes the changes in the fair value measurements using significant unobservable inputs (Level 3):

	2014	2013
Beginning balance at January 1	\$ 6,675,000	\$ 6,675,000
Unrealized loss	(25,000)	-
Sale of assets	(1,300,000)	-
Ending balance at December 31	<u>\$ 5,350,000</u>	<u>\$ 6,675,000</u>

**Botsford General Hospital and Affiliates  
d/b/a Botsford Health Care**

**Notes to Combined Financial Statements  
December 31, 2014 and 2013**

**Note 9 - Pension Plan and Other Employee Benefits (Continued)**

BHC received approval from the Department of Labor to contribute five real estate properties to the defined benefit pension plan in 2006. BHC contributed these assets to the Plan in April 2006 and commenced lease payments to the Plan pursuant to the master lease agreement with the Hospital. The value of these properties, as determined by an independent appraiser, was \$9,300,000 at the date of contribution. In December 2011 the Hospital sold one of the properties to an unrelated third-party. As of December 31, 2014 and 2013, the value of the remaining properties, as determined by an independent appraiser, was \$5,350,000 and \$6,675,000, respectively. In September 2014 the Hospital sold one of the properties to an unrelated third party (see Note 12). The properties are considered fixed-income investments and represent approximately 6 percent of Plan assets.

**Estimated Future Benefit Payments**

The following benefit payments are expected to be paid:

<u>Years Ending December 31</u>	<u>Amount</u>
2015	\$ 6,812,950
2016	7,183,558
2017	7,644,490
2018	7,996,898
2019	8,340,809
2020-2024	46,547,547

During 2014, BHC offered participants an opportunity to receive a cash out of accrued pension benefits by participating in a Deferred Vested Lump Sum Program whereby 251 participants elected to receive and were paid a lump sum payment totaling approximately \$4,000,000.

**Botsford General Hospital and Affiliates  
d/b/a Botsford Health Care**

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**Notes to Combined Financial Statements  
December 31, 2014 and 2013**

**Note 9 - Pension Plan and Other Employee Benefits (Continued)**

**Other Employee Benefits**

BHC also sponsors a defined contribution retirement savings plan. This 401(a) plan requires the employer to make a contribution of 2 percent of an employee's total compensation to the individual's participant account. The employer contributed 2 percent of compensation as defined in the Plan for the years ended December 31, 2014 and 2013. BHC did provide an additional matching contribution of 10 percent of the participant contributions up to \$600 as defined in the plan document. The contribution expense for the 401(a), 401(k), and 403(b) plans was approximately \$3,479,000 and \$2,518,000 for the years ended December 31, 2014 and 2013, respectively. The matching contribution expense for the 403(b) plan for the years ended December 31, 2014 and 2013 was approximately \$327,000 and \$284,000, respectively.

Certain employees of BHC participate in the deferred compensation plan under Code Section 457(b). Such assets are held in a rabbi trust; however, these assets belong to BHC and are subject to the claims of BHC's general creditors. Investments consist primarily of mutual funds and annuity contracts. Deferred compensation amounts of \$6,749,000 and \$5,925,000 as of December 31, 2014 and 2013, respectively, are included in assets whose use is limited and accrued expenses.

**Note 10 - Professional and General Patient Liability**

Based on the nature of its operations, BHC is at times subject to ongoing, pending or threatened legal actions, which arises in the normal course of its activities. The Hospital, BCCC, and CEMS elected to self-insure for professional and general patient liability claims starting in April 1979, January 2001, and February 2003, respectively. Prior to such dates, each entity had coverage for professional and general patient liability claims with outside insurers. Each entity estimates its liability for these claims on an occurrence basis, as actuarially determined, discounted at 4.00 percent and 3.50 percent for December 31, 2014 and 2013, respectively, and in management's opinion, provides an adequate reserve for loss contingencies. The estimates include a reserve for known claims and unreported incidents. An irrevocable trust fund has been created for the payment of these claims. Historically, the Hospital, BCCC, and CEMS have purchased an excess claims-made insurance policy for the trust. Effective April 2012, the Hospital, BCCC, and CEMS joined Caymich Insurance Company, Ltd, which provides BHC's excess professional and general liability insurance. Any claims in excess of the trust limits, and not covered by the excess policy, would be paid with the operating funds of the related entities.

**Botsford General Hospital and Affiliates  
d/b/a Botsford Health Care**

**Notes to Combined Financial Statements  
December 31, 2014 and 2013**

**Note 10 - Professional and General Patient Liability (Continued)**

The Hospital also offers a physician malpractice program through a segregated cell domiciled in the Cayman Islands. Pursuant to a re-insurance agreement with the fronting company, the Hospital is 100 percent at-risk for this physician program. Therefore, the Hospital consolidates the activity of the captive cell into the Hospital's operations. Amounts included in administrative expense for hospital and professional patient liability for the years ended December 31, 2014 and 2013 were approximately \$3,203,000 and \$2,319,000, respectively.

**Note 11 - Fair Value of Financial Instruments**

The following methods and assumptions were used by BHC in estimating its fair value disclosures for financial instruments.

**Cash and Cash Equivalents** - The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

**Long-term Obligations** - The fair value of BHC's long-term obligations is estimated using discounted cash flow analyses based on BHC's current incremental borrowing rates for similar types of borrowing arrangements.

For any items not disclosed herein, the carrying value approximates its fair value.

The carrying amounts and fair value of BHC's financial instruments at December 31 are as follows:

	2014		2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 27,026,987	\$ 27,026,987	\$ 30,589,418	\$ 30,589,418
Long-term obligations	77,603,014	77,603,014	84,875,253	84,875,253

**Botsford General Hospital and Affiliates  
d/b/a Botsford Health Care**

**Notes to Combined Financial Statements  
December 31, 2014 and 2013**

**Note 12 - Commitments and Contingencies**

The members of BHC are party to lawsuits incidental to their operations. Management and its counsel believe that the ultimate disposition of such litigation will not have a material effect on the financial position of BHC.

BHC leases certain equipment and storage facilities under operating leases expiring on various dates through 2024. Lease expense for all operating leases amounted to approximately \$2,953,000 in 2014 and \$2,311,000 in 2013. Approximate future minimum lease payments under these leases are as follows:

Years Ending December 31	Amount
2015	\$ 2,691,129
2016	2,636,190
2017	2,428,952
2018	1,694,067
2019	1,109,227
Thereafter	4,197,898
Total	<u>\$ 14,757,463</u>

**Contingent Rental/Guarantee** - In March 2006, the Hospital received approval from the Department of Labor to contribute five real estate properties to the defined benefit pension plan. The Hospital contributed these buildings in April 2006 and began making required payments to the pension plan.

The approved master lease agreement requires the Hospital to make a contingent payment to the Plan under three circumstances: (1) end of 10-year lease term, (2) termination of any of the leases, or (3) sale of any of the properties. The agreement also requires payments to increase 2.5 percent per year. If the properties do not earn a rate of return of at least 8 percent, as identified by the DOL-approved agreement, then the Hospital is required to make an additional payment to the Plan. Management believes this contingent payment is remote; therefore, no additional accrual has been recorded.

In September 2014 the Hospital sold one of the properties to an unrelated third party. The Plan received approximately \$1.2 million associated with the sale. The Hospital reduced its remaining debt obligation. This transaction resulted in a gain on sale of asset of approximately \$75,000, which has been included in other operating revenue in the combined statement of operations and changes in net assets in 2014.

**Botsford General Hospital and Affiliates  
d/b/a Botsford Health Care**

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**Notes to Combined Financial Statements  
December 31, 2014 and 2013**

**Note 13 - Donor and Board-restricted Endowments**

BHC's endowment includes donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law**

The Board of Trustees of BHC has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, BHC classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund
- 2) The purposes of the organization and the donor-restricted endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of the organization
- 7) The investment policies of the organization

In 2010, BHC recorded a \$1,000,000 endowment pledge that is considered a permanently restricted fund. As of December 31, 2014, this \$1,000,000 gross endowment pledge, discounted to a net present value in the years ended 2014 and 2013 is \$323,000 and \$491,000, respectively, is a pledge receivable that has payments scheduled through 2015. Payments of approximately \$201,000 were received in 2014. There were no payments in 2013.

**Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires BHC to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2014.

**Botsford General Hospital and Affiliates  
d/b/a Botsford Health Care**

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**Notes to Combined Financial Statements  
December 31, 2014 and 2013**

**Note 13 - Donor and Board-restricted Endowments (Continued)**

**Return Objectives and Risk Parameters**

BHC has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. The endowment assets are invested in a manner that is intended to earn a compound average rate of return of 6-8 percent per annum, while assuming a moderate level of investment risk. Actual returns in any given year may vary from this amount.

**Strategies Employed for Achieving Objectives**

To satisfy its long-term rate-of-return objectives, BHC relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). BHC targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

**Spending Policy and How the Investment Objectives Relate to Spending Policy**

BHC has a policy of appropriating for distribution each year 3-5 percent of its endowment fund's average trailing three-year balance. Additionally, BHC has determined that no spending shall occur until such time that the fund principal value exceeds \$500,000, unless it is determined that it is necessary to disburse funds in order to honor commitments to donors. In establishing this policy, BHC considered the long-term expected return on its endowment. Accordingly, over the long-term, BHC expects the current spending policy to allow its endowment to earn an average compound rate of return of 6-8 percent. This is consistent with the organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

## **Additional Information**

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To the Board of Trustees  
Botsford General Hospital and Affiliates  
d/b/a/ Botsford Health Care  
Farmington Hills, Michigan

We have audited the combined financial statements of Botsford General Hospital and Affiliates d/b/a Botsford Health Care as of and for the years ended December 31, 2014 and 2013, and have issued our report thereon dated March 24, 2015 which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining information is presented for the purpose of additional analysis rather than to present the financial position, results of operations, and cash flows of the individual entities and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

March 26, 2015



**Botsford General Hospital and Affiliates  
d/b/a Botsford Health Care**

**Combining Balance Sheet  
December 31, 2014**

	Zieger	Hospital	CEMS/Parastar	BCCC	Reclassification/ Eliminating Entries	Total Combined
<b>Assets</b>						
<b>Current Assets</b>						
Cash and cash equivalents	\$ 500,000	\$ 16,141,424	\$ 9,950,824	\$ 434,739	\$ -	\$ 27,026,987
Assets whose use is limited:						-
Required for current liabilities	-	3,000,000	-	-	-	3,000,000
Restricted assets - Current	-	836,341	-	-	-	836,341
Accounts receivable - Net of allowance for uncollectible accounts	-	28,136,973	4,029,562	2,035,869	(51,421)	34,150,983
Other receivables	-	2,131,935	266,521	748,848	(14,562)	3,132,742
Receivable from affiliates	-	3,421,208	2,117,989	79,636	(3,375,100)	2,243,733
Inventories	-	4,593,690	417,323	30,035	-	5,041,048
Prepaid expenses	-	2,845,118	585,689	91,009	-	3,521,816
Total current assets	500,000	61,106,689	17,367,908	3,420,136	(3,441,083)	78,953,650
<b>Long-term Investments</b>	-	67,019,561	6,633,376	144,527	-	73,797,464
<b>Assets Whose Use is Limited or Restricted</b>	-	20,142,079	68,948	455,000	-	20,666,027
<b>Investments in Affiliates</b>	-	107,692	8,701,530	-	-	8,809,222
<b>Net Property and Equipment</b>	-	90,742,178	5,869,188	18,714,092	-	115,325,458
<b>Other Assets</b>	-	830,975	231,273	102,910	-	1,165,158
Total assets	<u>\$ 500,000</u>	<u>\$ 239,949,174</u>	<u>\$ 38,872,223</u>	<u>\$ 22,836,665</u>	<u>\$ (3,441,083)</u>	<u>\$ 298,716,979</u>

**Botsford General Hospital and Affiliates  
d/b/a Botsford Health Care**

**Combining Balance Sheet (Continued)  
December 31, 2014**

	Zieger	Hospital	CEMS/Parastar	BCCC	Reclassification/ Eliminating Entries	Total Combined
<b>Liabilities and Net Assets</b>						
<b>Current Liabilities</b>						
Current portion of long-term obligations	\$ -	\$ 7,788,807	\$ -	\$ 1,512,113	\$ -	\$ 9,300,920
Due to affiliates	-	149,870	1,065,639	2,305,359	(3,520,868)	-
Accounts payable	-	11,492,195	1,153,005	903,502	77,142	13,625,844
Accrued expenses and other current liabilities	-	22,652,008	1,635,541	1,313,812	2,643	25,604,004
Estimated third-party payor settlements	-	2,282,271	-	-	-	2,282,271
Accrued defined contributions	-	2,879,291	367,461	171,146	-	3,417,898
Current portion of reserve for professional liability claims	-	3,000,000	-	-	-	3,000,000
Total current liabilities	-	50,244,442	4,221,646	6,205,932	(3,441,083)	57,230,937
<b>Accrued Pension Cost</b>	-	40,452,784	1,472,141	979,213	-	42,904,138
<b>Professional Liability Claims - Net of current portion</b>	-	12,368,259	102,260	308,749	-	12,779,268
<b>Other Long-term Liabilities</b>	-	3,293,698	-	-	-	3,293,698
<b>Condominium Reserve Fund</b>	-	-	-	455,000	-	455,000
<b>Long-term Obligations - Net of current portion</b>	-	49,440,661	-	18,861,433	-	68,302,094
Total liabilities	-	155,799,844	5,796,047	26,810,327	(3,441,083)	184,965,135
<b>Net Assets</b>						
Unrestricted	500,000	82,128,191	33,007,228	(3,973,662)	-	111,661,757
Temporarily restricted	-	996,139	68,948	-	-	1,065,087
Permanently restricted	-	1,025,000	-	-	-	1,025,000
Total net assets	500,000	84,149,330	33,076,176	(3,973,662)	-	113,751,844
Total liabilities and net assets	<u>\$ 500,000</u>	<u>\$ 239,949,174</u>	<u>\$ 38,872,223</u>	<u>\$ 22,836,665</u>	<u>\$ (3,441,083)</u>	<u>\$ 298,716,979</u>

**Botsford General Hospital and Affiliates  
d/b/a Botsford Health Care**

**Combining Statement of Operations and Changes in Net Assets  
Year Ended December 31, 2014**

	Zieger	Hospital	CEMS/Parastar	BCCC	Reclassification/ Eliminating Entries	Total Combined
<b>Unrestricted Revenue, Gains, and Other Support</b>						
Net patient service revenue	\$ -	\$ 285,017,098	\$ 24,448,833	\$ 18,692,691	\$ (410,162)	\$ 327,748,460
Provision for bad debts	-	(10,593,994)	(2,120,007)	(26,064)	-	(12,740,065)
Net patient service revenue less provisions for bad debts	-	274,423,104	22,328,826	18,666,627	(410,162)	315,008,395
Other revenue	1,374	10,182,670	14,905,234	2,745,479	(253,025)	27,581,732
Net assets released from restrictions - Operations	65,865	40,083	66,545	-	-	172,493
Total unrestricted revenue, gains, and other support	67,239	284,645,857	37,300,605	21,412,106	(663,187)	342,762,620
<b>Operating Expenses</b>						
Salaries, wages, and employee benefits	-	143,814,936	25,343,933	9,845,670	2,823,251	181,827,790
Defined benefit plan pension income	-	(1,165,518)	(49,143)	(67,975)	-	(1,282,636)
Defined contribution plan pension expense	-	3,243,598	389,053	172,850	-	3,805,501
Purchased services	1,362,088	44,930,263	4,578,426	5,061,522	(2,823,251)	53,109,048
Supplies	-	41,311,639	2,138,356	1,511,761	-	44,961,756
Administrative expenses	132,822	22,608,474	2,042,890	1,735,429	(516,995)	26,002,620
Depreciation	-	15,213,300	1,427,284	1,175,348	-	17,815,932
Interest	60,310	1,822,075	53,234	749,058	-	2,684,677
Repairs and rentals	-	9,040,975	2,403,780	533,049	(146,192)	11,831,612
Total operating expenses	1,555,220	280,819,742	38,327,813	20,716,712	(663,187)	340,756,300
<b>Operating (Loss) Income</b>	(1,487,981)	3,826,115	(1,027,208)	695,394	-	2,006,320
<b>Loss from Impairment</b>	-	(9,677,675)	-	-	-	(9,677,675)
<b>Operating (Loss) Income after Impairment</b>	(1,487,981)	(5,851,560)	(1,027,208)	695,394	-	(7,671,355)
<b>Nonoperating Items</b> - Investment income	353,279	3,408,612	431,231	9,032	-	4,202,154
<b>Excess of Revenue, Gains, and Other Support (Under) Over Expenses</b>	(1,134,702)	(2,442,948)	(595,977)	704,426	-	(3,469,201)

**Botsford General Hospital and Affiliates  
d/b/a Botsford Health Care**

**Combining Statement of Operations and Changes in Net Assets (Continued)  
Year Ended December 31, 2014**

	Zieger	Hospital	CEMS/Parastar	BCCC	Reclassification/ Eliminating Entries	Total Combined
<b>Excess of Revenue, Gains, and Other Support Over (Under) Expenses</b>	\$ (1,134,702)	\$ (2,442,948)	\$ (595,977)	\$ 704,426	\$ -	\$ (3,469,201)
<b>Other Changes in Unrestricted Net Assets</b>						
Pension related changes other than net periodic pension cost	-	(27,662,046)	(932,387)	(231,884)	-	(28,826,317)
Contributions for capital acquisitions	-	30,615	-	269,457	-	300,072
Net assets released from restrictions - Capital acquisitions	82,192	247,592	-	-	-	329,784
Transfers (to) from affiliates	(3,799,416)	3,809,365	(5,500)	(4,449)	-	-
Total other changes in unrestricted net assets	(3,717,224)	(23,574,474)	(937,887)	33,124	-	(28,196,461)
<b>Changes in Unrestricted Net Assets</b>	(4,851,926)	(26,017,422)	(1,533,864)	737,550	-	(31,665,662)
<b>Temporarily Restricted Net Assets</b>						
Contributions, net	235,994	225,763	40,000	-	-	501,757
Net assets released from restrictions - Operations	(65,865)	(40,083)	(66,545)	-	-	(172,493)
Net assets released from restrictions - Capital	(82,192)	(247,592)	-	-	-	(329,784)
Transfers (to) from affiliates	(1,052,051)	1,052,051	-	-	-	-
Change in temporarily restricted net assets	(964,114)	990,139	(26,545)	-	-	(520)
<b>Permanently Restricted Net Assets</b>						
Contributions, net	22,000	11,321	-	-	-	33,321
Transfers (to) from affiliates	(1,013,679)	1,013,679	-	-	-	-
Change in permanently restricted net assets	(991,679)	1,025,000	-	-	-	33,321
<b>(Decrease) Increase in Net Assets</b>	(6,807,719)	(24,002,283)	(1,560,409)	737,550	-	(31,632,861)
<b>Net Assets - Beginning of year</b>	7,307,719	108,151,613	34,636,585	(4,711,212)	-	145,384,705
<b>Net Assets - End of year</b>	<b>\$ 500,000</b>	<b>\$ 84,149,330</b>	<b>\$ 33,076,176</b>	<b>\$ (3,973,662)</b>	<b>\$ -</b>	<b>\$ 113,751,844</b>

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APPENDIX C

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**Summary of Certain Provisions of the Loan Agreement, the Bond Indenture and Definitions of  
Certain Terms used therein and in the Official Statement**

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## INTRODUCTION

As more fully described under “INTRODUCTORY STATEMENT” in the forepart of this Official Statement, the Bonds will be issued under a Bond Indenture, dated as of February 1, 2016. The proceeds from the sale of the Bonds will be loaned to Beaumont Health for the benefit of the Corporations pursuant to a Loan Agreement, dated as of February 1, 2016, and the payment obligations with respect to the loan will be evidenced by the Note issued as an “Obligation” under the Master Indenture pursuant to a Supplemental Indenture.

*The summaries do not purport to be complete or definitive and are qualified in their entirety by reference to the full terms of such documents.*

## DEFINITIONS

The following are summaries of definitions of certain terms used in this Official Statement. All capitalized terms not defined in the Official Statement have the meanings set forth in the Master Indenture and the Bond Indenture.

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

“Authority” means the Michigan Finance Authority and its successors.

“Authorized Officer” means an official of the Authority authorized to act in such capacity in the Authorizing Resolution of the Authority.

“Authorizing Resolution” means the resolution of the Authority approving the Bond Indenture, the Loan Agreement, the Supplemental Indenture Number 36 and certain other documents and approving matters related thereto and authorizing the sale, issuance and delivery of the Bonds.

“Bondholder” means the registered owner of any Outstanding Bond or Outstanding Bonds.

“Bond Indenture” means the Bond Indenture dated as of February 1, 2016, between the Authority and the Bond Trustee, pursuant to which the Bonds are to be issued.

“Bond Interest Account” means the special account by that name created in the Bond Payment Fund relating to the Bonds.

“Bond Payment Fund” means the “Michigan Finance Authority Hospital Revenue Bonds (Beaumont Health Credit Group) Series 2016A Bond Payment Fund,” a special fund created and so designated by the Bond Indenture.

“Bonds” means the Michigan Finance Authority Hospital Revenue Bonds (Beaumont Health Credit Group) Series 2016A issued pursuant to the Authorizing Resolution and the Bond Indenture.

“Bond Trustee” or “Trustee” means The Bank of New York Mellon Trust Company, N.A., as the trustee under the Bond Indenture.

“Book Value” when used in connection with Property of any Member of the Obligated Group, means the cost of such Property, net of accumulated depreciation, calculated in conformity with generally accepted accounting principles, and when used in connection with Property of the Obligated Group,

means the aggregate of the values so determined with respect to such Property of all Members of the Obligated Group determined in such a manner that no portion of such value of Property of any Member is included more than once.

“Business Day” means any day on which commercial banks are open for business in Detroit, Michigan and New York, New York.

“Closing Date” means the date on which the Bonds are delivered to the original purchasers thereof and payment is received by the Authority.

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

“Construction Fund” means the “Michigan Finance Authority Hospital Revenue Bonds (Beaumont Health Credit Group) Series 2016A Construction Fund,” a special fund created and so designated by the provisions of the Bond Indenture.

“Corporation” means Oakwood, Oakwood United, WBH or Botsford (each as defined in the front part of this Official Statement) or any corporation succeeding thereto pursuant to the Master Indenture and “Corporations” means collectively Oakwood, Oakwood United, WBH and Botsford and any corporation succeeding thereto pursuant to the Master Indenture.

“Costs of the Project” means all costs of the Project permitted by the Act, approved by the Authority, and so set forth in the Bond Indenture.

“Credit Group” means, collectively, all the Credit Group Members as of a particular time, as defined in the Master Indenture.

“Credit Group Member” or “Member of the Credit Group” means as of a particular time (a) each Member of the Obligated Group, and (b) each Designated Affiliate, as defined in the Master Indenture.

“Credit Group Representative” means Beaumont Health or such other Credit Group Member which has been designated to serve in such role pursuant to written notice to the Master Trustee executed by all of the Obligated Group Members pursuant to the Master Indenture.

“EMMA” shall mean the Electronic Municipal Market Access system of the MSRB.

“Events of Default” means any of the Events of Default enumerated in the Loan Agreement.

“Executive Order” means Executive Order 2010-2 issued by the Governor of the State of Michigan on March 4, 2010.

“Fee Payments” means the fee payments required by the Loan Agreement.

“Fiscal Year” means the fiscal year of the Credit Group Representative.

“Government Obligations” means direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of Treasury of the United States of America) and obligations the timely payment of the principal of and interest on which are fully guaranteed by the United States of America.

“Interest Payment Date” means each May 1 and November 1 in each year, commencing on May 1, 2016; provided, however, that if such May 1 or November 1 is not a Business Day, then the Business Day immediately succeeding such May 1 or November 1, and the applicable maturity date of such Bonds.

“Investment Obligations” means such of the following obligations which shall mature, or shall be subject to redemption by the holder thereof at the option of such holder, not later than the respective dates when the moneys will be required for the purposes intended:

(i)(a) Government Obligations,

(b) direct obligations of, or obligations the timely payment of principal of and interest on which are unconditionally guaranteed by the State of Michigan, if the State of Michigan has ratings at the time of purchase on its outstanding general obligation debt from S&P and Moody’s equal to or higher than the rating of A,

(c) certificates of deposit or banker’s acceptances issued by any bank or trust company which is insured by the Federal Deposit Insurance Corporation (“FDIC”) (including the Bond Trustee and its affiliates), and which, so long as required by the Act, is a member of the Federal Reserve System, and, which, at the time of purchase, has a short-term “Bond Deposit” rating of “P-1” by Moody’s or a “Short-Term CD” rating of “A-1” or better by S&P,

(d) repurchase agreements collateralized by Government Obligations, GNMA’s, FNMA’s, FHLMCs, or obligations described in clauses (ii)(a) or (ii)(g) below, with any registered broker/dealer subject to the Securities Investor Protection Corporation jurisdiction or any commercial bank insured by the FDIC, if (i) such broker/dealer or bank has an uninsured, unsecured and unguaranteed obligation rated at the time of purchase “P-1” or “A-3” or better by Moody’s and “A-1” or “A-” or better by S&P or (ii) the parent entity of such broker/dealer or commercial bank meets the rating requirements of (i) and issues a guarantee of full and timely performance of the obligations of such broker/dealer or commercial bank under the repurchase agreement; provided:

(1) a master repurchase agreement or specific written repurchase agreement governs the transactions; and

(2) the securities are held free and clear of any lien by the Bond Trustee or an independent third party acting solely as agent (“Agent”) for the Bond Trustee, and such third party is (A) a Federal Reserve Bank or (B) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$50 million and the Bond Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Bond Trustee; and

(3) a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 357.0 et seq. in such securities is created for the benefit of the Bond Trustee; and

(4) the fair market value of the securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 102%,

(e) commercial paper that is rated at the time of purchase in the single highest classification of ratings by S&P and Moody’s and that matures not more than 270 days after the date of purchase, and

(f) mutual funds composed solely of investments described in (i) hereof, or if approved in writing by the State Treasurer described in (ii) below, including those for which the Bond Trustee or an affiliate performs services for a fee, whether as a custodian, transfer agent, investment advisor or otherwise, and

(ii) to the extent approved in writing by the State Treasurer, (a) certificates which evidence ownership of the right to the payment of the principal of and interest on Government Obligations provided that such obligations are held in the custody of a bank or trust company in a special account separate from the general assets of such custodian, (b) bonds, debentures or notes issued by any of the following federal agencies: Banks for Cooperatives, Federal Intermediate Credit Banks, Federal Home Loan Banks, Government National Mortgage Association, Farmers Home Administration certificates of beneficial ownership, General Services Administration participation certificates, U.S. Maritime Administration Guaranteed Title XI Financing, Small Business Administration Guaranteed Participation Certificates and Guaranteed Pool Certificates, U.S. Department of Housing and Urban Development Local Authority Bonds, Washington Metropolitan Area Transit Authority Guaranteed Transit Bonds or Federal Land Banks and all other obligations issued or in the opinion of the Attorney General of the United States unconditionally guaranteed as to principal and interest by any agency or person controlled or supervised by and acting as an instrumentality of the United States of America pursuant to authority granted by the Congress, (c) obligations issued by the following instrumentalities or agencies (or by such other, similar government or governmentally sponsored agencies that may be hereafter created): Federal Home Loan Mortgage Company, Federal Housing Administration, Private Export Funding Corp., Federal National Mortgage Association, Federal Home Loan Bank System, Banks for Cooperatives, Federal Intermediate Credit Banks, Farmers Home Administration, Small Business Administration, Inter-American Development Bank, International Bank for Reconstruction and Development and Federal Land Banks, (d) bonds or notes issued by any state or municipality which are rated A3 or better by Moody's and A or better by S&P, (e) rights to receive the principal of and/or the interest on such Investment Obligations whether through direct ownership as evidenced by physical possession of such obligations or unmatured interest coupons or by registration as to ownership on the books of the issuer or its duly authorized paying agent or transfer agent or securities depository, or certificates or other instruments evidencing an undivided ownership interest in payments of the principal of and/or interest on such obligations, (f) investment agreements collateralized by Government Obligations, GNMA's, FNMA's, FHLMA's, or obligations described in clause (ii)(a) or (ii)(g) hereof with any institution (i) whose debt securities are rated at least the then existing rating on the Bonds (or the highest rating of short-term obligations if the investment is a short-term obligation) by S&P and Moody's or (ii) if the parent entity of such institution meets the rating requirements of (i) and issues a guarantee of full and timely performance of the obligations of such institution under the investment agreement, provided:

(1) a specific written agreement governs the transaction; and

(2) the securities are held free and clear of any lien by the Bond Trustee or an independent third party acting solely as agent ("Agent") for the Bond Trustee, and such third party is (A) a Federal Reserve Bank or (B) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$50 million and the Bond Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Bond Trustee; and

(3) a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 357.0 et seq. in such securities is created for the benefit of the Bond Trustee; and

(4) the fair market value of the securities in relation to the amount invested under the investment agreement is equal to at least 102%.

(g) Any other investment with the written consent of the State Treasurer.

Ratings of Investment Obligations referred to herein shall be determined at the time of purchase of such Investment Obligations and without regard to ratings subcategories. The Bond Trustee shall have no responsibility to monitor the ratings of Investment Obligations after the initial purchase of such Investment Obligations.

“Loan” means the loan contemplated by the Loan Agreement.

“Loan Agreement” means the Loan Agreement, dated as of February 1, 2016 between the Authority and the Credit Group Representative on behalf of itself and the other Members of the Obligated Group, as the same may be amended or supplemented as provided therein.

“Loan Repayments” means the payments of principal and interest on the Loan and any other amounts payable by the Obligated Group pursuant to the provisions of the Loan Agreement or the Note.

“Master Indenture” means the Master Indenture and Security Agreement dated as of March 1, 1985 between Oakwood Hospital Corporation (now Oakwood Healthcare, Inc.) and the Master Trustee, as amended and restated by the Amendment and Restatement of the Master Indenture, dated as of January 1, 2015, between Beaumont Health, for itself and as Credit Group Representative on behalf of each other Member of the Obligated Group and the Master Trustee, including all supplements or amendments thereto.

“Master Trustee” means The Bank of New York Mellon Trust Company, N.A. (successor trustee to U.S. Bank National Association, formerly First Trust National Association, successor trustee to Manufacturers National Bank of Detroit), as trustee under the Master Indenture and its successors as trustee thereunder.

“Member of the Obligated Group” or “Member” means Beaumont Health, Oakwood Healthcare, Inc., Oakwood United Hospitals, Inc., Oakwood Health Promotions, Inc., William Beaumont Hospital and Botsford General Hospital and any person which has become a Member of the Obligated Group in accordance with the Master Indenture and has not withdrawn from the Obligated Group pursuant to the Master Indenture.

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

“MSRB” means the Municipal Securities Rulemaking Board established pursuant to the Securities Exchange Act of 1934, as amended, or any successor thereto.

“New Group” means the obligated group or credit group under and as defined in a Replacement Master Indenture.

“Non-Arbitrage Certificate” means the non-arbitrage certificate signed by an Authorized Officer of the Authority, in form satisfactory to the Attorney General of the State and bond counsel, relating to

the anticipated use of the proceeds of the Bonds and further relating to compliance with the applicable provisions of the Code and regulations promulgated thereunder as such non-arbitrage certificate may be amended or supplemented from time to time.

“Note No. 36” or the “Note” means the note payable to the Authority issued under the Master Indenture pursuant to the Loan Agreement and the Supplemental Indenture Number 36 or any substitute note therefor delivered pursuant to the Bond Indenture.

“Obligated Group” means each Member of the Obligated Group.

“Obligated Group Non-Arbitrage And Tax Compliance Certificate” means the non-arbitrage and tax compliance certificate, signed by one or more authorized officer(s) of the Obligated Group, in form satisfactory to the Attorney General of the State and bond counsel, relating to the anticipated use of the proceeds of the Bonds and further relating to compliance with the applicable provisions of the Code and regulations promulgated thereunder, as such non-arbitrage and tax compliance certificate may be amended or supplemented from time to time.

“Officer’s Certificate” means a certificate, a certified copy of which shall be sent to the Authority, signed by the president or a vice president of the Credit Group Representative or such other person designated in writing by the president or by resolution of the governing body of the Credit Group Representative, as the case may be.

“Opinion of Counsel” means an opinion in writing signed by an attorney or firm of attorneys, acceptable to the Bond Trustee and the Authority, who may be counsel for any Member of the Obligated Group, or other counsel.

“Outstanding Bonds” means Bonds which have been issued under the Bond Indenture except:

- (a) Bonds canceled by the Bond Trustee pursuant to the Bond Indenture.
- (b) Bonds for the payment of which moneys (or Government Obligations as provided in Article XII of the Bond Indenture) which will provide for amounts equal to the principal amount thereof, redemption premiums, if any, and the interest to the date of maturity or earlier redemption, shall be held in trust for their payment by the Bond Trustee pursuant to the Bond Indenture.
- (c) Bonds in lieu of which other Bonds shall have been issued under Article II of the Bond Indenture.
- (d) Bonds and portions of Bonds not deemed outstanding as specified in the Bond Indenture; provided, however, that in determining whether the Holders of the requisite principal amount of Outstanding Bonds have given any request, demand, authorization, direction, notice, consent or waiver thereunder, Bonds owned by the Corporations or any affiliate thereof shall be disregarded and deemed not to be Outstanding, except that in determining whether the Bond Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Bonds which a responsible officer of the Bond Trustee actually knows to be so owned shall be disregarded unless all Bonds are owned by the Corporations or any affiliate thereof and/or held by the Bond Trustee for the account of the Corporations and/or an affiliate thereof, in which case such Bonds shall be considered outstanding for the purpose of such determination.

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

“Project” means the improvements, structures, fixtures and hospital equipment to be acquired, constructed and installed with the proceeds of the Bonds. More particularly, the Project is generally comprised of the construction, renovation and equipping of hospital facilities as provided in the project list filed with the Authority by the Credit Group Representative.

“Property” means Property as defined in the Master Indenture.

“Rebate Fund” means the “Michigan Finance Authority Hospital Revenue Bonds (Beaumont Health Credit Group) Series 2016A Rebate Fund,” a special fund created and so designated by the provisions of the Bond Indenture.

“Rebate Payments” means the payments required to be deposited to the credit of the Rebate Fund as required by the Loan Agreement.

“Redemption Account” means the special account created in the Bond Payment Fund and so designated by the Bond Indenture.

“Redemption Requirements” for any Fiscal Year means the redemption requirements for all Outstanding Bonds for that Fiscal Year established and set forth in the Bond Indenture, if any, subject to the provisions for adjustment in the Bond Indenture unless otherwise specified.

“Replacement Master Indenture” means a master indenture entered into by the Obligated Group Members as substitution for the Master Indenture.

“Replacement Trustee” means the master trustee under a Replacement Master Indenture.

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., a corporation organized under the laws of the State of New York, its successors and assigns, and, if such corporation shall for any reason no longer perform the functions of a securities rating agency, “S&P” shall be deemed to refer to any other nationally recognized rating agency designated by the Credit Group Representative by notice to the Authority and the Bond Trustee.

“State” means the State of Michigan.

“State Treasurer” means the Treasurer of the State of Michigan or his or her duly authorized deputy.

“Substitute Note” has the meaning provided under the heading “THE BOND INDENTURE – Substitution of Note” herein.

“Supplemental Indenture Number 36” or the “Supplemental Indenture” means Supplemental Indenture Number 36, dated as of February 1, 2016, between Beaumont Health, for itself and as Credit Group Representative on behalf of the other Members of the Obligated Group, and the Master Trustee, or any supplemental indenture delivered in connection with a substitute note pursuant to the Bond Indenture.

“Tax-Exempt Obligation” means an obligation, the interest on which is excludable from gross income under Section 103 of the Code or under Section 103(a) of the Internal Revenue Code of 1954, if applicable.

“Tax-Exempt Organization” means a Person organized under the laws of the United States of America or any state thereof which is an organization described in Section 501(c)(3) of the Code and

exempt from federal income taxes under Section 501(a) of the Code, or corresponding provisions of federal income tax laws from time to time in effect.

“Term Bonds” means all of the Bonds as designated in the Bond Indenture.

## **THE LOAN AGREEMENT**

### **Amount and Evidence of Loan; Issuance of Note, Credit**

Concurrently with the issuance and delivery of the Bonds, the Obligated Group shall enter into the Loan Agreement and shall issue, execute and deliver the Note to the Authority to evidence the Loan and the obligation of the Obligated Group to repay the Loan together with the premium, if any, and interest thereon, Rebate Payments and Fee Payments, at the times and in the amounts described herein under “THE SUPPLEMENTAL INDENTURE.”

The Note shall be issued in a principal amount equal to the aggregate principal amount of the Bonds issued concurrently therewith, and shall provide for payments of principal and interest which, in the aggregate, shall be in an amount sufficient for the payment in full of the Bonds from time to time outstanding under the Bond Indenture, including (i) the total interest becoming due and payable on the Bonds to the respective dates of payment thereof, (ii) the total principal amount of the Bonds and (iii) the redemption premium, if any, that shall be payable on the redemption of Bonds prior to their stated payment dates, less the amount of other funds available for such payments as provided in the Bond Indenture.

The Obligated Group shall receive a credit against its principal obligations on the Note, equal to any amounts on deposit in the Redemption Account resulting from (i) deposits to the Bond Payment Fund to the credit of the Redemption Account pursuant to the Bond Indenture, and (ii) earnings on the investment of such deposits; and a credit against its interest obligation on the Note, equal to any amounts on deposit in the Bond Interest Account resulting from deposits in the Bond Payment Fund to the credit of the Bond Interest Account pursuant to the Bond Indenture.

If Bonds are retired prior to their stated maturity, the Obligated Group shall receive a credit against its required payments on the Note, which correspond to the reductions in principal payments and Redemption Requirements for the Bonds as provided in the Bond Indenture.

The cancellation by the Bond Trustee of any Bond purchased by a Member of the Obligated Group or any Bond redeemed or purchased by the Authority through funds other than funds received on the Note shall constitute payment of a principal amount of the Note, equal to the principal amount of the Bond so cancelled. Upon receipt of written notice from the Bond Trustee of such cancellation, the Authority, at the request of the Credit Group Representative, shall endorse on the Note, the payment of such principal amount.

### **Tax Status**

The Obligated Group agrees that it will not cause the Property of the Obligated Group or the Credit Group to be used, disposed of, operated or maintained in a manner inconsistent with the obligations imposed under the Master Indenture or which would jeopardize the tax-exempt status of the interest on the Bonds or would result in the Loan being a loan which the Authority is not authorized to have outstanding.

The Corporation represents that it is duly organized and existing under the law of the State of Michigan. Each Member of the Obligated Group covenants that it has the legal power to execute, deliver and perform the Loan Agreement and any other documents required thereby. The Obligated Group covenants and agrees that (a) no Member of the Obligated Group or Credit Group will perform any act or enter into any agreement or omit to perform any act or fulfill any requirement that would have the effect of jeopardizing the exclusion of the interest on the Bonds from gross income for purposes of federal income taxation and (b) each Member of the Obligated Group and Credit Group will maintain, extend and renew its corporate existence and at all times be qualified to do business in each state where such qualification is required under the laws of such state. The Obligated Group covenants, to the extent permitted by law, for itself and on behalf of the Authority, to comply with Section 148 of the Code, to take all actions within its control necessary to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes under the Code, and to comply with the Obligated Group Non-Arbitrage And Tax Compliance Certificate.

### **Insurance and Condemnation Proceeds**

In the event that any Member of the Credit Group receives insurance proceeds with respect to any casualty loss or as condemnation awards, which proceeds or awards are not subject to an agreement described in the Master Indenture as to their disposition, such amounts received exceed 10% of the aggregate Book Value of the Property of the Credit Group, and, pursuant to the Master Indenture such amounts are applied to the repayment of Outstanding Obligations, then such Member of the Credit Group shall immediately thereafter deposit or cause to be deposited with the Master Trustee cash or Government Obligations equal to such proceeds or awards and the Master Trustee shall deposit with the Bond Trustee the ratable shares of such cash or Government Obligations to be paid to the holder of Note No. 36. Promptly thereafter the Bond Trustee shall call a portion of the Bonds for redemption, at par, at the earliest possible date, all in accordance with the Bond Indenture.

### **Events of Default**

Any of the following events shall constitute an Event of Default under the Loan Agreement:

(a) The Obligated Group shall fail to make any payment of the principal of, premium, if any, and interest on the Note when and as the same shall become due and payable whether at maturity, by acceleration or otherwise.

(b) Any Member of the Obligated Group shall fail to perform, observe or comply with any of the terms, covenants, conditions or provisions contained in the Loan Agreement for a period of sixty (60) days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the Credit Group Representative by the Bond Trustee or the Authority; provided, however, that if, in the judgment of the Authority, the failure shall be such that it can be corrected but cannot be corrected within such period, it shall not constitute an Event of Default if corrective action is instituted within such period and diligently pursued until the failure is corrected or until sixty (60) days after such default can be corrected.

(c) Any Member of the Obligated Group or Credit Group which is a Tax-Exempt Organization shall lose its status as a Tax-Exempt Organization which results or would result in the loss of the exclusion of interest paid or to be paid on the Bonds from gross income for federal income tax purposes.

(d) The commencement of proceedings seeking an order for relief in a court in respect of a Member of the Obligated Group in an involuntary case under the federal bankruptcy laws, as now or

hereafter constituted, or under any other applicable federal or State bankruptcy, insolvency or similar law, or the commencement of proceedings seeking the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of a Member of the Obligated Group or for any substantial part of its property, or the commencement of proceedings seeking an order winding up or liquidating the affairs of a Member of the Obligated Group and the continuance of any such proceedings for a period of ninety (90) consecutive days.

(e) The commencement by a Member of the Obligated Group of a voluntary case under the federal bankruptcy laws, as now constituted or hereafter amended, or any other applicable federal or State bankruptcy, insolvency or other similar law, or the consent by a Member of the Obligated Group to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or other similar official) of a Member of the Obligated Group or for any substantial part of its property, or the making by a Member of the Obligated Group of any assignment for the benefit of creditors or the failure of a Member of the Obligated Group generally to pay their debts as such debts become due, or the taking of corporate action by a Member of the Obligated Group in furtherance of any of the foregoing.

### **Amendment of Loan Agreement**

The Loan Agreement may be amended, supplemented or modified only in accordance with the requirements and limitations of the Bond Indenture, and only by written agreement duly executed by the Credit Group Representative and the Authority; provided, however, that nothing contained in the Loan Agreement shall permit or be construed as permitting any change or any abatement, reduction, abrogation, waiver, diminution or other modification in any manner or to any extent whatsoever of the obligation of the Obligated Group to pay the Note as provided in the Loan Agreement or as permitting any impairment of the lien accorded the holders or owners of the Bonds under the Bond Indenture, except as provided in the Bond Indenture.

## **THE BOND INDENTURE**

### **Pledge**

The Note, all rights of the Authority under the Master Indenture as the holder of the Note, the Supplemental Indenture and the Loan Agreement (except for the Authority's fees and indemnities), all funds and accounts established by or pursuant to the Bond Indenture (except moneys held in the Rebate Fund, moneys held in funds or accounts to pay for Bonds called for redemption and Authority operating funds), including the moneys deposited therein, investments thereof and the proceeds of such investments, if any, are pledged for the payment of the principal of, premium, if any, and interest on Outstanding Bonds in accordance with the terms and provisions of the Bond Indenture. This pledge shall be valid and binding from and after the date of entering into the Bond Indenture and the Note, and all payments thereunder, all rights of the Authority under the Master Indenture as the holder of the Note and all payments thereunder and all funds and accounts established by or pursuant to the Bond Indenture thereby pledged shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act and the lien of such pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Authority, irrespective of whether such parties have notice thereof.

### **Assignment of Rights**

Under the Bond Indenture the Authority gives, assigns and pledges to the Bond Trustee and the Bondholders, as additional security for the Bonds, in addition to all other rights vested in and remedies available to the Bond Trustee and the Bondholders, the rights of the Authority under the Loan Agreement,

under the Master Indenture as the holder of the Note, except the right to receive Fee Payments, Rebate Payments and indemnities, including the right to enforce, in conformity with the provisions of the Bond Indenture, the performance of the Obligations of the Obligated Group under the Loan Agreement and the Master Indenture. The Bond Trustee may enforce all rights of the Authority and all obligations of the Obligated Group under the Loan Agreement and the Master Indenture. If the Authority is unable to fulfill its obligations under the Bond Indenture, the Bond Trustee may perform such obligations in the place and stead of the Authority, except, in no event, shall the Bond Trustee (i) be responsible for or required to perform or obtain the rebate calculations or (ii) have any liability in connection with the failure of the Authority or the Obligated Group to direct the rebate of arbitrage earnings as required by law.

### **Substitution of Note**

(a) Upon notification to the Bond Trustee by the Obligated Group of its request to substitute a Substitute Note for the Note, the Bond Trustee shall give immediate notice to the Authority and the Master Trustee of such request. The notice shall be accompanied by drafts of the documents and opinions described in subparagraphs (i), (ii), (iii) and (iv) below and an original of the document described in subparagraph (v) below. The Bond Trustee will surrender to the Master Trustee the Note initially issued under the Master Indenture and accept the Substitute Note, unless objected to in writing by the Authority within ten days of receipt of notice from the Bond Trustee, upon receipt by the Bond Trustee of the following:

- (i) an original executed counterpart of the Replacement Master Indenture;
- (ii) an original replacement note or notes or similar obligations issued by or on behalf of the New Group (the “Substitute Note”), under and pursuant to and secured by the Replacement Master Indenture, which Substitute Note is in the same principal amount, the same amortization, maturity, interest rate and loan repayment terms as the Note, and which Substitute Note has been duly authenticated by the Replacement Trustee;
- (iii) an Opinion of Counsel addressed to the Bond Trustee and the Authority (in form and substance acceptable to the Authority and not unacceptable to the Bond Trustee) to the effect that: (1) the Replacement Master Indenture has been duly authorized, executed and delivered by or on behalf of the New Group, the Substitute Note has been duly authorized, executed and delivered by or on behalf of the New Group and the Replacement Master Indenture and the Substitute Note are each a legal, valid and binding obligation of each member of the New Group, subject in each case to customary exceptions for bankruptcy, insolvency and other laws generally affecting enforcement of creditor’s rights and application of general principles of equity; (2) all requirements and conditions to the issuance of the Substitute Note set forth in the Replacement Master Indenture have been complied with and satisfied; and (3) registration of the Substitute Note under the Securities Act of 1933, as amended, is not required or, if registration is required, the Substitute Note has been so registered;
- (iv) a Favorable Opinion of Bond Counsel addressed to the Bond Trustee and the Authority to the effect that (1) the surrender of Note No. 36 and the acceptance by the Bond Trustee of the Substitute Note will not adversely affect the validity of the Bonds or any exemption for the purposes of federal income taxation to which interest on the Bonds would otherwise be entitled and (2) that such Substitute Note will be pari passu with any other notes or securities issued under the Replacement Master Indenture; and
- (v) written evidence from each of Moody’s and S&P, if then maintaining a rating on the Bonds, that it will not lower the rating of the Bonds in connection with the issuance of the

Substitute Note under the Replacement Master Indenture; provided that for purposes of this paragraph only, the withdrawal of any rating on the Bonds shall be deemed to be a reduction of such rating.

("New Group" means the obligated group or credit group under and as defined in a Replacement Master Indenture. "Replacement Master Indenture" means a master indenture entered into by the Obligated Group Members as substitution for the Master Indenture. "Replacement Trustee" means the master trustee under a Replacement Master Indenture.)

(b) Promptly upon receipt of the Substitute Note and the documents described in paragraph (a) above, the Bond Trustee shall give notice of the Bond Trustee's acceptance of the Substitute Note by notice in writing mailed postage prepaid, to the Bondholders at the registered addresses, as shown on the registration books of the Authority; provided, however, that no such notice shall be necessary if notice of the delivery of the Replacement Master Indenture and Substitute Note is submitted to EMMA, or such other system, internet web site, or repository hereafter described by the MSRB for submission of electronic filing.

(c) Upon the Bond Trustee's acceptance of the Substitute Note, all references to the Master Indenture, Supplemental Indenture and the Note in the Bond Indenture, the Agreement or other document relating to the Bonds, shall be deemed to mean the Replacement Master Indenture, any supplement to the Replacement Master Indenture providing for issuance of the Substitute Note and the Substitute Note, respectively. Further, upon the Bond Trustee's acceptance of the Substitute Note, the Authority and the Bond Trustee, may adopt or approve, as applicable, supplements to the Bond Indenture and to the Loan Agreement to implement and give effect to the provisions of the Replacement Master Indenture and the Substitute Note, in the manner provided under the Indenture.

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

### **Bond Payment Fund**

All payments on the Note (other than payments representing Fee Payments and moneys to be deposited to the credit of the Rebate Fund) shall be deposited into the Bond Payment Fund. In the Bond Payment Fund there are two separate accounts designated as the "Bond Interest Account" and the "Redemption Account."

The money in the Bond Payment Fund and each of the accounts held by the Bond Trustee shall be held in trust and applied as provided below with regard to each account and fund and pending such application shall be subject to a lien and charge in favor of the holders of the Outstanding Bonds and for the further security of such holders until paid out or transferred as provided in the Bond Indenture. Payments or credits to the Bond Payment Fund and to the accounts therein and withdrawals therefrom shall be made as specified below and the fund and accounts shall be utilized as follows:

(a) Payments of principal of or interest on the Note, and all other moneys, when and in the amounts received by or for the account of the Authority from or on behalf of any Member of the Obligated Group pursuant to the Loan Agreement, but excluding moneys representing Fee Payments and Rebate Payments, shall be deposited into the Bond Payment Fund.

(b) The Bond Trustee shall, on or before each Interest Payment Date, credit the funds in the Bond Payment Fund to the several accounts therein and make withdrawals therefrom or otherwise use the funds in the Bond Payment Fund as and in the order specified below.

(c) Subject to credit for any amounts deposited to the Bond Interest Account pursuant to the Bond Indenture, there shall be credited to the Bond Interest Account commencing on or before May 1, 2016 and on or before each Interest Payment Date thereafter, an amount equal to the interest which is due and payable on the Bonds on the next succeeding Interest Payment Date.

(d) Reserved.

(e) There shall be credited to the Redemption Account, commencing on November 1, 2039 and on or before each November 1 thereafter, an amount equal to the principal amount of the Bonds next required to be redeemed or paid in conformity with the Redemption Requirements therefor.

(f) There shall be credited to the Bond Interest Account and the Redemption Account, in that order, the amount necessary to make up any deficiency in previous payments or any deficiency or loss therein not previously made up.

(g) There shall be disbursed to the Obligated Group, as an overpayment, the balance not credited to an account in the Bond Payment Fund, if any, remaining in the Bond Payment Fund, after making the transfers required under clauses (c) through (e), inclusive, above.

The Bond Trustee shall pay to the Authority any Fee Payments made by the Obligated Group pursuant to the Loan Agreement. Other Fee Payments received by the Bond Trustee pursuant to the Loan Agreement shall be paid in the amounts and to the persons entitled thereto.

The Bond Trustee shall deposit Rebate Payments paid by any Member of the Obligated Group pursuant to the Loan Agreement to the credit of the Rebate Account and shall disburse such moneys in accordance with the written directions of the Obligated Group provided in accordance with the terms and provisions of the Bond Indenture and the Non-Arbitrage Certificate.

The Bond Trustee shall deposit to the credit of the Redemption Account, or such other account in the Bond Payment Fund or the Rebate Fund, as received, all other moneys, such as advance payments of principal of the Note (except as otherwise directed by the Credit Group Representative) and other moneys that shall be available for payment of the Bonds not otherwise required to be deposited to the credit of any other fund, account or subaccount under the Bond Indenture.

The Bond Trustee shall on each Interest Payment Date withdraw from the Bond Interest Account the amount required for paying the interest on the Bonds coming due on such date and shall pay such amount on that date.

Moneys held for the credit of the Redemption Account shall be applied to the purchase or redemption of Bonds issued under the provisions of the Bond Indenture, as follows:

(a) Subject to the provisions described in paragraph (c) below, the Bond Trustee shall endeavor to purchase Outstanding Bonds or portions of Outstanding Bonds in each twelve-month period preceding a principal payment date on the Bonds in an aggregate principal amount not exceeding the principal amount of Bonds required to be redeemed or paid on the next succeeding redemption date pursuant to the Redemption Requirements therefor, at a price not to exceed the principal thereof plus the amount of the premium, if any, which would be payable thereon on the next redemption date if the Bonds

or portions of Bonds should be called for redemption on that date from moneys in the Bond Payment Fund. The Bond Trustee shall pay the interest accrued on the Bonds to the date of delivery to the Bond Trustee for cancellation thereof from the Bond Interest Account and the purchase price from the Redemption Account, but no such purchase shall be made by the Bond Trustee within the period of forty-five (45) days next preceding any Interest Payment Date on which the Bonds are subject to call for redemption under the provisions of the Bond Indenture.

(b) Subject to the provisions described in paragraph (c) below, the Bond Trustee shall cause Bonds or portions of Bonds to be called for redemption from moneys on deposit to the credit of the Redemption Account to the extent required to exhaust the moneys, as nearly as may be, held in that account, pursuant to the provisions of the Bond Indenture. Prior to redemption, the Bond Trustee shall withdraw from the Bond Interest Account the amount required for paying the interest on the Bonds called for redemption or to be paid and shall withdraw from the Redemption Account the amount required for paying the principal and redemption premium, if any, of the Bonds called for redemption at the times required for the making of such payments and apply the amounts so withdrawn to redemption.

(c) Except as otherwise provided in the Bond Indenture, moneys in the Redemption Account shall be applied by the Bond Trustee to the purchase or redemption first, of Bonds in proportion to the principal amount of Bonds required to be purchased or redeemed on the next succeeding principal payment date to the extent of the Redemption Requirements, if any, of the twelve month period ending thirty (30) days prior to the principal payment date for any Bonds and any deficiency in any such preceding twelve month period in the purchase or redemption of the Term Bonds under the provisions of this subdivision and thereafter as may be designated by the Credit Group Representative in its discretion. Upon the retirement of any Bonds by purchase or redemption, the Bond Trustee shall file with the Authority, the Credit Group Representative and the Master Trustee a statement briefly describing the Bonds and setting forth the date of their purchase or redemption, the amount of the purchase price or the redemption price of the Bonds and the amount paid as interest thereon. The expenses in connection with the purchase or redemption of any Bonds shall be paid by the Obligated Group pursuant to the Loan Agreement to the extent that sufficient funds therefor shall not otherwise be available, when needed, in the Redemption Account.

### **Application of Bond Payment Fund**

Subject to the terms and conditions set forth in the Bond Indenture, moneys held for the credit of the Bond Payment Fund shall be held in trust and disbursed by the Bond Trustee for (a) the payment of interest on the Bonds issued thereunder as the interest falls due, or (b) the payment of the principal of the Bonds at their respective maturities, or (c) the payment of the purchase or redemption price of the Bonds before their respective maturities.

### **Investment of Funds**

Money held for the credit of any funds, accounts or subaccounts established under or pursuant to the Bond Indenture shall, as nearly as may be practicable, be continuously invested and reinvested at the written direction of the Credit Group Representative by the Bond Trustee in Investment Obligations; provided, however, money held for the credit of the Rebate Fund shall be invested by the Bond Trustee at the direction of the Credit Group Representative and in accordance with the Non-Arbitrage Certificate. The Bond Trustee may conclusively rely upon such instructions as to both the suitability and legality of the directed investments. In the absence of investment instructions from the Credit Group Representative, the Bond Trustee shall not be responsible or liable for keeping the moneys held by it under the Bond Indenture fully invested in Investment Obligations. The Bond Trustee may make any and all such investments and such investment through its own investment department or that of its affiliates or

subsidiaries, and may charge its ordinary and customary fees for such trades, including cash sweep account fees. Any Investment Obligations or Government Obligations acquired under the Bond Indenture shall mature, or shall be subject to redemption by the holder thereof, at the option of such holder, not later than the respective dates when the money held for the credit of the applicable fund, account or subaccount will be required for the purposes intended.

Obligations purchased as an investment of any money credited to any fund or account shall be deemed at all times to be a part of that fund or account, and the interest earned and any gain realized from such investment shall be credited to that fund or account and any loss resulting from the investment shall be charged to that fund or account; provided, however, that (a) any interest earned or gain realized on the Bond Interest Account shall be deposited in the Bond Payment Fund to the credit the Redemption Account to the extent of Redemption Requirements within the following 12 months, and the balance to the Bond Interest Account, and the Obligated Group shall receive a credit against Loan Repayment requirements in an amount equal to said deposit, and (b) any interest earned or profit realized on the Rebate Fund shall be applied as directed by the Credit Group Representative pursuant to the Non-Arbitrage And Tax Compliance Certificate; provided, however, notwithstanding the foregoing, any interest earned or profit realized on the Bond Interest Account and the Redemption Account prior to the completion of the Project shall be deposited in the Construction Fund. The Bond Trustee shall not be liable or responsible for any loss resulting from any investment made in accordance with the Bond Indenture.

Although a broker confirmation or written statement containing comparable information may be obtained at no additional cost, the confirmations of Investment Obligations are not required to be issued by the Bond Trustee for each month in which a monthly statement is rendered. No statement need be rendered for any fund or account if no activity occurred in such fund or account during such month.

### **Tax-Exempt Status of Bonds**

The Authority covenants that it shall take no action which would cause interest on the Bonds to be included in gross income for purposes of federal income taxation under the Code. The Bond Trustee shall pay money from the Rebate Fund to the United States at the times and in the amounts specified in writing by the Credit Group Representative. To the extent there are excess moneys in the Rebate Fund, as determined solely by the calculation prepared by a nationally recognized firm of certified public accountants or bond counsel, such excess moneys shall be paid to the Credit Group Representative on behalf of the Obligated Group in accordance with the written instructions of the Credit Group Representative and used for any lawful purposes of the Obligated Group. The Bond Trustee covenants that, while recognizing that investment of Bond proceeds will be at the direction of the Credit Group Representative, should the Authority file with the Bond Trustee, or should the Bond Trustee receive, an opinion of nationally recognized bond counsel to the effect that any proposed investment or other use of proceeds of the Bonds would cause the Bonds to become "arbitrage bonds," then the Bond Trustee will comply with any written instructions of the Authority or such bond counsel regarding such investment or use so as to prevent the Bonds from becoming "arbitrage bonds."

The Authority covenants and agrees that it shall not take any action with respect to the investment of the proceeds of any Bonds (including the valuation of investments) or with respect to the revenues derived from its Loan to Beaumont Health for the benefit of the Corporations which may violate the terms and provisions of the Non-Arbitrage Certificate or which may result in the Bonds being "arbitrage bonds" within the meaning of such term as used in Section 148 of the Code.

The Authority may, from time to time and at any time, amend, supplement or modify the Non-Arbitrage Certificate, to the extent permitted by law, to maintain the exclusion of the interest on the

Bonds from gross income for purposes of federal income taxation under the Code and the regulations promulgated thereunder; provided, however, the Authority shall receive the opinion of nationally recognized bond counsel, satisfactory to the Authority, stating that such amendment, supplement or modification is necessary to maintain such exclusion of the interest on the Bonds prior to amending, supplementing or modifying the Non-Arbitrage Certificate. The Authority shall file a copy of such amendment, supplement or modification with the Bond Trustee.

### **Enforcement of Loan Agreement**

Subject to the provisions of the Bond Indenture, the Bond Trustee on behalf of the Authority shall diligently enforce and take all reasonable steps, actions and proceedings necessary for the enforcement of all terms, covenants and conditions of the Loan Agreement by the Authority which shall affect the prompt collection of payments of principal of and interest on the Note, and to assure its continued receipt of payments of principal of and interest on the Note and Fee Payments and Rebate Payments under the Loan Agreement.

Whenever it shall be necessary in order to protect and enforce the rights of the Authority under the Loan Agreement and to protect and enforce the rights and interests of Bondholders under the Bond Indenture, due to the failure of the Master Trustee to institute any necessary or desirable proceeding under the Master Indenture, the Authority or the Bond Trustee, on behalf of the Authority, shall commence proceedings seeking the remedies provided under the Master Indenture.

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

Each of the following events is declared an “Event of Default” under the Bond Indenture:

(a) Default in the payment of the principal of, premium, if any, or interest on any Bond as the same shall become due, whether at maturity or upon call for redemption.

(b) Default by the Authority in the performance or observance of any other of the covenants, agreements or conditions on its part contained in the Bond Indenture, any supplemental indenture or the Bonds or an Event of Default by the Obligated Group under the Loan Agreement or the Master Indenture; provided, however, that no such default shall constitute an Event of Default until written notice thereof shall have been given by the Bond Trustee to the Authority, the Corporations and the Credit Group Representative or by the registered owners of not less than 25% in principal amount of the Outstanding Bonds to the Bond Trustee, the Authority, the Corporations, and the Credit Group Representative, and the Authority, and the Corporations and the Obligated Group shall have had sixty (60) days after receipt of such notice to correct such default or cause the same to be corrected and shall not have corrected such default or caused the same to be corrected within such period; and provided, further, that if the default be such that it can be corrected but cannot be corrected within such period, it shall not constitute an Event of Default if action to correct the same is instituted by the Authority or the Obligated Group within such period and diligently pursued until the default is corrected. So long as the Obligated Group is not in default under the Loan Agreement, the Obligated Group shall have full authority for the account of the Authority to perform, to the extent not performed by the Authority and to the extent permitted by law, any covenant or obligation alleged in said notice to constitute a default, in the name and stead of the Authority with full power to do any and all things and acts to the same extent that the Authority could do and perform any such things and acts and with power of substitution.

The following remedies are provided for under the Bond Indenture:

(a) Upon the happening and continuance of any Event of Default specified in the Bond Indenture then, and in each such case, the Bond Trustee may proceed, and upon the written request of the registered owners of not less than twenty-five percent (25%) in principal amount of the Outstanding Bonds and the Bond Trustee shall have been indemnified as provided therein, shall proceed, in its own name, to protect and enforce its rights and the rights of the Bondholders by such of the following remedies, as the Bond Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights:

(i) By suit, action or proceeding in accordance with the laws of the State, enforce all rights of the Bondholders, including the right to collect the principal of and interest on the Note adequate to carry out the covenants and agreements as to, and pledge of, the Note, and to require the Authority carry out any other covenant or agreement with Bondholders under the Act and the Bond Indenture.

(ii) By bringing suit upon the Bonds.

(iii) By action or suit, require appointment of a receiver to take over operation of the Property of the Obligated Group for the benefit of the Bondholders.

(iv) By action or suit, enforce the remedies provided under the Master Indenture in accordance with the Supplemental Indenture.

(v) In accordance with the provisions of the Act, declare all Bonds due and payable, and if all defaults shall be made good, then, with the written consent of the registered owners of not less than twenty-five percent (25%) in principal amount of the Outstanding Bonds, annul such declaration and its consequences.

(b) In the enforcement of any remedy under the Bond Indenture, the Bond Trustee shall be entitled to sue for, enforce payment of and receive any and all amounts then or during any default becoming and at any time remaining, due from the Authority for principal, redemption premium, if any, interest or otherwise, under any provision of the Bond Indenture or of the Bonds, and unpaid, with interest on overdue payments at the rate or rates of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings under the Bond Indenture and under such Bonds, without prejudice to any other right or remedy of the Bond Trustee or of the Bondholders, and to recover and enforce any judgment or decree against the Authority for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect from any moneys available for such purpose, in any manner provided by law, the moneys adjudged or decreed to be payable, but only the moneys of the Authority pledged for such purpose.

When the Bond Trustee incurs expenses or renders services after the occurrence of an act of bankruptcy with respect to the Authority or a Member of the Obligated Group, such expenses and the compensation for such services are intended to constitute expenses of administration under any federal or state bankruptcy, insolvency, arrangement, moratorium, reorganization or other debtor relief law.

### **Priority of Payments After Default**

In the event that the funds held by the Trustee shall be insufficient for the payment of principal of, redemption premium, if any, and interest on the Bonds then due, such funds (other than funds held in the Rebate Fund or held for the payment or redemption of particular Bonds which have theretofore become due at maturity or by call for redemption or for interest on Bonds which have therefore become due) and any other moneys received or collected by the Trustee acting pursuant to the Bond Indenture;

after making provision for the payment of any fees and expenses necessary in the opinion of the Trustee to protect the interest of the holders of the Bonds and for the payment of the fees, charges and expenses and liabilities incurred and advances made by the Trustee in the performance of its duties under the Bond Indenture shall be applied as follows:

(a) Unless the principal of all the Bonds shall have become or shall have been declared due and payable, all such moneys shall be applied in the following order:

First: to the payment to the persons entitled thereto of all installments of interest then due and payable in the order in which such installments shall have become due and payable and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment, ratably, according to the amounts due on such installment, to the persons entitled thereto; without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds;

Second: to the payment to the persons entitled thereto, of the unpaid principal of any of the Bonds which shall have become due and payable (other than Bonds previously called for redemption for the payment of which moneys are held pursuant to the provisions of the Bond Indenture), in the order of their due dates, and, if the amount available shall not be sufficient to pay in full the principal of the Bonds due and payable on any particular date, then to the payment of the principal, ratably, according to the amount of the principal due on that date, to the persons entitled thereto without any discrimination or preference; and

Third: to the payment of the interest on and the principal of the Bonds, to the purchase and retirement of Bonds and to the redemption of Bonds, all in accordance with the provisions of the Bond Indenture.

(b) If the principal of all the Bonds shall have become or shall have been declared due and payable, all the moneys shall be applied to the payment of the principal and interest then due and unpaid upon the Bonds (other than for Bonds previously called for redemption for the payment of which moneys are held pursuant to the provisions of the Bond Indenture) without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preferences except as to any differences in the respective rates of interest specified in the Bonds.

Whenever moneys are to be applied by the Trustee pursuant to the provisions of the Bond Indenture summarized under this heading, such moneys shall be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional money becoming available for such application in the future. The deposit of such moneys with the Trustee, or otherwise setting aside such moneys in trust for the proper purpose, shall constitute proper application by the Trustee and the Trustee shall incur no liability whatsoever to the Authority, to any Bondholder or to any other person for any delay in applying any such moneys, so long as the Trustee acts with reasonable diligence, having due regard for the circumstances, and ultimately applies the same in accordance with such provisions of the Bond Indenture as may be applicable at the time of application by the Trustee. Whenever the Trustee shall exercise such discretion in applying such moneys, it shall fix the date (which shall be an Interest Payment Date unless the Trustee shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to exist. The Trustee shall give such notice as it may deem appropriate for the fixing of any such date. The Trustee shall not be required to make payment of the principal of or premium on a Bond to the registered

owner of any unpaid Bond unless such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

### **Bondholders' Direction of Proceedings**

The registered owners of the majority in principal amount of the Outstanding Bonds shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Bond Trustee, to direct the method of conducting all remedial proceedings to be taken by the Bond Trustee under the Bond Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of thereof, and that the Bond Trustee shall have the right to decline to follow any such direction which in the opinion of the Bond Trustee would be unjustly prejudicial to Bondholders not parties to the direction.

### **Limitation on Rights of Bondholders**

The registered owner of a Bond or Bonds shall not have any right to institute any suit, action or other proceeding under the Bond Indenture, or for the protection or enforcement of any right under the Bond Indenture or any right under law unless that registered owner shall have given to the Bond Trustee written notice of the Event of Default or breach of duty on account of which such suit, action or proceeding is to be taken and unless the registered owners of not less than twenty-five percent (25%) in principal amount of the Outstanding Bonds shall have made written request of the Bond Trustee after the right to exercise such powers or right of action shall have accrued, and shall have afforded the Bond Trustee a reasonable opportunity either to proceed to exercise the powers granted under the Bond Indenture or granted under law or to institute such action, suit or proceeding in its name and unless, also, there shall have been offered to the Bond Trustee reasonable security and indemnity against the fees, costs, expenses and liabilities to be incurred therein or thereby, and the Bond Trustee shall have refused or neglected to comply with such request within a reasonable time. Such notification, request and offer of indemnity are declared in every such case, at the option of the Bond Trustee, to be conditions precedent to the execution of the powers under the Bond Indenture or for any other remedy thereunder or under law. It is understood and intended that no one or more registered owners of the Bonds secured by the Bond Indenture shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Bond Indenture or to enforce any right thereunder or under law with respect to the Bonds or the Bond Indenture, except in the manner therein provided, and that all proceedings shall be instituted, had and maintained in the manner therein provided and for the benefit of all registered owners of the Outstanding Bonds. Notwithstanding the foregoing provisions of the Bond Indenture, the obligation of the Authority shall be absolute and unconditional to pay the principal of, premium, if any, and interest on the Bonds to the respective registered owner thereof at the respective due dates thereof, but only from the moneys of the Authority pledged for such payment, and nothing in the Bond Indenture shall affect or impair the right of action, which is absolute and unconditional, of such registered owner to enforce such payment.

Each registered owner of any Bond by the acceptance thereof shall be deemed to have agreed that any court in its discretion may require, in any suit for the enforcement of any right or remedy under the Bond Indenture or any supplemental indenture, or in any suit against the Bond Trustee for any action taken or omitted by it as Bond Trustee, the filing by any party litigant in such suit of an undertaking to pay the reasonable costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorney's fees, against any party litigant in any such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this paragraph shall not apply to any suit instituted by the Bond Trustee, to any suit instituted by any Bondholder, or group of bondholders, owning at least twenty-five percent (25%) in principal amount of the Outstanding Bonds or to any suit instituted by any Bondholder for the enforcement of the payment of

the principal of or redemption premium or interest on any Bond on or after the respective due date thereof expressed in that Bond.

### **Supplements to Bond Indenture**

The Authority and the Bond Trustee may, without notice to or consent of any Bondholders, but with the written consent of the Credit Group Representative, from time to time and at any time, execute and deliver supplements or amendments to the Bond Indenture as shall not be inconsistent with the terms and provisions of the Bond Indenture, the Loan Agreement, the Master Indenture or the Supplemental Indenture, for any one or more of the following purposes: (i) to cure any ambiguity or formal defect or omission in the Bond Indenture which does not have an adverse effect upon the interests of the Bondholders; (ii) to grant to or confer upon the Bond Trustee, for the benefit of the Bondholders, any additional rights, remedies, powers or authorities that may lawfully be granted to or conferred upon the Bondholders or the Bond Trustee; (iii) to subject to the Bond Indenture additional revenues, properties or collateral; (iv) to modify, amend or supplement the Bond Indenture, or any indenture supplemental thereto, in such manner as to permit the qualification thereof and thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, or to permit the qualification of the Bonds for sale under the securities laws of any of the states of the United States, and if the Authority so determines to add to the Bond Indenture or any indenture supplemental thereto such other terms, conditions and provisions as may be permitted by the Trust Indenture Act, or any similar federal statute; (v) to add to the covenants and agreements of the Authority contained in the Bond Indenture other covenants and agreements thereafter to be observed for the protection of the Bondholders or to surrender or limit any right, power or authority therein reserved to or conferred upon the Authority; (vi) to evidence the succession of a new Bond Trustee; (vii) to provide for changes as necessary to secure a rating on the Bonds that does not materially adversely affect the rights of any Bondholder; or (viii) to make any change (including but not limited to a change to reflect any amendment to the Code or interpretations by the Internal Revenue Service or United States Department of Treasury of the Code) which, in the judgment of the Bond Trustee, acting in reliance on an Opinion of Counsel, is not to the prejudice of the Bond Trustee and does not materially adversely affect the rights of any Bondholder of the Bonds.

Exclusive of supplemental indentures covered by the Bond Indenture, the Bond Indenture may be amended or supplemented only as provided in therein. Subject to the terms and provisions contained in the Bond Indenture, the Bondholders of not less than 51% in aggregate principal amount of the Bonds then Outstanding shall have the right, from time to time, to approve the execution by the Authority and the Bond Trustee of such indenture or indentures supplemental thereto as shall be deemed necessary and desirable by the Authority and the Bond Trustee, and which have been consented to in writing by the Credit Group Representative, for the purposes of modifying, altering, amending, adding to, or rescinding, in any particular, any of the terms or provisions contained in the Bond Indenture or in any supplemental indenture. If at any time the Authority shall request the Bond Trustee to enter into any such supplemental indenture for any of the purposes of the Bond Indenture, the Bond Trustee shall, upon being satisfactorily indemnified with respect to fees and expenses, cause notice of the proposed execution of such supplemental indenture to either be submitted to EMMA, or such other system, internet web site, or repository hereafter described by the MSRB for submission of electronic filing, or mailed by first-class mail to the Corporation, the Credit Group Representative and each of the Bondholders of the Bonds at the address of such Bondholders indicated on the registration books. Such notice shall briefly set forth the nature of the proposed supplemental indenture and shall state that copies thereof are on file at the designated corporate trust office of the Bond Trustee for inspection by all Bondholders. If, within sixty (60) days, or such longer period as shall be prescribed by the Authority, following the mailing of such notice, the Bondholders of the requisite percentage in aggregate principal amount of the Bonds Outstanding at the time of the execution of any such supplemental indenture shall have consented to and approved the execution thereof as therein provided, no Bondholder shall have any right to object to any of

the terms and provisions contained therein, or the operation thereof; or in any manner to question the propriety of the execution thereof; or to enjoin or restrain the Bond Trustee or the Authority from executing the same or from taking any action pursuant to the provisions thereof. Upon the execution of any such supplemental indenture as permitted by and provided for in the Bond Indenture, the Bond Indenture shall be and be deemed to be modified and amended in accordance therewith.

## **Defeasance**

If the Bonds secured by the Bond Indenture shall have become due and payable in accordance with their terms or otherwise as provided in the Bond Indenture or are to be paid at their maturity or maturities or, shall have been duly called for redemption or irrevocable instructions to call the Bonds for redemption shall have been given by the Authority to the Bond Trustee (which redemptions shall be subject to the reductions to the extent that bond counsel shall opine that such reductions would not cause interest on any Bond to be subject to income taxation), and the whole amount of the principal and the interest and the premium, if any, so due and payable upon all of the Bonds issued under the Bond Indenture and secured thereby then Outstanding shall be paid or sufficient moneys or Government Obligations, the principal of and the interest on which, when due and payable, will provide sufficient moneys therefor, shall be held by the Bond Trustee or other entity with trust powers for such purpose under the provisions of the Bond Indenture, and sufficient funds shall also have been provided for paying all other obligations payable thereunder by the Authority, including any rebates of arbitrage earnings, then and in that case the right, title and interest of the Bond Trustee the Bond Indenture shall thereupon cease, terminate and become void and, on demand of the Authority, the Bond Trustee shall release the Bond Indenture and shall execute such documents to evidence such release as may be reasonably required by the Authority, and the Bond Trustee shall turn over to the Credit Group Representative for the account of the Obligated Group the remaining property held by it under the Bond Indenture, any surplus in any account in the Bond Payment Fund and all balances remaining in all other funds and accounts, other than money held for the redemption or payment of Bonds. Otherwise, the Bond Indenture shall be, continue and remain in full force and effect. In the event Government Obligations shall be deposited with and held by the Bond Trustee or other entity with trust powers as provided above, (i) in addition to the requirements set forth in the Bond Indenture, but not as a condition to defeasance of the Bond Indenture, the Bond Trustee shall within thirty (30) days after such Government Obligations shall have been so deposited cause a notice signed by the Bond Trustee to be mailed, postage prepaid to the registered owners of every Bond and at the registered address as shown on the registration books of the Authority at the close of business on the day on which the Government Obligations shall have been deposited with the Bond Trustee or other entity with trust powers, as provided in the Bond Indenture, setting forth (a) the date or dates designated for the redemption or payment of the Bonds, (b) a description of the Government Obligations so held by it and (c) that the Bond Indenture has been released in accordance with the provisions thereof, and (ii) applicable provisions of the Bond Indenture, pertaining to the payment of the principal of, premium, if any, and interest on the Bonds and other obligations payable thereunder by the Authority, shall be continued in force until such Bonds and other obligations have been fully paid.

In the event Government Obligations shall be deposited with and held by the Bond Trustee or other entity with trust powers as provided in the preceding paragraph, the Obligated Group shall deliver to the Bond Trustee a report of independent certified public accountants to the effect that the principal and interest on the Government Obligations (plus any cash in the escrow) is sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on the Bonds.

All moneys and Government Obligations held by the Bond Trustee or other entity with trust powers pursuant to the Bond Indenture shall be held in trust and applied to the payment, when due, of the obligations payable therewith.

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## APPENDIX D

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### **Summary of Certain Provisions of the Amended and Restated Master Indenture, the Supplemental Indenture and Definitions of Certain Terms used therein**

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## INTRODUCTION

The Amendment and Restatement of Master Indenture, dated as of January 1, 2015, between Beaumont Health, for itself and as Credit Group Representative on behalf of each other Member of the Obligated Group, and The Bank of New York Mellon Trust Company, N.A., successor trustee to U.S. Bank National Association, formerly First Trust National Association, successor trustee to Manufacturers National Bank of Detroit (the “Master Trustee”), amends and restates the Master Indenture and Security Agreement, dated as of March 1, 1985 (the “Original Master Indenture”), between Oakwood Healthcare, Inc. (formerly Oakwood Hospital Corporation) (“Oakwood”), a Michigan nonprofit corporation, predecessor Obligated Group Agent, and the Master Trustee, as previously supplemented and modified. (The Original Master Indenture, as amended and restated by the Amendment and Restatement of Master Indenture is referred to as the “Amended and Restated Master Indenture” or the “Master Indenture.”)

*The summaries do not purport to be complete or definitive and are qualified in their entirety by reference to the full terms of such documents.*

## DEFINITIONS

The following are summaries of definitions of certain terms used in the Amended and Restated Master Indenture.

“Accountant” means any independent auditors or certified public accountant or firm of such auditors or accountants selected by the Credit Group Representative.

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

“Affiliate” means a corporation, limited liability company, partnership, joint venture, association, business trust or similar entity organized under the laws of the United States of America or any state thereof which Controls or which is Controlled, directly or indirectly, by the Credit Group Representative or other Credit Group Member, which is Controlled by a Person which Controls the Credit Group Representative or other Credit Group Member or of which a majority of the members of any governing body are a majority of the members of the Governing Body of the Credit Group Representative or other Credit Group Member.

“Annual Debt Service” means for each Fiscal Year, the sum (without duplication) of the aggregate amount of principal and interest scheduled to become due and payable in such Fiscal Year on all Long-Term Indebtedness of the Credit Group then Outstanding (by scheduled maturity, acceleration after the occurrence of any Event of Default, or mandatory redemption, but not including the purchase price becoming due as a result of mandatory or optional tender or put or optional redemption), less any amounts of such principal or interest to be paid during such Fiscal Year from (a) the proceeds of Indebtedness or (b) moneys or Government Obligations subject to an Irrevocable Deposit for the purpose of paying such principal or interest; provided that if an Identified Financial Product Agreement has been entered into by any Credit Group Member with respect to Long-Term Indebtedness and the counterparty thereto has not defaulted in the payment obligations thereunder, interest on such Long-Term Indebtedness shall be included in the calculation of Annual Debt Service by including for each Fiscal Year an amount equal to the amount of interest payable on such Long-Term Indebtedness in such Fiscal Year at the rate or rates stated in such Long-Term Indebtedness plus any Financial Product Payments under an Identified

Financial Product Agreement payable in such Fiscal Year minus any Financial Product Receipts under an Identified Financial Product Agreement receivable in such Fiscal Year.

“Balloon Indebtedness” means (i) an issue of Long-Term Indebtedness, 20% or more of the principal of which (calculated as of the date of issuance) becomes due (by scheduled maturity, or mandatory redemption, but not including the purchase price becoming due as a result of mandatory or optional tender or put or optional redemption) during any period of 12 consecutive months, absent acceleration, if such maturing principal amount is not required to be amortized below such percentage by mandatory redemption prior to such 12-month period, or (ii) any portion of an issue of Long-Term Indebtedness which, if treated as a separate issue of Indebtedness would meet the test set forth in clause (i) of this definition and which is so designated in an Officer’s Certificate stating that such portion shall be deemed to constitute a separate issue of Balloon Indebtedness.

“Beaumont Health” means Beaumont Health, a Michigan nonprofit corporation.

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

“Capitalized Lease” means a lease required to be capitalized under GAAP.

“Code” means the Internal Revenue Code of 1986, as amended, or any successor federal tax law or code.

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

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

“Controlled” or “Controls” means with respect to: (i) a corporation having stock, the ownership, directly or indirectly, of more than 50% of the securities (as defined in Section 2(l) of the Securities Act of 1933, as amended) of any class or classes, the holders of which are ordinarily, in the absence of contingencies, entitled to elect a majority of such corporation’s directors (or persons performing similar functions); (ii) a not for profit corporation not having stock, having the power to elect or appoint, directly or indirectly, a majority of the members of its governing board or body; (iii) a partnership, being the sole general partner or being in Control (as defined in the Master Indenture) of a majority of the general

partners if there is more than one; (iv) a limited liability company, the ability to control the operation and affairs of such entity or sufficient voting power to appoint or elect the Person who controls the operation and affairs of such entity, or (v) any other entity, having the power to direct the management of such entity through the ownership of at least a majority of its voting securities or the right to designate or elect at least a majority of the members of its governing board or body, by contract or otherwise.

“Controlling Member” means the Obligated Group Member designated by the Credit Group Representative to establish and maintain control over a Designated Affiliate.

“Corporate Trust Office” means the corporate trust office of the Master Trustee.

“Credit Group” means, collectively, all the Credit Group Members as of a particular time.

“Credit Group Member” means as of a particular time (a) each Member of the Obligated Group, and (b) each Designated Affiliate.

“Credit Group Representative” means Beaumont Health or such other Member of the Obligated Group which has been designated to serve in such role pursuant to written notice to the Master Trustee executed by all of the Obligated Group Members.

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

“Debt Service Coverage Ratio” means, for any period of time, the ratio determined by dividing Income Available for Debt Service by Maximum Annual Debt Service.

“Debt Service Reserve Fund” means any fund or account established with the Master Trustee pursuant to a Related Supplement or with a trustee or other depository pursuant to a Related Bond Indenture, or pursuant to the incurrence of any Indebtedness, moneys in which are held and pledged for the purpose of paying principal of and interest on a specified Obligation or Obligations, Related Bonds or Indebtedness.

“Designated Affiliate” means any Person designated by the Credit Group Representative as such in accordance with the Master Indenture, and (a) over which any Member of the Obligated Group maintains control, directly or indirectly, 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 Master Indenture, through the ownership of such Person’s voting securities, partnership interests, membership, reserved powers, the power to appoint such Person’s members, trustees or directors or otherwise, or (b) with whom the Member of the Obligated Group or Affiliate has entered into a contract or other agreement, enforceable against such Person, under which such Person is obligated to make all of the payments required by the Master Indenture, and perform all of the other obligations of a Designated Affiliate under the Master Indenture, provided that prior to such designation there shall have been delivered to the Master Trustee (i) a fully executed copy of such contract or other agreement and (ii) an Opinion of Counsel acceptable to the Master Trustee to the effect that such contract or other agreement is a valid and binding obligation of such Person enforceable in accordance with its terms, subject to customary exceptions for bankruptcy,

insolvency and other laws generally affecting enforcement of creditors' rights and application of general principles of equity and to the exceptions set forth in the Master Indenture. A Member of the Obligated Group may request that the Credit Group Representative designate one or more Person as Designated Affiliates, but shall be under no obligation to request such designation. A list of initial Designated Affiliates and the Controlling Member for each Designated Affiliate is attached to the Master Indenture.

"Effective Date" shall mean January 28, 2015.

"Electronic Means" means the following communications methods: Society for Worldwide Interbank Financial Telecommunication, e-mail, facsimile transmission, secure electronic transmission containing applicable authorization codes, passwords and/or authentication keys issued by the Master Trustee, or another method or system specified by the Master Trustee as available for use in connection with its services under the Master Indenture.

"Event of Default" means any one or more of those events identified as an event of default in the Master Indenture.

"Excess Depreciation Account" means any fund or account established by a Credit Group Member in connection with incurring Indebtedness, deposits to which are required to be made based on a comparison of depreciation expense and debt service and withdrawals from which are restricted to such purposes as may be set forth in the applicable agreement, including any Related Supplement or Related Bond Indenture.

"Expenses" means, for any period, the aggregate of all expenses calculated under GAAP, including without limitation any taxes, incurred by the Credit Group Members during such period, minus (i) interest on Indebtedness, (ii) depreciation and amortization, (iii) unusual or extraordinary expenses, (iv) any expenses resulting from (a) the extinguishment of debt, (b) any disposition of assets not made in the ordinary course of business, (c) any discontinued operations or (d) noncash adjustments to the value of assets or liabilities resulting from changes in GAAP, (v) any expenses resulting from a forgiveness of or the establishment of reserves against Indebtedness of an Affiliate which does not constitute an extraordinary expense, (vi) losses resulting from any reappraisal, revaluation or write-down of assets (including without limitation intangibles), (vii) any noncash loss or change in the value of a Financial Product Agreement (including any change in the value of the termination value thereof) which loss or change in value is not the result of the expiration, novation or termination (including early termination) of such Financial Product Agreement, (viii) any loss or change in value of investment securities which is not the result of the sale, transfer or disposition of such investment securities, (ix) any nonrecurring items which do not involve the expenditure or transfer of assets, (x) asset retirement obligations (except in the year paid), (xi) any other non-cash expenses, including, but not limited to, pension adjustments related to market value fluctuations and discount rates, and (xii) any expenses attributable to transactions between any Credit Group Member and another Credit Group Member; provided, however, that the provisions of (i) through (xii) notwithstanding, no amount shall be subtracted from expenses more than once.

"Fair Market Value," when used in connection with Property, means the fair market value of such Property as determined by either: (a) an appraisal of the portion of such Property which is real property and the permanent improvements thereof made within five years of the date of determination by a "Member of the Appraisal Institute" and an appraisal of any material portion of such Property which is not real property made within five years of the date of determination by any expert qualified in relation to the subject matter, provided that any such appraisal shall be performed by a Consultant, adjusted for the period, not in excess of five years, from the date of the last such appraisal for changes in the implicit price deflator for the gross national product as reported by the United States Department of Commerce or its successor agency, or if such index is no longer published, such other index certified to be comparable and

appropriate in an Officer's Certificate delivered to the Master Trustee; (b) a bona fide offer for the purchase of such Property made on an arm's-length basis within six months of the date of determination, as established by an Officer's Certificate; or (c) the Credit Group Representative (whose determination shall be made in good faith and set forth in an Officer's Certificate filed with the Master Trustee) if the fair market value of such Property is less than or equal to the greater of ten million dollars (\$10,000,000) or 10% of cash and equivalents as shown on the Credit Group Financial Statements.

"Fee Payments" means fees or similar charges not constituting interest or part of the specified principal amount of any Obligation, but which are nevertheless payable pursuant to an Obligation or contracts pursuant to which an Obligation is issued.

"Financial Product Agreement" means any interest rate exchange agreement, hedge or similar arrangement, including, inter alia, an interest rate swap, asset swap, a constant maturity swap, a forward or futures contract, cap, collar, option, floor, forward or other hedging agreement, arrangement or security, direct funding transaction or other derivative, however denominated and whether entered into on a current or forward basis, excluding however commodity (including power) forward purchase agreements.

"Financial Product Extraordinary Payments" means any payments required to be paid to a counterparty by a Credit Group Member pursuant to a Financial Product Agreement in connection with the termination thereof, tax gross-up payments, expenses, default interest, and any other payments or indemnification obligations to be paid to a counterparty by a Credit Group Member under a Financial Product Agreement, which payments are not Financial Product Payments.

"Financial Product Payments" means regularly scheduled payments required to be paid to a counterparty by a Credit Group Member pursuant to a Financial Product Agreement and excluding Financial Product Extraordinary Payments.

"Financial Product Receipts" means regularly scheduled payments required to be paid to a Credit Group Member by a counterparty pursuant to a Financial Product Agreement.

"Fiscal Year" means the fiscal year of the Credit Group Representative.

"GAAP" means accounting principles generally accepted in the United States of America, consistently applied.

"Governing Body" means, when used with respect to the Credit Group Representative or any other Credit Group Member, its board of directors, board of trustees, or other board or group of individuals in which the powers usual to a board of directors or board of trustees are vested.

"Government and Industry Restrictions" means any federal, state or other applicable governmental law or regulations (including income tax limitations which must be respected to preserve the exempt status of the applicable Person, eligibility of a Person for benefits under any state, local or federal subsidy or exemption program, or conditions imposed specifically on the Credit Group Members of the Credit Group Members' facilities), or any general industry standards or general industry conditions affecting any Credit Group Member and its health care or research facilities or other licensed facilities placing restrictions and limitations on the (i) rates, fees, research funding and charges to be fixed, charged or collected by any Credit Group Member, (ii) rates, fees, research funding and charges to be fixed, charged and collected by the Credit Group Members, or (iii) the amount or timing of the receipt of such revenues.

“Government Obligations” means (i) direct obligations of the United States of America (including obligations issued or held in book-entry form), (ii) obligations the timely payment of the principal of and interest on which are fully guaranteed by the United States of America, (iii) certificates which evidence ownership of the right to the payment of the principal of or interest on obligations described in clauses (i) and (ii) provided that such obligations are held in a custodial account acceptable to the Master Trustee in a special account separate from the general assets of such custodian (iv) obligations the timely payment of the principal of and interest on which is fully provided for by the deposit in trust or escrow of cash or obligations described in clauses (i), (ii) or (iii) and (v) obligations which are rated by at least two (2) Rating Agencies in their highest rating category.

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

“Gross Receivables” means all present and future accounts and general intangibles, including but not limited to (subject to applicable federal law) Medicare and Medicaid and like public or private medical or hospital expense reimbursement programs or agreements (but excluding pledges or agreements for gifts, grants, bequests, donations and contributions to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for payment of Obligations), and all proceeds of the foregoing.

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

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

“Identified Financial Product Agreement” means a Financial Product Agreement identified to the Master Trustee in a Certificate of the Credit Group Representative as having been entered into by a Credit Group Member with a Qualified Provider with respect to Indebtedness (which is either then-Outstanding or to be issued after the date of such Certificate) identified in such Certificate, with a notional amount not in excess of the principal amount of such Indebtedness.

“Immaterial Affiliates” means Persons that are not Members of the Credit Group and whose combined total unrestricted net assets (or net worth in the case of Credit Group Members that are not Tax-Exempt Organizations), as shown on their financial statements for their most recently completed fiscal year, aggregated less than 10% of the combined or consolidated unrestricted net assets of the Credit Group as shown on the Credit Group Financial Statements, plus the unrestricted net assets of such Persons as if they were Members of the Credit Group for such period, for the most recently completed Fiscal Year of the Credit Group.

“Income Available for Debt Service” means, with respect to the Credit Group as to any period of time, changes in net assets before depreciation, amortization, and interest expense (including Financial Product Payments and Financial Product Receipts on Identified Financial Product Agreements), as determined in accordance with GAAP and as shown on the Credit Group Financial Statements; provided, that no determination thereof shall take into account:

(a) gifts, grants, bequests, donations or contributions, to the extent (i) temporarily restricted by the donor specifically for capital purposes, including the purchase of Property funded through the release of such restrictions, or (ii) permanently restricted by the donor specifically to a particular purpose

other than (1) payment of principal of, redemption premium and interest on Indebtedness, (2) release into unrestricted funds, or (3) payment of operating expenses;

- (b) the net proceeds of casualty insurance and condemnation awards;
- (c) any gain or loss resulting from the extinguishment of Indebtedness;
- (d) any gain or loss resulting from the sale, exchange or other disposition of assets not in the ordinary course of business;
- (e) any gain or loss resulting from any discontinued operations;
- (f) any gain or loss resulting from pension terminations, settlements or curtailments;
- (g) any unusual charges for employee severance;
- (h) adjustments to the value of assets or liabilities resulting from changes in GAAP;
- (i) unrealized gains or losses on investments, including “other than temporary” declines in Book Value or change in the equity or income on alternate investments and/or returns of capture insurance companies;
- (j) gains or losses resulting from changes in valuation of any hedging, derivative, interest rate exchange or similar contract (including Financial Product Agreements);
- (k) any Financial Product Extraordinary Payments or similar payments on any hedging, derivative, interest rate exchange or similar contract that does not constitute a Financial Product Agreement;
- (l) unrealized gains or losses from the write-down, reappraisal or revaluation of assets; or
- (m) changes in pension liability to be recognized in future periods (as determined under GAAP); or
- (n) other nonrecurring items of any extraordinary nature which do not involve the receipt, expenditure or transfer of assets.

“Indebtedness” means all obligations for money borrowed and obligations for the payment of money in respect of purchase contracts or Capitalized Leases (but not including trade accounts payable and accrued expenses incurred in the ordinary course of business), or any other obligation for payment of principal and interest with respect to money borrowed, including Guaranties of obligations which, were such to be an obligation of a Credit Group Member, would be Indebtedness of such Credit Group Member (other than any Guaranty by any Credit Group Member of the Indebtedness of any other Credit Group Member), incurred or assumed by any Credit Group Member, except obligations of a Credit Group Member to another Credit Group Member and obligations with respect to any Financial Product Agreement; provided, however, (i) with respect to any Guaranty, so long as a Credit Group Member is not making payments under such Guaranty, only ten (10%) percent of indebtedness evidenced by such Guaranty shall be taken into account, and (ii) if more than one Credit Group Member shall have incurred joint and several liability for Indebtedness of a Person or assumed a Guaranty of a Person other than a Credit Group Member, for purposes of any computations or calculations under the Master Indenture, such Indebtedness or Guaranty shall be included only one time.

“Indenture” means the Master Indenture as it may from time to time be supplemented or amended by one or more Supplemental Indentures entered into pursuant to the applicable provisions of the Master Indenture and shall include the terms of particular series of Obligations established as contemplated by the Master Indenture.

“Interim Indebtedness” means Indebtedness with an original maturity not in excess of five years, the proceeds of which are to be used to provide interim financing for capital improvements in anticipation of the issuance of Long-Term Indebtedness. Interim Indebtedness shall be considered Long-Term Indebtedness for purposes of the Master Indenture.

“Irrevocable Deposit” means the irrevocable deposit in trust or in escrow of cash in an amount (or Government Obligations the principal of and interest on which will be in an amount) and under terms sufficient to pay all or a portion of the principal of or interest on, as the same shall become due, any Indebtedness which would otherwise be considered Outstanding. The trustee of such deposit may be the Master Trustee, a Related Bond Trustee or any other Person authorized to act in such capacity.

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

“Long-Term Indebtedness” means any Indebtedness which is not Short-Term Indebtedness.

“Material Credit Group Members” means the Credit Group Members whose combined or consolidated total unrestricted net assets, as shown on their financial statements for their most recently completed fiscal year, were equal to or greater than 90% of the combined or consolidated unrestricted net assets of the entire Credit Group as shown on the Credit Group Financial Statements for the most recently completed Fiscal Year of the Credit Group.

“Maximum Annual Debt Service” means the greatest amount of Annual Debt Service becoming due and payable in any Fiscal Year including the Fiscal Year in which the calculation is made or any subsequent Fiscal Year; provided, however, that for the purposes of computing Maximum Annual Debt Service:

(a) with respect to a Guaranty, (i) if the Credit Group Members have made a payment pursuant to such Guaranty, 100% of the Annual Debt Service (calculated as if such Person were a Credit Group Member) guaranteed by the Credit Group Members under the Guaranty shall be included in the calculation of Annual Debt Service in the year in which such payment was made and for two Fiscal Years thereafter and (ii) otherwise, there shall be included in the calculation of Annual Debt Service a percentage of the Annual Debt Service (calculated as if such Person were a Credit Group Member) guaranteed by the Credit Group Members under the Guaranty, based on the ratio of Income Available for Debt Service of the Person whose indebtedness is guaranteed by the Credit Group Member (calculated as if such Person were a Credit Group Member), over the Annual Debt Service of such Person (calculated as if such Person were a Credit Group Member) (the “Ratio”). The applicable percentage of Annual Debt Service on such indebtedness shall be included in the calculation of Annual Debt Service, as follows:

	<b>Percentage of Annual Debt Service on such Indebtedness to be Included</b>
<b>Ratio</b>	
Less than 2.0	20%
2.0 or greater	0%

(b) if interest on Long-Term Indebtedness is payable pursuant to a variable interest rate formula (or if Financial Product Payments under an Identified Financial Product Agreement or Financial Product Receipts under an Identified Financial Product Agreement are determined pursuant to a variable rate formula), the interest rate on such Long-Term Indebtedness (or the variable rate formula for such Financial Product Payments under an Identified Financial Product Agreement or Financial Product Receipts under an Identified Financial Product Agreement) for periods when the actual interest rate cannot yet be determined shall be assumed to be equal to (i) if such Long-Term Indebtedness (or Identified Financial Product Agreement) was Outstanding during the 12 calendar months immediately preceding the date of calculation, an average of the interest rates per annum which were in effect, and (ii) if such Long-Term Indebtedness (or Identified Financial Product Agreement) was not Outstanding during the 12 calendar months immediately preceding the date of calculation, at the election of the Credit Group Representative, either (x) an average of the SIFMA Index during the 12 calendar months immediately preceding the date of calculation or (y) an average of the interest rates per annum which would have been in effect for any 12 consecutive calendar months during the 18 calendar months immediately preceding the date of calculation, as specified in a Certificate of the Credit Group Representative or, at the sole option of the Credit Group Representative, such interest rate as shall be specified in a written statement from an investment banking or financial advisory firm selected by the Credit Group Representative;

(c) if moneys or Government Obligations have been deposited in an Irrevocable Deposit with a trustee or escrow agent in an amount, together with earnings thereon, sufficient to pay all or a portion of the principal of or interest on Long-Term Indebtedness as it comes due, such principal or interest, as the case may be, to the extent provided for, shall not be included in computations of Maximum Annual Debt Service;

(d) debt service on Long-Term Indebtedness incurred to finance capital improvements shall be included in the calculation of Maximum Annual Debt Service only in proportion to the amount of interest on such Long-Term Indebtedness which is payable in the then current Fiscal Year from sources other than proceeds of such Long-Term Indebtedness (other than proceeds deposited in debt service reserve funds) held by a trustee or escrow agent for such purpose; and

(e) with respect to Balloon Indebtedness or Interim Indebtedness, such Balloon Indebtedness or Interim Indebtedness shall be treated, at the sole option of the Credit Group Representative, as Long-Term Indebtedness bearing interest at an interest rate equal to either (i) a fixed rate equal to the Thirty-Year Revenue Bond Index most recently published in *The Bond Buyer* prior to the date of calculation or (ii) such interest rate as shall be specified in a written statement from an investment banking or financial advisory firm selected by the Credit Group Representative, and with substantially level debt service over a period of up to 30 years (which period shall be designated by the Credit Group Representative) from the date of calculation.

“Member of the Obligated Group” or “Obligated Group Member” means any Person which has become a Member of the Obligated Group in accordance with the provisions the Master Indenture and has not withdrawn from the Obligated Group as described under “THE AMENDED AND RESTATED MASTER INDENTURE – Membership in the Obligated Group – Withdrawal from the Obligated Group.”

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

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

“Net Revenue” with respect to each Credit Group Member, as to any period of time means the excess of such Credit Group Member’s Revenues over Expenses.

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

“Oakwood” means Oakwood Healthcare, Inc., a Michigan nonprofit corporation, and its successors.

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

“Obligation” means a bond, debenture, note or other instrument evidencing or securing the repayment of Indebtedness, including coupons appertaining thereto, if any; a Guaranty or a Financial Product Agreement, provided such instrument, Guaranty or agreement has been issued, executed and authenticated by the Master Trustee as provided in the Master Indenture. Any Guaranty or Financial Product Agreement which are intended to constitute an Obligation may be represented by a promissory note issued under the Master Indenture, or by any other document or agreement determined appropriate and executed and authenticated by the Master Trustee as provided in the Master Indenture.

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

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

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

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

- (i) Obligations theretofore cancelled by the Master Trustee or delivered to the Master Trustee for cancellation;

- (ii) Obligations which have been paid, or Obligations for which payment has been provided in accordance with the Master Indenture; and

- (iii) Obligations and any coupons appurtenant thereto in lieu of which other Obligations have been authenticated and delivered pursuant to the provisions of any Related Supplement regarding mutilated, destroyed, lost or stolen Obligations or which have been paid pursuant to the provisions of such Related Supplement unless proof satisfactory to the Master Trustee has been received that any such Obligation is held by a bona fide purchaser,

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

(i) Indebtedness which has been paid or for which payment has been provided in a manner similar to the provisions of the Master Indenture; and

(ii) any evidence of Indebtedness held by any Credit Group Member;

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

“Permitted Liens” means:

(1) Any judgment lien or notice of pending action so long as such judgment or pending action is being contested and execution thereon is stayed or while the period for responsive pleadings has not lapsed;

(2) (i) Rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any Property, to (A) terminate such right, power, franchise, grant, license or permit, provided that the exercise of such right would not materially impair the use of such Property or materially and adversely affect the value thereof, or (B) purchase, condemn, appropriate or recapture, or designate a purchaser of, such Property, (ii) any liens on any Property for taxes, assessments, levies, fees, water and sewer charges, and other governmental and similar charges and any construction liens or vendors liens for work or services performed or materials furnished in connection with such Property, which are not due and payable or which are not delinquent, or the amount or validity of which, is being contested and execution thereon is stayed or, with respect to construction liens, have been due for less than 60 days, (iii) easements, rights-of-way, servitude, restrictions and other minor defects, encumbrances, and irregularities in the title to any Property or the use of such Property in any manner, which rights do not materially impair the use of such Property or materially and adversely affect the value thereof, (iv) easements, rights-of-way and encumbrances listed in the Master Indenture and (v) to the extent that it affects title to any Property, the Master Indenture;

(3) Any operating lease;

(4) Statutory rights of the United States of America by reason of federal funds made available under 42 U.S.C. Section 291 et seq. and similar rights under other federal and state statutes;

(5) Liens on Property received by such Person through gifts, grants or bequests, such Liens being due to restrictions on such gifts, grants or bequests of Property or the income thereon, up to the Current Value thereof;

(6) Any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable any Credit Group Member to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with workers compensation, unemployment insurance, pension or profit sharing plans or other similar

arrangements, or to share in the privileges or benefits required for companies participating in such arrangements;

(7) Any Lien in favor of the Master Trustee securing all Obligations on a parity basis;

(8) Any Lien existing on Property prior to the time of its acquisition through purchase, merger, consolidation or otherwise; provided, however, that the aggregate principal amounts secured by any such Lien shall not exceed at the time of incurrence the lesser of the cost or the Current Value of such Property;

(9) Liens arising by reason of good faith deposits with any Credit Group Member in connection with leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by any Credit Group Member to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges;

(10) Any Lien in favor of a trustee on the proceeds of Indebtedness prior to the application of such proceeds;

(11) Liens on moneys deposited by patients or others with any Credit Group Member as security for or as prepayment for the cost of patient care;

(12) Any Lien due to rights of third-party payors for recoupment of amounts paid to any Credit Group Member;

(13) Rights of setoff and banker's lien with respect to funds on deposit in a financial institution in the ordinary course of business;

(14) Any Lien on Property provided that the Book Value of all Property encumbered under this clause does not exceed thirty percent (30%) of the Book Value of all Property of the Credit Group Members; provided, however, that, at the option of the Credit Group Representative, this provision may be applied using Current Value;

(15) Any Lien arising by reason of an Irrevocable Deposit or a Purchase Money Contract;

(16) Any Lien arising by reason of deposits to a Debt Service Reserve Fund, or an Excess Depreciation Account in respect of any Indebtedness;

(17) Any Lien on Property of a Person existing on the date on which such Person becomes a Credit Group Member; provided, however, that no such Lien, or the amount of Indebtedness secured thereby, may be increased, extended, renewed or materially modified to apply to any Property or Indebtedness of any Credit Group Member not subject to such Lien on such date, unless such Lien as so increased, extended, renewed or modified otherwise qualifies as a Permitted Lien under the Master Indenture;

(18) Any Liens on the Property described within an exhibit to the Master Indenture on the date it becomes effective;

(19) Any Liens securing Capitalized Leases;

(20) Liens on accounts receivable of any Credit Group Member securing Short-Term Indebtedness permitted under the Master Indenture which, in the aggregate, do not exceed thirty percent (30%) of the accounts receivable of the Credit Group (determined on a net basis);

(21) In the event the Master Trustee shall have a Lien on any Property of any Credit Group Member securing all Obligations on a parity basis, any Lien on such Property which secures Indebtedness which constitutes Subordinated Indebtedness under the Master Indenture; and

(22) Liens granted by a Credit Group Member to another Credit Group Member.

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

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

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

“Property, Plant and Equipment” means all Property of any Credit Group Member which is considered property, plant and equipment of such Credit Group Member.

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

“Qualified Provider” means any financial institution or insurance company or corporation which is a party to a Financial Product Agreement if (i) the unsecured long-term debt obligations of such provider (or of the parent or a subsidiary of such provider if such parent or subsidiary guarantees or otherwise assures the performance of such provider under such Financial Product Agreement), or (ii) obligations secured or supported by a letter of credit, contract, guarantee, agreement, insurance policy or surety bond issued by such provider (or such guarantor or assuring parent or subsidiary), are rated in one of the three highest Rating Categories of a Rating Agency at the time of the execution and delivery of the Financial Product Agreement.

“Rating Agency” means Moody’s Investor Service, Standard & Poor’s Rating Service, a division of McGraw-Hill, Fitch Investors Service, or any other nationally recognized ratings service accepted generally in the investment industry for rating securities selected by the Credit Group Representative.

“Rating Category” means a generic securities rating category, without regard, in the case of a long-term rating category, to any refinement or gradation of such long-term rating category by a numerical modifier or otherwise.

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

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

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

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

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

“Required Payment” means any payment, whether at maturity, by acceleration, upon proceeding for redemption or otherwise, including without limitation, any payments under any Financial Product Agreement, and the purchase price of Related Bonds tendered or deemed tendered for purchase pursuant to the terms of a Related Bond Indenture, required to be made by any Obligated Group Member pursuant to any Related Supplement or any Obligation.

“Responsible Officer,” when used with respect to the Master Trustee, means any vice president, any trust officer or assistant trust officer, or any other officer of the Master Trustee within the corporate trust office specified in the Master Indenture (or any successor office) customarily performing functions similar to those performed by any of the above designated officers and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of his knowledge of and familiarity with the particular subject.

“Restricted Moneys” means the proceeds of any grant (including without limitation any government grant), gift, bequest, contribution or other donation (and, to the extent subject to the applicable restrictions, the investment income derived from the investment of such proceeds) specifically restricted by the donor or grantor to an object or purpose inconsistent with their use for the payment of Required Payments and for which the restriction has not been met.

“Revenues” means, for any period, (i) in the case of any Person providing health care services, the sum of (a) net patient service revenues, plus (b) other operating revenues, plus (c) non-operating revenues (other than income derived from the sale of assets not in the ordinary course of business or any gain from the extinguishment of debt or any unusual or extraordinary item or earnings on amounts which are irrevocably deposited in escrow to pay the principal of or interest on Indebtedness), all as determined in accordance with GAAP; and (ii) in the case of any other Person, gross revenues less sale discounts and sale returns and allowances, as determined in accordance with GAAP; but excluding for purposes of both clause (i) and (ii) above (A) any gains on the sale or other disposition of investments or fixed or capital assets not in the ordinary course and any gains on the extinguishment of debt, (B) earnings resulting from any reappraisal, revaluation or write-up of assets, (C) noncash gains or changes in the valuation of Financial Product Agreements which gain or change in value is not the result of the expiration or termination (including early termination) of such Financial Product Agreement, (D) gains or changes in the valuation of investment securities other than as the result of the sale, transfer or other disposition of such investment security, (E) any nonrecurring items of an extraordinary nature which do not involve the receipt of assets, (F) the equity in the earnings from investments in affiliates, (G) insurance (other than business interruption) and condemnation proceeds, and (H) any gift, grant, bequest, donation or contribution, the use of which is specifically restricted by the donor to a particular purpose inconsistent

with their use for payment of Obligations; provided, however, that if such calculation is being made with respect to the Credit Group, such calculation shall be made in such a manner so as to exclude any revenues attributable to transactions between any Member and any other Member; provided, further, that the provisions of (A) through (H) notwithstanding, no amount shall be added to revenues more than once.

“Short-Term Indebtedness” means Indebtedness having an original maturity equal to or less than one year and not renewable at the sole option of the debtor for a term greater than one year beyond the date of original issuance. Original maturity shall be determined without regard to any optional right of the holder to demand payment prior to the stated maturity. “Short Term Indebtedness” shall not include Interim Indebtedness.

“Subordinated Indebtedness” means Indebtedness which, with respect to any issue thereof, is evidenced by instruments, or issued under an indenture or other document, containing provisions for the subordination of such Indebtedness (to which appropriate reference shall be made in the instrument evidencing such Indebtedness) substantially as set forth in the Master Indenture.

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

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

“Termination Obligation” means the net amount payable by the Member of the Obligated Group under a Financial Product Agreement, taking in to consideration the fair market value of any collateral posted or provided by or on behalf of such Member to secure such Financial Product Agreement upon the occurrence of an Event of Default or Termination Event (as defined in the ISDA 2002 Master Agreement, as amended or supplemented).

“Total Revenues” means, for the period of calculation in question, the sum of operating revenue (including net patient service revenue, premium revenue and other revenue and nonoperating gains (losses), but excluding realized and unrealized gains on investments), as shown on the Credit Group Financial Statements for the Most Recent Fiscal Year.

“Transaction Test” means, with respect to any specified transaction, that (i) no Event of Default or Default then exists and (ii) if such transaction had occurred as of the first day of the Most Recent Fiscal Year, the Credit Group would be able to satisfy the conditions for the issuance of \$1.00 of additional Long-Term Indebtedness.

“Master Trustee” means The Bank of New York Mellon Trust Company, N. A., successor trustee to U.S. Bank National Association, formerly First Trust National Association, successor trustee to Manufacturers National Bank of Detroit, unless and until a successor Master Trustee shall have become such pursuant to the applicable provisions of the Master Indenture and thereafter “Master Trustee” means such successor Master Trustee.

“UCC” means the Uniform Commercial Code of the State of Michigan, as amended from time to time.

“Value,” when used with respect to Property, means the aggregate value of all such Property, with each component of such Property, valued, at the opinion of the Credit Group Representative, either at its Fair Market Value or its Book Value.

“Variable Rate Provision” means a formula or provision, providing for the determination and periodic adjustment of the interest rate borne by an Obligation or Indebtedness bearing interest at a variable rate.

## **THE AMENDED AND RESTATED MASTER INDENTURE**

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

#### Amount Unlimited; Issuable in Series.

(a) The aggregate principal amount of Obligations which may be issued, authenticated and delivered under the Master Indenture is unlimited, except as limited by the provisions of the Master Indenture or of a Related Supplement.

(b) Obligations may be issued in series. All Obligations of any one series shall be substantially identical except as to denomination and except as may otherwise be provided in or pursuant to the Related Supplement creating such Obligations.

(c) Pursuant to the Master Indenture, Obligations of any series may be entitled to the benefit of covenants in addition to or separate and distinct from those which secure or benefit any other series of Obligations.

Designation of Obligations; Terms Thereof, Etc. There shall be established in a Related Supplement prior to the issuance of any Obligations of any series: (a) the title of the Obligations and of the series, if any (which shall distinguish the Obligations and the series from all other Obligations and any other series); (b) the form of the Obligation; (c) any limit upon the aggregate principal amount of Obligations of the series which may be authenticated and delivered under the Master Indenture except for Obligations authenticated and delivered pursuant to the Master Indenture and pursuant to the provisions to be contained in each Related Supplement with respect to registration and transfer of Obligations, exchange for or in lieu of Obligations, including Obligations in temporary form, Obligations redeemed in part and mutilated, destroyed, lost, or stolen Obligations; (d) the date or dates on which the principal of the Obligations of the series is payable; (e) the rate or rates at which the Obligations of the series shall bear interest, if any, or the Variable Rate Provision pursuant to which such rates shall be determined, the date or dates from which such interest shall accrue, the dates on which such interest shall be payable and, if applicable, any record date for determination of Holders entitled to the interest payable; (f) the Fee Payments, if any, to be evidenced by Obligations of the series; (g) the place or places where the principal of, premium, if any, and interest on Obligations of the series shall be payable; (h) if applicable, the period or periods within which, the price or prices at which and the terms and conditions upon which Obligations of the series may be redeemed, in whole or in part, at the option of the Obligated Group; (i) the obligation, if any, of the Obligated Group to redeem or purchase Obligations of the series pursuant to any sinking fund or analogous provisions or at the option of a Holder thereof and the period or periods within which, the price or prices at which and the terms and conditions upon which Obligations of the series shall be redeemed or purchased, in whole or in part, pursuant to such obligation; (j) the denominations in which Obligations of the series shall be issuable; (k) if other than the principal amount thereof, the portion of the principal amount of Obligations of the series which shall be payable upon declaration of acceleration of the maturity thereof pursuant to the Master Indenture; (l) the Member or Members of the Credit Group for whose use the proceeds of the issuance of the Obligations are to be provided; (m) any

requirement different than those specified in the Master Indenture with respect to the payment of the Obligations created by such Related Supplement by the deposit of money or securities in advance of the due date of such Obligations; (n) the purpose for which the Obligations created thereby are being issued, which may be for any lawful corporate purpose of any Credit Group Member; (o) the nature and amount of consideration to be received in connection with the issuance of the Obligations; and (p) any other terms of Obligations of the series (which terms shall not be inconsistent with the provisions of the Master Indenture).

Certain Other Provisions Required and Permitted in Related Supplements. (a) A Related Supplement may provide with respect to Obligations of the series created by such Related Supplement for events which will constitute Events of Default under the Master Indenture as if such events were enumerated in the Master Indenture.

(b) A Related Supplement may grant such additional rights to the Holders of a particular series of Obligations as do not in any manner impair the rights of the Holders of any other series of Outstanding Obligations, including: (1) the right to institute a suit, action or other proceeding in equity or at law, upon or under or with respect to the Master Indenture seeking any remedy provided under the Master Indenture if the Master Trustee shall have neglected or refused to institute any such action, suit or proceeding; (2) the right to approve the appointment of a successor Master Trustee under the Master Indenture; (3) the right to be deemed the Holder of any Obligation notwithstanding the fact such Obligation is owned or held by a Related Bond Trustee or Related Bond Issuer as security for the payment of Related Bonds; (4) the right to receive written notice of the occurrence of any Event of Default; (5) the right to approve any amendments to the Master Indenture; (6) the right to approve the appointment of any Consultant under the Master Indenture; and (7) the right to act or direct action by the Master Trustee in case of an Event of Default or otherwise include provision for such Holders to act without intervention of the Master Trustee.

### **Membership in the Obligated Group**

Any Person may become a Member of the Obligated Group upon the following conditions:

(a) Such Person shall execute and deliver to the Master Trustee an appropriate instrument containing the agreement of such Person to become a Member of the Obligated Group under the Master Indenture and thereby to become jointly and severally obligated for the payment in accordance with their terms of all Obligations Outstanding under the Master Indenture and subject to compliance with all provisions of the Master Indenture pertaining to a Member of the Obligated Group, including the performance and observance of all covenants and obligations of a Member of the Obligated Group under the Master Indenture; and

(b) The Master Trustee shall have received an Officer's Certificate to the effect that (i) the Credit Group Representative consents to such Person becoming a Member of the Obligated Group, and (ii) immediately after the addition of the proposed new Obligated Group Member, the Transaction Test would be satisfied; and

(c) The Master Trustee shall have received an Opinion of Counsel to the effect that (1) the conditions contained in the Master Indenture relating to membership in the Obligated Group have been satisfied, (2) under then-existing law, such Person becoming a Member of the Obligated Group will not subject any Outstanding Obligation to the registration provisions of the Securities Act of 1933, as amended, or that such Obligation has been so registered if registration is required, (3) the Master Indenture is exempt from qualification as an indenture pursuant to the Trust Indenture Act of 1939, as amended, or has so qualified if not exempt, (4) the Master Indenture and the instrument executed and

delivered by such Person in accordance with clause (a) above are each valid and binding obligations of such Person, enforceable against such Person in accordance with their terms; provided, however, that such opinion as to enforceability may be qualified to the extent that enforcement of the rights and remedies created by the Master Indenture or such instrument are subject to general principles of equity or to bankruptcy, insolvency, moratorium or other similar laws affecting the enforcement of creditors' rights in general and the making of such instrument or any payment required to be made by such Person pursuant to the Master Indenture or such instrument, with respect to Obligations other than those for which such Person has been identified pursuant to the Master Indenture might constitute a fraudulent conveyance under applicable bankruptcy and insolvency laws; and

(d) If there remains unpaid any Related Bond which bears interest that is not includable in gross income under the Code, the Master Trustee shall have received an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that under then existing law such Person becoming a Member of the Obligated Group will not cause the interest payable on such Related Bond to be included in gross income under the Code.

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

(a) No Member of the Obligated Group may withdraw from the Obligated Group unless:

(1) the Credit Group Representative consents to such withdrawal; and

(2) such Member is not a party to an agreement with a Related Bond Issuer with respect to Related Bonds then outstanding and is not a Member for whose use proceeds of an issue of Outstanding Obligations were provided as set forth in a Related Supplement pursuant to the Master Indenture; and

(3) if there remains unpaid any Related Bond which bears interest that is not includable in gross income under the Code, the Master Trustee shall have received an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that under then-existing law such Member's withdrawal from the Obligated Group would not cause the interest payable on such Related Bond to become includable in gross income under the Code; and

(4) the Master Trustee shall have received an Officer's Certificate to the effect that immediately upon such Person ceasing to be a Member of the Obligated Group, the Transaction Test would be satisfied.

(b) Upon compliance with the conditions contained in clause (a) above, the Master Trustee shall execute any documents reasonably requested by the withdrawing Member of the Obligated Group to evidence the termination of such Member's obligations under the Master Indenture and under any Supplemental Indenture.

### **Appointment of Credit Group Representative**

Each Obligated Group Member, by becoming an Obligated Group Member, irrevocably appoints the Credit Group Representative as its agent and true and lawful attorney in fact and grants to the Credit Group Representative (a) full and exclusive power to execute Supplemental Indentures and Obligations and (b) full power to prepare, or authorize the preparation of, any and all documents, certificates or disclosure materials reasonably and ordinarily prepared in connection with the issuance of Obligations under the Master Indenture, or Related Bonds associated therewith, and to execute and deliver such items to the appropriate parties in connection therewith.

## Particular Covenants of Each Member of the Obligated Group

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

Limitations on Creation of Liens. Each Member of the Obligated Group, respectively, agrees that it will not, and will not permit any of the Credit Group Members to, create or suffer to be created or exist any Lien upon their respective Property other than Permitted Liens.

Limitations on Incurrence of Additional Indebtedness. Each Credit Group Member and each Controlling Member covenants that it will not permit its Designated Affiliates to, incur any Indebtedness except that the Credit Group Members may incur the following Indebtedness:

(a) Long-Term Indebtedness, if prior to the date of incurrence of the Long-Term Indebtedness there is delivered to the Master Trustee:

(1) an Officer's Certificate to the effect that the Debt Service Coverage Ratio for the Most Recent Fiscal Year for which Credit Group Financial Statements (as defined below) are available with respect to all Long-Term Indebtedness then Outstanding at the time of such certification and the additional Long-Term Indebtedness to be incurred, but excluding any Long-Term Indebtedness to be refunded with the proceeds of said additional Long-Term Indebtedness to be incurred, was not less than 1.2:1.0; or

(2) (A) an Officer's Certificate to the effect that the Debt Service Coverage Ratio for the Most Recent Fiscal Year (excluding the additional Long-Term Indebtedness to be incurred) was not less than 1.2:1.0 and (B) the report of a Consultant (or, in lieu thereof, an Officer's Certificate if the Debt Service Coverage Ratio is projected to be not less than 1.5:1.0 for each such Fiscal Year) to the effect that the Debt Service Coverage Ratio for each of the two Fiscal Years beginning with the Fiscal Year commencing after the estimated completion of the facilities to be financed by the Indebtedness to be incurred with respect to all Long-Term Indebtedness projected to be outstanding (including the additional Long-Term Indebtedness to be incurred but excluding any Long-Term Indebtedness to be refunded with the proceeds of said additional Long-Term Indebtedness to be incurred), is projected to be not less than 1.35:1.0. Notwithstanding the foregoing, if the Master Trustee receives a report of a Consultant to the effect that Government and Industry Restrictions prevents the Credit Group Members from generating the required levels of Income Available for Debt Service sufficient to result in Debt Service Coverage Ratios at least equal to those required as described in this clause (a)(ii), the ratio requirements described in this clause (a)(ii) shall be reduced to the highest ratios that, in the opinion of the Consultant, are obtainable under such Government and Industry Restrictions, but in no event less than a ratio of 1.0:1.0.

(b) Completion Indebtedness without limitation.

(c) Short-Term Indebtedness provided that the provisions described in clause (a) above are satisfied calculated as if such Short-Term Indebtedness was Long-Term Indebtedness or an Officer's Certificate is delivered to the Master Trustee stating that:

(1) the total amount of such Short-Term Indebtedness, together with the aggregate principal amount of Indebtedness incurred pursuant to clause (g) of this section, shall not exceed 20% of Total Revenues; and

(2) in every Fiscal Year, there shall be at least a consecutive 20 day period when the balances of such Short-Term Indebtedness (excluding Short-Term Indebtedness consisting of commercial paper which is intended to be refinanced with additional commercial paper) is reduced to an amount which shall not exceed 5% of Total Revenues.

(d) Nonrecourse Indebtedness without limitation, provided that an Officer's Certificate is delivered to the Master Trustee stating that the proceeds of Nonrecourse Indebtedness in the aggregate shall not be used to acquire or construct inpatient acute care hospital facilities.

(e) Long-Term Indebtedness, if such Long-Term Indebtedness is issued or incurred to refund Long-Term Indebtedness and the Master Trustee receives an Officer's Certificate to the effect that the issuance of such Long-Term Indebtedness would not increase Maximum Annual Debt Service by more than 20%.

(f) Subordinated Indebtedness, without limitation.

(g) any other Indebtedness, provided that an Officer's Certificate is delivered to the Master Trustee stating that the aggregate principal amount of such Indebtedness, together with the aggregate principal amount of Indebtedness incurred pursuant to the provisions of clause (c) above, does not, as of the date of incurrence, exceed 20% of Total Revenues.

(h) reimbursement or other repayment obligations under reimbursement agreements or similar agreements relating to credit facilities and/or liquidity facilities which provide credit support and/or liquidity for Indebtedness or Financial Product Agreements.

Debt Service Coverage Ratio. (a) Each Obligated Group Member agrees to, and each Controlling Member agrees to cause its Designated Affiliates to, manage its business such that the combined or consolidated Income Available for Debt Service of the Credit Group, calculated at the end of each Fiscal Year, commencing with the first full Fiscal Year following the effective date of the Amended and Restated Master Indenture, will not be less than 1.2 times Annual Debt Service.

(b) If for any Fiscal Year the Income Available for Debt Service is not sufficient to satisfy clause (a) of this section, the Credit Group Representative covenants to retain promptly a Consultant to make recommendations to increase Income Available for Debt Service in the following Fiscal Year to the level required or, if in the opinion of the Consultant the attainment of such level is impracticable, to the highest level attainable.

(c) The Credit Group Representative agrees to transmit a copy of the report of the Consultant to the Master Trustee within 20 days of the receipt of such recommendations. Each Obligated Group Member shall, and each Controlling Member agrees to cause its Designated Affiliates to, promptly upon its receipt of such recommendations, subject to applicable requirements or restrictions imposed by law and to a good faith determination by the Governing Body of the Credit Group Representative that such recommendations are in the best interest of the Credit Group, take such action as shall be in substantial conformity with such recommendations.

(d) If the Obligated Group retains and substantially complies with the recommendations of the Consultant, the Obligated Group Members will be deemed to have complied with the covenants set forth in this section for such Fiscal Year, notwithstanding that the ratio of Income Available for Debt Service to the Annual Debt Service shall be less than 1.2:1.0; provided, however, that an Event of Default shall exist if the ratio of Income Available for Debt Service to Annual Debt Service shall be less than 1.0:1.0 for any Fiscal Year. Notwithstanding the foregoing, the Obligated Group Members shall not be

excused from taking any action or performing any duty required under the Master Indenture and no other Event of Default shall be waived by the operation of the provisions of this clause (d).

(e) If a report of a Consultant is delivered to the Master Trustee that states that any Government and Industry Restrictions have been imposed which make it impractical for the Income Available for Debt Service to satisfy the requirement of clause (a) above, then the required amount of Income Available for Debt Service shall be reduced to the maximum coverage permitted by such Government and Industry Restrictions.

(f) Notwithstanding the foregoing, a Credit Group Member may permit the rendering of services or the use of its Property without charge or at reduced charges, at the discretion of the Governing Body of such Credit Group Member, to the extent necessary for maintaining its tax-exempt status or the tax-exempt status of its Property, Plant and Equipment or its eligibility for grants, loans, subsidies or payments from governmental entities, or in compliance with any recommendation for free services that may be made by a Consultant.

Sale, Lease or Other Disposition of Property. Each Obligated Group Member covenants that it will not, and each Controlling Member covenants that it will not permit its Designated Affiliates to, voluntarily sell, lease or otherwise dispose of any part of its Property in any Fiscal Year unless one of the following conditions is satisfied:

(1) Such sale, lease or other disposition is in the ordinary course of business or in compliance with the requirements imposed on any asset upon its acquisition (such as in the case of a split interest trust asset); or

(2) In the case of Obligated Group Members, such sale, lease or other disposition is part of a disposition of all or substantially all of its assets as described under “THE AMENDED AND RESTATED MASTER INDENTURE - Consolidation, Merger, Sale or Conveyance”; or

(3) Such sale, lease or other disposition in any single Fiscal Year is of Property with a net Book Value of 5% or less of the Value of the Property of the Credit Group; or

(4) Such sale, lease or other disposition in any single Fiscal Year is of Property with a net Book Value in excess of 5% of the Value of the Property of the Credit Group, and at the end of such Fiscal Year the Credit Group Representative provides an Officer’s Certificate to the Master Trustee that one of the following conditions applies to such Property:

(A) Such Property is inadequate, obsolete, unsuitable, undesirable or unnecessary for the operation and function of the primary business of the Credit Group Members; or

(B) The disposition is for Fair Market Value and such disposition will not impair the structural soundness or operational utility of the remaining Property and does not materially adversely affect the operations of the Credit Group; or

(C) Such Property is being transferred to a Person who is not an Obligated Group Member if such Person shall become an Obligated Group Member as described under “THE AMENDED AND RESTATED MASTER INDENTURE – Membership in the Obligated Group – Conditions for Membership” coincidental to such transfer; or

(D) Such Property is being transferred to a Governmental Issuer solely to accommodate a sale or lease transaction as described in the definition of “Related Bonds;” or

(E) The Transaction Test would be, taking into consideration the effect of such disposition, satisfied; or

(5) Such disposition is a loan, including without limitation, an employee relocation loan, a physician or researcher recruitment loan or income guaranty or other credit/funding extension, provided that such loans or other credit/funding extensions are in writing and either (i) are in furtherance of the exempt purposes of any of the Credit Group Members, or (ii) the Credit Group Members reasonably expect such loans to be repaid and such loans bear interest at a reasonable rate of interest and on commercially reasonable terms; or

(6) Such disposition is a transfer of Restricted Moneys to an Affiliate which has the purpose to receive and disburse such Restricted Moneys; or

(7) Such sale, lease, disposition or other transfer is to a Credit Group Member.

Consolidation, Merger, Sale or Conveyance. Each Obligated Group Member covenants that it will not merge or consolidate with any other Person that is not an Obligated Group Member or sell or convey all or substantially all of its assets to any Person that is not an Obligated Group Member (a “Merger Transaction”) unless:

(a) After giving effect to the Merger Transaction,

(1) the purchaser, successor or surviving entity (hereinafter, the “Surviving Entity”) is an Obligated Group Member, or

(2) the Surviving Entity shall

(A) be a corporation or other entity organized and existing under the laws of the United States of America or any state thereof, and

(B) become an Obligated Group Member as described under “THE AMENDED AND RESTATED MASTER INDENTURE – Membership in the Obligated Group – Conditions for Membership” and, pursuant to the instrument required by the Master Indenture, shall expressly assume in writing the due and punctual payment of all Required Payments of the selling or merged Obligated Group Member under the Master Indenture;

(b) The Master Trustee receives an Officer’s Certificate to the effect that the Transaction Test is satisfied in connection with the Merger Transaction;

(c) So long as any Related Bonds that are tax-exempt obligations are Outstanding, the Master Trustee receives an Opinion of Bond Counsel to the effect that, under the existing law, the consummation of the Merger Transaction, in and of itself, would not result in the inclusion of interest on such Related Bonds in gross income for purposes of federal income taxation;

(d) The Master Trustee receives an Opinion of Counsel to the effect that (i) all conditions in this section relating to the Merger Transaction have been complied with (which with respect to satisfying the Transaction Test may be based on an Officer’s Certificate) and the Master Trustee is authorized to join in the execution of any instrument required to be executed and delivered; (ii) the Surviving Entity meets the conditions set forth in this section; (iii) the Merger Transaction will not adversely affect the validity of any Obligations then Outstanding and such Obligations then Outstanding are enforceable against the Surviving Entity in accordance with their respective terms; and (iv) the Merger Transaction

will not cause the Master Indenture or any Obligations then Outstanding to be subject to registration under the Securities Act of 1933, as amended, or the Trust Indenture Act of 1939, as amended (or, that any such registration, if required, has occurred); and

(e) The Surviving Entity shall be substituted for its predecessor in interest in all Obligations and agreements then in effect which affect or relate to any Obligation, and the Surviving Entity shall execute and deliver to the Master Trustee appropriate documents in order to effect the substitution.

From and after the effective date of such substitution (as set forth in the above-mentioned documents), the Surviving Entity shall be treated as an Obligated Group Member and shall thereafter have the right to participate in transactions under the Master Indenture relating to Obligations to the same extent as the other Obligated Group Members. All Obligations issued under the Master Indenture on behalf of a Surviving Entity shall have the same legal rank and benefit under the Master Indenture as Obligations issued on behalf of any other Obligated Group Member.

Except as may be expressly provided in any Supplemental Indenture or in its contract or agreement with an Obligated Group Member, the ability of any Designated Affiliate to merge into, or consolidate with, one or more corporations, or allow one or more corporations to merge into it, or sell or convey all or substantially all of its Property to any Person is not limited by the provisions of the Master Indenture.

Filing of Financial Statements, Certificate of No Default and Other Information. Each Member of the Obligated Group, respectively, covenants that it will, and shall cause each Credit Group Member to:

(a) Keep or cause to be kept proper books of records and accounts in which full, true and correct entries will be made of all dealings or transactions of or in relation to the business and affairs of each Credit Group Member in accordance with GAAP consistently applied except as may be disclosed in the notes to the audited financial statements hereinafter referred to and deliver to the Credit Group Representative within 120 days after the end of the fiscal year of such Credit Group Member audited financial statements of, or including the operations of, Credit Group Member.

(b) Not later than the end of the fifth (5th) month after the last day of each Fiscal Year, the Credit Group Representative shall provide to the Master Trustee one or more financial statements which, in the aggregate, shall include the Material Credit Group Members (except that for December 31, 2014, information regarding Beaumont Health may be omitted). Such financial statements: (A) may consist of (1) consolidated or combined financial results including one or more Credit Group Members and one or more other Persons required to be consolidated or combined with such Credit Group Member(s) under GAAP or (2) special purpose financial statements including only Credit Group Members; (B) shall be audited by an Accountant as having been prepared in accordance with GAAP (except, in the case of special purpose financial statements, for required consolidations); (C) shall include a consolidated or combined balance sheet, statement of operations, statement of changes in net assets and statement of cash flows; and (D) if more than one financial statement is delivered to the Master Trustee pursuant to this subsection (b), or if a single financial statement is delivered that includes Persons other than Credit Group Members and Immaterial Affiliates, each such financial statement shall contain, as “other financial information,” a combining or consolidating schedule from which financial information solely relating to the Credit Group Members and Immaterial Affiliates may be derived. If a single financial statement containing information solely related to the Credit Group Members (which may, but need not, include any Immaterial Affiliates) is delivered, such financial statement shall constitute the “Credit Group Financial Statements.” The Credit Group Financial Statements: (1) shall include all Material Credit Group Members (except that for December 31, 2014, information regarding Beaumont Health may be omitted); (2) at the option of the Credit Group Representative, may, but need not, include one or more Immaterial

Affiliates; (3) at the option of the Credit Group Representative, may exclude one or more Credit Group Members that are not Material Credit Group Members; and (4) shall exclude all combined or consolidated entities that are neither Credit Group Members nor Immaterial Affiliates.

For the purpose of making this compilation on a Fiscal Year basis, or for purposes of combinations or consolidation of accounting information, with respect to those Credit Group Members whose Fiscal Year is different from the Credit Group Representative's Fiscal Year, the Fiscal Year of such Credit Group Members which ended within the relevant Fiscal Year of the Credit Group Representative shall be used.

Notwithstanding the foregoing, the results of operation and financial position of Immaterial Affiliates need not be excluded from financial statements delivered to the Master Trustee pursuant to this Section 511, and such results of operation and financial position may be considered as if they were a portion of the results of operation and financial position of the Credit Group Members for all purposes of this Indenture notwithstanding the inclusion of the results of operation and financial position of such Immaterial Affiliates. The Master Trustee shall have no duty to review, verify or analyze such financial statements and shall hold such financial statements solely as a repository for the benefit of the Holders. The Master Trustee shall not be deemed to have notice of any information contained in such financial statements or event of default which may be disclosed therein in any manner.

(c) As soon as practicable but in no event later than five months after the end of each Fiscal Year, file with the Master Trustee and deliver to each Obligation Holder who may have so requested or in whose behalf the Master Trustee may have so requested an Officer's Certificate and a report of an Accountant stating the Debt Service Coverage Ratio for such Fiscal Year and stating whether or not to the best knowledge of the person signing the Officer's Certificate there exists any default in the performance of any covenant contained in this Indenture and, if so, specifying each such default of which the person signing the Officer's Certificate may have knowledge. If an Event of Default shall have occurred and be continuing, the Credit Group Representative shall (i) file with the Master Trustee such other financial statements and information concerning its operations and financial affairs of the Credit Group as the Master Trustee may from time to time reasonably request, excluding specifically donor records, patient identifying medical records and personnel records to the extent confidential or not containing relevant financial or operational information and (ii) provide access to the facilities of the Credit Group for the purpose of inspection by the during regular business hours or at such other times as the Master Trustee may reasonably request.

(d) Within 10 days after its receipt thereof, file with the Master Trustee a copy of each report which any provision of this Indenture requires to be prepared by a Consultant.

### **Insurance and Condemnation Proceeds**

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

Subject to the preceding paragraph, amounts receivable by any Credit Group Member as insurance proceeds with respect to any casualty loss or as condemnation awards and which do not exceed for the then current Fiscal Year 10% of the aggregate Book Value of the Property of the Credit Group shall be paid to such Credit Group Member and may be used for any lawful purpose. If amounts received exceed 10% of the aggregate Book Value of the Property of the Credit Group in any Fiscal Year, the

aggregate of such amounts shall be paid to the Master Trustee and, as specified in an Officer's Certificate, be applied to either (1) the repair or replacement of the Property with respect to which such proceeds were received, or (2) to the purchase, redemption, prepayment or partial prepayment of the principal of Obligations, and ratably among such Obligations which may be prepaid without premium, on the next succeeding date when Obligations may be purchased, redeemed, or prepaid, as the case may be, in each case without premium, exclusive of those Obligations which are either to mature on such date or are to be redeemed on such redemption date by reason of any mandatory redemption requirement established for the Obligations. Pending such application the Master Trustee shall retain such proceeds and shall invest and reinvest such proceeds at the request of and upon instructions from the Credit Group Representative.

## **Defaults and Remedies**

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

(1) Any payment of the principal of, premium, if any, and interest on any Obligation issued and Outstanding under the Master Indenture is not made when and as the same shall become due and payable, whether at maturity, by proceedings for redemption, by acceleration or otherwise, in accordance with the terms thereof, of the Master Indenture or the Related Supplement;

(2) Any Member of the Obligated Group shall fail to observe or perform any covenant or agreement on its part under the Master Indenture for a period of 30 days (or such longer period as permitted in writing by the Master Trustee) after the date on which written notice of such failure requiring the same to be remedied shall have been given to the Credit Group Representative by the Master Trustee, or the Credit Group Representative and the Master Trustee by the Holders of at least 25% in aggregate principal amount of Obligations then Outstanding; provided, however, that if the failure shall be such that it cannot be corrected within such period, it shall not constitute an Event of Default if such failure is not a breach of a financial covenant calculated using historical information, if such failure can be corrected and if corrective action is instituted within such period and diligently pursued until the failure is corrected (as to which efforts the Master Trustee shall be advised from time to time) or until 30 days after such default could have been corrected;

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

(4) The commencement of proceedings seeking an order for relief in a court in respect of any Member of the Obligated Group in an involuntary case under the federal bankruptcy laws, as now or constituted after the date of the Master Indenture, or under any applicable federal or state

bankruptcy, insolvency or similar law, or the commencement of proceedings seeking the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of any Member of the Obligated Group or for any substantial part of its property, or the commencement of proceedings seeking an order winding up or liquidating the affairs of any Member of the Obligated Group and the continuance of any such proceedings for a period of 90 consecutive days;

(5) The commencement by any Member of the Obligated Group of a voluntary case under the federal bankruptcy laws, as now constituted or amended subsequent to the date of the Master Indenture, or any other applicable federal or state bankruptcy, insolvency or other similar law, or the consent by it to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or other similar official) of any Member of the Obligated Group or for any substantial part of its property, or the making by it of any assignment for the benefit of creditors, or the failure of any Member of the Obligated Group generally to pay its debts as such debts become due, or the taking of formal action by the Member in furtherance of any of the foregoing; and

(6) An event of default added pursuant to any Supplemental Indenture;

(7) Any Subordinated Indebtedness which is secured by a Lien on Property of any Member of the Obligated Group shall be accelerated or declared to be immediately due and payable;

provided, however, that an event described in clauses (4) and (5) above shall not be an Event of Default if excluding from the Members of the Obligated Group as to which the event described in clause (4) and/or clause (5) has occurred there is compliance with the provisions of the Master Indenture and an Officer's Certificate of the Credit Group Representative as to such compliance is delivered to the Master Trustee within 60 days of receipt of notice of the existence of such an event; and

(b) The provisions of the foregoing clause (2) are subject to the following limitation: If by reason of force majeure any Credit Group Member is unable in whole or in part to carry out its agreements on its part contained in the Master Indenture, such Credit Group Member shall not be deemed in default during the continuance of such disability. The term "force majeure" includes the following: acts of God; strikes, lockouts or other employee disturbances; acts of public enemies; validly issued orders of any kind of the government of the United States of America, the state or states in which such Credit Group Member is doing business, or any of their departments, agencies, political subdivisions or officials, or any civil or military authority, imposed due to factors not within the control of such Credit Group Member and having a material effect on its ability to carry out its agreements under the Master Indenture; insurrections; riots; epidemics; landslides; lightning; earthquakes; fires; hurricanes; storms; floods; washouts; droughts; civil disturbances; explosions, breakage or accident to machinery, transmission pipes or canals; partial or entire failure of utilities; or similar acts or events, other than financial inability, not within the control of such Member of the Obligated Group.

Acceleration and Annulment of Acceleration. Upon the occurrence and during the continuation of an Event of Default under the Master Indenture, the Master Trustee may and, upon the written request of the Holders of not less than 25% in aggregate principal amount of Obligations Outstanding (other than Obligations which represent Non-Recourse Indebtedness), shall, by notice to the Credit Group Representative, declare the principal amount of all Obligations Outstanding immediately due and payable, whereupon such principal amount shall become and be immediately due and payable, anything in the Obligations or in the Master Indenture to the contrary notwithstanding; provided however, if an Event of Default shall occur under clause (1) of the preceding section, there shall be no acceleration under provisions of the Master Indenture if the Event of Default is cured within ten (10) days of occurrence of the Event of Default.

At any time after the principal of the Outstanding Obligations shall have been so declared to be due and payable and before the entry of final judgment or decree on any suit, action or proceeding instituted on account of such default, if (1) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee moneys sufficient to pay all installments of interest, and interest on installments of interest and principal to the extent permitted by law at the rate prescribed in the Obligations and principal or redemption prices then due (other than the principal then due only because of such declaration) of all Obligations Outstanding; (2) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee moneys sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Master Trustee and any paying agents; (3) all other amounts then payable by the Obligated Group under the Master Indenture shall have been paid or a sum sufficient to pay the same shall have been deposited with the Master Trustee; and (4) every Event of Default (other than a default in payment of the principal of such Obligations then due only because of such declaration) shall have been remedied, then the Master Trustee may annul such declaration and its consequences with respect to any Obligations or portions thereof not then due by their terms. No such annulment shall extend to or affect any subsequent Event of Default or impair any right consequent thereon.

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

(1) Enforcement of the right of the Obligation Holders to collect and enforce the payment of amounts due or becoming due under the Obligations;

(2) Suit upon all or any part of the Obligations;

(3) Civil action to require any Person holding moneys, documents or other property pledged to secure payment of amounts due or to become due on the Obligations to account as if it were the trustee of an express trust for the Obligation Holders;

(4) Civil action to enjoin any acts or things, which may be unlawful or in violation of the rights of the Obligation Holders or to enforce specifically any covenant, obligation or agreement contained in the Master Indenture; and

(5) Enforcement of the provisions of the Master Indenture or any other right of the Obligation Holders conferred by law or under the Master Indenture including (to the extent the Master Indenture may lawfully provide) court costs, reasonable attorneys' fees and other costs and expenses incurred in enforcing the provisions of the Master Indenture and the rights of the Obligation Holders.

(b) Regardless of the happening of an Event of Default, the Master Trustee, if requested in writing by the Holders of not less than 25% in aggregate principal amount of Obligations then Outstanding, shall, upon being indemnified to its satisfaction therefor, institute and maintain such suits and proceedings as it may deem necessary or expedient (1) to prevent any impairment of the security under the Master Indenture or any acts which may be unlawful or in violation of the Master Indenture, or (2) to preserve or protect the interests of the Holders, provided that such request and the action to be taken by the Master Trustee are not in conflict with any applicable law or the provisions of the Master Indenture.

(c) If an Event of Default shall occur for the failure to pay principal of, premium, if any, and interest on any Obligation issued and Outstanding under the Master Indenture when and as the same shall become due and payable, no action may be taken under the Master Indenture if the Event of Default has been cured with ten (10) days of the occurrence of the Event of Default.

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

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

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

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

(2) If the principal of all Outstanding Obligations shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon Obligations without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Obligations over any other Obligations, ratably, according to the amounts due respectively for principal and interest, to the Persons entitled thereto without any discrimination or preference.

(3) If the principal of all Outstanding Obligations shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provisions of the Master Indenture, then, subject to the provisions of the foregoing clause (1) in the event that the principal of all Outstanding Obligations shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions of the foregoing clause (2).

(b) Whenever moneys are to be applied by the Master Trustee pursuant to the provisions of the foregoing clauses (1), (2) and/or (3), such moneys shall be applied by it at such times, and from time to time, as the Master Trustee shall determine, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Master Trustee shall apply such moneys, it shall fix the date upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such dates shall cease to accrue. The Master Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and shall not be required to make payment to the Holder of an Obligation unless such Obligation and unmatured coupons, if any, appertaining to such Obligation shall be presented to the Master Trustee for appropriate endorsement of any partial payment or for cancellation if fully paid.

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

## **Supplements and Amendments**

Supplements Not Requiring Consent of Obligation Holders. The Credit Group Representative, on behalf of each Member of the Obligated Group, when authorized by resolution or other action of equal formality by its Governing Body, and the Master Trustee may, without the consent of or notice to any of the Holders, enter into one or more Supplements for one or more of the following purposes:

- (a) To cure any ambiguity or formal defect or omission in the Master Indenture.
- (b) To correct or supplement any provision in the Master Indenture which may be inconsistent with any other provision in the Master Indenture, or to make any other provisions with respect to matters or questions arising under the Master Indenture and which shall not materially and adversely affect the interests of the Holders.
- (c) To grant or confer ratably upon all of the Holders any additional rights, remedies, powers or authority that may lawfully be granted or conferred upon them subject to the provisions of clause (a) of the next section.
- (d) To qualify the Master Indenture under the Trust Indenture Act of 1939, as amended, or corresponding provisions of Federal laws from time to time in effect.
- (e) To create and provide for the issuance of Obligations as permitted under the Master Indenture.
- (f) To obligate a successor of a Member of the Obligated Group, or any other Member of the Obligated Group, as provided in the Master Indenture.
- (g) To modify or delete any provision in the Master Indenture which a Consultant shall report, in writing, will cause the provisions of the Master Indenture to be consistent with documents then being used for the same or similar purposes of the Master Indenture by issuers of obligations having credit ratings similar to those of the Obligated Group.
- (h) To set forth the terms and conditions relating to the granting of a Lien in favor of the Master Trustee securing all Obligations on a parity basis.

Supplements Requiring Consent of Obligation Holders. (a) Other than Supplements pursuant to the preceding section and subject to the terms and provisions and limitations contained in the Master Indenture and not otherwise, the Holders of not less than a majority of aggregate principal amount of Obligations then Outstanding shall have the right, from time to time, anything contained in the Master Indenture to the contrary notwithstanding, to consent to and approve the execution by the Credit Group Representative, when authorized by resolution or other action of equal formality by its Governing Body, and the Master Trustee of such Supplements as shall be deemed necessary and desirable for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Master Indenture. No supplement shall permit or be construed as permitting a Supplement which would:

(1) Extend the stated maturity of or time for paying interest on any Obligation or reduce the principal amount of or the redemption premium or rate of interest payable on or currency of payment of any Obligation without the consent of the Holder of such Obligation;

(2) Modify, alter, amend, add to or rescind any of the terms or provisions of the Master Indenture in any manner which would materially and adversely affect the interests of the Obligation Holders or any of them without the consent of the Holders of all Obligations then Outstanding; or

(3) Reduce the aggregate principal amount of Obligations then Outstanding the consent of the Holders of which is required to authorize such Supplement without the consent of the Holders of all Obligations then Outstanding.

(b) If at any time the Credit Group Representative shall request the Master Trustee to enter into a Supplement pursuant to this section, which request is accompanied by a copy of the resolution or other action of its Governing Body certified by its secretary or if it has no secretary, its comparable officer, and the proposed Supplement and if within such period, not exceeding three years, as shall be prescribed in such request, following the request, the Master Trustee shall receive an instrument or instruments purporting to be executed by the Holders of not less than the aggregate principal amount or numbers of Holders of Obligations specified in clause (a) for the Supplement in question which instrument or instruments shall refer to the proposed Supplement and shall specifically consent to and approve the execution thereof in substantially the form of the copy thereof as on file with the Master Trustee, thereupon, but not otherwise, the Master Trustee may execute such Supplement in substantially such form, without liability or responsibility to any Obligation Holder, whether or not such Holder shall have consented thereto.

(c) Any such consent shall be binding upon the Obligation Holder giving such consent and upon any subsequent Holder of such Obligation and of any Obligation issued in exchange therefor (whether or not such subsequent Holder has notice thereof), unless such consent is revoked in writing by the Holder of such Obligation by giving such revocation to the Master Trustee (prior to the filing of the statement described below with the Credit Group Representative) in the manner permitted by the Master Indenture with respect to evidence of acts of Obligation Holders. At any time after the Holders of the required principal amount or number of Holders of Obligations shall have filed their consents to the Supplement, the Master Trustee shall make and file with the Credit Group Representative a written statement to that effect. Such written statement shall be conclusive that such consents have been so filed.

(d) If the Holders of the required principal amount or number of the Obligations Outstanding shall have consented to and approved the execution of such Supplement as provided in the Master Indenture, no Holder of any Obligation shall have any right to object to the execution thereof, or to object to any of the terms and provisions contained in such Supplement or the operation of such Supplement, or in any manner to question the propriety of the execution of such Supplement, or to enjoin or restrain the Master Trustee or any Member of the Obligated Group from executing the same or from taking any action pursuant to the provisions of such Supplement.

### **Miscellaneous Provisions**

Satisfaction and Discharge of Master Indenture. If (a) all Members of the Obligated Group shall deliver to the Master Trustee for cancellation all Obligations theretofore authenticated (other than any Obligations which shall have been mutilated, destroyed, lost or stolen and which shall have been replaced or paid as provided in the Related Supplement) and not theretofore cancelled, or (b) all Obligations not theretofore cancelled or delivered to the Master Trustee for cancellation shall have become due and

payable and shall have been paid, or (c) the Members of the Obligated Group or any thereof shall deposit or cause to be deposited with the Master Trustee (or with a bank or trust company acceptable to the Master Trustee pursuant to an agreement on behalf of the Obligated Group with such bank or trust company in form acceptable to the Master Trustee) as trust funds the entire amount of moneys or Governmental Obligations, or both, the principal and interest on the Governmental Obligations together with such moneys will be sufficient to pay at maturity or upon redemption all Obligations not theretofore cancelled or delivered to the Master Trustee for cancellation, including principal, premium, if any, and interest due or to become due to such date of maturity or redemption as the case may be, and if the Members of the Obligated Group or any Member thereof shall also pay or cause to be paid all other sums payable under the Master Indenture by the Members of the Obligated Group or any Member thereof, including the Master Trustee's fees and expenses, and any Member of the Obligated Group gives written notice to the Master Trustee that the Master Indenture is to be terminated, then the Master Indenture shall cease to be of further effect and the Master Trustee, on demand of the Members of the Obligated Group, and at the cost and expense of the Members of the Obligated Group or any Member thereof, shall execute proper instruments acknowledging satisfaction of and discharging the Master Indenture. Each Member of the Obligated Group, respectively, agrees to reimburse the Master Trustee for any costs or expenses theretofore and thereafter reasonably and properly incurred by the Master Trustee in connection with the Master Indenture or such Obligations.

### **Concerning the Obligation Holders**

#### Evidence of Acts of Obligation Holders.

(a) As to any request, direction, consent or other instrument provided pursuant to the Master Indenture to be signed and executed by the Obligation Holders such action may be in any number of concurrent writings of similar tenor and may be signed or executed by such Obligation Holders in person or by officer or agent appointed in writing.

(b) Proof of the execution of any such request, direction or other instrument or of the writing appointing any such officer or agent and of the ownership of Obligations, if made in the following manner, shall be sufficient for any of the purposes of the Master Indenture and shall be conclusive in favor of the Master Trustee and the Members of the Obligated Group, with regard to any action taken by them, or either of them, under such request or other instrument:

(1) The fact and date of the execution by any person of any such writing may be proved by the certificate of any officer in any jurisdiction who by law has power to take acknowledgments in such jurisdiction, that the person signing such writing acknowledged before him the execution thereof, or by the affidavit of a witness of such execution;

(2) The fact of the holding by any Holder of bearer Obligations and coupons or the holding by any Person of bearer Related Bonds and coupons, not registered as to principal or interest or registered to bearer, and the amounts of such Obligations or Related Bonds and the date of its holding the same, may be proved by production of such Obligations or Related Bonds or by a certificate or signature guaranty executed by any trust company, bank, investment bankers, brokers or other depository (wherever situated), if such certificate or signature guaranty shall be deemed by the Master Trustee to be satisfactory, showing that at the date therein mentioned such Person owned or had on deposit with such trust company, investment bankers, brokers, or other depository the Obligations or Related Bonds and coupons described in such certificate; and

(3) The ownership of Obligations registered in the name of a Holder as to principal or as to principal and interest may be proved by the register of such Obligations.

(c) Nothing in this section shall be construed as limiting the Master Trustee to the proof specified in the Master Indenture, it being intended that the Master Trustee may accept, but shall not be obligated to accept, any other evidence of the matters stated in the Master Indenture which it may deem sufficient.

(d) Any action taken or suffered by the Master Trustee pursuant to any provision of the Master Indenture, upon the request or with the assent of any Person who at the time is the Holder of any Obligation or Obligations, shall be conclusive and binding upon all future Holders of the same Obligation or Obligations.

Obligations or Related Bonds Owned by Members of Obligated Group. In determining whether the Holders of the requisite aggregate principal amount of Obligations have concurred in any demand, direction, request, notice, consent, waiver of other action under the Master Indenture, Obligations or Related Bonds that are owned by any Member of the Obligated Group or by any Affiliate shall be disregarded and deemed not to be Outstanding or outstanding under the Related Bond Indenture, as the case may be, for the purpose of any such determination; provided, however, that for the purposes of determining whether the Master Trustee shall be protected in relying on any such direction, consent or waiver, only such Obligations or Related Bonds of which a Responsible Officer of the Master Trustee in its Corporate Trust Department has actual notice or knowledge are so owned shall be so disregarded. Obligations or Related Bonds so owned that have been pledged in good faith may be regarded as Outstanding or outstanding under the Related Bond Indenture, as the case may be, for purposes of this paragraph, if the pledgee shall establish to the satisfaction of the Master Trustee the pledgee's right to vote such Obligations or Related Bonds and that the pledgee is not an Affiliate. In case of a dispute as to such right, any decision by the Master Trustee taken upon the advice of counsel shall be full protection to the Master Trustee.

Instruments Executed by Holders Bind Future Holders. At any time prior to, but not after, the time at which the Master Trustee takes action in reliance upon evidence, as provided in the Master Indenture, of the taking of any action by the Holders of the percentage in aggregate principal amount of Obligations specified in the Master Indenture in connection with such action, any Holder of such an Obligation that is shown by such evidence to be included in Obligations the Holders of which have consented to such action may, by filing written notice with the Master Trustee and upon proof of holding as provided in the Master Indenture, prior to action taken in reliance thereon and except as otherwise provided in the Master Indenture, revoke such action so far as concerns such Obligation. Except upon such revocation, any such action taken by the Holder of an Obligation which by any provision of the Master Indenture is required or permitted to be given shall be conclusive and binding upon such Holder and upon all future Holders and owners of such Obligation, and of any Obligation issued in lieu thereof, whether or not any notation in regard thereto is made upon such Obligation. Any action taken by the Holders of the percentage in aggregate principal amount of Obligations specified in the Master Indenture in connection with such action shall be conclusively binding upon each Member of the Obligated Group, the Master Trustee and the Holders of all of such Obligations.

## **THE SUPPLEMENTAL INDENTURE**

The Note is created by the Supplemental Indenture and will be delivered by the Obligated Group to the Authority to evidence the loan by the Authority to the Corporation, pursuant to the Loan Agreement, of the proceeds of the Bonds. The Note provides, in part, that the Obligated Group promises

to pay to the Bond Trustee on behalf of the Authority the following amounts (less any credits to which the Corporation may be entitled under the Loan Agreement):

- (a) Commencing on May 1, 2016, and on or before each Interest Payment Date thereafter, the interest which is due and payable on the Bonds on the next succeeding Interest Payment Date.
- (b) Commencing on November 1, 2039, and on or before each applicable November 1 thereafter, the principal which is due and payable on the Bonds on the next succeeding principal payment date by reason of the maturity or required redemption of the Bonds.
- (c) Fee Payments at the times and in the amounts provided in the Loan Agreement.
- (d) Any amount which may from time to time be required to enable the Bond Trustee to pay redemption premiums as and when the Bonds are called for redemption.
- (e) Any amount necessary to make up any deficit in the Loan Repayments required in the previous period.
- (f) Rebate Payments at the times and in the amounts provided in the Loan Agreement.

The principal of, premium, if any, and interest on the Note shall be payable by depositing the same with the Bond Trustee at or prior to the opening of business on the date the same shall become due and payable.

#### **Redemption or Prepayment of the Note**

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

In addition, and notwithstanding any provision of the Master Indenture to the contrary, if all Outstanding Bonds are to be redeemed prior to maturity in accordance with the provisions of the Bond Indenture, the Note shall be subject to prepayment or redemption, in whole, upon payment of a sum, in cash or Government Obligations, or both, sufficient together with any other cash and Government Obligations held by the Bond Trustee under the Bond Indenture and available for such purpose, to cause all Outstanding Bonds to be deemed bonds which are not Outstanding within the meaning of the Bond Indenture and to pay all Fee Payments, Rebate Payments and other amounts required to be paid pursuant thereto. Any amounts so paid shall be paid to and deposited with the Bond Trustee under the Bond Indenture for deposit to funds established by the Bond Indenture in the manner and for use as provided therein. On and after the date fixed for prepayment or redemption in whole (unless the Obligated Group

shall default in the payment of the Note at the redemption price together with accrued interest thereon to the date fixed for redemption) interest on the Note shall cease to accrue.

Unless waived in writing by the registered Holder of the Note and the Master Trustee prior to making any advance payment on or redemption of the Note pursuant to the Supplemental Indenture, the Credit Group Representative shall give the registered Holder of the Note, the Bond Trustee and the Master Trustee notice (in the manner provided for in the Master Indenture) of the advance payment or redemption as follows:

(a) Notice of advance payment or redemption shall be given to the registered Holder of the Note, the Bond Trustee and the Master Trustee not less than sixty (60) days prior to the date fixed for such advance payment or for such redemption.

(b) Each notice of an advance payment shall specify the date fixed for the advance payment and the amount thereof, and shall state that such advance payment is being made in the manner provided for in the Supplemental Indenture.

(c) Each notice of redemption shall specify the date fixed for redemption and the redemption price at which the Note is to be redeemed and shall state that the payment of the redemption price of the Note will be made in the manner provided in the Supplemental Indenture upon presentation and surrender of the Note, that interest accrued and fixed as of the date fixed for redemption will be paid as specified in said notice and that on and after said date interest thereon will cease to accrue.

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

Each of the Events of Default specified in the Master Indenture, and, in addition thereto, each of the following events shall constitute an Event of Default under the Supplemental Indenture and the Master Indenture: (a) An Event of Default as defined under the Loan Agreement, (b) The Bond Trustee under the Bond Indenture declaring all Bonds due and payable in accordance with the Bond Indenture, (c) The Obligated Group or any Member thereof failing to make any payment to be made by it or them under the Supplemental Indenture as and when the same shall become due and payable, and (d) The Obligated Group or any Member thereof failing to perform, observe or comply with any of the nonmonetary terms, covenants, conditions or provisions contained in the Supplemental Indenture for a period of sixty (60) days after the date upon which written notice of such failure requiring the same to be remedied shall have been given to the Credit Group Representative by the Master Trustee, Bond Trustee or the Authority; provided, however, that if such failure shall be such that it cannot be corrected within such period, it shall not constitute an Event of Default under the Supplemental Indenture if corrective action is instituted within such period and diligently pursued until the failure is corrected or until sixty (60) days after such default could have been corrected.

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

The Authority or the Bond Trustee shall be entitled to institute a suit, action or proceeding in equity or at law upon or under or with respect to the Master Indenture seeking any remedy provided under the Master Indenture after giving the notice specified above if the Master Trustee shall have neglected or

refused to institute any such action, suit or proceeding after receipt from the Authority or the Bond Trustee of the written request (but not the offer of indemnity) otherwise required of holders of not less than a majority in aggregate principal amount of Obligations then Outstanding.

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

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## APPENDIX E

### FORM OF APPROVING OPINION OF BOND COUNSEL

February 4, 2016

Michigan Finance Authority  
Lansing, Michigan

RE: Michigan Finance Authority Hospital Revenue Bonds (Beaumont Health  
Credit Group) Series 2016A

As bond counsel to the Michigan Finance Authority (the “Authority”), we submit this opinion with respect to the issuance by the Authority of its Michigan Finance Authority Hospital Revenue Bonds (Beaumont Health Credit Group) Series 2016A bearing an original issuance date of even date herewith, in the aggregate principal sum of \$300,000,000 (the “Bonds”).

We have examined a transcript of proceedings with respect to the Bonds, including a certified copy of Authorizing Resolution No. 2015-31 adopted by the Authority on December 15, 2015 (the “Authorizing Resolution”), the Bond Indenture, dated as of February 1, 2016 (the “Bond Indenture”), between the Authority and The Bank of New York Mellon Trust Company, N.A., as bond trustee, and the Non-Arbitrage Certificate and the Obligated Group Non-Arbitrage and Tax Compliance Certificate dated this date. We have also reviewed such other information, records, and documents as, in our judgment, are necessary or advisable to deliver the opinions expressed herein, and we have examined an executed Bond or a specimen thereof.

The Bonds are issued under and pursuant to Act No. 38, Michigan Public Acts of 1969, as amended (the “Act”), and Executive Order No. 2010-02, by the Authority for the purpose of providing funds to loan to Beaumont Health, for the benefit of Oakwood Healthcare, Inc., Oakwood United Hospitals, Inc., William Beaumont Hospital and Botsford General Hospital (collectively, the “Corporations”), to be used, together with other available funds, to pay the Costs of the Project and to pay the costs of issuing the Bonds.

The Bonds are issuable as fully registered bonds only in the denominations of \$5,000 or any integral multiple of \$5,000.

The Bonds bear interest from May 1, 2016, payable on each May 1 and November 1, commencing May 1, 2016.

The Bonds are subject to redemption prior to maturity on the conditions, at the times, in the manner and at the redemption prices specified in the Bond Indenture.

We note that various issues concerning the due authorization, execution and delivery by the Obligated Group of the Loan Agreement and the other documents to which the Obligated Group is a party, and as to the validity and enforceability of them against the Obligated Group,

are addressed in the opinion of Dickinson Wright PLLC, counsel to the Obligated Group, dated the date hereof, and we express no opinion with respect to such issues. In rendering this opinion we have, with your approval, relied upon the opinions dated the date hereof of Dickinson Wright PLLC, counsel to the Obligated Group, as to the status of Beaumont Health and the Corporations as organizations described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code").

As to questions of fact material to our opinion, we have relied upon representations of the Authority and the Obligated Group contained in the Bond Indenture and the Loan Agreement, and the certified proceedings and other certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

Capitalized terms used herein and not otherwise defined shall have the meaning assigned in the Bond Indenture.

Based upon our examination, we are of the opinion that under existing law:

1. The Authority, pursuant to the Act, is a public body corporate and politic of the State of Michigan, is legally organized and validly existing under the Constitution and laws of the State of Michigan, including particularly the Act, and is legally authorized and empowered to adopt the Authorizing Resolution and to enter into the Bond Indenture and to issue and deliver the Bonds.

2. The Authorizing Resolution has been duly adopted by the Authority and is a valid and binding action of the Authority.

3. The Bonds have been duly authorized to be issued and delivered by the Authority, all conditions precedent to the delivery thereof have been fulfilled and, when duly authenticated, the Bonds will constitute valid and binding obligations of the Authority enforceable in accordance with their terms. The Bonds do not constitute obligations or create any debt of the State of Michigan, nor do they constitute a general obligation of the Authority, but the principal thereof and the interest and redemption premium, if any, thereon are payable solely from the sources provided therefor in the Bond Indenture.

4. The interest on the Bonds (a) is excluded from gross income for federal income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. It should be noted, however, that for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on such corporations. The opinion set forth in clause (a) above is subject to the condition that the Authority and the Obligated Group comply with all requirements of the Code, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be (or continue to be) excluded from gross income for federal income tax purposes. Failure to comply with such requirements could cause the interest on the Bonds to be included in gross income retroactive to the date of issuance of the Bonds. The Obligated Group has covenanted for itself and on behalf

of the Authority to comply with all such requirements. We express no opinion regarding other federal tax consequences arising with respect to the Bonds and the interest thereon.

5. The Bonds and the interest thereon are exempt from all state, city, county or other taxation provided by the laws of the State of Michigan except for estate, inheritance and gift taxes and taxes on transfers.

Except as stated in paragraphs 4 and 5 above, we express no opinion regarding any other federal or state tax consequences arising with respect to the Bonds and the interest thereon.

The foregoing opinions are qualified to the extent that the enforceability of the rights and remedies set forth in the Bond Indenture, the Loan Agreement and the Bonds may be limited by bankruptcy, insolvency, fraudulent conveyance or other laws affecting creditors' rights generally, now existing or hereafter enacted, and by the application of general principles of equity, including those relating to equitable subordination, and their enforcement may be subject to the exercise of judicial discretion in appropriate cases.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

Very truly yours,

MILLER, CANFIELD, PADDOCK AND STONE, P.L.C.

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FORM OF CONTINUING DISCLOSURE UNDERTAKING

of

BEAUMONT HEALTH

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Relating to:

MICHIGAN FINANCE AUTHORITY  
HOSPITAL REVENUE BONDS  
(BEAUMONT HEALTH CREDIT GROUP)  
SERIES 2016A

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*Dated as of February 1, 2016*

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This CONTINUING DISCLOSURE UNDERTAKING (this “Undertaking”), related to the Michigan Finance Authority Hospital Revenue Bonds (Beaumont Health Credit Group) Series 2016A (the “Bonds”), is made as of February 1, 2016 by Beaumont Health, a Michigan nonprofit corporation (“Beaumont”), as Obligated Group Agent on behalf of itself and the other Members of the Obligated Group, as defined in the Amended and Restated Master Indenture described below.

Beaumont is the sole member of each of William Beaumont Hospital (“WBH”), Oakwood Healthcare, Inc. (“Oakwood”) and Botsford General Hospital (“Botsford”), each a Michigan nonprofit corporation. WBH, Oakwood and Botsford, are each also referred to as a “System Organization” and, collectively, as the “System Organizations.” The combined operations of the System Organizations, and their subsidiaries and affiliates, under the new system, are referred to as “Beaumont Health” or the “System.”

Section 1.      Definitions; Scope of this Undertaking

(A) All terms capitalized but not otherwise defined herein shall have the meanings assigned to those terms in the Amendment and Restatement of the Master Indenture, dated as of January 1, 2015 (the “Amended and Restated Master Indenture”), between Beaumont, for itself and on behalf of the other Members of the Obligated Group, and The Bank of New York Mellon Trust Company, N.A., as master trustee (the “Master Trustee”). The following additional capitalized terms shall have the following meanings:

“Annual Financial Information” shall mean a copy of one or more annual financial statements which, in the aggregate, shall include all Material Credit Group Members. Such financial statements: (A) may consist of (1) consolidated or combined financial results including one or more Credit Group Members and one or more other Persons required to be consolidated or combined with such Credit Group Member(s) under GAAP or (2) special purpose financial statements including only Credit Group Members; (B) shall be audited by an Accountant as having been prepared in accordance with GAAP (except, in the case of special purpose financial statements, for required consolidations); (C) shall include a consolidated or combined balance sheet, statement of operations, statement of changes in net assets and statement of cash flows; and (D) if more than one financial statement is delivered pursuant to this subsection (b), or if a single financial statement is delivered that includes Persons other than Credit Group Members and Immaterial Affiliates, each such financial statement shall contain, as “other financial information,” a combining or consolidating schedule from which financial information solely relating to the Credit Group Members and Immaterial Affiliates may be derived. If a single financial statement containing information solely related to the Credit Group Members (which may, but need not, include any Immaterial Affiliates) is delivered, such financial statement shall constitute the “Credit Group Financial Statements.” The Credit Group Financial Statements: (1) shall include all Material Credit Group Members; (2) at the option of the Credit Group Representative, may, but need not, include one or more Immaterial Affiliates; (3) at the option of the Credit Group Representative, may exclude one or more Credit Group Members that are not Material Credit Group

Members; and (4) shall exclude all combined or consolidated entities that are neither Credit Group Members nor Immaterial Affiliates. Beaumont may change the accounting principles used for preparation of such financial information so long as Beaumont includes as information provided to the public a statement to the effect that different accounting principles are being used, stating the reason for such change and how to compare the financial information provided by the differing financial accounting principles.

“Beneficial Owner” shall mean any person which has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“Business Day” shall mean a day other than a Saturday, a Sunday, a day on which the New York Stock Exchange is closed or a day on which banks located in the State are authorized or required by law or executive order to be closed.

“GAAP” means accounting principles generally accepted in the United States of America, consistently applied.

“Holders” shall mean any holder of the Bonds and any Beneficial Owner thereof.

“Listed Event” shall mean any of the events listed in items (i) through (xiv) below. The following events with respect to the Bonds shall constitute Listed Events:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices of determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;

(vii) modifications to rights of security holders, if material;

(viii) bond calls, if material, and tender offers (except for mandatory scheduled redemptions not otherwise contingent upon the occurrence of an event);

(ix) defeasances;

(x) release, substitution, or sale of property securing repayment of the securities, if material;

(xi) rating changes;

(xii) bankruptcy, insolvency, receivership or similar event of a Member of the Obligated Group;

(xiii) the consummation of a merger, consolidation, or acquisition involving a Member of the Obligated Group or the sale of all or substantially all of the assets of a Member of the Obligated Group, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

“MSRB” shall mean the Municipal Securities Rulemaking Board.

“Official Statement” shall mean the Official Statement dated January 21, 2015 relating to the Bonds.

“Operating Data” shall mean an update, in consistent format, of the financial and operating information contained in the Official Statement in “APPENDIX A” under the following captions:

1. “HISTORICAL UTILIZATION STATISTICS”
2. “SUMMARY OF FINANCIAL RESULTS”
3. “MANAGEMENT’S DISCUSSION AND ANALYSIS”
4. “BEAUMONT HEALTH OPERATIONAL PERFORMANCE METRICS”
5. “BEAUMONT HEALTH CAPITALIZATION RATIO”
6. “BEAUMONT HEALTH LIQUIDITY RATIO”

7. “BEAUMONT HEALTH PRO FORMA MAXIMUM ANNUAL DEBT SERVICE COVERAGE RATIO”

8. “SOURCES OF NET REVENUE”

“SEC” shall mean the Securities and Exchange Commission.

“State” shall mean State of Michigan.

(B) This Undertaking applies to the Bonds and any additional Bonds issued under the Supplemental Indenture.

Section 2. Disclosure of Information

(A) General Provisions. Beaumont acknowledges that the Master Trustee has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under this Undertaking, and has no liability to any person, including any Holder, with respect to any such reports, notices or disclosures.

(B) Information Provided. Except to the extent this Undertaking is modified or otherwise altered in accordance with Section 3 hereof, Beaumont shall make or cause to be made public the information set forth in subsections (1), (2), (3) and (4) below:

(1) *Annual Financial Information and Operating Data.* Annual Financial Information and Operating Data at least annually not later than the last day of the fifth month after the end of each fiscal year, commencing with the fiscal year (which is currently December 31) December 31, 2015 and continuing with each fiscal year thereafter, for which the information is provided. Beaumont shall also prepare a narrative management’s discussion and analysis for each fiscal year and shall file the same with the applicable Annual Financial Information and Operating Data. Information may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided under this Undertaking. Additionally, such Annual Financial Information and Operating Data will be provided to any Beneficial Owner that requests such information in writing not later than two Business Days prior to the end of the fiscal year (any such request shall remain in effect until withdrawn).

(2) *Quarterly Statements.* Unaudited year-to-date financial statements, including a balance sheet, cash flow statement and a consolidated statement of operations, quarterly not later than 60 days after the end of each fiscal quarter, commencing with the fiscal quarter ended December 31, 2015. Beaumont shall also prepare a narrative management’s discussion and analysis for each fiscal quarter (except the fourth fiscal quarter, for which the narrative management’s discussion shall be filed with the Annual Financial Information) and shall file the same with the applicable quarterly financial statements. Additionally, such

quarterly financial information will be provided to any Beneficial Owner that requests such information in writing from Beaumont at least two Business Days prior to the end of such fiscal quarter (any such request shall remain in effect until withdrawn).

(3) *Listed Events Notices.* Notice of the occurrence of a Listed Event, in a timely manner, not in excess of ten (10) Business Days of the occurrence of a Listed Event.

(4) *Failure to Provide Annual Financial Information or Operating Data.* Notice of the failure of Beaumont to provide the Annual Financial Information or Operating Data by the date required herein.

(5) *Other Information.* Such other information as Beaumont shall determine to provide. If Beaumont chooses to include any information in any Annual Financial Information report or in any notice of occurrence of a Listed Event, in addition to that which is specifically required by this Undertaking, Beaumont shall have no obligation under this Undertaking to update such information or include it in any future Annual Financial Information report or notice of occurrence of a Listed Event.

(6) *Means of Making Information Available.* All information, including all Annual Financial Information and Operating Data and all Quarterly Statements, shall be provided by or on behalf of Beaumont, in readable PDF or other acceptable electronic form, to the MSRB to be posted through its EMMA System.

### Section 3. Amendment or Waiver

Notwithstanding any other provision of this Undertaking, obligations of Beaumont under this Undertaking may be amended or waived, if such amendment or waiver is supported by an opinion of nationally recognized bond counsel or counsel expert in federal securities laws acceptable to Beaumont to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule as well as any change in circumstance.

### Section 4. Miscellaneous

(A) Representations. Beaumont represents and warrants that it has (i) duly authorized the execution and delivery of this Undertaking by the officer whose signature appears on the execution pages hereto, (ii) that it has all requisite power and authority to execute, deliver and perform this Undertaking under its organizational documents and any corporate resolutions now in effect, (iii) that the execution and delivery of this Undertaking, and performance of the terms hereof, does not and will not violate any law, regulation, ruling, decision, order, indenture, decree, agreement or instrument by which such party is bound, and (iv) such party is not aware of any litigation or proceeding pending, or, to the best of such party's knowledge, threatened,

contesting its existence, or its power and authority to enter into this Undertaking, or its due authorization, execution and delivery of this Undertaking, or otherwise contesting or enjoining the issuance of the Bonds.

(B) Severability. If any provision hereof shall be held invalid or unenforceable by a court of competent jurisdiction, the remaining provisions hereof shall survive and continue in full force and effect.

(C) Termination. This Undertaking shall terminate when all of the Bonds are or are deemed to be no longer outstanding by reason of redemption or legal defeasance or at maturity. Otherwise this Undertaking may not be terminated unless (i) Beaumont, or its successor, enters into a new continuing disclosure agreement pursuant to the rules promulgated by the SEC or the MSRB, (ii) nationally recognized bond counsel or counsel expert in federal securities law provides an opinion that the new continuing disclosure agreement is in compliance with all State and Federal Securities laws and (iii) notice of the termination of this Undertaking is provided to the MSRB.

(D) Defaults: Remedies. A party shall be in default of its obligations hereunder if it fails to carry out or perform its obligations hereunder; provided, however, the sole remedy available in any proceeding to enforce this Undertaking shall be an action in mandamus, for specific performance or similar remedy to compel performance.

(E) Beneficiaries. This Undertaking shall inure solely to the benefit of Beaumont, the Master Trustee, the Holders, and any applicable participating underwriter, as defined by the Rule and shall create no rights in any other person or entity.

#### Section 5. Additional Disclosure Obligations

Beaumont acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933, the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder, may apply to Beaumont, and that under some circumstances compliance with this Undertaking, without additional disclosures or other action, may not fully discharge all duties and obligations of Beaumont under such laws.

The undersigned hereby delivers this Undertaking on behalf of Beaumont.

**BEAUMONT HEALTH,**  
for itself and on behalf of the Members of the  
Obligated Group

By: \_\_\_\_\_  
Name: John Keuten  
Its: Executive Vice President &  
Chief Financial Officer

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# Beaumont



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