New Issue /DTC Book-Entry Only

Ratings: Moody's: A1
S&P: A+
Fitch: A+
(See "Ratings" herein)

$122,965,000
NORTH CAROLINA MEDICAL CARE COMMISSION
Health Care Facilities Revenue and Revenue Refunding Bonds
(Rex Healthcare)
Series 2010A

Issuer:	We are a state agency incorporated into the Department of Health and Human Services of the State of North Carolina.
Borrower:	We will lend the proceeds of the 2010A Bonds to Rex Hospital, Inc., a North Carolina nonprofit corporation, which we refer to as the "Corporation." The Corporation, its parent, Rex Healthcare, Inc., which we refer to as the "Parent Corporation," and their affiliates provide healthcare services to residents of Wake County, North Carolina and surrounding counties and are referred to as "Rex Healthcare" or "Rex." See Appendix A.
Use of Proceeds:	The Corporation will use the proceeds of the 2010A Bonds to (1) refund certain bonds we have previously issued for the benefit of the Corporation and the Parent Corporation, (2) pay, and reimburse the Corporation for paying, the costs of constructing a new central energy plant on the main campus of Rex Hospital and routine capital expenditures for the Corporation, which we refer to as the "Project," (3) fund a portion of the interest accruing on the 2010A Bonds during the acquisition and construction of the Project and (4) pay certain expenses of issuing the 2010A Bonds. See "Plan of Financing" on page 33.
Limited Obligation:	We will be obligated to pay principal of and interest on the 2010A Bonds only from the revenues and other funds we pledge for the payment thereof, including the payments under the Loan Agreement and Obligation No. 4 made by the Corporation and the other members of the Obligated Group under the Master Indenture (as each such capitalized term is defined in this official statement). See "Security and Sources of Payment" on page 8.
Tax Exemption:	In the opinion of bond counsel, interest on the 2010A Bonds is (1) excludable from the gross income of the owners thereof for federal income tax purposes, (2) not an item of tax preference for purposes of the federal alternative minimum tax and (3) exempt from State of North Carolina income taxes. See "Tax Treatment" on page 40.
Dated:	Date of delivery.
Delivery Date:	On or about October 26, 2010.
Denominations:	$5,000 or any multiple thereof.
Interest Payment Dates:	January 1 and July 1 of each year, commencing January 1, 2011.
Due:	July 1, as shown on the inside cover page.
Redemption:	The 2010A Bonds are subject to optional, mandatory and extraordinary redemption prior to maturity. See "Description of the 2010A Bonds—Redemption" on page 30.
Bond Counsel:	Robinson, Bradshaw & Hinson, P.A., Charlotte, North Carolina.
Underwriters' Counsel:	McGuireWoods LLP, New York, New York.
Obligated Group Counsel:	K&L Gates LLP, Research Triangle Park, North Carolina.
Limited Information:	Only selected information is presented on this cover. You should read this official statement in its entirety to make an informed decision regarding the 2010A Bonds.

BofA Merrill Lynch

BB&T Capital Markets,
a division of Scott & Stringfellow, LLC

Wells Fargo Securities

October 7, 2010

$122,965,000
NORTH CAROLINA MEDICAL CARE COMMISSION
Health Care Facilities Revenue and Revenue Refunding Bonds
(Rex Healthcare)
Series 2010A

MATURITY SCHEDULE

$86,085,000 Serial Bonds

Due July 1	Principal Amount	Interest Rate	Yield	CUSIP	Due July 1	Principal Amount	Interest Rate	Yield	CUSIP
2011	$3,120,000	2.000%	0.850%	65821DET4	2019	$6,210,000	4.000%	3.750%	65821DFB2
2012	4,645,000	4.000	1.410	65821DEU1	2020	6,460,000	5.000	3.930	65821DFC0
2013	4,835,000	3.000	1.800	65821DEV9	2021	6,785,000	4.000	4.070	65821DFD8
2014	4,980,000	4.000	2.120	65821DEW7	2022	4,805,000	4.000	4.170	65821DFE6
2015	5,175,000	5.000	2.460	65821DEX5	2022	2,250,000	5.000	4.170*	65821DFL0
2016	2,030,000	3.500	2.810	65821DEY3	2023	7,360,000	4.125	4.240	65821DFF3
2016	3,405,000	4.000	2.810	65821DFN6	2024	5,100,000	4.000	4.280	65821DFM8
2017	5,645,000	5.000	3.090	65821DEZ0	2024	1,000,000	4.250	4.280	65821DFG1
2018	1,070,000	4.000	3.440	65821DFA4	2025	6,355,000	4.250	4.360	65821DFH9
2018	4,855,000	5.000	3.440	65821DFK2					

$36,880,000 5.000% Term Bonds, Due July 1, 2030 - Yield: 4.530%* CUSIP: 65821DFJ5

* Yield to July 1, 2020 call date at 100%.

You should rely only on the information contained in this official statement. We have not, and the underwriters have not, authorized any person who offers or sells the 2010A Bonds to provide you with information in addition to or inconsistent with the information contained in this official statement, or to represent anything else about us, the Corporation, the other members of the Obligated Group or the 2010A Bonds. If anyone provides you with additional or inconsistent information, you should not rely on it.

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

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

We are not, and the underwriters are not, offering to sell the 2010A Bonds or soliciting an offer to buy the 2010A Bonds in any jurisdiction where the offer or sale of the 2010A Bonds is not permitted.

By placing an order for the 2010A Bonds with an underwriter, you agree that if you are allocated 2010A Bonds, the underwriters may disclose your identity as an initial purchaser of the 2010A Bonds to us unless you advise your sales representative otherwise.

In reliance upon exemptions, we are not (1) registering the 2010A Bonds under the Securities Act of 1933, as amended, or any state securities laws or (2) qualifying the Trust Agreement under the Trust Indenture Act of 1939. Neither the Securities and Exchange Commission nor any other federal or state securities commission or regulatory authority has recommended, approved or disapproved the 2010A Bonds or determined if this official statement is adequate, accurate or complete. Any representation to the contrary is a criminal offense.

In connection with this offering, the underwriters may overallot or effect transactions that stabilize or maintain the market price of the 2010A Bonds at a level above that which might otherwise prevail in the open market. The underwriters may discontinue any such stabilizing at any time.

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Department of Health and Human Services
The North Carolina Medical Care Commission
Phone: (919) 855 3750 • Fax: (919) 733 2757
2701 Mail Service Center 27699-2701 • 701 Barbour Drive 27603
Raleigh, N.C.

Beverly Eaves Perdue, Governor

Lanier Cansler, Secretary
Department of Health and Human Services

OFFICIAL STATEMENT

$122,965,000
NORTH CAROLINA MEDICAL CARE COMMISSION
Health Care Facilities Revenue and Revenue Refunding Bonds
(Rex Healthcare)
Series 2010A

INTRODUCTION AND SUMMARY

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

In this official statement, the terms "we," "our" and "us" mean the North Carolina Medical Care Commission.

Issuance of the 2010A Bonds

We are issuing our Health Care Facilities Revenue and Revenue Refunding Bonds (Rex Healthcare), Series 2010A, which we refer to as the "2010A Bonds," pursuant to

- the Health Care Facilities Finance Act, Chapter 131A of the North Carolina General Statutes, which we refer to as the "Act," and
- a trust agreement between us and U.S. Bank National Association, as bond trustee, which we refer to as the "Trust Agreement."

You should review the information under the heading "DESCRIPTION OF THE 2010A BONDS" for a description of certain provisions of the 2010A Bonds.

Loan of the 2010A Bond Proceeds to the Corporation; Use of the 2010A Bond Proceeds by the Corporation

We will lend the proceeds from the sale of the 2010A Bonds to Rex Hospital, Inc., a North Carolina nonprofit corporation, which we refer to as the "Corporation," pursuant to a loan agreement between us and the Corporation, which we refer to as the "Loan Agreement."

In the Loan Agreement, the Corporation will promise to make loan repayments equal to the principal of and interest on the 2010A Bonds.

The Corporation will use the proceeds from the sale of the 2010A Bonds to:

- refund certain bonds we issued in 1998 for the benefit of the Corporation and the Parent Corporation (as defined below), which we describe in more detail below under the heading "PLAN OF FINANCING,"

- pay, and reimburse the Corporation for paying, the costs of constructing a new central energy plant on the main campus of Rex Hospital and routine capital expenditures for the Corporation, which we refer to as the "Project,"

- fund a portion of the interest accruing on the 2010A Bonds during the acquisition and construction of the Project, and

- pay certain expenses of issuing the 2010A Bonds.

Issuance of Obligation No. 4; Amendment and Restatement of Original Master Indenture

In the Loan Agreement, the Corporation will agree to issue a promissory note to us as further evidence of its obligation to make the loan repayments. We refer to this promissory note as "Obligation No. 4." The Corporation will issue Obligation No. 4 pursuant to:

- its existing master trust indenture, which we refer to as the "Original Master Indenture," and

- a supplement to the Original Master Indenture that specifically provides for the issuance of Obligation No. 4, which we refer to as "Supplement No. 4."

Simultaneously with the issuance and delivery of the 2010A Bonds and Obligation No. 4, the Corporation and Rex Healthcare, Inc., which we refer to as the "Parent Corporation," will enter into an amended and restated master trust indenture, which we refer to as the "Master Indenture." The Master Indenture will amend and restate the Original Master Indenture in its entirety. Because the Master Indenture will become effective when the 2010A Bonds are issued, only the provisions of the Master Indenture are described in this official statement. **By purchasing a 2010A Bond, you are consenting to the amendment and restatement of the Original Master Indenture pursuant to the terms of the Master Indenture and authorizing the underwriters (or their designated representative) to sign a written consent on your behalf.**

Master Indenture; Obligated Group; Obligations

The Master Indenture authorizes the creation of an "Obligated Group."

Each member of the Obligated Group may issue what are referred to in the Master Indenture as "Obligations" to evidence and secure debt or derivative obligations incurred or to be incurred by a member of the Obligated Group. Obligations may be issued in such forms created by supplements to the Master Indenture, including promissory notes.

Members of the Obligated Group are jointly and severally liable for the payment of all Obligations, including Obligation No. 4.

As of the date of this Official Statement, the members of the Obligated Group are:

- the Corporation, and

- the Parent Corporation.

Each member of the Obligated Group is a North Carolina nonprofit corporation and the income of each member of the Obligated Group is exempt from federal and North Carolina income taxation.

The outstanding Obligations issued under the Master Indenture are, and Obligation No. 4 will be, secured by a security interest in certain "Pledged Assets," which is described in more detail below under the heading "SECURITY AND SOURCES OF PAYMENT."

Under certain circumstances, a member of the Obligated Group may withdraw from the Obligated Group and thereby cease to be liable to pay Obligations issued under the Master Indenture; however, the Loan Agreement will provide that the Corporation will not withdraw from the Obligated Group without our prior written consent so long as any 2010A Bonds are outstanding.

Outstanding Bonds and Obligations

In 1998 we issued our Hospital Revenue Bonds (Rex Healthcare) Series 1998, which we refer to as the "1998 Bonds," in the original aggregate principal amount of $124,215,000, and loaned the proceeds from the sale thereof to the Corporation and the Parent Corporation. The Corporation and the Parent Corporation issued Obligation No. 2 pursuant to a supplement to the Original Master Indenture as evidence of their obligation to make the loan repayments. We describe the plan to refund all of the outstanding 1998 Bonds with proceeds of the 2010A Bonds in more detail below under the heading "PLAN OF FINANCING—The Refunding." Upon the issuance of the 2010A Bonds, the 1998 Bonds and Obligation No. 2 will cease to be outstanding.

The Corporation also has issued Obligation No. 3 pursuant to a supplement to the Original Master Indenture as evidence of its obligations under a future advance loan agreement, dated as of March 31, 2009, between the Corporation and First-Citizens Bank & Trust Company, pursuant to which the Corporation may borrow from time to time up to $50,000,000. As of the date of this official statement, the Corporation has not borrowed any amount under this line of credit. Upon the issuance of the 2010A Bonds, Obligation No. 3 will remain outstanding.

Security and Sources of Payment for the 2010A Bonds

Our obligation to pay the 2010A Bonds is limited. **We will be obligated to pay principal of and interest on the 2010A Bonds only from the revenues and other funds we pledge for the payment thereof, which will include the payments under the Loan Agreement and Obligation No. 4 to be made by the Corporation and the other members of the Obligated Group. Neither the State of North Carolina nor any political subdivision thereof will pledge its faith and credit or taxing power as security for the payment of principal of and interest on the 2010A Bonds**. Before you invest in the 2010A Bonds, you should carefully review the discussion below under the heading "SECURITY AND SOURCES OF PAYMENT."

Payment of the 2010A Bonds will depend upon the ability of the Corporation and the other members of the Obligated Group to generate revenues sufficient to provide for the payment of the 2010A Bonds and their other debt while paying their operating and other expenses. The Corporation, the Parent Corporation and their affiliates, which we refer to as "Rex Healthcare" or "Rex," provide healthcare services to residents of Wake County, North Carolina and surrounding counties. Please read Appendix A for more information about the Corporation, the Parent Corporation and their affiliates, including their governance and management, facilities, services and operations and certain financial information. The Parent Corporation does not conduct active operations; instead, it serves only as the parent for its directly and indirectly controlled affiliates, including the Corporation, which are providers of health care and

ancillary services. As a result, only the Corporation and any future members of the Obligated Group who actively operate and provide services will generate revenues to provide for the payment of the 2010A Bonds. All of the members of the Obligated Group are, however, jointly and severally liable for the payment of all Obligations, including Obligation No. 4.

Bondholders' Risks

Before you invest in the 2010A Bonds, you should carefully review the discussion of certain risks associated with the 2010A Bonds and the Obligated Group's business found below under the heading "BONDHOLDERS' RISKS."

Financial Statements

You should review the combined financial statements of the Parent Corporation and its subsidiaries as of and for the years ended June 30, 2010 and 2009, which are included in Appendix B. LarsonAllen LLP, independent auditors, audited these financial statements as stated in their report appearing in Appendix B.

The combined financial statements of the Parent Corporation and its subsidiaries in Appendix B include affiliates of the Parent Corporation that are not members of the Obligated Group. For each of the Fiscal Years ended June 30, 2009 and 2010, such non-member affiliates contributed approximately 4.0% and -4.8%, respectively, of the combined revenue and gains in excess of expenses and losses and 4.3% and 9.3%, respectively, of the combined assets reported on such financial statements.

Continuing Disclosure

The Corporation has agreed to provide certain information on an ongoing basis as required by Rule 15c2-12 of the Securities and Exchange Commission. The Corporation's agreement to provide continuing disclosure is described in more detail below under the heading "CONTINUING DISCLOSURE."

Definitions

Many terms used in this official statement, whether capitalized or not, are defined in the Trust Agreement, the Loan Agreement and the Master Indenture. You can find complete definitions of those terms in Appendix C under the heading "DEFINITIONS OF CERTAIN TERMS."

Bond Trustee and Master Trustee

U.S. Bank National Association will serve as the trustee under the Trust Agreement, and is referred to in that capacity as the "Bond Trustee." U.S. Bank National Association also serves as the trustee under the Master Indenture, and is referred to in that capacity as the "Master Trustee."

Limitation of Summaries; Obtaining Copies of Documents

This official statement summarizes certain provisions of the 2010A Bonds, the Trust Agreement, the Loan Agreement, the Master Indenture and Obligation No. 4. We have not included or summarized all of the provisions of those documents in this official statement. You should read those documents if you want to understand all of their provisions, which define your rights if you purchase a 2010A Bond. You can obtain a copy of the Trust Agreement, the Loan Agreement, the Master Indenture and Obligation No. 4 from the Corporation, the underwriters shown on the cover page of this official statement, or the Bond Trustee.

THE ISSUER

General

We are a North Carolina state agency created primarily as a result of the findings of the North Carolina Hospital and Medical Care Commission, a special commission appointed by the North Carolina legislature in 1944 to study the critical shortages in general hospital facilities and trained medical personnel in the State of North Carolina and to make recommendations for improvements in these areas. Among the recommendations made was that the North Carolina legislature provide for a permanent state agency that would be responsible for the maintenance of high standards in North Carolina's hospitals and for the administration of a medical student loan fund and a statewide hospital and medical care program.

We were established in 1945 and given the power, among others, to make a survey of the hospital resources in North Carolina and formulate a statewide program for construction and maintenance of local hospitals, health centers and related facilities and to receive and administer federal and state funds appropriated for such purposes.

In 1946, Congress passed the Hospital Survey and Construction Act (Hill-Burton) to provide funds for the construction and renovation of health care facilities, and we were designated as the agency empowered to administer the program within North Carolina. Under this program, also known as the Hill-Burton program, health facility construction in North Carolina has totaled more than $500 million, of which 40% was provided by federal sources, 5% by North Carolina and 55% by local sponsors. Of the more than 500 Hill-Burton projects approved by us between 1946 and 1976, 241 were general hospital projects, including 80 completely new facilities.

We were incorporated into the Department of Human Resources (now the Department of Health and Human Services) pursuant to the Executive Organization Act of 1973. Three of our members are nominated by the North Carolina Medical Society, one by the North Carolina Pharmaceutical Association, one by the North Carolina State Nurses' Association, one by the North Carolina Hospital Association and one by The Duke Endowment. The Governor must approve each nomination. Additionally, the Governor appoints ten other members, one of whom must be a dentist.

Today we have the duty and power to promulgate, adopt, amend and rescind rules in accordance with the laws of the State regarding the regulation and licensing or certification, as applicable, of hospitals, hospices, free standing outpatient surgical facilities, nursing homes, adult care homes, home care agencies, home health agencies, nursing pools, facilities providing mammography/pap smear services, free standing abortion clinics, ambulances and emergency medical services personnel.

In 1975, the North Carolina General Assembly enacted the Act, which enables us to issue tax-exempt revenue bonds to finance construction and equipment projects for nonprofit and public hospitals, nursing homes, continuing care facilities for the elderly and related facilities.

Our Outstanding Debt

As of June 30, 2010, we had issued revenue bonds or notes to finance 379 projects. The total authorized principal amount of all such financings was $16,362,697,052 and the total outstanding principal amount of all such financings as of June 30, 2010 was $6,989,322,431, excluding financings that have been refunded. Each issue is payable solely from revenues derived from each corporate entity financed, is separately secured and is separate and independent from all other series of bonds as to source of payment and security.

Membership

We currently consist of 17 members as follows:

NAME	TERM	PRINCIPAL OCCUPATION	RESIDENCE
Lucy Hancock Bode Chairman	1993-2013	Housewife/Health Consultant	Raleigh
Joseph D. Crocker Vice Chairman	1988-2012	Director, Poor and Needy Division, Kate B. Reynolds Charitable Trust	Winston-Salem
George A. Binder, M.D.	2004-2011	Physician	Fayetteville
George H. V. Cecil	1987-2011	Chairman, Biltmore Dairy Farms, Inc.	Biltmore
Gerald P. Cox	2002-2014	Health Care Executive	Rocky Mount
John A. Fagg, M.D.	2004-2011	Physician	Winston-Salem
Charles T. Frock	2008-2012	Hospital Administrator	Pinehurst
Clifford B. Jones, Jr., D.D.S.	1995-2011	Dentist	Elizabeth City
Elizabeth P. Kanof, M.D.	2008-2012	Physician	Raleigh
Eileen C. Kugler, R.N., M.S.N, M.P.H., F.N.P.	2010-2014	Manager of Practice, North Carolina Board of Nursing	Durham
James H. Leonard	2008-2012	Financial Advisor	Cary
Albert F. Lockamy, Jr., R.Ph.	1986-2014	Pharmacist	Raleigh
Mary L. Piepenbring	2005-2013	Director, Health Care Division, The Duke Endowment	Charlotte
Carl K. Rust II, M.D.	2002-2013	Physician	Wilmington
Robert E. Schaaf, M.D.	2005-2014	Physician	Raleigh
Henry A. Unger, M.D.	1998-2013	Physician	Cary
Margaret Weller-Stargell	2006-2013	President and CEO, Coastal Horizons Center, Inc.	Wilmington

Our Staff

The Division of Health Service Regulation of the Department of Health and Human Services employs a staff of approximately 450 persons (including registered architects, professional engineers and consultants in the fields of emergency medicine, hospital administration, nursing service and administration, dietetics and nutrition, laboratory design and operation and medical records), the services of whom are available to and used by us. The Division of Health Service Regulation provides all necessary administrative and clerical assistance to us.

Certain Administrative Officers

Drexdal R. Pratt, Secretary of the North Carolina Medical Care Commission and Director of the Division of Health Service Regulation, North Carolina Department of Health and Human Services. Mr. Pratt is responsible for the implementation of the Act. As Director of the Division of Health Service Regulation, Mr. Pratt has overall responsibility for all the Division Sections, which include Construction, Acute and Home Care Licensure and Certification, Nursing Home Licensure and Certification, Mental Health Licensure and Certification, Adult Care Licensure, Health Care Personnel Registry, Emergency Medical Services, Medical Facilities Planning and Certificate of Need. Mr. Pratt has been with the Division of Health Service Regulation since 1987 and has served as Chief of the Office of Emergency Medical Services section since 1999.

Christopher B. Taylor, CPA, Assistant Secretary, North Carolina Medical Care Commission, North Carolina Department of Health and Human Services. As Assistant Secretary, Mr. Taylor is responsible for the areas of (1) financial and operational auditing and compliance, (2) assistance and consultation to the Construction Section during project development and completion and (3) evaluation of and counseling of projects during the process of financing through us. Mr. Taylor is a Certified Public Accountant and a magna cum laude graduate of North Carolina Wesleyan College. He served as a Senior Internal Auditor for the Department of Health and Human Services from 1979 until 1983. In 1983, Mr. Taylor was named as our Auditor and served in that capacity until 1987, when he was appointed as our Financial Advisor. In 2005, Mr. Taylor was appointed as our Assistant Secretary. Mr. Taylor is a member of the American Institute of Certified Public Accountants, the North Carolina Association of Certified Public Accountants and the Healthcare Financial Management Association. Mr. Taylor is on the Board of Directors of the National Association of Health and Educational Facilities Finance Authorities.

Steven C. Lewis, Chief, Construction Section, Division of Health Service Regulation, North Carolina Department of Health and Human Services. Mr. Lewis is responsible for the review of plans and specifications for projects seeking assistance under the Act to insure that they meet the minimum standards of construction and design development by the Construction Section for that purpose. Mr. Lewis has been with the Construction Section of the Division of Health Service Regulation since 1994 and has served successively as a Building System Engineer (1994- 2007) and Assistant Chief (2007-2010). In March 2010, he assumed the position of Chief of the Construction Section. Mr. Lewis has a B.S.E. degree in Engineering, Mechanics and Materials from the University of North Carolina at Charlotte and is experienced in the areas of design, maintenance and mechanical engineering.

Kathy C. Larrison, Auditor, North Carolina Medical Care Commission, North Carolina Department of Health and Human Services. As our Auditor, Ms. Larrison is responsible for continuous review and audit of projects financed through us to ensure financial, legal and operational compliance with the bond and note covenants. She has a B.B.A. in Accounting from Campbell University and is a member of the Healthcare Financial Management Association. She joined our staff in September 2004, after serving 17 years in an acute care hospital in the capacities of Staff Accountant, Controller and Chief Financial Officer.

SECURITY AND SOURCES OF PAYMENT

The following summary of certain provisions of the Trust Agreement, the Loan Agreement, the Master Indenture and Obligation No. 4 does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all the provisions of the Trust Agreement, the Loan Agreement, the Master Indenture and Obligation No. 4.

This summary should be read together with the discussion of the "Risks Relating to the 2010A Bonds" under the heading "BONDHOLDERS' RISKS."

Loan Agreement and Obligation No. 4

Our obligation to pay the 2010A Bonds is limited. **We will be obligated to pay principal of and interest on the 2010A Bonds only from the revenues and other funds we pledge for the payment thereof. Neither the State of North Carolina nor any political subdivision thereof will pledge its faith and credit or taxing power as security for the payment of principal of and interest on the 2010A Bonds**.

In the Loan Agreement, the Corporation will promise to:

- make loan repayments to us equal to the principal of and interest on the 2010A Bonds, and
- issue Obligation No. 4 to us as further evidence of its obligation to make the loan repayments.

We will pledge the following revenues and other funds to the Bond Trustee as security for the payment of the 2010A Bonds:

- All of our right, title and interest in the Loan Agreement, including our right to receive the loan repayments from the Corporation, but not our rights to
  - indemnification and to payment of certain fees and expenses,
  - give certain consents, and
  - receive certain documents, information and notices,
- All of our right, title and interest in Obligation No. 4 and our rights under the Master Indenture as owner of Obligation No. 4, and
- All money and securities held by the Bond Trustee in the funds and accounts established under the Trust Agreement.

The Obligated Group

The Master Indenture authorizes the creation of an "Obligated Group."

Each member of the Obligated Group may issue what are referred to in the Master Indenture as "Obligations" to evidence and secure debt incurred or to be incurred by a member of the Obligated Group. Obligations may be issued in such forms created by supplements to the Master Indenture, including promissory notes.

Members of the Obligated Group are jointly and severally liable for the payment of all Obligations, including Obligation No. 4.

As of the date of this Official Statement, the members of the Obligated Group are:

- the Corporation, and
- the Parent Corporation.

The provisions of the Master Indenture regarding admission to and withdrawal from the Obligated Group are discussed in Appendix C under the heading "SUMMARY OF THE MASTER INDENTURE—Particular Covenants—Parties Becoming Members of the Obligated Group" and "—Withdrawal from the Obligated Group."

If a member of the Obligated Group withdraws from the Obligated Group, then it is no longer jointly and severally liable for the payment of Obligation No. 4 or any other Obligation issued under the Master Indenture; however, the Loan Agreement will provide that the Corporation will not withdraw from the Obligated Group without our prior written consent so long as any 2010A Bonds are outstanding.

Security for Obligation No. 4

To secure the prompt payment by the Obligated Group of all Obligations, including Obligation No. 4, and performance by each member of the Obligated Group of its other obligations under the Master Indenture, each member of the Obligated Group has granted a security interest in its Pledged Assets to the Master Trustee pursuant to the Master Indenture.

Pledged Assets consist of all Accounts of each member of the Obligated Group, and all proceeds thereof, and all Lockbox Accounts.

Accounts consist of:

- any right to payment of a monetary obligation, whether or not earned by performance,
    - for property that has been or is to be sold, leased, licensed, assigned or otherwise disposed of,
    - for services rendered or to be rendered, or
    - for a secondary obligation incurred or to be incurred, and

Accounts includes healthcare insurance receivables.

Accounts do not include:

- Rights to payment evidenced by chattel paper or an instrument,
- Commercial tort claims,
- Deposit accounts,
- Investment property,

- Letter-of-credit rights or letters of credit, or
- Rights to payment for money or funds advanced or sold.

Lockbox Accounts means all accounts established by the Master Trustee into which are deposited only the Gross Receipts received by the Master Trustee from the members of the Obligated Group.

If an Event of Default occurs and is continuing under the Master Indenture, the Master Trustee may require each member of the Obligated Group, and each member of the Obligated Group covenants to, deliver all Gross Receipts to it for deposit into one or more Lockbox Accounts.

Gross Receipts means all revenues, income, receipts and money (other than proceeds of borrowing) received in any period by or on behalf of a member of the Obligated Group, including, but without limiting the generality, of the foregoing,

- Revenues derived from its operations,
- Gifts, grants, bequests, donations and contributions and the income therefrom, exclusive of any gifts, grants, bequests, donations and contributions to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of Obligations,
- Proceeds derived from
    - insurance, except to the extent otherwise required by the Master Indenture to be applied in a manner inconsistent with their use for the payment of Obligations,
    - Accounts,
    - securities and other investments,
    - inventory and other tangible and intangible property,
    - medical or hospital insurance, indemnity or reimbursement programs or agreements and
    - contract rights and other rights and assets now or hereafter owned, held or possessed by such member of the Obligated Group, and
- Rentals received from the leasing of real or tangible personal property.

All Gross Receipts received by the Master Trustee, after payment of

- the costs and expenses of any proceedings resulting in the collection of such moneys and any other fees and expenses due to the Master Trustee, and
- in the sole discretion of the Master Trustee, the operating expenses of the Obligated Group,

are to be applied by the Master Trustee to the payment of Obligations in accordance with the Master Indenture.

The security interest in Pledged Assets is subject to the right of the members of the Obligated Group to sell Accounts, in which case the security interest in the sold Accounts will be released. The provisions of the Master Indenture relating to sale of Accounts are discussed in Appendix C under the headings "SUMMARY OF THE MASTER INDENTURE —Particular Covenants—Limitations on Creation of Liens" and "—Transfer of Operating Assets; Transfer of Cash and Investments; Sale of Accounts."

The provisions of the Master Indenture regarding the security interest in Pledged Assets are discussed in Appendix C under the heading "SUMMARY OF THE MASTER INDENTURE —Particular Covenants—Nature of Obligations; Payment of Principal and Interest; Security; Further Assurances; Deposit of Gross Receipts."

Limitation on Liens; Negative Pledge

Except for "Permitted Liens" described in the Master Indenture, each member of the Obligated Group may not create, suffer to be created or permit the existence of any mortgage, deed of trust or pledge of security interest in or encumbrance on any property of a member of the Obligated Group.

One example of a Permitted Lien is any lien on property, plant and equipment securing long-term indebtedness that does not exceed 20% of the net book value of the property of the Obligated Group.

If a lien on certain property of the members of the Obligated Group would be a Permitted Lien, the members of the Obligated Group may pledge such property as security for other Obligations issued under the Master Indenture without pledging such property as security for Obligation No. 4.

To learn more about Permitted Liens, you should read the complete definition of "Permitted Liens" in Appendix C under the heading "SUMMARY OF THE MASTER INDENTURE —Particular Covenants—Limitations on Creation of Liens."

Long-Term Debt Service Coverage Ratio; Limitations on Additional Debt, Transfers of Assets and Mergers

The members of the Obligated Group are subject to certain covenants under the Master Indenture, including

- Maintenance of a long-term debt service coverage ratio of at least 1.20 during each fiscal year,
- Limitations on incurrence of additional debt,
- Limitations on transfers of assets, and
- Limitations on mergers and consolidations.

To learn more about these and other covenants contained in the Master Indenture, you should read the information in Appendix C under the heading "SUMMARY OF THE MASTER INDENTURE —Particular Covenants."

Replacement Master Indenture

The Corporation, without the consent of, or notice to, the holders of the 2010A Bonds, may replace the Master Indenture with an existing or new master trust indenture. The conditions for substitution are described in Appendix C under the heading "SUMMARY OF THE MASTER INDENTURE—Particular Covenants —Replacement Master Indenture."

BONDHOLDERS' RISKS

Before you invest in the 2010A Bonds, you should carefully review the following discussion of the risks involved and the information contained elsewhere in this official statement.

Risks Relating to the 2010A Bonds

The 2010A Bonds are payable by us only from (i) payments under the Loan Agreement and Obligation No. 4 made by the Corporation and the other members of the Obligated Group and (ii) any money and securities held by the Bond Trustee in the funds and accounts established under the Trust Agreement.

Payment of the 2010A Bonds will depend upon the ability of the members of the Obligated Group to generate revenues sufficient to provide for the payment of the 2010A Bonds and their other debt while paying their operating and other expenses.

The Corporation, the Parent Corporation and their affiliates, which we refer to as "Rex Healthcare" or "Rex," provide healthcare services to residents of Wake County, North Carolina and surrounding counties. Please read Appendix A for more information about the Corporation, the Parent Corporation and their affiliates, including their governance and management, facilities, services and operations and certain financial information. The Parent Corporation does not conduct active operations; instead, it serves only as the parent for its directly and indirectly controlled affiliates, including the Corporation, which are providers of health care and ancillary services. As a result, only the Corporation and any future members of the Obligated Group who actively operate and provide services will generate revenues to provide for the payment of the 2010A Bonds.

Neither the members of the Obligated Group nor we can represent or assure that the members of the Obligated Group will be able to generate revenues sufficient to pay the principal of and interest on the 2010A Bonds. You should read the discussion of "Risks Relating to the Obligated Group's Business" below.

Only the Corporation and other members of the Obligated Group will be obligated to make payments due under the Loan Agreement and Obligation No. 4.

The Corporation will be directly obligated to make the loan repayments due under the Loan Agreement.

As further evidence of its obligation to make the loan repayments, the Corporation will issue to us Obligation No. 4 under the Master Indenture, which we will assign to the Bond Trustee as security for the payment of the 2010A Bonds. Because the members of the Obligated Group under the Master Indenture are jointly and severally liable for the payment of all Obligations issued under the Master Indenture, including Obligation No. 4, the members of the Obligated Group will be directly obligated to make the payments due under Obligation No. 4, which correspond to the loan repayments due under the Loan Agreement.

No affiliate of the Corporation or the Parent Corporation will be obligated to make payments under Obligation No. 4 unless such affiliate is a member of the Obligated Group when such payment is due.

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

As a practical matter, bankruptcy or other applicable law may limit your ability to collect from the members of the Obligated Group. For example, a creditor or the trustee in a bankruptcy case of a member of the Obligated Group could ask a court to declare that the obligations of such member of the Obligated Group with respect to the 2010A Bonds are not enforceable because they are a "fraudulent conveyance." Federal and state fraudulent conveyance law provides that a liability incurred by a co-obligor may be avoided if, for example, (1) the co-obligor did not receive "fair consideration" or "reasonably equivalent value" in exchange for its liability and (2) the liability renders the co-obligor insolvent. It is possible that a court would agree.

An action to enforce a charitable trust and to see to the application of its funds could be brought against any member of the Obligated Group that is a charitable nonprofit corporation if honoring its requirements with respect to the 2010A Bonds would result in:

- such member of the Obligated Group not having sufficient assets to carry out its charitable purposes, or

- cessation or discontinuation of any material portion of the health care or related service previously provided by such member of the Obligated Group.

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

The liabilities of a member of the Obligated Group also may not be enforceable to the extent that such payments are:

- requested to be made from assets which are donor-restricted or which are subject to a direct, express or charitable trust which does not permit the use of such assets for such payments, or

- made with respect to a liability that is not consistent with the charitable purposes of such member of the Obligated Group or was incurred for the benefit of an entity that is not governmental or tax-exempt.

Even though the liabilities of a member of the Obligated Group with respect to the Loan Agreement and Obligation No. 4 may not be enforceable for the reasons discussed above, the accounts of all Obligated Group members will be combined for financial reporting purposes and will be used to determine whether the Obligated Group meets various covenants and tests contained in the Master Indenture.

Bankruptcy or other applicable law may limit the Master Trustee's ability to enforce the security interest in Pledged Assets.

The security interest in Pledged Assets will be perfected to the extent, but only to the extent, that such security interest may be perfected by filing a financing statement under the Uniform Commercial

Code of the State of North Carolina. Continuation statements with respect to such filings must be filed as required by law to continue the perfection of such security interest.

The security interest in Pledged Assets may not be enforceable against third parties unless Gross Receipts are transferred to the Master Trustee (which is required only upon the occurrence of an Event of Default under the Master Indenture) and is subject to certain exceptions under the Uniform Commercial Code. In such event, the Master Trustee may not be able to compel Medicare, Medicaid, Blue Cross and Blue Shield of North Carolina or other third parties to make payments directly to the Master Trustee.

The enforcement of the security interest in Pledged Assets may be further limited by the following:

- statutory liens,
- rights arising in favor of the United States of America or any agency thereof,
- present or future prohibitions against assignment contained in any federal or State statutes or regulations,
- constructive trusts, equitable liens or other rights impressed or conferred by any State or federal court in the exercise of its equitable jurisdiction, and
- federal bankruptcy laws, State of North Carolina receivership or fraudulent conveyance laws or similar laws affecting creditors' rights that may affect the enforceability of the Master Indenture or the security interest in Pledged Assets.

The Master Indenture allows members of the Obligated Group to pledge property as security for Obligations other than Obligation No. 4 under certain conditions.

The members of the Obligated Group may pledge property as security for other Obligations issued under the Master Indenture without pledging such property as security for Obligation No. 4, if such pledge is a Permitted Lien under the Master Indenture. If this occurs, such property may not be available to satisfy any money judgment you may obtain or claim you may have in bankruptcy if the 2010A Bonds are not paid when due.

The Master Indenture does not limit the ability of the members of the Obligated Group to make acquisitions or engage in joint ventures or affiliations.

The members of the Obligated Group regularly evaluate potential acquisitions, joint ventures and affiliations as part of their overall strategic planning and development process. The Master Indenture does not limit the ability of the members of the Obligated Group to make acquisitions or engage in joint ventures or affiliations, although certain covenants in the Master Indenture may limit their ability to incur debt in connection with an acquisition, joint venture or affiliation or make equity investments or loans to an affiliate or joint venture. Such transactions could have a material adverse effect on the Obligated Group's financial condition and result in a reduction in the ratings of the 2010A Bonds.

The Master Indenture may be replaced with an existing or new master trust indenture that may be substantially different.

If certain conditions are met, the Master Indenture provides that it may be replaced with an existing or new master trust indenture. One of those conditions is that the ratings on the 2010A Bonds at the time the replacement master indenture becomes effective would not be reduced below the then-current

rating. Another condition is that the Local Government Commission of North Carolina and we must approve the replacement master indenture. You should read the information in Appendix C under the heading "THE MASTER INDENTURE—Particular Covenants—Replacement Master Indenture."

If the conditions in the Master Indenture are satisfied, a replacement master indenture is not required to contain any specific terms, conditions and covenants. A replacement master indenture could change any or all of the provisions of the Master Indenture.

Risks Relating to the Obligated Group's Business

Payment of the 2010A Bonds depends upon the Obligated Group's ability to generate revenues sufficient to provide for payment of the 2010A Bonds and other outstanding indebtedness while paying operating and other expenses. No representation or assurance can be made that revenues will be realized by the Obligated Group in amounts sufficient to pay maturing principal of and interest on the 2010A Bonds. The Obligated Group's ability to generate sufficient revenues is subject to, among other things, the capabilities of management of the Obligated Group and future economic and other conditions which are unpredictable, and may be adversely affected by a wide variety of future events and conditions, including the Obligated Group's ability to provide services required or expected by patients, competition, changes in the economic conditions of or demand for medical treatment in the Obligated Group's service area, rising costs, governmental regulation and control by third-party payors, both governmental and private. Currently both the federal and State governments have extensive powers to regulate the operations of the Obligated Group, control the flow of revenues thereto, limit its expansion, and even control and restrict the services provided by the Obligated Group. As discussed below, these powers may be expanded in the future.

The following are some of many factors that may affect the Obligated Group's operations and economic well-being.

The impact of health care reform is not certain at this point and could adversely affect the members of the Obligated Group.

In March 2010, the House of Representatives of the United States Congress approved the Patient Protection and Affordable Care Act (which we refer to as "PPACA"), originally passed by the Senate in December 2009. President Obama signed PPACA into law in March 2010. The House of Representatives and the Senate also approved the Health Care and Education Reconciliation Act of 2010 (which we refer to as the "Reconciliation Act"), a bill that modified various provisions of PPACA. President Obama signed the Reconciliation Act into law in March 2010. We refer to PPACA and the Reconciliation Act together as the "Health Care Reform Act."

The comprehensive health care reform mandated by the Health Care Reform Act aims to expand the availability of health insurance coverage, control the costs of health care and improve the manner in which health care is delivered. The Health Care Reform Act requires all individuals to purchase health insurance or pay a fee, with hardship exceptions; substantially expands Medicaid coverage; provides premium subsidies to certain individuals; imposes certain taxes on individuals; creates insurance pooling mechanisms or health insurance exchanges; makes certain changes to insurance industry regulation; implements certain cost containment mechanisms; reduces Medicare spending; and implements provisions designed to improve the quality of outcomes and health system performance.

Funding cutbacks in Medicare are to be achieved, among other ways, by a reduction in Medicare Disproportionate Share Hospital (which we refer to as "DSH") payments in the year 2014. DSH payments will initially be reduced by 75%. Management does not believe that the reduction in DSH payments will have a material effect on the Obligated Group's financial condition because DSH payments

represent a minimal portion of the Obligated Group's total revenues**.** In addition, annual market basket updates (updates which are used to adjust Medicare payments for inflation) will be reduced for inpatient hospital, home health, skilled nursing facility, hospice and other Medicare providers. Market basket updates will, however, eventually be adjusted for productivity.

In an effort to contain costs, the Health Care Reform Act establishes a Medicare test payment program that will affect Medicare reimbursement by rewarding quality and efficient operation. Additional reimbursement cuts may result from provisions in the Health Care Reform Act and future implementing regulations that adjust payments based on quality and efficiency. For example, in 2012, Medicare payments for preventable hospital readmissions will be reduced. Medicare payments to certain hospitals will also be reduced by 1% for hospital acquired medical conditions.

Despite the challenges discussed above, the Health Care Reform Act contains provisions that are intended to provide long-term benefits to hospitals as well. Foremost among these benefits is the creation of a large pool of newly-insured persons. The large number of newly-insured persons could have a significant impact on the amounts hospitals previously had to write off each year as a result of patients' inability to pay for hospital services. Other provisions contained in the Health Care Reform Act relating to (a) pre-existing conditions, (b) the individual mandate and (c) Medicaid eligibility are also intended to help hospitals reduce the losses they incur because of patients' inability to pay.

Under PPACA, people with pre-existing conditions who have been uninsured for at least six months may sign up for insurance through a high-risk insurance pool. This benefit will continue until January 1, 2014. Starting in September 2010, insurers will be prohibited from (a) denying coverage to children with pre-existing conditions, (b) placing lifetime dollar limits on coverage and (c) rescinding coverage when a person becomes sick or disabled, except in cases of fraud. Existing individual and group plans may be "grandfathered" with respect to new benefit standards, but these grandfathered plans will be required to extend dependent coverage to adult children up to age 26, prohibit rescissions of coverage and eliminate waiting periods for coverage of greater than 90 days. Grandfathered group plans will be required to eliminate lifetime limits on coverage and, beginning in 2014, will be required to eliminate annual limits on coverage. Prior to 2014, grandfathered group plans may only impose such annual limits on coverage as are established by the government.

The implementation of the individual mandate in 2014 will be another benefit afforded to hospitals nationally. The individual mandate provides that an individual who does not maintain a minimum level of health insurance will be required to pay a penalty for a number of years, which is intended to increase the number of insured. In 2014, Medicaid coverage will be extended to individuals with incomes less than 133% of the poverty level, or about $29,327 for a family of four, resulting in an estimated 16 million additional Medicaid beneficiaries.

The impact of the Health Care Reform Act on the Obligated Group cannot be predicted at this time, and the uncertainty of that impact is likely to continue for the foreseeable future until implementing regulations are finalized and the provisions of the Health Care Reform Act are fully implemented. Possible effects on the Obligated Group include, without limitation, an increase in the number of insureds and a possible reduction in charity-care and bad-debt write-offs; significant regulatory changes that increase the cost of operations; increased activity by government agencies regarding fraud, waste and abuse; decreased reimbursements for hospital services from third-party payors, including Medicare and Medicaid; significant changes to current payment methodologies for hospital services; and changes to costs and expenses of providing health insurance coverage to hospital employees. Expansion of Medicaid coverage may result in a significant shift in the payor mix of the Obligated Group. Increased coverage and reduction in the number of uninsureds could result in increased demand for the services of the Obligated Group, causing strains on the existing operating capacity of the facilities of the Obligated Group, or create a likely need to recruit or employ physicians and other health services providers to meet

increased demand. The Obligated Group has implemented strategies to prepare for the challenges posed by the Health Care Reform Act, including expansion of the Corporation's primary care physician network.

The Health Care Reform Act also establishes new requirements for any organization that operates at least one hospital facility to qualify as a section 501(c)(3) organization. In general, new section 501(r) of Internal Revenue Code of 1986, as amended (which we refer to as the "Code"), imposes the following new requirements: (i) each hospital facility is required to conduct a community needs assessment at least every three taxable years and adopt an implementation strategy to meet the community needs identified through such assessment; (ii) each hospital facility is required to adopt, implement, and publicize a written financial assistance policy; (iii) each hospital facility is limited in billing for emergency or other medically necessary care provided to individuals who qualify for financial assistance under the facility's financial assistance policy to no more than the amounts generally billed to individuals who have insurance covering such care; and (iv) a hospital facility (or its affiliates) may not undertake extraordinary collection actions (even if otherwise permitted by law) against an individual without first making reasonable efforts to determine whether the individual is eligible for assistance under the hospital's financial assistance policy. These new requirements are generally effective for taxable years beginning after March 2010, except that the requirement for a community needs assessment is effective for taxable years beginning two years or more after March 23, 2010. 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 501(c)(3) organization.

The Health Care Reform Act requires the Secretary of the Treasury, in consultation with the Secretary of the Department of Health and Human Services (which we refer to as "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. These statutorily mandated requirements for periodic review will increase Internal Revenue Service surveillance over such organizations and may increase the likelihood of Internal Revenue Service examinations challenging their section 501(c)(3) status. In addition, submission of a report to Congress 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.

The changes mandated by the Health Care Reform Act, including the requirements imposed by Section 501(r) of the Code described above, could have a material adverse effect on the business and operations of the Obligated Group and any future members of the Obligated Group.

Other federal and state legislation and other actions could adversely affect the members of the Obligated Group.

Members of the Obligated Group are subject to regulation by a number of governmental agencies, including those which administer the Medicare and Medicaid programs, federal, State and local agencies responsible for the administration of health planning programs, and other federal, State and local agencies. As a result, the Obligated Group is sensitive to legislative and regulatory changes in and limitations on governmental spending for the governmental programs which affect it, and the constant shifts in laws and regulations may be detrimental to the Obligated Group and its financial condition.

The rapidly rising cost of health care and the consequent drain on federal and State budgets through funding of the Medicare and Medicaid programs has been a major area of executive and legislative concern. State and federal executives and legislatures are continuously attempting to directly

reduce Medicare and Medicaid expenditures through budget cuts. Those executives and legislatures have also sought these reductions through indirect means, such as by changes in plan design, increased enforcement and prosecution of health care fraud, and other mechanisms. There will most likely be continuing efforts to achieve legislative and regulatory reform in these areas. Investors should therefore form an independent judgment as to the future commitment of the federal and state governments to provide reasonable levels of reimbursement to health care facility operators for costs incurred and services provided by them.

In addition to the Health Care Reform Act, other legislation proposing to regulate, control, or alter the methods of delivering and financing health care is regularly introduced and debated in Congress and State legislatures. Examples include bills that incentivize managed care enrollment; require provision of reduced cost or free care; impose mandatory or voluntary cost controls; affect competition among health care providers; establish new patient rights; establish quality standards; mandate technology investment; and/or prohibit and punish certain healthcare activities or certain provider relationships deemed as incentivizing behavior detrimental to the healthcare system. Future health care legislation and proposals are likely to vary widely, and no determination can be made at this time as to whether any such legislation will be enacted into law, or, if enacted, what effect, if any, it may have on the operations or revenues of the Obligated Group. Health care legislation has been and continues to be the subject of much debate in Congress and State legislatures.

Because of the many possible financial effects that could result from enactment of any bills or regulatory actions proposing to regulate the health care industry, it is not possible at this time to predict the effect on the business of the Obligated Group, if any, of such laws, bills or regulatory actions.

There is no assurance payments made under third party payors will be adequate to cover the actual costs of the members of the Obligated Group.

Net patient revenues realized by the Obligated Group come from a variety of sources. A substantial portion of the patient service revenues of the Obligated Group is derived from third-party payors which reimburse or pay for the services provided to patients covered by such third parties for such services. Third-party payors include the federal Medicare program, state Medicaid programs and private health plans and insurers, including health maintenance organizations (which we refer to as "HMOs") and preferred provider organizations (which we refer to as "PPOs"). Many of these third-party programs make payments to the Obligated Group at rates other than the direct charges that such entities would charge for any of the above services, which rates may be determined other than on the basis of the actual costs incurred in providing services to affected patients. Accordingly, there can be no assurance that payments made under these programs will be adequate to cover the actual costs of the Obligated Group. Moreover, changes in rates and payment methodology as a result of the Health Care Reform Act cannot be predicted at this time. In addition, the financial performance of the Obligated Group could be adversely affected by the insolvency of, or other delay in receipt of payments from, third-party payors that provide coverage for services to their patients.

Medicare

Introduction. During recent years, there have been numerous federal legislative and administrative actions that have affected the Medicare and Medicaid programs, including reductions in payments to hospitals and other health care providers. In December 2003, for example, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (which we refer to as the "MMA") was signed into law. MMA contains various provisions relevant to hospitals and reimbursement for their products and services, including drugs covered by the new Part D drug program created by the MMA.

Government reports have also raised questions about the long-term solvency of the Medicare Part A program, which is used to pay Medicare hospitalization coverage. Reports submitted annually to the Medicare trust fund Board of Trustees consistently predict that the Medicare Part A trust fund could be depleted in the next few decades. It is therefore likely that the federal government will consider and could implement other reductions in Medicare reimbursement or other changes that affect the Obligated Group's ability to participate in these programs. Any such changes could adversely affect the financial condition of the Obligated Group.

In order for a health care organization to participate in and receive payment from the Medicare or Medicaid programs, it must meet the eligibility requirements for program participation, including a certification of compliance with the conditions of participation, or standards, set forth in federal regulations. This certification is based on a survey conducted by a state agency, the Division of Health Service Regulation (which we refer to as "DHSR") in North Carolina, on behalf of the Centers for Medicare and Medicaid Services (which we refer to as "CMS"). However, for national accrediting organizations, such as The Joint Commission, that have and enforce standards that meet or exceed the federal conditions of participation, CMS may grant the accrediting organization "deeming" authority and deem each accredited health care organization as meeting Medicare and Medicaid certification requirements. The health care organization would have deemed status by virtue of its accreditation and would not be subject to Medicare's survey and certification process.

Inpatient Services. Providers are reimbursed for most Medicare inpatient services under a prospective payment system (which we refer to as "PPS"), which pays hospitals fixed amounts for specific services based on patient diagnosis. Under PPS, each Medicare patient discharge is classified into diagnosis-related group categories (which we refer to as "DRGs") and the hospital is reimbursed a specific fixed predetermined rate established by Medicare for that particular patient's DRG, regardless of the actual costs incurred by the hospital for the treatment of such patient. For each DRG category a nationwide rate has been set for each DRG category. The rate varies based on the particular region's wage rates, and the DRG rate for each hospital within a region depends on the weights (based upon the hospital's case-mix) for each DRG. If a hospital treats a patient for less than the applicable DRG rate, the hospital is entitled to retain the difference. Generally, if a hospital's cost of treating the patient exceeds the DRG rate, the hospital will not be entitled to any additional payment, and it will realize a loss. Furthermore, a hospital is precluded from charging the patient any costs beyond the coinsurance and deductible required under Medicare. Payments to hospitals under a DRG system may not reflect the actual costs incurred by many hospitals. DRG rates are updated periodically, and the Obligated Group cannot predict how future adjustments that may be made by Congress and the CMS may affect the financial condition of the Obligated Group.

With certain exceptions, PPS payments are not adjusted for actual costs or variations in lengths of stay or intensity of services. Additional payments, however, are made under PPS for cases involving unusually high costs in comparison with other discharges in the same DRG category, known as "outliers." Consequently, if a hospital's costs of treating Medicare patients exceed the prospective payment for such services, the hospital will have a loss from treating Medicare patients, which loss will have to be recovered, if at all, from other sources of revenue; however, if the hospital's costs are less than the prospective payment rate, the hospital will realize a profit. Many other third-party payors, including alternative delivery systems, are implementing their own prospective payment systems and/or required contractual terms designed to prevent "cost shifting" to such payors and are actively seeking to reduce their payment obligations to hospitals.

Hospitals' capital-related costs for treating Medicare inpatients, which include interest expense, depreciation, lease expense, property taxes, building costs and return on equity capital of proprietary providers, are reimbursed on the basis of a prospective capital rate (e.g., under the PPS system), adjusted for case mix, area wage index, urban location, disproportionate share factors, outlier cases and other

items. Certain operating costs associated with Medicare patients, including deductible and coinsurance amounts not paid by Medicare patients, the cost of certain training and educational activities, limited research costs not otherwise covered by grants, the value of service of non-paid workers, compensation of owners, payments for therapy services provided "under arrangement", organ transplant services, and providers' cost of compensation to provider-based physicians, may be reimbursed on a reasonable cost or prospective basis depending on the cost category. Medicare payments for capital or operating costs rarely cover the actual costs incurred by a hospital. The Obligated Group cannot predict how future adjustment of the cost-based methodologies or PPS rates may affect the financial condition of the Obligated Group.

Outpatient Services. The Balanced Budget Act of 1997 (which we refer to as the "BBA") established a PPS for outpatient hospital services. Outpatient PPS (which we refer to as "OPPS") became effective in August 2000 for hospital outpatient services and in October 2000 for provider-based facilities owned by hospitals. Under OPPS, hospital outpatient services are divided into ambulatory payment classifications (which we refer to as "APCs"). APC groups define the clinically-related and resource-similar items and services that contribute to the cost of a procedure or service. Each APC is assigned a weight, which is based on the median cost of the services in the group. Payment rates for the APCs are established by applying a conversion factor to the APC weight. Under the Benefits Improvement and Protection Act of 2000, the conversion factor may be adjusted in subsequent fiscal years if CMS determines that the adjustment factor has resulted or is likely to result in hospitals changing their coding or classification of covered services. Depending on the type of service provided, hospitals may be eligible for payment under more than one APC per patient encounter. Hospitals are also eligible to receive an outlier payment for outpatient services for which the hospital's charges, adjusted to cost, exceed a fixed multiple of the OPPS payment. Payments to hospitals under OPPS may not reflect the actual costs incurred by many hospitals. The Obligated Group cannot predict how future adjustments that may be made by Congress and CMS may affect the financial condition of the Obligated Group.

Fraud and Abuse. A number of federal laws, loosely referred to as fraud and abuse laws, are used to prosecute health care providers and physicians that fraudulently or wrongfully obtain reimbursement that increases costs to any federal health care program. The anti-kickback provisions of the Social Security Act (which we refer to as the "Anti-Kickback Law") prohibit the exchange of anything of value with the intent to encourage utilization of services payable under a federal health care program. The intent standard under the Anti-Kickback Law has been interpreted by some courts to be satisfied if the intent to induce referrals or other business is simply one of many reasons to enter into the arrangement.

To protect legitimate and cost-effective arrangements among health care providers, the Office of the Inspector General (which we refer to as the "OIG") of HHS, has issued (and will continue to issue) numerous "safe harbor" regulations that specify certain financial arrangements deemed not to violate the Anti-Kickback Law. The safe harbor regulations generally are narrowly drawn and protect very few arrangements. In addition, the OIG asserts the authority to prosecute entities that enter into "sham" transactions that technically comply with a safe harbor if the OIG determines the substance of the transaction is not reflected by its form. Non-compliance with one or more elements of a safe harbor does not make conduct illegal; however, non-compliance with a safe harbor does make it more difficult to determine whether activities in which the Obligated Group is engaged are likely to be considered a violation of the Anti-Kickback Law.

Penalties for violation of the Anti-Kickback Law are severe. Conviction could result in up to five years imprisonment, a $25,000 fine per offense, exclusion from the federal health care programs, and loss of tax-exempt status. In lieu of or in addition to criminal proceedings under the Anti-Kickback Law, violators of the Anti-Kickback Law may also be subject to civil monetary penalties. Civil monetary penalties can range from $10,000 to $50,000 per offense, as well as damage assessments equal to three times the total amount of the kickback. Providers also may (or, if convicted of a felony, must) be

excluded from participation in the federal health care programs. For exclusions related to program abuse, patient abuse or health care fraud, the minimum period of exclusion is five years.

Violations of the Anti-Kickback Law also subject an individual or entity to liability under the federal False Claims Act and may subject an individual or entity to liability under the North Carolina False Claims Act, including through a *qui tam* action, for knowingly presenting, or causing to be presented, to the government a false or fraudulent claim for payment or approval. The federal False Claims Act and the North Carolina False Claims Act each impose penalties of not less than $5,500 and not more than $11,000 per claim, plus three times the amount of damages which the government sustains because of the submission of a false claim.

North Carolina has also recently enacted the Medicaid Anti-Kickback Law, which will become effective December 1, 2010 and prohibits any person from knowingly and willfully soliciting, offering, receiving, or paying any remuneration (including any kickback, bribe or rebate) directly or indirectly, overtly or covertly, in case or in kind, in return for either (i) referring an individual to a person for the furnishing or arranging for the furnishing of any item or service for which payment may be made in whole or in part under Medicaid, or (ii) purchasing, leasing, ordering or arranging for or recommending purchasing, leasing or ordering any good, facility, service or item for which payment may be made in whole or in part under Medicaid. The statute expressly states that it shall not be interpreted or construed to conflict with the federal Anti-Kickback Law, as amended, or with federal common law or federal agency interpretation of the same.

Because of the breadth of State and federal Anti-Kickback Laws, the narrowness of the safe harbors and the wide range of available sanctions for violations, no assurance can be given as to what effect such laws will have on the Obligated Group.

Federal fraud and abuse laws also prohibit the filing of false claims for payment by Medicare, if the claim is filed with the knowledge that the claim is false or with deliberate ignorance or reckless disregard for the truth or falsity of the claim. Each violation of this prohibition is a felony punishable by a fine of up to $25,000, up to five years imprisonment and/or program exclusion. In addition, violators may be subject to civil penalties up to $11,000, plus damages of three times amounts paid by Medicare based on false claims. Entities are also liable under the federal False Claims Act for knowingly concealing or knowingly and improperly avoiding or decreasing an obligation to pay or transmit money or property to the government. An "obligation" includes an established duty arising from an express or implied contractual arrangement, from statute or regulation, or from the retention of an overpayment.

Unlike the other fraud and abuse laws, the federal False Claims Act allows suits by individuals in addition to enforcement action by the government. Disgruntled employees or competitors may become plaintiffs and have a financial incentive to bring suit, as they can recover a portion of the damages awarded.

The Health Insurance Portability and Accountability Act of 1996 (which we refer to as "HIPAA") increased the scope of healthcare fraud and abuse laws by applying them to prohibit fraudulent conduct against any health care benefit program funded in part by the federal government, not only Medicare or Medicaid. HIPAA also authorized new criminal penalties, ranging from monetary fines to life imprisonment depending on the particular crime and the severity of the outcome, for a variety of old and new healthcare offenses involving any public or private healthcare benefits program.

The BBA further increased the penalties associated with healthcare fraud and abuse. Under the BBA, individuals or entities convicted of three health care related crimes must be permanently excluded from the Medicare and Medicaid programs. The BBA gave CMS the authority to refuse to enter into Medicare agreements with a physician or supplier convicted of a single felony that is determined to be

detrimental to Medicare. Additionally, the BBA authorizes civil monetary penalties to be assessed against entities that contract with an excluded individual or entity and established a toll-free number for beneficiaries to report fraud and billing irregularities.

The health care industry is governed by a complex web of statutes and regulations which are not always clear in their interpretation or application. The Obligated Group's policy is to comply with all applicable statutes and regulations, and the Obligated Group has adopted and implemented a corporate compliance program to detect, correct and, if necessary, report deficiencies.

Billing Investigations. HHS, through the U.S. Department of Justice ("DOJ"), the OIG or fiscal intermediaries or carriers of CMS that pay Medicare claims on behalf of HHS, routinely conducts national investigations of hospital Medicare billings for certain types of services. The State of North Carolina also conducts investigations of hospital billing under the Medicaid program. In addition to reimbursing the governmental payor for billing deficiencies, such investigations may require healthcare providers, including the Obligated Group, to pay additional penalties and/or be subjected to sanctions, including exclusion from payment programs and criminal sanctions. Such sanctions may also include entering into a corporate integrity agreement with the OIG, pursuant to which a healthcare provider agrees to maintain a robust compliance program. Such agreements contain monetary penalties for noncompliance with its provisions. The Obligated Group has participated in national billing investigations and has refunded, or will refund, certain amounts owed that have not had, or are not expected by management of the Obligated Group to have, a material adverse effect on the Obligated Group's financial condition. Future audits, inquiries and investigations have the potential to result in claims and lawsuits, the results of which cannot be predicted.

The Obligated Group regularly conducts audits of its billing practices as part of its corporate compliance program. When billing errors are discovered as a result of these audits, the Obligated Group refunds incorrect payments to the Medicare and Medicaid programs. The federal government may further investigate the circumstances under which either these or other billings were made and there can be no assurance that HHS, the DOJ or the OIG will not pursue additional enforcement actions, including under the False Claims Act.

Laws on Patient Referrals. The Physician Self-Referral Law, known as the "Stark Law," also prohibits certain types of referral arrangements between physicians and health care entities. Physicians are prohibited under the Stark Law from referring patients for "designated health services" which are reimbursed under Medicare to entities with which they have a financial relationship. "Designated health services" include an array of health care and physician services, including inpatient and outpatient hospital services. The entity to which a prohibited referral is made is also barred from billing for the "designated health service." Violations of the statute can result in civil monetary penalties and exclusion from the Medicare and Medicaid programs. A hospital may be fined up to $11,000 per day for failure to disclose a physician's improper financial relationship. A hospital may also risk exposure under the False Claims Act for treble damages and a fine of up to $10,000 per claim under a "tainted claims" theory, depending on the jurisdiction.

The Stark Law's unqualified prohibition against self-referral and the complexities of its statutory and regulatory exceptions continue to substantially inhibit financial relationships involving physicians.

In addition to the federal Stark Law, the State has in effect legislation prohibiting health care providers from referring patients to any entity in which the provider is an investor. Penalties for violation of this law range up to a $20,000 fine for each claim for payment improperly made and a $75,000 fine for circumvention schemes.

The Obligated Group believes that there are no prohibited arrangements with physicians and other healthcare providers, but there can be no guarantee that CMS, federal or State enforcement authorities will not view some arrangements as violating the above federal or state self-referral laws.

Prepaid Plans. Under current HHS regulations, eligible prepaid medical plans may receive payment on a prospective, per capita basis for the cost of services provided to Medicare beneficiaries. The MMA and other Medicare reform efforts may cause the number of these plans and of Medicare beneficiaries enrolled in such plans to increase, which in turn may result in significant reductions in Medicare admissions and/or payments to hospitals. The Obligated Group may lose Medicare patients to prepaid medical plans and may be required to provide services to such patients as enrollees of prepaid medical plans.

Federally Designated Quality Improvement Organization. The health care facilities of the Obligated Group are reviewed by a "federally designated quality improvement organization" (which we refer to as the "QIO"), which reviews the necessity and appropriateness of hospital admissions, the appropriateness of the classifications of discharges, the necessity of patient transfers and the propriety of practices that have the potential to increase hospital payments improperly. The QIO may, subject to appeal by the health care facility under review, recommend sanctions to CMS, including denial of payments, requirements for corrective action or termination from the Medicare program.

State Medicaid Regulations

Reimbursement. Congress has recently passed, and will consider in the future, legislation that could cut federal Medicaid spending. In addition, the State of North Carolina has increasingly focused on reducing Medicaid reimbursement to health care providers as a means of addressing State budget considerations. In the recent past, in order to address budget shortfalls, the Governor and the North Carolina General Assembly have made significant cuts in certain State expenditures. Cuts in Medicaid expenditures in the future, if any, are likely to reduce the amount of reimbursement paid to healthcare providers. The Division of Medical Assistance (which we refer to as the "DMA") may also modify the Medicaid reimbursement methodology in other ways from time to time within its statutory mandate. The impact on the Obligated Group of any future Medicaid reimbursement methodology is uncertain.

Prepaid Plans. Prepaid medical plans or managed care programs involving the Medicaid populations are increasing nationwide. North Carolina currently offers several Medicaid managed care options to eligible residents statewide. They include the Carolina Access, Community Care (ACCESS II) and Risk Contracting programs. Carolina Access and Community Care (ACCESS II) operate as a primary care case management program that links beneficiaries with primary care physicians who provide or arrange for medical services for Medicaid beneficiaries. The Risk Contracting program allows DMA to contract with HMOs in select areas to provide medical services to Medicaid beneficiaries on a full risk capitated basis.

The BBA permits states to require a Medicaid beneficiary to enroll in a managed care organization or a primary care case management program if the state permits a choice between at least two entities. Significantly for providers, states may restrict the number of managed care provider agreements as long as access to services is not substantially impaired. As the current trend of enrollment among Medicaid beneficiaries in the Medicaid managed care options offered by DMA continues, the Obligated Group could suffer a loss in patients and revenues that could affect its financial condition adversely.

Indigent Patients. The State Medicaid program reimburses acute care general inpatient services provided by the Obligated Group under a PPS based on DRG rates established by the DMA within the North Carolina Department of Health and Human Services.

Under the Medicaid Reimbursement Initiative (which we refer to as the "Medicaid Initiative"), the Obligated Group is also eligible for additional reimbursement payments based on cost deficits and treatment of a disproportionate share of indigent patients. Medicaid Initiative payments are subject to final settlement based upon upper payment limits for Medicaid and uncompensated care. The Obligated Group has historically received approximately $2.5 million annually pursuant to the Medicaid Initiative program. However, there can be no assurance that such payments will be received in the future.

Commercial Insurance

Many commercial insurance plans, including group plans, reimburse their enrollees and make payments to the Obligated Group for charges at established rates. Generally, payments under these plans are based on DRG rates and case rates, which are subject to various limitations and deductibles depending on the plan. Patients carrying such coverage may be responsible to the hospital for any deficiency between the commercial insurance proceeds and total contracted charges.

Managed Care

The Obligated Group receives a significant portion of its revenues from nongovernmental payors, which provide third-party reimbursement to the Obligated Group on the basis of various formulas. Renegotiation of such formulas and changes in such reimbursement systems may reduce third-party reimbursement to the Obligated Group. Certain private insurance companies and other organizations contract with hospitals on a "preferred" provider basis, and some insurers have introduced plans known as "preferred provider organizations" or PPOs. Under such plans, there may be financial incentives for subscribers to use only those hospitals which contract with the plans.

Most PPOs and HMOs currently pay hospitals on a discounted fee-for-service basis or on a discounted fixed rate per day of care. The discounts offered to HMOs and PPOs may result in payment at less than actual cost and the volume of patients directed to a hospital under an HMO or PPO contract may vary significantly from projections. Some HMOs offer or mandate 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 capitation payment system, the hospital assumes an insurance risk for the cost and scope of care given to such HMO's enrollees. If payment under an HMO or PPO contract is not sufficient to meet the hospital's costs of care, the financial condition of the hospital may be adversely affected. The Obligated Group currently has contracts with both HMOs and PPOs, but no contracts contain a capitation payment method.

Violations of laws regulating health information could subject the members of the Obligated Group to both civil and criminal penalties.

As directed by Congress under HIPAA, HHS implemented regulations imposing national standards to protect the privacy and security of individually-identifying health information. The privacy regulations prohibit any covered entity, including hospitals and health systems, from using or disclosing an individual's protected health information unless the use or disclosure is authorized by the individual (or his or her personal representative) or is specifically required or permitted under the final regulations. The regulations also establish certain patient rights with respect to protected health information. The security regulations specify a series of administrative, technical and physical security procedures for healthcare providers to use to assure the security of protected health information in electronic form. The Obligated Group is required to comply with these standards and has a compliance program in place to assist it in doing so.

The regulations provide for the imposition of both civil and criminal penalties for violations of the statute. General civil penalties for failure to comply with HIPAA requirements and standards can

range up to $100,000 per violation. Criminal penalties for wrongful disclosure of protected health information include fines of up to $250,000 and imprisonment of up to one year. These criminal penalties increase substantially if the offense occurs under false pretenses or with the intent to sell, transfer, or use individually identifiable health information for commercial advantage, personal gain or malicious harm.

Effective September 23, 2009, HIPAA now requires that individuals be notified without unreasonable delay and within 60 days of their protected health information having been inappropriately accessed, acquired or disclosed. Depending on the number of individuals affected by such a breach, notification may be required to the media and federal government as well. The regulations prescribe the method and form of the required notices. Civil penalties up to $50,000 per violation with a maximum of $1.5 million a year may attach to failures to notify.

The administrative and financial burden of complying with these privacy, security and other health information technology obligations has been, and may continue to be, substantial. Even when a healthcare provider comes into compliance, there are expected to be continuing costs associated with compliance. The Obligated Group cannot predict the extent to which either the future costs of compliance will affect its financial performance or the promised benefits of compliance will ever be realized.

Federal laws requiring treatment of emergency medical conditions and women in active labor may require the members of the Obligated Group to provide care and services for which they will not receive reimbursement.

Federal law requires hospitals that participate in Medicare to comply with the Emergency Medical Treatment and Labor Act of 1986 (which we refer to as "EMTALA") as applicable. Under EMTALA, any person, not just a Medicare or Medicaid beneficiary, who comes to a hospital seeking medical examination or treatment must be provided an appropriate medical screening examination. If the screening reveals that an emergency medical condition exists or that a woman is in active labor, the hospital must provide sufficient treatment to stabilize the patient or make an "appropriate" transfer under EMTALA. EMTALA requires hospitals to provide the medical screening exam and stabilizing treatment regardless of the person's ability to pay and generally prohibits hospitals from inquiring into the person's method of payment or insurance status before providing the treatment. Additionally, EMTALA prohibits hospitals from delaying treatment in order to obtain prior authorization for treatment from a person's managed care plan. Because of these prohibitions, the Obligated Group may be required to provide substantial amounts of care and services for which they will not receive reimbursement.

Hospitals that knowingly and willfully, or negligently, fail to comply with EMTALA's requirements are subject to termination as a Medicare provider. Additionally, the OIG may impose civil monetary penalties of up to $50,000 per violation. EMTALA may create a private right of action for individuals who suffer harm as a result of a hospital's EMTALA violations.

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 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.

On a regular basis, health care facilities, including the members of the Obligated Group, are subject to numerous legal, regulatory, professional and private licensing, registration, certification and accreditation requirements.

These requirements include, but are not limited to, Medicare participation and payment, state licensing agencies, private payors, The Joint Commission and other federal, State and local governmental agencies. 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 Obligated Group. These activities generally are conducted in the normal course of business of healthcare facilities. Nevertheless, an adverse result could result in a loss or reduction in the facility's scope of licensure, certification or accreditation, or could reduce the payment received or require repayment of amounts previously remitted.

Regulatory actions in any of these areas could result in the loss of utilization or revenues, or the ability of the Obligated Group to operate all or a portion of its facilities, and, consequently, could adversely affect the ability of the Obligated Group to provide funds necessary to pay the 2010A Bonds.

Health care facilities, including the members of the Obligated Group, are subject to increased malpractice claims, resulting in increased malpractice insurance premiums.

In recent years, the number of malpractice and general liability suits and the dollar amounts of the recoveries have increased nationwide, resulting in substantial increases in malpractice insurance premiums. Malpractice and other actions alleging wrongful conduct and seeking punitive damages are often filed against hospitals. Insurance does not provide coverage for judgments for punitive damages.

The growth of the managed care industry has given way to new liability concerns for physicians and hospitals involved in managed care networks. Liability relating to the managed care context is most likely to occur when through action primarily of the managed care organization (a) treatment is denied outright, (b) alternative treatment is recommended but not provided, (c) treatment is found to be "medically unnecessary" or (d) access to the appeals or grievance procedure is denied or otherwise restricted. To the extent that the Obligated Group is involved in managed care contracting, it may be exposed to additional liability based on these types of claims.

The State's Certificate of Need Law may limit or even prevent the members of the Obligated Group from undertaking certain new activities and expenditures which might be financially advantageous.

The State of North Carolina has adopted a Certificate of Need Law and promulgated regulations (which we refer to as the "CON Law") which control various types of activities which involve, and expenditures which relate to, the provision of health care services. The purpose of the CON Law is to prevent unnecessary duplication of expensive health care services in an effort to contain health care costs.

Before undertaking certain types of activities or expenditures, persons or entities, including hospitals or other health service facilities, are required to file an application for a certificate of need. Applications are evaluated by the Certificate of Need Section, Division of Health Service Regulation, North Carolina Department of Health and Human Services (which we refer to as the "CON Section") on the basis of various statutory and regulatory criteria. These criteria include the need, cost-effectiveness and financial feasibility of each proposal, as well as the accessibility of the facility to indigent and other medically underserved patients. In some cases, applications to develop or operate a new service or facility are reviewed by the CON Section on a competitive basis. The Obligated Group has received certificates of need for all of its facilities as currently required by law.

The CON Law may limit or even prevent the Obligated Group from undertaking certain new activities and expenditures which might be financially advantageous. In addition, the CON Law may require substantial expenditures by the Obligated Group in order to obtain a certificate of need or a determination that a certificate of need is not required or to protect their position with respect to potential competitors in their service area. These expenses may include, among others, consulting fees and legal fees for advice, preparation of applications, review of competing applications, preparation of written comments and participation in public hearings, administrative hearings and judicial review.

Recently, some states have amended their certificate of need laws to reduce or remove the restrictions imposed with respect to undertaking covered activities or expenditures related to health care facilities. In each of these states there were substantial increases in the number of health care facilities such as free standing ambulatory surgery centers and imaging centers providing services in major urban areas. There have been some unsuccessful efforts in the North Carolina General Assembly to amend or repeal the CON Law. If the CON Law is so amended or repealed in the future, the Obligated Group could experience increased competition for certain health care services they currently provide, or their revenues from such services could decline, or both.

In addition, the CON Law may be amended in the future to increase or decrease the regulatory restrictions and resulting costs. For all of these reasons, the CON Law could adversely affect the revenues of the Obligated Group and may be changed in the future in ways that are adverse to the Obligated Group.

The members of the Obligated Group face competition in their service areas.

The Obligated Group competes with other health care providers in its primary and secondary service areas (see "SERVICE AREA" in Appendix A). Potential competitors offer a wide range of health services and include, among others, physician groups and clinics, acute care hospitals, nursing homes, ambulatory surgical centers, HMOs, private laboratories and radiological services facilities.

The members of the Obligated Group could be sued for not providing enough charity healthcare, overcharging the uninsured or using improper debt collection techniques.

While the members of the Obligated Group have not been named in any such suits, since 2004 uninsured patients have filed lawsuits in state and federal courts against nonprofit hospitals and hospital systems across the United States of America. Generally, the lawsuits allege, among other things, that the defendants provide an insufficient amount of charity healthcare, that they overcharge patients who are uninsured, and that they use improper debt collection methods when uninsured patients fail to pay their medical bills. Such lawsuits have generally been unsuccessful. However, there can be no assurance that suits of this nature will not continue to be brought or that they will not materially affect hospitals in general and the Corporation in particular.

The Corporation must maintain its 501(c)(3) status.

The tax-exempt status of the 2010A Bonds depends in part upon maintenance by the Corporation of its status as an organization described in the Code. The Corporation has been determined to be tax-exempt organization described in Section 501(c)(3) of the Code. The maintenance by the Corporation of its status as an organization 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 its operation for charitable and educational purposes and its avoidance of transactions that may cause their assets to inure to the benefit of private individuals. The Internal Revenue Service has announced that it intends to closely scrutinize transactions between nonprofit 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 Internal Revenue Service in the form of Private Letter Rulings, many activities have not been addressed in any official opinion, interpretation or policy of the Internal Revenue Service. Because the Obligated Group conducts diverse operations involving private parties, there can be no assurance that certain of its transactions would not be challenged by the Internal Revenue Service. The Internal Revenue Service has taken the position that hospitals which are in violation of the Anti-Kickback Law may also be subject to revocation of their tax-exempt status. As a result, tax-exempt hospitals which have, and will continue to have, extensive transactions with physicians are subject to an increased degree of scrutiny and perhaps enforcement by the Internal Revenue Service. No members of the Obligated Group are currently being audited by the Internal Revenue Service. However, the Internal Revenue Service could audit members of the Obligated Group in the future.

Bills have been introduced in Congress and state legislatures which 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. No such bills have been enacted to date, but there can be no assurance that will remain the case in the future.

In addition, as a result of the Taxpayer Bill of Rights enacted in July 1996, the Internal Revenue Service has additional authority to police the activities of tax-exempt organizations. Specifically, in addition to revocation of an entity's tax-exempt status, the IRS may impose intermediate sanctions or fines on improper "excess benefit" transactions involving disqualified persons or persons in a position to exercise substantial influence over the officers of the tax-exempt entity. These sanctions may be applied retroactively to any transaction occurring on or after September 14, 1995.

Unionization of employees of the members of the Obligated Group could have an adverse effect on the financial condition of the members of the Obligated Group.

The Obligated Group is not aware of any current efforts by any labor union to organize its employees. Health care facilities, however, have been subjected to union organizational efforts from time to time.

Health care facilities are subject to many environmental laws and occupational health and safety laws.

Hospitals are subject to a wide variety of federal, State and local environmental and occupational health and safety laws and regulations that address, among other things, hospital operations, patient safety or facilities and properties owned or operated by hospitals. In their role as owners and operators of properties or facilities, hospitals may be subject to liability for investigating and remedying any hazardous substances that have come to be located on their property, including any such substances that may have migrated off of the property. Typical hospital operations include, in various combinations, the handling, use, storage, transportation, disposal and discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants or contaminants. For these reasons, 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 or increase their cost or both; may result in legal liability, damages, injunctions or fines; or may trigger investigations, administrative proceedings, penalties or other government agency actions. At the present time, the Obligated Group is not aware of any pending or threatened environmental claim, investigation or enforcement action which if determined adversely to the Obligated Group, would have material adverse consequences. There can be no assurance that 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.

Health care facilities face possible staffing shortages.

In recent years, the hospital industry has suffered from an increasing scarcity of nurses and skilled technicians to staff its facilities. Nationally there is a shortage of registered nurses and licensed practical nurses. This shortage of nurses and skilled technicians could compel the Corporation to pay higher than anticipated salaries to such personnel or to hire such personnel on a temporary basis through outside agencies at a higher cost. As competition for such employees intensifies, staffing shortages could have the continued effect of significantly increasing personnel costs and could have a material adverse effect on the financial results of the Obligated Group and on its ability to sustain minimum staffing levels necessary to maintain licensure, certification and accreditation. Although the Corporation has achieved adequate nurse and skilled technician staffing levels to date.

In addition to those matters more particularly described above, the following are some other factors that could adversely affect the operations of the members of the Obligated Group in the future:

- Enactment of legislation governing such matters as (a) capping annual spending growth for the Medicare and Medicaid programs, (b) expanding the use of tax-deductible, medical savings accounts, (c) requiring the development of rate schedules based on Medicare payment methodologies for use by private health insurers, (d) limiting Medicare reimbursement for certain high-cost procedures to selected providers and (e) setting new standards for medical staff peer reviews, potentially increasing hospital exposure to litigation and/or liability regarding medical staff disputes.

- Increased cost and/or decreased availability of malpractice, hazard, automobile and general comprehensive liability insurance.

- Increases in pharmaceutical costs.

- Risks inherent in investments and changes in investment returns.

The Obligated Group expects that it will experience increases in operating costs due to inflation, necessary technological changes to remain competitive, salaries and benefits, increased depreciation and other factors. There is no assurance that cost increases will be matched by increased patient and other charges in amounts sufficient to generate revenue and gains in excess of expenses at the levels experienced by the Obligated Group in the past.

DESCRIPTION OF THE 2010A BONDS

The following summary of certain provisions of the Trust Agreement and the Loan Agreement does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all the provisions of the Trust Agreement and the Loan Agreement.

Denominations, Principal, Maturity, Interest, Payments and Book-Entry Only System

We will issue the 2010A Bonds as registered bonds in denominations of $5,000 or any whole multiple thereof.

The 2010A Bonds will be dated the date of their original delivery. Interest on each 2010A Bond will accrue from that original delivery date or, in the case of any 2010A Bond authenticated after the

original delivery date, from the most recent interest payment date or from the date to which interest has been paid if any bond interest is in default.

Interest on the 2010A Bonds will be paid on each January 1 and July 1, beginning January 1, 2011 (each of which we refer to as an "Interest Payment Date"), at the rates set forth on the inside cover page of this official statement. Such interest will be paid to each person in whose name a 2010A Bond is registered at the close of business on each June 15 and December 15 (each of which we refer to as a "Regular Record Date"). The 2010A Bonds will mature, subject to the redemption provisions set forth below, on July 1 in the years and amounts set forth on the inside cover page of this official statement.

Any interest on a 2010A Bond that is not paid on time will be considered defaulted interest and will cease to be payable to the person who is the registered owner of the 2010A Bond as of a Regular Record Date. Such defaulted interest will be paid to the person in whose name the 2010A Bond is registered as of a special record date or in any other lawful manner determined by us in accordance with the Trust Agreement.

All 2010A Bonds will be registered initially in the name of Cede & Co, as nominee of The Depository Trust Company (which we refer to as "DTC"). You should review Appendix E for information about payment of principal of, redemption premium, if any, and interest on the 2010A Bonds while the DTC book-entry only system is in effect.

If the book-entry only system is ever discontinued,

- the principal or redemption price of the 2010A Bonds will be payable upon presentation and surrender thereof at the corporate trust office of the Bond Trustee for delivery of 2010A Bonds, and

- interest will be paid by check mailed by the Bond Trustee (or by wire transfer of immediately available funds if so requested by a registered owner of at least $1,000,000 of 2010A Bonds) to the persons who are the registered owners of the 2010A Bonds as of the Regular Record Date.

Redemption

Optional Redemption.

The Corporation may direct us to redeem the 2010A Bonds maturing on or after July 1, 2021, in whole or in part, on any date on or after July 1, 2020, at a redemption price equal to 100% of the principal amount of the 2010A Bonds to be redeemed, plus accrued interest, if any, to the redemption date.

Mandatory Redemption.

We must redeem the 2010A Bonds maturing on July 1, 2030 in part by lot on July 1 in the years and amounts set forth below at a redemption price equal to 100% of the principal amount of the 2010A Bonds to be redeemed, plus accrued interest to the redemption date:

Year	Amount
2026	$6,655,000
2027	7,000,000
2028	7,360,000
2029	7,735,000
2030[+]	8,130,000

[+] Maturity.

Before the 45th day preceding each July 1, the Bond Trustee may apply the amounts accumulated for each mandatory sinking fund redemption of the 2010A Bonds to the purchase of such 2010A Bonds at a price (including any brokerage and other charges) not exceeding the principal amount thereof, plus accrued interest to the date of purchase. If the principal amount of the 2010A Bonds so purchased exceeds the amount of the 2010A Bonds required to be redeemed on the following July 1, future sinking fund payments may be reduced by the amount of such excess in the years and amounts designated by the Corporation.

Extraordinary Redemption.

Insurance Proceeds and Condemnation Awards. The Corporation may direct us to redeem 2010A Bonds, in whole or in part (in amounts not less than $100,000), on any date at a redemption price equal to 100% of the principal amount of the 2010A Bonds to be redeemed, plus accrued interest, if any, to the redemption date, from amounts received by the Corporation as insurance proceeds or condemnation awards after the occurrence of any of the following events to all or any part of the Operating Assets:

- damage or destruction by fire or casualty, or
- loss of title or use as a result of the failure of title or eminent domain proceedings or proceedings in lieu thereof,

if such damage, destruction, loss of title or loss of use causes the Operating Assets in the aggregate to be impracticable to operate, as evidenced by an officer's certificate filed with us and the Bond Trustee.

"Operating Assets" means any or all land, leasehold interests, buildings, machinery, equipment, hardware and inventory owned or operated by each member of the Obligated Group and used in its respective trades or businesses, whether separately or together with other such assets, but not including cash, investment securities and other property held for investment purposes.

Change of Law. The Corporation may direct us to redeem 2010A Bonds, in whole on any date at a redemption price equal to 100% of the principal amount of the 2010A Bonds to be redeemed, plus accrued interest, if any, to the redemption date, upon the occurrence of any of the following events:

- changes in the Constitution of the United States of America or of the State of North Carolina, or

- legislative or administrative action, or failure of administrative action, by the United States or the State of North Carolina or any agency or political subdivision of either thereof, or

- any judicial decision,

to such extent that, in the opinions of the Board of Directors of the Corporation (expressed in a resolution) and an independent architect, engineer or Consultant (as may be appropriate for the particular event), filed with us and the Bond Trustee, (i) the Loan Agreement is impossible to perform without unreasonable delay or (ii) unreasonable burdens or excessive liabilities not being imposed as of the date of the Loan Agreement are imposed on the Corporation.

Selection of 2010A Bonds to be Redeemed.

If less than all of the outstanding 2010A Bonds are to be called for optional redemption or extraordinary redemption, the maturities to be redeemed will be selected by the Corporation. If less than all of the 2010A Bonds within a maturity are to be called for redemption, selection of the 2010A Bonds to be redeemed will be made pursuant to DTC's procedures if the book-entry only system is in effect and shall be made by the Bond Trustee by lot otherwise.

Notice of Redemption.

The Bond Trustee will give notice of any redemption to all registered owners of 2010A Bonds being redeemed at least 30 days, and no more than 60 days, before the date of redemption. Failure to send a redemption notice to any registered owner or any defect in any notice mailed will not affect the redemption of the 2010A Bonds of any other registered owner. While the book-entry only system is in effect, all redemption notices will be sent to DTC as discussed in Appendix E.

Conditional Redemption.

In the case of any optional redemption, the redemption notice may state that

- it is conditioned on the deposit with the Bond Trustee, no later than the redemption date, of moneys, "Defeasance Obligations" or a combination of both sufficient to pay the redemption price of the 2010A Bonds to be redeemed, or

- the Corporation retains the right to rescind such notice on or prior to the scheduled redemption date.

If such moneys or Defeasance Obligations are not deposited or the notice is rescinded, such notice and optional redemption shall not be effective and the 2010A Bonds to be redeemed will remain outstanding. If the redemption does not occur, the Bond Trustee will immediately give notice by electronic means to DTC.

Effect of Calling for Redemption.

If on the redemption date the Bond Trustee holds money, "Defeasance Obligations" or a combination of both sufficient to pay the redemption price of the 2010A Bonds to be redeemed, plus accrued interest to the redemption date, in trust for the registered owners of the 2010A Bonds to be redeemed, then interest on such 2010A Bonds will cease to accrue and such 2010A Bonds will no longer be deemed to be outstanding or secured under the Trust Agreement. Furthermore, the registered owners of such 2010A Bonds will have no rights with respect thereto except to receive payment of the

redemption price plus accrued interest to the redemption date. "Defeasance Obligations" are limited to certain types of investments as described in Appendix C under the heading "DEFINITIONS OF CERTAIN TERMS."

Registration, Transfer and Exchange

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

If the book-entry only system is not in effect, a registered owner may transfer or exchange 2010A Bonds in accordance with the Trust Agreement. A registered owner must furnish an appropriate assignment to the Bond Trustee in connection with any transfer or exchange. We and the Bond Trustee may require the registered owner of a 2010A Bond to pay a sum sufficient to cover any tax or other governmental charge in connection with any transfer or exchange.

Neither the Bond Trustee nor we are required to transfer or exchange any 2010A Bond that has been selected for redemption in whole or in part. Moreover, neither the Bond Trustee nor we are required to issue, transfer or exchange 2010A Bonds within 15 days before the date of mailing a notice of redemption of 2010A Bonds.

Acceleration

The principal of the 2010A Bonds may be accelerated if an event of default under the Trust Agreement occurs, including our failure to pay the principal of or interest on the outstanding 2010A Bonds when due and payable. For a description of the events of default and the circumstances under which acceleration may occur and other remedies available to the Bond Trustee and the registered owners of the 2010A Bonds, you should read "SUMMARY OF THE TRUST AGREEMENT—Events of Default" and "—Remedies on Default" in Appendix C.

PLAN OF FINANCING

The Corporation will use the proceeds from the sale of the 2010A Bonds to:

- refund all of the outstanding 1998 Bonds;
- pay, and reimburse the Corporation for paying, the costs of the Project;
- fund a portion of the interest accruing on the 2010A Bonds during the acquisition and construction of the Project; and
- pay certain expenses of issuing the 2010A Bonds.

The Refunding

We will call the 1998 Bonds for optional redemption in whole on November 9, 2010 at a redemption price of 100% of the principal amount thereof plus accrued interest to the redemption date. When we issue the 2010A Bonds, we will deposit a portion of the proceeds of the 2010A Bonds with the trustee for the 1998 Bonds. The amount of proceeds so deposited will be sufficient, without investment, to pay, when due, the principal of, and interest on, the 1998 Bonds through the redemption date. Therefore, the 1998 Bonds will no longer be deemed to be outstanding after we issue the 2010A Bonds.

The Project

The Project consists of the construction of a new central energy plant on the main campus of Rex Hospital and routine capital expenditures for the Corporation, including renovating portions of Rex

Hospital and acquiring medical, computer and other equipment for Rex Hospital. The central energy plant project received an exemption from certificate of need review by the State. Construction of the central energy plant is expected to begin in 2011 with completion expected in 12 to 18 months from the commencement of construction. The central energy plant is estimated to cost approximately $26.6 million.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds are as follows:

Sources	
Par Amount of 2010A Bonds	$122,965,000
Plus net original issue premium	4,491,150
TOTAL SOURCES OF FUNDS	$127,456,150
Uses	
Refund 1998 Bonds	$ 76,034,727
Costs of the Project	47,608,529
Funded Interest	2,184,840
Costs of Issuance [1]	1,628,054
TOTAL USES OF FUNDS	$127,456,150

[1] Includes underwriters' discount, legal fees and expenses, trustee fees and expenses, rating agency fees, printing costs and other costs of issuance of the 2010A Bonds.

ANNUAL DEBT SERVICE REQUIREMENTS

The following table sets forth, for each Fiscal Year of the Obligated Group ending June 30, beginning with the Fiscal Year ending June 30, 2011, the principal of and interest on the 2010A Bonds required to be paid by the Obligated Group pursuant to Obligation No. 4.* In some cases, totals in the following table may not foot due to rounding.

Fiscal Year Ending June 30	2010A Bonds/ Obligation No. 4		
	Principal	Interest	Total
2011	$ -0-	$ 981,850	$ 981,850
2012	3,120,000	5,406,738	8,526,738
2013	4,645,000	5,282,638	9,927,638
2014	4,835,000	5,117,213	9,952,213
2015	4,980,000	4,945,088	9,925,088
2016	5,175,000	4,716,113	9,891,113
2017	5,435,000	4,483,113	9,918,113
2018	5,645,000	4,238,363	9,883,363
2019	5,925,000	3,954,463	9,879,463
2020	6,210,000	3,687,488	9,897,488
2021	6,460,000	3,401,788	9,861,788
2022	6,785,000	3,104,588	9,889,588
2023	7,055,000	2,816,538	9,871,538
2024	7,360,000	2,512,388	9,872,388
2025	6,100,000	2,237,338	8,337,338
2026	6,355,000	1,979,044	8,334,044
2027	6,655,000	1,677,625	8,332,625
2028	7,000,000	1,336,250	8,336,250
2029	7,360,000	977,250	8,337,250
2030	7,735,000	599,875	8,334,875
2031	8,130,000	203,250	8,333,250
TOTAL	$122,965,000	$63,658,994	$186,623,994

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* The table excludes debt service requirements on a tax-exempt equipment financing which matures in the Fiscal Year ending on June 30, 2011 and various capital lease obligations which expire on various dates through the Fiscal Year ending on June 30, 2015. See Note 6 in Appendix B.

CONTINUING DISCLOSURE

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

Annual Information

For the benefit of the beneficial owners of the 2010A Bonds, the Corporation has agreed to provide the following to the Municipal Securities Rulemaking Board (which we refer to as the "MSRB"):

- by not later than 120 days after the end of each Fiscal Year of the Obligated Group, commencing with the fiscal year ending June 30, 2011, the Financial Statements for such Fiscal Year, if available, or, if such Financial Statements are not available by 120 days after the end of such Fiscal Year, the Unaudited Financial Statements for such Fiscal Year to be replaced subsequently by the Financial Statements to be delivered within 15 days after such Financial Statements become available for distribution; and

- by not later than 120 days after the end of each Fiscal Year of the Obligated Group, commencing with the Fiscal Year ending June 30, 2011, the financial and statistical data as of a date not earlier than the end of the preceding Fiscal Year for the type of information included in the following charts under the heading "SELECTED FINANCIAL AND UTILIZATION INFORMATION" in Appendix A, to the extent such items are not included in the Financial Statements referred to in the paragraph above:

    - Summary of Operating Statistics for Fiscal Years 2008-2010;

    - Percentage of Patient Revenues by Payor;

    - Historical Debt Service Coverage; and

    - Liquidity Ratios.

As used above, "Financial Statements" has the meaning given to that term in the Master Indenture as described in Appendix C under the heading "DEFINITIONS OF CERTAIN TERMS." "Unaudited Financial Statements" has the same meaning as Financial Statements except that such financial statements have not been audited and reported upon by an accountant.

Material Event Notices

For the benefit of the beneficial owners of the 2010A Bonds, the Corporation also has agreed to provide the following to the MSRB:

- In a timely manner, not in excess of ten business days after the occurrence of the event, written notice of any of the following events with respect to the 2010A Bonds:

    - principal and interest payment delinquencies;

    - non-payment related defaults, if material;

    - unscheduled draws on debt service reserves reflecting financial difficulties;

- unscheduled draws on credit enhancements reflecting financial difficulties;
- substitution of any credit or liquidity providers, or their failure to perform;
- adverse tax opinions, 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 or determinations with respect to the tax status of the 2010A Bonds, or other material events affecting the tax status of the 2010A Bonds;
- modification to the rights of the beneficial owners of the 2010A Bonds, if material;
- bond calls, except with respect to mandatory sinking redemptions, if material, and tender offers;
- defeasances;
- release, substitution or sale of any property securing repayment of the 2010A Bonds, if material;
- rating changes;
- bankruptcy, insolvency, receivership or similar event of any member of the Obligated Group, which shall be considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for any member of the Obligated Group in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of any member of the Obligated Group, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of any member of the Obligated Group;
- the consummation of a merger, consolidation, or acquisition involving any member of the Obligated Group or the sale of all or substantially all of the assets of any 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
- appointment of a successor or additional Bond Trustee or the change of name of a Bond Trustee, if material.

- In a timely manner, notice of its failure to provide the required annual financial statements and other annual financial and statistical data described above on or before the date specified.

Electronic and Other Methods

The Corporation must provide the documents referred to above to the MSRB in an electronic format as prescribed by the MSRB and accompanied by identifying information as prescribed by the MSRB. The Corporation may discharge its undertakings described above by transmitting the documents referred to above to any entity and by any method authorized by the U.S. Securities and Exchange Commission.

Failure to Comply

If the Corporation fails to comply with the undertaking described above, the Bond Trustee or any beneficial owner of any outstanding 2010A Bonds may take action to protect and enforce the rights of all beneficial owners with respect to such undertaking, including an action for specific performance. If the Corporation does not cure such failure and it becomes an event of default under the Loan Agreement, the Bond Trustee also may exercise any other remedy available to it upon the occurrence of an event of default.

The Corporation has not failed to comply in any material respect with any of its previous continuing disclosure undertakings.

Modification of Undertaking

The Corporation has reserved the right to modify from time to time the information to be provided to the extent necessary or appropriate in its judgment, provided that:

- any such modification may only be made in connection with a change in circumstances that arises from a:
  - change in legal requirements,
  - change in law, or
  - change in the identity, nature, or status of the Combined Group;
- the information to be provided, as modified, would have complied with the requirements of Rule 15c2-12 issued under the Securities Exchange Act of 1934 (which we refer to as "Rule 15c2-12"), as of the date of this official statement, after taking into account any amendments or interpretations of Rule 15c2-12, as well as any changes in circumstances; and
- any such modification does not materially impair the interests of the beneficial owners of the 2010A Bonds, as determined by either the Bond Trustee or bond counsel, or by the approving vote of the beneficial owners of a majority in principal amount of outstanding 2010A Bonds in accordance with the terms of the Trust Agreement.

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

Termination of Undertaking

The undertaking described above will terminate upon payment, or provision having been made for payment, in a manner consistent with Rule 15c2-12, in full of the principal of and interest on all of the 2010A Bonds.

Quarterly Disclosure

The Corporation has also agreed under the Loan Agreement to file within forty-five (45) days after the end of each quarter of each Fiscal Year:

- with us, the LGC (upon request), the Bond Trustee and the MSRB, the cumulative unaudited financial statements of the Obligated Group for the Fiscal Year to date; and

- with us and the MSRB, the operating statistics of the Obligated Group for the Fiscal Year to date.

LITIGATION

Issuer

There is no action, suit, proceeding, inquiry or investigation at law or in equity before or by any court, public board or body pending or, to our knowledge, threatened against or affecting us, the Commission, in which an unfavorable decision, ruling or finding would adversely affect

- the transactions contemplated by, or the validity or enforceability of, the 2010A Bonds, the Trust Agreement or the Loan Agreement, or

- the tax-exempt status of interest on the 2010A Bonds.

Corporation

See "LITIGATION" in Appendix A for information relating to litigation regarding the Corporation.

LEGAL MATTERS

The 2010A Bonds are being offered subject to the approval of their validity by Robinson, Bradshaw & Hinson, P.A., Charlotte, North Carolina, bond counsel. You can find the proposed form of their approving opinion in Appendix D.

Certain legal matters relating to this offering, other than the validity of the 2010A Bonds, will be passed upon:

- for the Obligated Group by K&L Gates LLP, Research Triangle Park, North Carolina, and

- for the underwriters by McGuireWoods LLP, New York, New York.

TAX TREATMENT

Opinion of Bond Counsel

The opinion of bond counsel will state that under existing law interest on the 2010A Bonds

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

In rendering the foregoing opinion, bond counsel will rely on the opinion of K&L Gates LLP, counsel to the Corporation, with respect to the status of the Corporation under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (which we refer to as the "Code"). The tax exemption of interest on the 2010A Bonds is dependent upon, among other things, the status of the Corporation as an organization described in Section 501(c)(3) of the Code, and therefore bond counsel's conclusion that interest is excludable from gross income for purposes of federal income tax exemption is dependent, in part, upon the opinion of K&L Gates LLP.

The Code and the regulations promulgated under the Code contain a number of requirements that must be satisfied subsequent to the issuance of the 2010A Bonds in order for interest on the 2010A Bonds to be and remain excludable from gross income for purposes of federal income taxation. Examples include:

- the requirement that the Corporation maintain its status as an organization exempt from federal income taxation by reason of being described in Section 501(c)(3) of the Code;
- the requirement that we rebate certain excess earnings on proceeds and amounts treated as proceeds of the 2010A Bonds to the United States Treasury;
- restrictions on investment of such proceeds and other amounts; and
- restrictions on the ownership and use of the facilities financed with proceeds of the 2010A Bonds.

The foregoing is not intended to be an exhaustive listing of the post-issuance tax compliance requirements of the Code, but is illustrative of the requirements that must be satisfied by us and the Corporation after the issuance of the 2010A Bonds to maintain the exclusion of interest on the 2010A Bonds from income for federal income taxation purposes. Failure to comply with certain of such requirements may cause interest on the 2010A Bonds to be included in gross income retroactively to the date of issuance of the 2010A Bonds. We and the Corporation have covenanted to comply with, and the Corporation has covenanted to cause any future members of the Obligated Group to comply with, these requirements. The opinion of bond counsel delivered on the date of issuance of the 2010A Bonds will be conditioned on the compliance with such requirements, and bond counsel has not been retained to monitor compliance with requirements such as those described above after the issuance of the 2010A Bonds.

Bond counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on factual representations made to bond counsel as of the date of such opinion. Bond counsel assumes no duty to revise or supplement its opinions to reflect any facts or circumstances that

may thereafter come to bond counsel's attention, or to reflect any changes in law that may thereafter occur or become effective. Moreover, bond counsel's opinions are not a guarantee of a particular result and are not binding on the Internal Revenue Service or the courts; rather, such opinions represent bond counsel's professional judgment based on its review of existing law and in reliance on the representations and covenants that it deems relevant to such opinions.

Original Issue Discount

The original issue discount in the selling price of each 2010A Bond maturing on July 1 in the years 2021, 2022 and bearing interest at a rate of 4.00% per annum, and 2023 to 2025, inclusive, to the extent properly allocable to each owner of such 2010A Bond, is excludable from gross income for federal income tax purposes with respect to such owner. The original issue discount is the excess of the stated redemption price at maturity of such 2010A Bond over its initial offering price to the public, excluding underwriters and other intermediaries, at which price a substantial amount of the 2010A Bonds of such maturity were sold.

Under Section 1288 of the Code, original issue discount on tax-exempt bonds accrues on a compound basis. The amount of original issue discount that accrues to any owner of a 2010A Bond during any accrual period generally equals (1) the issue price of such 2010A Bond plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (2) the yield to maturity of such 2010A Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), minus (3) any interest payable on such 2010A Bond during such accrual period.

The amount of original issue discount so accrued in a particular accrual period will

- be considered to be received ratably on each day of the accrual period,
- be excludable from gross income for federal income tax purposes, and
- increase the owner's tax basis in such 2010A Bond.

If you purchase a 2010A Bond at an original issue discount, you should consult your tax advisor regarding the determination and treatment of original issue discount for federal income tax purposes, and with respect to state and local tax consequences of owning such 2010A Bonds.

Premium Bonds

The 2010A Bonds maturing on July 1 in the years 2011 to 2020, inclusive, 2022 and bearing interest at a rate of 5.00% per annum, and 2030 have been sold at initial public offering prices that are in excess of the amount payable at maturity. An amount equal to the excess of the purchase price of a 2010A Bond over its stated redemption price at maturity constitutes premium on such 2010A Bond. You must amortize any premium over such 2010A Bond's term using constant yield principles, based on the 2010A Bond's yield to maturity. As premium is amortized, your basis in such 2010A Bond and the amount of tax-exempt interest received will be reduced by the amount of amortizable premium properly allocable to you. This will result in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes on sale or disposition of such 2010A Bond prior to its maturity. Even though your basis is reduced, no federal income tax deduction is allowed. If you purchase a 2010A Bond at a premium, whether at the time of initial issuance or after initial issuance, you should consult your tax advisor with respect to the determination and treatment of premium for federal income tax purposes, and with respect to state and local tax consequences of owning such 2010A Bonds.

Other Tax Consequences

You should be aware that ownership of the 2010A Bonds may result in collateral federal, state or local tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income," corporations as to includability in adjusted current earnings for purposes of determining the alternative minimum taxable income of a corporation, foreign corporations subject to the branch profits tax, life insurance companies and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry or have paid or incurred certain expenses allocable to the 2010A Bonds. Bond counsel expresses no opinion regarding any such collateral tax consequences. You should consult your tax advisors regarding collateral tax consequences.

UNDERWRITING

The Local Government Commission of North Carolina, with our approval and the approval of the Corporation and the Parent Corporation, has entered into a purchase agreement with Merrill Lynch, Pierce, Fenner & Smith Incorporated, BB&T Capital Markets, a division of Scott & Stringfellow, LLC, and Wells Fargo Bank, National Association, as the underwriters of the 2010A Bonds. Subject to the terms and conditions set forth in the purchase agreement, the underwriters have agreed to purchase the 2010A Bonds at a price of $126,627,921.29, which equals the aggregate principal amount of the 2010A Bonds less the underwriters' discount of $828,228.51 and plus net original issue premium of $4,491,149.80.

The underwriters must purchase all of the 2010A Bonds if any of the 2010A Bonds are purchased. The Corporation and the Parent Corporation have agreed to indemnify us, the Local Government Commission of North Carolina and the underwriters as to certain matters in connection with the 2010A Bonds.

The underwriters may offer and sell the 2010A Bonds to certain dealers (including dealer banks and dealers depositing the 2010A Bonds into investment trusts) and others at prices lower than the public offering prices shown on the inside cover page of this official statement. From time to time the underwriters may change the initial public offering prices or yields shown on the inside cover page of this official statement.

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

RATINGS

Moody's Investors Service, Inc. (which we refer to as "Moody's") has assigned a rating of "A1" to the 2010A Bonds. Standard & Poor's Ratings Services, a division of The McGraw Hill Companies (which we refer to as "S&P"), has assigned a rating of "A+" to the 2010A Bonds. Fitch, Inc. (which we refer to as "Fitch"), has assigned a rating of "A+" to the 2010A Bonds. These ratings reflect the views of Moody's, S&P and Fitch. The Corporation has furnished Moody's, S&P and Fitch with certain materials and information not included in this official statement. You should contact Moody's, S&P and Fitch to obtain an explanation of the significance of their respective ratings.

We cannot assure you that these ratings will remain in effect for any given period of time. Moody's, S&P or Fitch may lower, suspend or withdraw its rating. The underwriters are not obligated to notify you if Moody's, S&P or Fitch lowers, suspends or withdraws its rating. If Moody's, S&P or Fitch

lowers, suspends or withdraws its rating, the market price of the 2010A Bonds could be adversely affected.

CERTAIN RELATIONSHIPS

You should be aware of the following relationships among us, the Corporation and members of the financing team for the 2010A Bonds:

- *Robinson, Bradshaw & Hinson, P.A.*, bond counsel, has served, is serving or expects to serve in the future as counsel to the underwriters in matters unrelated to the 2010A Bonds and has served and may serve in the future as counsel to the Corporation in matters unrelated to the 2010A Bonds.

- McGuireWoods LLP, underwriters' counsel, has served, is serving and expects to serve in the future as our bond counsel for other related bonds we issue.

- K&L Gates *LLP*, counsel for the Obligated Group, has served, is serving or expects to serve in the future as counsel to the underwriters in matters unrelated to the 2010A Bonds.

MISCELLANEOUS

The Corporation and the Parent Corporation have furnished all information in this official statement relating to the Corporation, the Parent Corporation and their affiliates.

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

Our staff and we assume no responsibility for the accuracy or completeness of any representation or statement herein except for information with respect to us included under the captions "THE ISSUER" and "LITIGATION—Issuer."

We have duly authorized the execution and delivery of, and the Corporation and the Parent Corporation have approved, this official statement.

NORTH CAROLINA MEDICAL CARE COMMISSION

By: /s/ Lucy Hancock Bode
Lucy Hancock Bode
Chairman

Approved:

REX HOSPITAL, INC.

By: /s/ David W. Strong
David W. Strong
President

REX HEALTHCARE, INC.

By: /s/ David W. Strong
David W. Strong
President

APPENDIX A

INFORMATION CONCERNING
REX HEALTHCARE, INC. AND AFFILIATES

TABLE OF CONTENTS

Page

INTRODUCTION

Rex Healthcare, Inc. (the "Parent Corporation") is a private, nonprofit corporation organized to provide a wide range of healthcare services to the residents of Wake County, North Carolina and surrounding counties, primarily through its network of operating affiliates, Rex Hospital, Inc. (the "Corporation"), Rex Enterprises Company, Inc. ("Rex Enterprises"), The Rex Healthcare Foundation, Inc. (the "Foundation") and Rex Holdings, LLC ("Rex Holdings"). The Parent Corporation and its affiliates are referred to as "Rex Healthcare" or "Rex" in this Appendix A.

The University of North Carolina Health Care System ("UNCHCS") is the sole member of the Parent Corporation. UNCHCS was established by the North Carolina General Assembly in 1998. The original legislation included only The University of North Carolina Hospitals at Chapel Hill and the clinical patient care programs of The University of North Carolina at Chapel Hill School of Medicine. UNCHCS acquired the Parent Corporation in 2000. UNCHCS is not a Member of the Obligated Group and is not liable for payment of the principal of or interest on the Series 2010A Bonds. See "RELATIONSHIP WITH UNCHCS" herein.

The Corporation is a private, nonprofit corporation and is the Parent Corporation's principal operating affiliate. The Corporation owns and operates Rex Hospital ("Rex Hospital"). Rex Hospital was founded in 1894 by John Rex, a Raleigh tanner. The achievements of Rex Hospital in its first century are numerous, beginning with the establishment of North Carolina's first school of nursing shortly after the hospital opened. In addition, Rex Hospital offered the first master's degree in Hospital Administration in North Carolina, and in 1969 was the first business in North Carolina to open a child care center for its employees' children. The Rex Cancer Center was the first recognized comprehensive community cancer center in North Carolina.

THE OBLIGATED GROUP

The Obligated Group under the Master Indenture consists of the Parent Corporation and the Corporation (collectively, the "Members of the Obligated Group").

The Parent Corporation

The Parent Corporation was incorporated in 1986 as a North Carolina nonprofit corporation and is exempt from federal and North Carolina income taxation as a charitable organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). The Parent Corporation does not conduct active operations but serves as the parent corporation for a multi-entity health care delivery system composed of directly and indirectly controlled affiliates which are providers of health care and ancillary services.

The Corporation

The Corporation was formed in 1986 and owns and operates Rex Hospital. The Corporation is a North Carolina nonprofit corporation and is exempt from federal and North Carolina income taxation as a charitable organization described in Section 501(c)(3) of the Code. As of June 30, 2010, Rex Hospital had 431 licensed acute care beds and 227 licensed nursing beds.

THE NON-OBLIGATED AFFILIATES

The Parent Corporation also controls three affiliates that are not Members of the Obligated Group: the Foundation, Rex Enterprises and Rex Holdings.

The Foundation. The Foundation is a North Carolina nonprofit corporation and is exempt from federal and North Carolina income taxation. The Foundation was organized in 1958 to promote the health and welfare of the people of Wake County, North Carolina by promoting philanthropic contributions and public support of the Parent Corporation and its various nonprofit affiliates. The Parent Corporation controls the Foundation and has a significant economic interest in the activities of the Foundation.

Rex Enterprises. Rex Enterprises is a for-profit corporation organized in 1987 to engage in commercial transactions. Rex Enterprises owns a 50% interest in Quality Textile Services, Inc., a company that provides laundry services to local hospitals, and a 32.5% interest in Rex Cary MOB, LLC, a company that built and leases a medical office building in Cary, North Carolina. Rex Enterprises also owns less than a 5% interest in Rex MOB Partners, LLC, a company that operates a multi-tenant medical office building located on the main campus of Rex Hospital. In 2006, Rex Enterprises entered into a joint venture with Wakefield Rex Investors, LLC to form Rex CDP Ventures, LLC ("Rex CDP"). Rex CDP was formed to own and develop real property located in the Wakefield community in northern Wake County. In 2010, Rex Enterprises acquired 100% of the membership interests in Rex CDP.

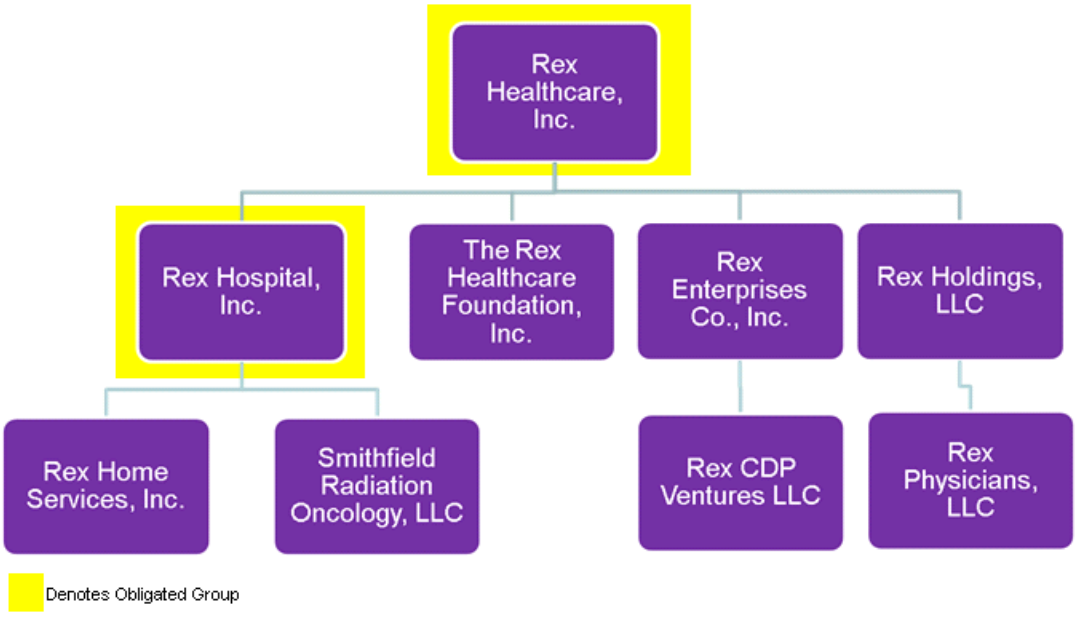
Rex Holdings. Rex Holdings was organized in 2007 to provide medical services through various affiliations, joint ventures and independent physician practices. Rex Holdings is the sole member of Rex Physicians, LLC, which was established in 2009 to employ physicians in specialty practices. Rex Physicians, LLC currently employs a 17-member surgery practice, Rex Surgical Specialists, a three-member cardiovascular practice, Rex Heart and Vascular Specialists, and a single-member thoracic surgeon practice, Rex Thoracic Specialists. Rex Holdings and a local orthopedic surgery group have entered into a joint venture and have received a certificate of need from the State of North Carolina (the "State") to build an outpatient surgery center near the main campus of Rex Hospital.

The Corporation also controls Rex Home Services, Inc. ("Rex Home Services"), a nonprofit corporation organized to provide home care services, primarily to the residents of Wake County, and Smithfield Radiation Oncology, LLC ("Smithfield Radiation"), a limited liability company organized to own and operate a linear accelerator.

The Foundation, Rex Enterprises, Rex Holdings, Rex Home Services and Smithfield Radiation are not Members of the Obligated Group and are referred to as the "Non-Obligated Group Affiliates" in this Appendix A.

The financial statements included in Appendix B contain the combined financial statements of the Parent Corporation and its subsidiaries, including the Non-Obligated Affiliates. For the fiscal years ended June 30, 2009 and 2010, the Non-Obligated Affiliates contributed approximately 4.0% and -4.8%, respectively, of the combined revenue and gains in excess of expenses and losses and 4.3% and 9.3%, respectively, of the combined assets reported on such financial statements.

Set forth below is an organizational chart of the Obligated Group and certain of its affiliates.



RELATIONSHIP WITH UNCHCS

In 1998, the North Carolina General Assembly established UNCHCS for the purpose of providing patient care, facilitating the education of physicians and other health care providers, conducting research collaboratively with the health science schools of The University of North Carolina at Chapel Hill ("UNC-Chapel Hill") and rendering other services designed to promote the health and well-being of the citizens of North Carolina. UNCHCS is governed and administered as an affiliated enterprise of The University of North Carolina system.

UNCHCS acquired the Parent Corporation in 2000. As a member of UNCHCS, the Parent Corporation and its affiliates benefit from significant cost-saving measures through consolidation of services and economies of scale. The Corporation negotiates for payor contracts jointly with the other subsidiaries and affiliates of UNCHCS. This combined buying power typically results in better reimbursement rates.

UNC-Chapel Hill and the Corporation are partners in several clinical areas, including oncology, where the research capabilities of UNC-Chapel Hill and UNC Hospitals are integral to the new North Carolina Cancer Hospital; surgery; obstetrics (the UNC Specialty Women's Center is located at the Rex Women's Center); and nursing (Rex Hospital serves as a clinical training site for nursing undergraduates).

UNCHCS is the sole member of the Parent Corporation, and UNCHCS elects all of the members of the Parent Corporation's Board of Trustees. See "GOVERNANCE AND MANAGEMENT" herein. Additionally, UNCHCS reviews and approves the annual operating and capital budgets of the Parent Corporation and the Corporation.

GOVERNANCE AND MANAGEMENT

Rex Healthcare, Inc. Board of Trustees

The Parent Corporation is governed by a Board of Trustees (the "Board of Trustees") consisting of 13 members. Five Trustees are designated by the Parent Corporation ("Rex Designated Trustees") and the remaining eight Trustees are designated by UNCHCS ("UNCHCS Designated Trustees"). Trustees serve a term of four years, with no more than three successive terms. Rex Designated Trustees, other than the President of the Parent Corporation who serves as an ex officio member of the Board of Trustees, are elected in the following manner. The Board of Trustees proposes a candidate and submits the candidate's name to the nominating committee of UNCHCS for its consideration and action. UNCHCS's nominating committee develops a slate of candidates for submission to the governing board of UNCHCS for action. If any candidate is unacceptable to the UNCHCS nominating committee, the UNCHCS nominating committee seeks an additional nominee from the Board of Trustees, until a candidate acceptable to the UNCHSC nominating committee is identified. UNCHCS Designated Trustees are elected by UNCHCS, two of which must be members of the governing board of UNCHCS at the time of their election to the Board of Trustees.

The standing committees of the Parent Corporation are Audit and Finance; Community Relations; Executive; Strategic Planning; Human Resources; Quality and Patient Safety; and Real Estate and Facilities. In addition, the Parent Corporation has an Investment Committee.

Rex Hospital, Inc. Board of Directors

The Corporation is governed by a Board of Directors (the "Board of Directors") consisting of not less than nine nor more than 13 members. The President of the Corporation serves as an ex-officio voting member of the Board of Directors. All of the other members of the Board of

Directors are elected by UNCHCS and serve a term of four years, with no more than three successive terms.

The standing committees of the Corporation are Quality and Patient Safety, and Audit and Finance. In addition, the Corporation has an Investment Committee.

Currently, the Board of Trustees and the Board of Directors consist of the same members. The current members of the Board of Trustees and the Board of Directors, their principal occupations and expiration of term are as follows:

Board Member	Occupation	Term Expires
A. Dale Jenkins, Chair	CEO, Medical Mutual Insurance Company of North Carolina	2015
William L. Roper, M.D., M.P.H.	CEO, UNC Healthcare System	Ex-officio
Gary L. Park	President, University of North Carolina Hospitals	Ex-officio
David W. Strong	President, Rex Healthcare, Inc.	Ex-officio
Jean Carter, M.D.	Physician	2011
Vincent L. Hoellerich, M.D.	Physician	2016
James B. Hyler, Jr.	President, USGA	2019
Darlene M. Johns	Former Owner, Alphanumeric Systems	2014
Jeffrey J. Lyash	Executive Vice President, Progress Energy, Inc.	2022
Orage Quarles III	President and Publisher, The News & Observer Publishing Co.	2014
Waltye Rasulala	Former Media Executive	2010
Mark A. Striebel	President, Davidson and Jones Construction Company	2014
Robert S. Thomas	Former CEO, Charles & Covard	2016

The Board of Trustees and the Board of Directors have each adopted a conflict of interest policy governing the conduct of business with entities in which board members have a financial interest.

Executive Management

David W. Strong, MBA (45)
President

Mr. Strong is President of both the Parent Corporation and the Corporation**,** bringing a leadership style that focuses on creating an environment where patients, visitors and physicians

receive exceptional service and co-workers have a purposeful work life. Prior to joining Rex in 2004, Mr. Strong was the chief operating officer of Mercy Health System of Oklahoma, in Oklahoma City, Oklahoma, from 2000 to 2004, and chief operating officer and executive vice president of Our Lady of the Lake Regional Medical Center, in Baton Rouge, Louisiana, from 1991 to 1999. Mr. Strong is the 2010 chair of the American Heart Association's Triangle Heart Ball, immediate past chair of the Greater Raleigh Convention and Visitor's Bureau Board and currently serves as the treasurer for the North Carolina Symphony. He is a member of the Greater Raleigh Chamber of Commerce Executive Committee, chaired the 2008 Triangle United Way Campaign and is a board member of Triangle Tomorrow, Capital City, Brier Creek and Hasentree clubs. His professional board activities include chairing the CHRISTUS Continuing Care Board in Dallas, Texas, and serving as a former board member of the National Assembly for School-Based Health Care in Washington, D.C. Mr. Strong received a bachelor's degree in Business Management from Southern Nazarene University in Bethany, Oklahoma and a master's degree in Hospital and Health Administration from Xavier University in Cincinnati, Ohio.

Bernadette M. Spong, CPA, MBA (52)
Senior Vice President of Finance/Chief Financial Officer

With more than 20 years of experience in the healthcare industry, Ms. Spong rejoined the Corporation in 2005 as Chief Financial Officer, having previously served four years as Controller. Ms. Spong directs all financial operations and guides Rex's strategic plan. She also is involved in the community, serving as chairman on the board of directors for the North Carolina Coastal Pines Girl Scout Council, and as Treasurer of Interact of Wake County. She also serves on the advisory board of Elon University Love School of Business. In 2007, Ms. Spong was named a "Woman Extraordinaire" by *Business Leader* magazine. She has also been recognized by *Business Leader* magazine and the *Triangle Business Journal* for excellence as a chief financial officer. A C.P.A., Ms. Spong earned her B.S. from the University of North Carolina at Greensboro and her M.B.A. from Elon University.

Steve Burriss, MBA (43)
Senior Vice President of Operations and Ambulatory Care

With more than 20 years of experience in the healthcare industry, Mr. Burriss is responsible for the Corporation's strategies in a number of key areas, including Oncology, Heart and Vascular, Suburban Services, Post Acute and Diagnostic Services. He also leads the Corporation's rapidly growing physician network. As Rex Hospital expands, he evaluates growth opportunities throughout the Research Triangle. His responsibilities engage him with local and State government officials, the community-at-large, and more than 1,600 co-workers. Mr. Burriss developed the Rex Employee Relief Fund, which provides assistance to employees in crisis. A winner of the *Triangle Business Journal's* 40 under 40 Award, Mr. Burriss is also on the executive leadership team for the American Heart Association. He also serves on the board of directors for the Cary Chamber of Commerce. Mr. Burris holds a B.S. in business from Marshall University and an M.B.A. from the University of West Virginia.

Mary Lou Powell, MSN (64)
Senior Vice President of Patient Care Services/Chief Nursing Officer

Ms. Powell leads 1,500 co-workers in the following areas: cardiovascular and pulmonary nursing, emergency services, the hospitalist team, medical-surgical nursing, pastoral care, pharmacy services, surgical services and women's and children's services. Under her guidance, the nursing staff achieved Magnet status, and she is a driving force for successful implementation of Rex's electronic medical records system known as Rcare. Prior to joining the Corporation, Ms. Powell was vice president of patient care services at Evanston Northwestern Healthcare and served as associate administrator for Henry Ford Health System. She is a past winner of the *Triangle Business Journal's* Women in Business award. Ms. Powell participates on the Hill-Rom Chief Nurse Executive Advisory Board, the Wake County Holly Hill Hospital Advisory Board and

the Pretty in Pink Foundation. Ms. Powell earned her B.S.N. and M.S.N. from Chicago's Loyola University.

Linda Butler, MD (45)
Vice President of Medical Affairs/Chief Medical Officer

Dr. Butler received her medical training at UNC-Chapel Hill. She served as managing partner of Capitol Pediatrics & Adolescent Center in Raleigh and president of medical staff at the Corporation prior to joining the management team as Vice President of Medical Affairs/Chief Medical Officer in January 2009. Dr. Butler serves as the primary physician administrative liaison to the medical staff, provides leadership for the Corporation's quality program and promotes compliance with regulatory standards and requirements of accrediting organizations. She serves on the board of Big Brothers, Big Sisters.

Erick Hawkins, MBA (37)
Vice President of Strategy and Finance

Mr. Hawkins provides financial management and strategic leadership for Rex Healthcare. He directs corporate accounting, corporate finance, strategic planning and business development. During his six years with the Corporation, Hawkins has served as director of resource management as well as corporate finance and strategic planning. Most recently, Mr. Hawkins was named as one of the 40 most successful individuals under 40 years of age by the *Triangle Business Journal*. He serves as chairman of the board of directors of Hospice of Wake County. Mr. Hawkins received his B.A. from Yale University and his M.B.A. from Duke University's Fuqua School of Business.

Don Esposito, JD (41)
General Counsel

Mr. Esposito manages and directs the Corporation's legal affairs. Prior to joining the Corporation, Mr. Esposito practiced with two large North Carolina-based law firms, worked as Assistant Attorney General in the North Carolina Department of Justice and served as a federal judicial law clerk to The Honorable Lacy H. Thornburg in Asheville, North Carolina. He serves on the board of directors of Wake Education Partnership and Urban Ministries of Wake County. Mr. Esposito is a graduate of UNC-Chapel Hill and Harvard Law School.

FACILITIES AND SERVICES

Facilities

Rex Hospital's main campus is a 62-acre site located in the western portion of Raleigh, North Carolina, near the intersection of Interstate 440 and Interstate 40, providing convenient access to Cary, Apex, Holly Springs, Wake Forest and the Research Triangle Park. The main campus also includes the 120-bed Rex Rehabilitation and Nursing Center of Raleigh, the Rex Cancer Center, which offers comprehensive inpatient and outpatient services for cancer patients, the Rex Wellness Center, a comprehensive medically supervised wellness center, and Rex Women's Center, a 90-bed maternity unit. Other services offered at the main campus include a sleep disorders center, a pain management center, a wound healing center with hyperbaric therapies, and a palliative care unit for patients with a limited life expectancy. The Rex Heart & Vascular Center offers cardiac catheterization, angioplasty, atherectomy and open heart surgery. Cardiac rehabilitation programs are also offered through the four Rex Wellness Centers. Rex/UNC Home Services currently serves patients in seven counties in the region, making over 48,000 home visits annually. The Rex Breast Care Center is dedicated to providing prompt and comprehensive care, education and diagnosis of breast disease. The Rex Breast Care Center performs mammograms and

offers stereotactic breast biopsies, core needle biopsies and advanced breast biopsy instrumentation, a minimally invasive biopsy procedure.

The main campus includes approximately 1.5 million square feet of space for Rex Hospital, ancillary support structures and related parking lots. The patient tower is the largest building on the main campus, consisting of approximately 245,000 square feet. Other buildings on the main campus include the Rex Women's Center (103,000 square feet), Rex Same Day Surgery Center (40,000 square feet), Rex Cancer Center (69,000 square feet) and the Wellness Center (27,000 square feet). All of these facilities are owned by the Corporation. In addition, the Corporation owns approximately 44 acres of undeveloped land located near the main campus of Rex Hospital.

Rex Healthcare of Cary is a 62,000 square-foot facility located in Cary, North Carolina, offering area residents a 27,000 square-foot Wellness Center and a 30,000 square-foot primary care center, including physician practices. This facility also houses an outpatient surgery center with four operating rooms. Comprehensive radiology services, including screening, mammography and laboratory, as well as rehabilitation services, are also offered at this facility. This campus also includes an urgent care center known as Rex Express Care.

The Corporation operates Rex Rehabilitation & Nursing Care Center of Apex, a 107-bed nursing facility located in Apex, North Carolina.

In downtown Raleigh, the Corporation operates the Rex Senior Health Center, a 6,000 square-foot facility, providing comprehensive healthcare for the 65 and older population. The Rex Senior Health Care Center is staffed by a board-certified internist, a geriatric nurse practitioner and other medical professionals, and offers comprehensive laboratory and radiology services. Health screening, health education and management of chronic conditions, such as diabetes, high blood pressure and asthma, are a primary focus of the Rex Senior Health Care Center.

Rex Healthcare of Wakefield, located on a 30-acre campus and opened in April 2009, includes an outpatient surgery center with three operating rooms and one procedure room, an urgent care center known as Rex Express Care, and the Corporation's first satellite cancer center with medical and radiation oncology services. Other services on this campus include radiology and laboratory, a sleep disorders center, family practice and other physician offices, and mammography. A 35,000 square-foot wellness center is located adjacent to the medical office building.

Rex Healthcare of Knightdale opened in May 2009 on a 19-acre campus. Services at this campus include urgent care, family practice, physician offices, radiology and laboratory, a sleep disorders center, and a wound care center.

In Garner, North Carolina, the Corporation operates a 30,000 square-foot wellness center, in addition to outpatient rehabilitation services and a surgical practice office.

The Corporation received State approval in 2009 to develop an outpatient facility on an 18-acre campus in Holly Springs, North Carolina. The Corporation also has received State approval to develop an outpatient facility across the street from the main campus of Rex Hospital on Macon Pond Road in Raleigh. Rex Holdings has received State approval to build an outpatient orthopedic surgery center, in a joint venture arrangement with a local orthopedic surgery group, on property owned along Edwards Mill Road near the main campus of Rex Hospital. Additional outpatient assets include 17 acres in the Panther Creek area of northwest Cary, North Carolina, for which the Corporation recently received State approval to build a diagnostic center. Plans are being formulated to develop this campus jointly with UNCHCS.

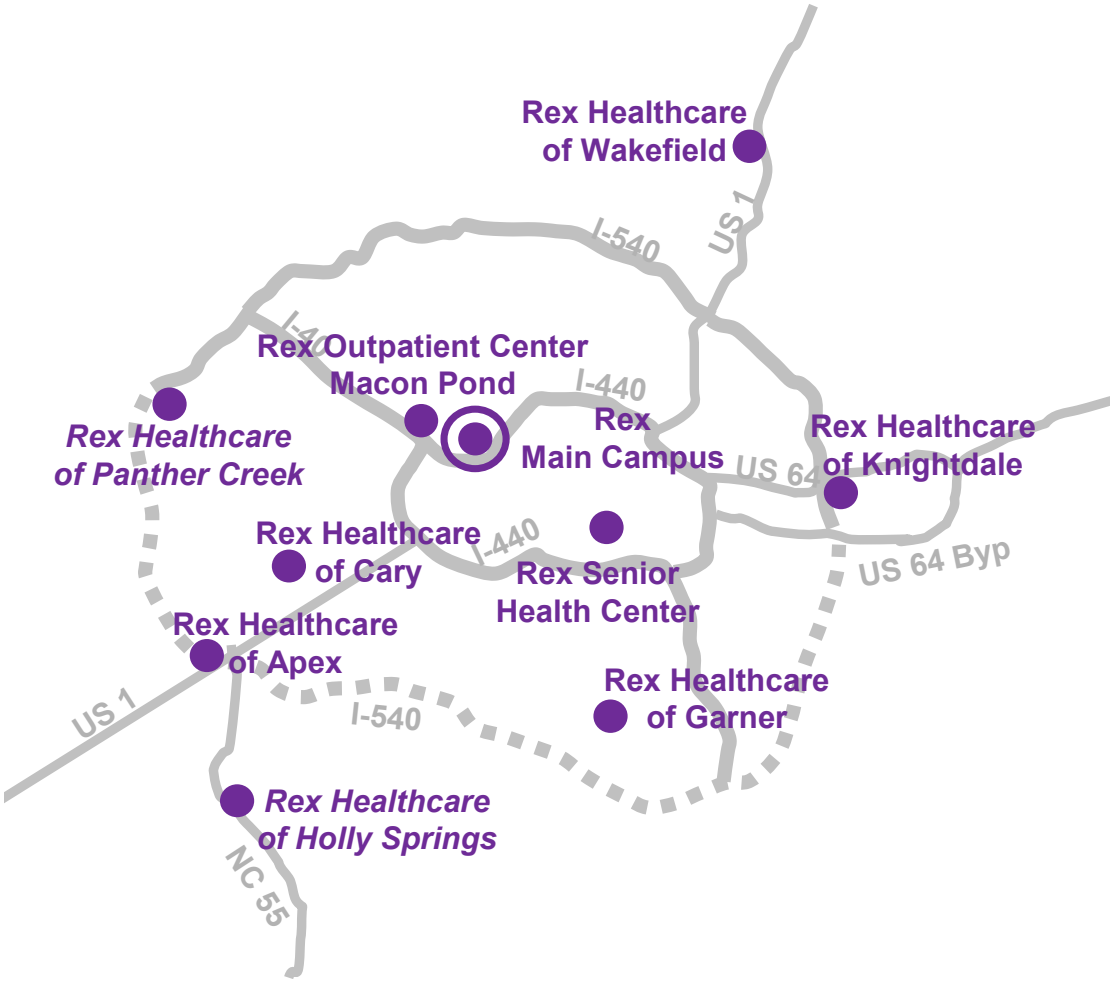
The Corporation's licensed beds by medical specialty at June 30, 2010 is as follows:

Licensed Beds

Intensive Care Units	**Number of Beds**
Cardiac	10
Cardiovascular Surgery	8
Medical/Surgical	26
Other Units	**Number of Beds**
Gynecology	20
Medical/Surgical	81
Neonatal Level III	15
Obstetric	98
Oncology	23
Orthopedics	30
Pediatric	8
Telemetry	112
Total Acute Care Beds*	**431**
Nursing Facility – Raleigh	120
Nursing Facility – Apex	107
Total Nursing Beds	**227**
Total Licensed Beds	**658**

*Two additional acute care beds have been approved by the State, but space for these beds has not yet been built.

This map shows the location of the Rex Healthcare facilities in Wake County.



Services

The following is a summary of services provided in the various centers operated by the Corporation:

Rex Cancer Center. The Rex Cancer Center offers specialized cancer treatment to inpatients and outpatients. Functioning as a multi-disciplinary outpatient facility, the Rex Cancer Center offers services that include prevention, diagnosis, treatment, and rehabilitation counseling. The Rex Cancer Center also provides surgical services to cancer patients through access to Rex Hospital. The Rex Cancer Center works closely with the North Carolina Cancer Hospital in Chapel Hill to extend services and clinical trials to patients in Raleigh. Radiation oncologists from UNC Physician Associates provide staff for the Rex Cancer Center. Several distinct departments are represented within the medical staff of the Rex Cancer Center, including Medical Oncology, Radiation Oncology, CT Scan, Day Treatment, Rehabilitation, Pharmacy, Laboratory, Tumor Registry, and Patient Support Services. The Rex Cancer Center has over 28,000 patient visits annually.

Rex Heart & Vascular Center. The Rex Heart & Vascular Center has an open heart surgical suite where physicians perform procedures, including coronary artery bypass grafting, mitral valve replacement and repair, and aortic valve and aortic arch replacements. The Rex Heart & Vascular Center's cardiac catheterization laboratory offers a variety of diagnostic and treatment procedures, including cardiac catheterization, laser plus-angioplasty and stent placement. Recovery facilities include a dedicated eight-bed cardio-thoracic recovery unit, which provides intensive care to open-heart surgical patients, and a 64-bed intermediate care unit, which provides continuous monitoring of heart rhythms using a telemetry system. Heart patients requiring intensive care are treated in a 10-bed cardiac care unit. The Rex Heart & Vascular Center's diagnostic capabilities include Holter monitoring, exercise stress testing, medically induced stress testing, echocardiography, respiratory therapy, blood pressure monitoring, electrocardiograms and vascular Doppler studies. The Rex Heart & Vascular Center performs over 16,500 procedures annually.

Rex Surgery Centers. The Rex Surgery Centers make substantial use of non-invasive technology, such as lasers and video, for diagnosis and treatment, which enables patients to recuperate at home rather than in a hospital setting. Diagnosis and treatment options include general surgery, ear, nose and throat, gynecologic, orthopedic, ophthalmic, urological and plastic surgery. Rex has two daVinci surgical robots currently being used for urologic and gynecologic surgeries. The Rex Surgery Centers include pre-operative beds, 35 operating suites, five minor procedure rooms, 56 recovery beds and various ancillary support space. The Rex Surgery Centers are utilized by approximately 350 physicians and provide services to approximately 36,400 patients annually.

Rex Women's Center. The Rex Women's Center includes 98 private rooms in which labor, delivery, recovery, and postpartum care of the mother and child normally occur. It also has three operating suites for cesarean births and includes a special-care nursery capable of providing extra support technology. The special care nursery offers 15 Level III neonatal beds. Additionally, the Corporation is in the process of adding nine Level IV neonatal intensive care beds. The Rex Women's Center offers birthing and parenting educational classes and exercise classes. During fiscal year 2010, 6,308 babies were born at the Rex Women's Center.

Rex Breast Care Center. Registered nurses provide breast exams prior to all screening and diagnostic mammograms. Breast self-examination instruction is also provided to each patient. Other diagnostic procedures include ultrasound, fine needle aspirations, core needle biopsy, stereotactic biopsy and advanced breast biopsy instrumentation. Approximately 17,000 women are seen in the Rex Breast Care Center annually. Through the philanthropic support of the Revlon Corporation, the Corporation will acquire a second mobile mammography unit in the fall of 2011.

Rex Rehabilitation and Nursing Care Centers. The Rex Rehabilitation and Nursing Care Centers, located in Raleigh and Apex, are long-term care facilities that provide nursing care for skilled, intermediate and assisted-living patients with a variety of needs ranging from those requiring several months to recuperate from major surgery to patients with permanent conditions. The Rex Rehabilitation and Nursing Care Centers include 31 private rooms and 196 semi-private rooms, four dining rooms, five leisure/recreation rooms and two beauty and barber shops.

Rex Senior Health Center. The Rex Senior Health Center opened in October 1997. It is located in downtown Raleigh and provides health and wellness services to senior citizens. Patients seeking care are served through a multi-disciplinary primary care team consisting of a physician, a geriatric nurse practitioner, and a medical social worker. Patients are referred as needed to specialty programs focusing specifically on disease management.

Rex Wound Care Centers. Rex Wound Care Centers are located in Raleigh and Knightdale. Physicians and medical staff at the facilities treat patients with chronic wounds that are difficult to heal using advanced medical equipment, including two multi-person hyperbaric chambers.

Rex Sleep Disorders Centers. The Rex Sleep Disorders Centers are located in Raleigh, Cary and Wakefield. In order to fully understand sleep patterns and diagnose any problems, various brain activities, body systems and their relationships are monitored throughout the night. Through an overnight sleep study at Rex Sleep Disorders Center, a recording of physiological measurements identifies different sleep stages to classify various sleep problems. All overnight sleep studies are conducted under the direction of a Medical Director who is board-certified in sleep medicine, and trained sleep technologists.

Rex Pain Clinic. The Rex Pain Clinic evaluates and treats patients with chronic pain associated with previous surgery and/or terminal illnesses. Over 11,300 patients are treated in the Rex Pain Clinic annually.

Rex Wellness Centers. Located in Raleigh, Cary, Garner and Wakefield, the Rex Wellness Centers offer cardiopulmonary rehabilitation, aquatic therapy, health education classes, and a wide variety of exercise programs and facilities to members. These include indoor pools, aerobics, water exercise, exercise facilities with cardiovascular and weight training equipment, sauna, whirlpool, locker rooms, child activity facilities and complete fitness assessments. The Rex Wellness Centers currently have approximately 11,000 members.

Rex Occupational Health Services. Rex Occupational Health Services offers an occupational health clinic for prompt and effective treatment of work related illnesses with safe and early return to work as the primary goal. This clinic is staffed by a certified physician, physician's assistant, certified occupational health nurse, and other health professionals. Services include: diagnosis and treatment of work related injuries and illnesses, pre-placement and fitness-for-duty exams, drug and alcohol screening, drug-free workplace programs, audiometric and pulmonary function screening, tuberculosis testing, vaccinations, health education classes and employee assistance programs.

AWARDS AND ACCOLADES

The Corporation has received significant awards and accolades over the past several years. Rex Hospital became the first hospital in the Research Triangle to be awarded Magnet Recognition by the American Nurses Credentialing Center. This award recognizes healthcare organizations that demonstrate excellence in meeting national standards for the organization and delivery of services. As of May 31, 2010, only 372 hospitals in the nation had achieved this distinction. In 2008, Rex Hospital was named a Thomson Reuters Top 100 hospital and a Thomson Reuters quality improvement leader (one of only 16 hospitals in the nation to be named to both lists). Top 100 hospitals are recognized for their achievements in both quality and fiscal

management. In 2009, Rex Hospital achieved its fifth consecutive National Research Corporation's consumer choice award for overall preference and perception of quality, physicians, nurses, image and reputation.

Patient satisfaction is a top priority for all co-workers at the Corporation. Teams of co-workers meet regularly to address service excellence. The Corporation won the following National Excellence in Healthcare Awards during the fiscal year ended June 30, 2009: Top Performer Award, Medical Oncology, Outpatient Oncology – Overall Quality of Care; 5-Star Award, Medical Oncology, Outpatient Oncology – Overall Quality of Care; 5-Star Award, Outpatient – Overall Quality of Care. The Rex Surgery Center of Cary won the 5-Star Award, Outpatient Surgery – Overall Quality of Care.

The following is a selective list of various other awards that the Corporation has attained:

- Recognized by the *Triangle Business Journal* in 2010 for excellence in healthcare with four Healthcare Heroes recipients in the categories of allied health professional, nurse, physician assistant and volunteer.
- Rated best for heart attack survival in Wake County in 2009 by Hospital Compare with the only "above average" rating in Wake County.
- One nurse was named to the Great 100 Nurses list in 2010, and three nurses were named to the Great 100 Nurses list in 2009.
- Ranked 9th among hospitals named to the 2009 Best Places to Work in Healthcare in the United States by *Modern Healthcare* magazine, and listed 27th overall.
- Named a Consumer Choice Award winner by The National Research Corporation.
- Named one of the top 40 employers in the State by *Carolina Parent* magazine ten consecutive times.
- Named to Best Places to Work by *Triangle Business Journal* in 2009 and 2010.
- Received national recognition for best use of broadcast for its live health education television show, Rex on Call, by PR Week in 2008.
- Named a Platinum Start! Fit Friendly Company by the American Heart Association for the past three years.
- Earned the State of North Carolina Governor's Award for Excellence for its Workplace Wellness programs for five consecutive years.

QUALITY AND SAFETY INITIATIVES

Chest Pain Accreditation. Rex Hospital has been a Chest Pain Accredited hospital for six years and has just begun its third cycle of re-accreditation. Institutions receiving this accreditation have shown a dedication to community outreach and innovation in the care of chest pain patients. The quality of care is further supported by Rex Hospital's status as a top 10% hospital in the Acute Myocardial Infarction CMS process of care core measure.

Bariatric Center of Excellence: In 2010 Rex Hospital received Bariatric Center of Excellence designation. To receive this designation the participating hospital has to demonstrate high volumes of procedures, low complication rates, and excellent patient follow-up. Rex Hospital also has been awarded the Blue Cross Blue Shield Bariatric Center of Distinction designation.

The North Carolina State Health Plan for Teachers and State Employees and other large employers will only authorize bariatric surgery at institutions that are Centers of Distinction.

Stroke Center Certification. The Corporation has been submitting data to the National Stroke Registry for several years. The application for certification as a Joint Commission Stroke Center was recently submitted. A site visit is anticipated in January 2011.

CUSP-CLASBI Initiative. Rex Hospital has been participating in the initiative to reduce the rate of central line associated blood stream infections. Rex Hospital is below the benchmark set by DICON (Duke Infectious Disease Network), and the national goal is to achieve a rate of zero. The initiative supports the use of checklists, provider education, and performance improvement projects such as "scrub the hub" to ensure that ports are adequately disinfected.

Institute for Healthcare Improvement. Currently the Corporation is involved in two initiatives through the Institute for Healthcare Improvement. The first one is "Reliably Preventing Complications in the ICU"; the second one is in obstetrics, focusing on the oxytocin bundle and reducing neonatal complications.

Patient Safety. Hospital to Home is a national quality initiative led by the American College of Cardiology that focuses on the transition from inpatient to outpatient status for patients diagnosed with cardiovascular diseases. The goal of this program is to reduce readmission rates by 20% for heart failure and myocardial infarction patients by 2012. Currently Rex Hospital's readmission rate compares favorably with the national average.

MEDICAL STAFF

As of July 31, 2010, the Corporation's medical staff consisted of 1,090 physicians, representing a broad range of medical and surgical specialties. Approximately 94% of the medical staff are board certified.

The following table sets forth the number of physicians on the medical staff (including active, associate, affiliated, consulting and courtesy) in each specialty, the number who are board certified and average ages in each specialty.

Specialty	*Number on Staff*	*Number Board Certified*	*Average Age*
Allergy-Immunology	4	4	54
Anesthesiology	54	44	44
Cardiology	55	53	49
Cardiovascular/Thoracic Surgery	9	9	58
Colon & Rectal Surgery	4	3	57
Dentistry	2	0	50
Dermatology	16	16	47
Emergency Medicine	22	22	46
Endocrinology	6	5	51
Family Practice	73	72	49
Gastroenterology	30	27	49
General Surgery	42	42	49
Gyn Oncology	9	9	49
Gynecology	28	27	52
Hematology-Oncology	19	18	53
Infectious Disease	4	4	50
Internal Medicine	114	110	46
Maternal Fetal Medicine	8	7	46
Neonatology	9	9	48
Nephrology	21	20	48
Neurology	21	21	50
Neurosurgery	9	8	51
OB/GYN	50	47	44
Ophthalmology	40	40	47
Oral Surgery	8	7	47
Orthopedic Surgery	58	51	46
Otolaryngology	32	31	49
Pathology	8	8	45
Pediatric Cardiology	8	8	48
Pediatric Neurology	5	5	46
Pediatric Surgery	1	1	50
Pediatrics	155	150	46
Physical Medicine/Rehab	14	13	44
Plastic Surgery	14	11	50
Podiatry	23	20	45
Psychiatry	20	18	50
Pulmonary Medicine	12	12	49
Radiation Oncology	20	17	50
Radiology	24	24	45
Reproductive Endocrinology	4	4	50
Rheumatology	2	2	49
Thoracic Surgery	4	4	43
Urogynecology	5	4	43
Urology	19	17	51
Vascular Surgery	5	5	50
TOTAL	1,090	1,029	

The Corporation's hospitalist team is a group of 28 board-certified internal medicine physicians exclusively dedicated to caring for Rex Hospital inpatients. These physicians do not have medical practices outside of Rex Hospital and are specially trained to provide care for the

hospitalized patient. The Corporation recruits hospitalists through its human resources department in conjunction with the Triangle Medical Managers, an organization comprised of local medical group practice managers.

Rex Physicians, LLC currently employs a 17-member surgery practice, a three-member cardiovascular practice and a single-member thoracic surgery practice. In addition, UNCHCS and the Corporation have formed a primary care physician network, Triangle Physician Network ("TPN"). This organization will employ primary care practices throughout Wake, Orange, and surrounding counties. The Corporation is currently working with more than 60 primary care physicians on inclusion in TPN.

The Corporation's physician employment strategy was put in place to better position the organization under various healthcare reform scenarios. Management believes that in the future there will be more bundled payments for healthcare providers in order to control costs. By employing a full spectrum of physicians, from primary care to specialists, the Corporation will be in a better position to control costs and provide quality care.

The Corporation does not have a formal physician recruitment program for non-employed physicians. All non-employed medical staff members are recruited by community-based physician groups.

Top Ten Discharging Physicians

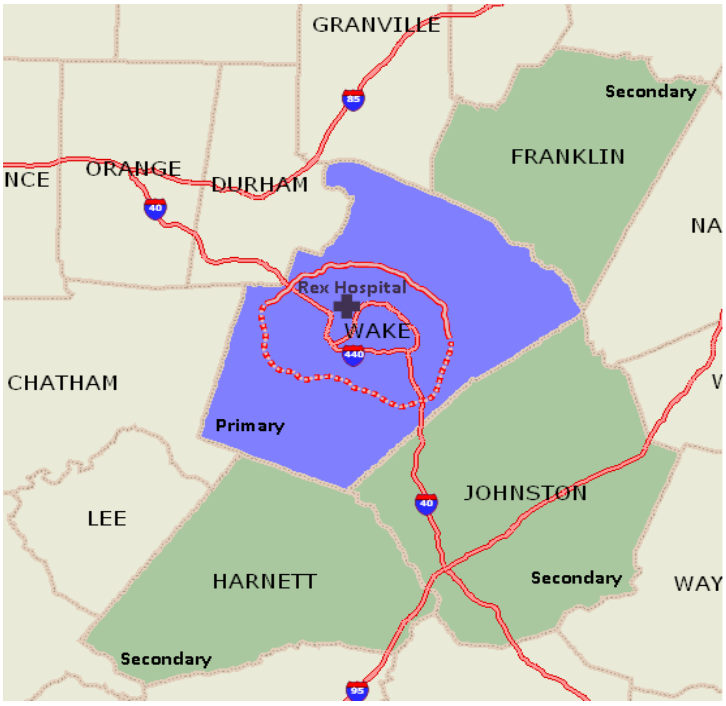
The following table sets forth information concerning the ten physicians with the largest number of discharges from hospital records for the fiscal year ended June 30, 2010. The discharges exclude well newborns. Most of these physicians are hospitalists who are employed by the Corporation.

Specialty	Age	Discharges	% of Total Discharges	Patient Days	% of Total Patient Days
Orthopaedic Surgery	56	596	2.4%	2,244	2.3%
Orthopaedic Surgery	37	419	1.7%	1,348	1.4%
Internal Medicine	34	394	1.6%	1,510	1.5%
Internal Medicine	32	379	1.5%	1,341	1.4%
Internal Medicine	37	376	1.5%	1,528	1.6%
Obstetrics-Gynecology	56	373	1.5%	953	1.0%
Internal Medicine	31	370	1.5%	1,554	1.6%
Internal Medicine	47	362	1.4%	1,585	1.6%
Internal Medicine	64	354	1.4%	1,549	1.6%
Internal Medicine	31	350	1.4%	1,435	1.6%

SERVICE AREA

The service area encompasses a four-county area consisting of Wake, Harnett, Franklin and Johnston counties.

This map shows the four-county service area, with Wake County in blue as the primary service area. The other counties represented in green, Johnston, Franklin, and Harnett counties, comprise the secondary service area.



FY 2009 Rex Hospital Patient Origin

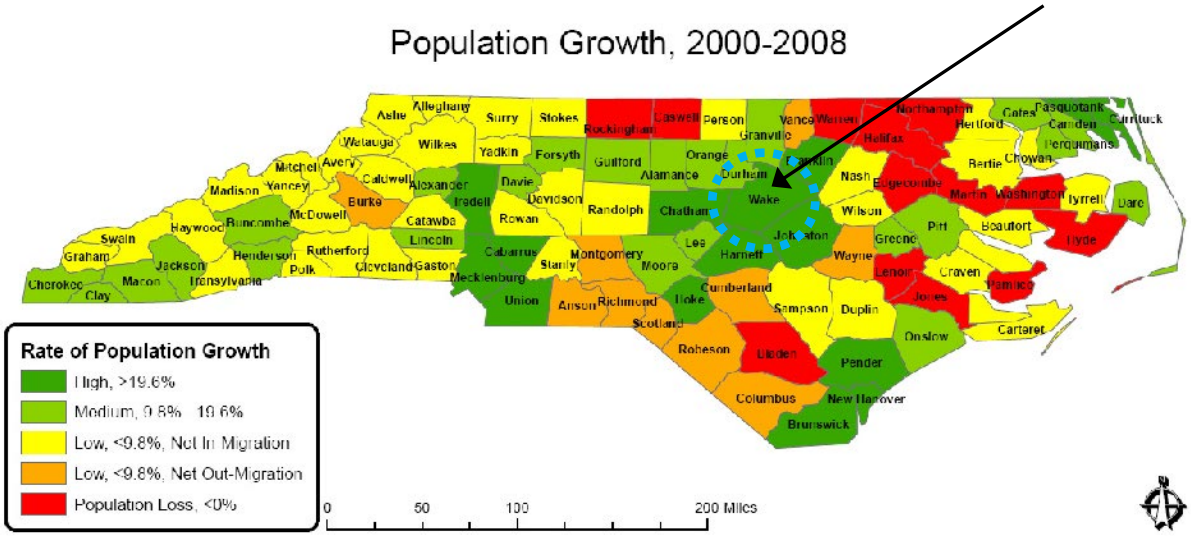
County	*% Patients*
Wake	81.3%
Johnston	4.6%
Franklin	2.8%
Harnett	2.5%
Other North Carolina Counties	8.8%
Total	**100.0%**

Source: Thomson Reuters North Carolina Inpatient State Data.

Wake County Population Growth

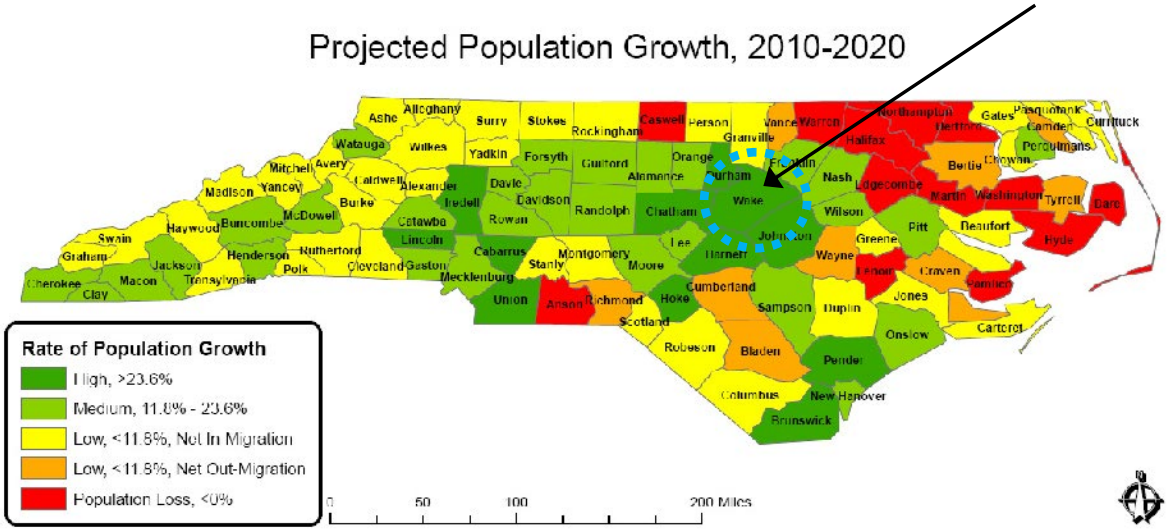
Wake County and its surrounding communities are among the fastest growing regions in the nation. According to data from the North Carolina Office of State Budget and Management ("OSBM"), Wake County is the fastest growing county in North Carolina based on numerical growth and the fourth fastest behind Union, Camden, and Brunswick counties based on percentage growth.

As shown in this map, Wake County is an area experiencing high growth and high net immigration.



Source: North Carolina Office of State Budget and Management.

As shown in this map, Wake County's high growth is projected to continue in this decade. OSBM estimates that Wake County will grow by over 30% between 2010 and 2020.



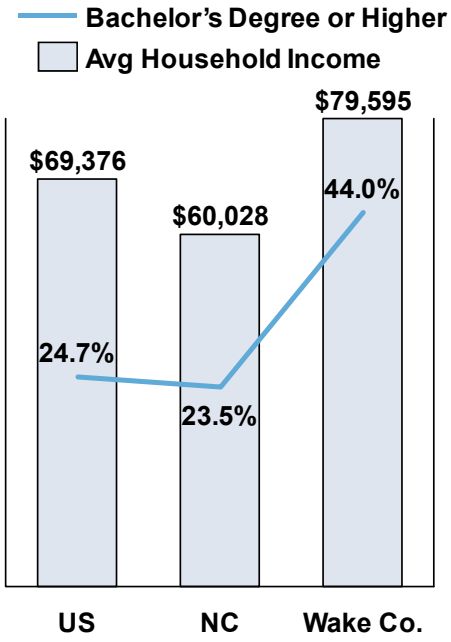
Source: North Carolina Office of State Budget and Management.

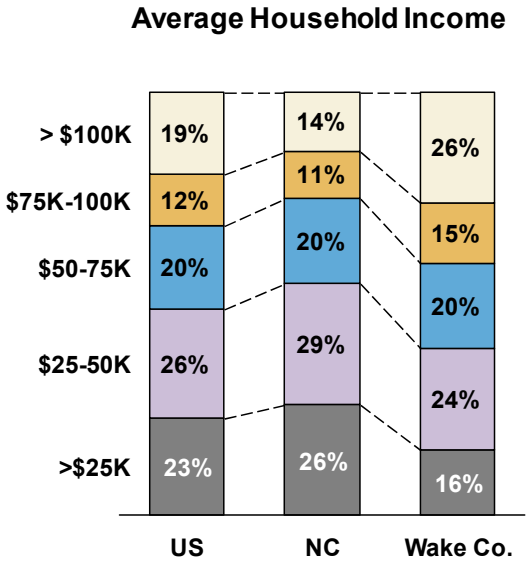
According to the OSBM, Wake County is projected to add over 275,000 people in this decade, the most in North Carolina.

Wake County Demographics

Unemployment rates in the Corporation's primary service area are less than the unemployment rates for the nation and the State. According to July 2010 data from the United States Department of Labor – Bureau of Labor Statistics, the nationwide unemployment rate was 9.5%, the unemployment rate in the State was 9.8% and the unemployment rate in Wake County was 8.2%.

Average household income and education level also compare favorably with both the nation and the State. The charts below show average household income and education level for the nation, North Carolina and Wake County.





Source: Solucient and the North Carolina College Foundation

Market Share

The Corporation's market share in its primary service area has consistently been above 30%, reflecting the Corporation's strong presence in a competitive market.

The Corporation defines its secondary service area as Franklin, Johnston and Harnett counties. The Corporation maintains strong market share in these counties despite the proximity of competing providers.

This table provides market share information, by calendar year, for inpatient cases in all business segments.

Market Share – Inpatient

	County		2005	2006	2007	2008	2009	Volume CAGR*
Primary Service Area	Wake	Volume	23,030	26,377	26,676	27,093	27,019	4.1%
		Share	30.5%	33.4%	32.9%	32.4%	31.7%	
Secondary Service Area	Franklin	Volume	686	910	996	1,090	937	8.1%
		Share	11.2%	13.8%	14.9%	15.3%	14.0%	
	Johnston	Volume	1,282	1,391	1,323	1,631	1,579	5.3%
		Share	7.5%	8.1%	7.6%	8.8%	8.7%	
	Harnett	Volume	805	892	831	812	836	0.9%
		Share	6.5%	7.1%	6.5%	5.4%	5.4%	

Source: Thomson Reuters North Carolina Inpatient State Data.
*Compound Annual Growth Rate

Competition

In the opinion of management, the following are the Corporation's principal competitors in the Primary Service Area.

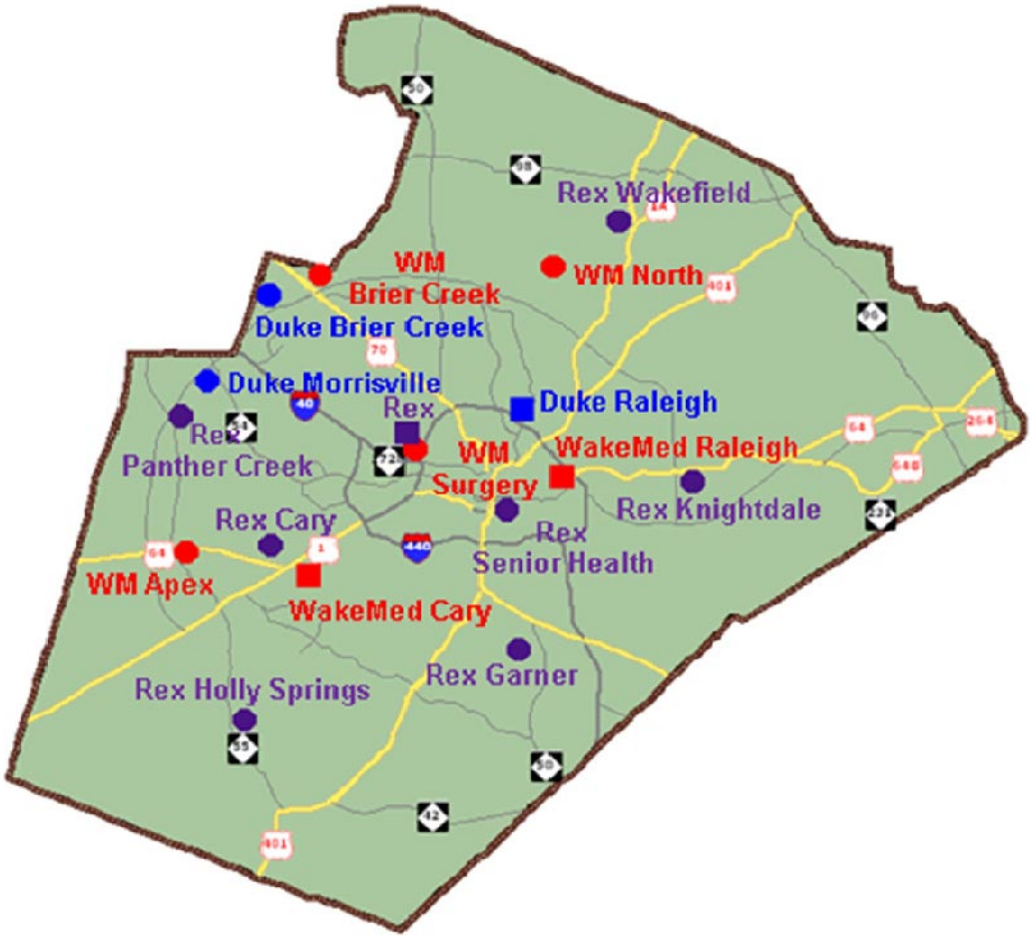
WakeMed Health and Hospitals

WakeMed Health and Hospitals is a nonprofit multi-hospital system, currently consisting of two hospitals, WakeMed and WakeMed Cary, with an aggregate of 870 licensed beds (671 acute care, 84 rehab, 55 skilled nursing and 60 acute care beds under development as of September 30, 2009) located in several areas of Wake County. In addition to acute care services, WakeMed offers rehabilitation and home health services. WakeMed also offers intensive care services for cardiac, cardiovascular surgery, neonatal, medical-surgical and pediatric patients. WakeMed specialty units provide monitored telemetry, pediatric, obstetric and orthopedic services.

Duke Raleigh Hospital

Duke Raleigh Hospital is a 186-bed general acute care hospital located in Raleigh, North Carolina, approximately six miles from Rex Hospital. Duke Raleigh Hospital is a nonprofit hospital which is owned by Duke University Health System. Duke Raleigh Hospital offers general acute care services. Among its ancillary services, Duke Raleigh Hospital offers monitored telemetry services, CAT scans and magnetic resonance imaging, lithotripsy, dialysis, chemotherapy, therapeutic radiology and cardiac rehabilitation.

This map shows the location of Rex Hospital and other Rex Healthcare facilities, WakeMed Health and Hospitals, and Duke Raleigh Hospital.



The following table presents inpatient operating statistics for Rex Hospital, Duke Raleigh Hospital, WakeMed Cary and WakeMed.*

Primary Service Area Selected Inpatient Data

	Rex	Duke Raleigh	WakeMed Cary	WakeMed
2009				
Licensed Beds	431	186	156	515
Available Beds	431	124	156	509
Discharges	27,212	6,263	10,002	37,133
Patient Days	107,765	28,102	40,927	174,046
ALOS	3.96	4.49	4.09	4.69
Avg. Daily Census	295	77	112	477
% Occupancy	68.5%	62.1%	71.9%	93.7%
2008				
Licensed Beds	431	186	156	515
Available Beds	431	134	124	515
Discharges	27,519	5,304	9,678	35,883
Patient Days	105,270	24,625	38,496	177,004
ALOS	3.83	4.64	3.98	4.93
Avg. Daily Census	288	67	105	484
% Occupancy	66.7%	50.2%	84.8%	93.9%
2007				
Licensed Beds	388	186	114	515
Available Beds	388	146	114	515
Discharges	27,685	4,978	9,114	35,082
Patient Days	99,431	22,697	35,815	172,630
ALOS	3.59	4.56	3.93	4.92
Avg. Daily Census	272	62	98	473
% Occupancy	70.2%	42.6%	86.1%	91.8%

Source: 2010, 2009, 2008 NC Hospital License Renewal Applications

* Data reported for Rex Hospital, WakeMed Cary and WakeMed is on a federal fiscal year basis (October 1 to September 30); data reported for Duke Raleigh Hospital is for the period beginning on July 1 and ending on June 30.

SELECTED FINANCIAL AND UTILIZATION INFORMATION

Summary of Operating Statistics for Fiscal Years 2008-2010

This table sets forth selected information concerning utilization of the Corporation's facilities for the past three fiscal years:

	As of June 30,		
	2008	**2009**	**2010**
Patient Days (excl. newborns)	99,254	105,146	102,199
Discharge (excl. newborns)	28,118	27,396	27,645
Number of Births	6,757	6,791	6,308
Average Daily Census:			
Adult & Pediatric	271	288	280
Newborn	54	53	50
Skilled & Intermediate	211	207	198
Average Length of Stay:			
Adult & Pediatric	3.53	3.84	3.70
Newborn	2.90	2.85	2.9
Percent Occupancy:			
Licensed Beds -			
Adult & Pediatric	64%	68%	65%
Skilled & Intermediate	93%	89%	87%
Outpatient Visits:			
Emergency Room	57,811	55,608	55,690
All Other Outpatients	139,800	151,350	155,050
Case Mix Index – All Payors	1.13	1.17	1.20
Case Mix Index – Medicare	1.53	1.61	1.61

Combined Balance Sheet

The following Balance Sheet of the Parent Corporation and subsidiaries as of June 30, 2008, 2009 and 2010 has been derived from the audited combined financial statements of the Parent Corporation and its subsidiaries. Such financial statements include the results of the Non-Obligated Affiliates, which contributed approximately 2.8%, 4.3% and 9.3%, respectively, of the total assets reported on such financial statements. The Combined Balance Sheet should be read in conjunction with the audited financial statements and related notes for the fiscal years ended June 30, 2010 and 2009 included in Appendix B.

Combined Balance Sheet
Fiscal Years 2008 – 2010
(Dollars in Thousands)

	As of June 30,		
	2008	**2009**	**2010**
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	$ 18,428	$ 36,475	$ 64,571
Patient Account Receivables, Net	61,721	53,642	57,446
Other Receivables	5,837	5,555	5,637
Inventories	8,619	10,027	9,983
Prepaid Expenses and Other Current Assets	7,571	6,778	5,889
Total Current Assets	102,176	112,477	143,526
ASSETS LIMITED AS TO USE	140,262	111,958	126,692
CAPITAL ASSETS, NET	220,788	240,388	261,418
OTHER ASSETS			
Investments in Affiliates	4,626	4,254	5,321
Deferred Debt Issuance Costs, Net	1,624	1,515	1,531
Other Assets	3,163	3,148	2,721
Total Other Assets	9,413	8,917	9,573
Total Assets	$ 472,639	$ 473,740	$ 541,209
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Current Maturities of Long-Term Debt	$ 12,127	$ 13,077	$ 11,844
Vendor Accounts Payable	22,492	33,522	29,498
Accrued Expenses and Other Liabilities	36,922	32,929	39,528
Estimated Third-Party Payor Settlements	2,924	9,490	15,758
Total Current Liabilities	74,465	89,018	96,628
LONG-TERM DEBT, Net of Current Maturities	89,796	86,711	99,304
OTHER NONCURRENT LIABILITIES	380	546	871
Total Liabilities	164,641	176,275	196,803
NET ASSETS			
Invested in Capital Assets, Net of Debt	118,865	140,600	150,270
Restricted	4,513	4,525	4,123
Unrestricted	184,620	152,340	190,013
Total Net Assets	307,998	297,465	344,406
Total Liabilities and Net Assets	$ 472,639	$ 473,740	$ 541,209

Combined Statement of Operations

The following Summary of Revenues and Expenses has been derived from the combined financial statements of the Parent Corporation and its subsidiaries for the fiscal years ended June 30, 2008, 2009 and 2010. Such financial statements include the results of the Non-Obligated Affiliates, which contributed approximately 3.7%, 4.0% and -4.8%, respectively, of the combined revenues and gains in excess of expenses reported on such financial statements. The Summary of Revenues and Expenses should be read in conjunction with the audited combined financial statements and related notes for the fiscal years ended June 30, 2010 and 2009 included in Appendix B.

Combined Statements of Operations
Fiscal Years 2008 – 2010
(Dollars in thousands)

	As of June 30,		
	2008	**2009**	**2010**
OPERATING REVENUES			
Net Patient Service Revenue	$ 453,375	$ 496,857	$ 552,635
Other Operating Revenues	16,086	16,269	18,366
Total Operating Revenues	469,461	513,126	571,001
OPERATING EXPENSES			
Salaries	188,888	209,037	226,298
Employee Benefits	49,236	50,450	59,098
Medical Supplies and Other Expenses	188,913	203,932	218,681
Depreciation and Amortization	22,976	24,268	26,725
Interest	5,390	4,873	4,426
Total Operating Expenses	455,403	492,560	535,228
OPERATING INCOME	14,058	20,566	35,773
NONOPERATING INCOME (LOSS)			
Investment Income (Loss), Net	(5,525)	(28,084)	15,243
Other, Net	(1,616)	(3,015)	(4,256)
Nonoperating Income, Net	(7,141)	(31,099)	10,987
EXCESS OF REVENUES AND GAINS OVER (UNDER) EXPENSES AND LOSSES	6,917	(10,533)	46,760
DISTRIBUTIONS AND OTHER	-	-	181
Net Assets – Beginning of Year	301,081	307,998	297,465
NET ASSETS – END OF YEAR	$ 307,998	$ 297,465	$ 344,406

Management Discussion and Analysis of Combined Financial Information and Summary Operating Statistics

Fiscal Year Ended 2009 Compared to Fiscal Year Ended 2010

For the fiscal year ended June 30, 2010, excess of revenues and gains over expenses and losses totaled $46.8 million, which was a $57.3 million increase from the prior year. This increase was primarily due to investment income. Investment income totaled $15.2 million in fiscal year 2010.

Investment income increased in fiscal year 2010 as investments recovered a significant portion of the value lost in 2009. Investment income decreased in fiscal year 2009 as a direct result of the overall global investment climate and economic recession.

For the fiscal year ended June 30, 2010, total operating income increased $15.2 million, or 73.9%, from the prior year. Net patient service revenue increased 11.2% primarily due to increased reimbursement from payor contracts.

Total operating expenses increased $42.7 million, or 8.7%, from the prior year. The increases in operating expenses are the result of inflation and expansion of services offered, mitigated by coordinated and disciplined cost control measures. The largest increase was in salaries, an increase of $17.3 million, or 8.3%. Other increases included a $14.7 million increase in medical supplies and other expenses, an $8.6 million increase in employee benefits and a $2.5 million increase in depreciation and amortization.

At June 30, 2010, total long-term debt increased by $11.4 million, or 11.4%, over the prior year, due primarily to the construction loan associated with the acquisition of Rex CDP Ventures, LLC on June 15, 2010. The members of the Obligated Group are not obligated, directly or indirectly, for the repayment of such loan. See also “Note 6 – LONG-TERM DEBT—Construction Loan” in Appendix B.

Fiscal Year Ended 2008 Compared to Fiscal Year Ended 2009

For the fiscal year ended June 30, 2009, excess of revenues and gains over expenses and losses totaled ($10.5) million, which was a $17.5 million decrease from the prior year. This decrease was primarily due to losses in investment income. Total losses related to investment income totaled ($28.1 million) in fiscal year 2009.

Investment income decreased in fiscal year 2009, the direct result of the overall global investment climate and economic recession. Investment income decreased in 2008 as a result of significant declines in overall investment market performance across nearly all classes of investment, driven by the slowing economy, weaker dollar, increased crude oil prices and geo-political concerns.

For the fiscal year ended June 30, 2009, total operating income increased $6.5 million, or 46.3%, from the prior year. Net patient service revenue increased primarily due to increased reimbursement from payor contracts.

Total operating expenses increased $37.2 million, or 8.2%, from the prior year. The increases in operating expenses are the result of changes in patient volumes, inflation and expansion of services offered, mitigated by coordinated cost control measures. The largest increase was in salaries, an increase of $20.1 million, or 10.7%. Other increases included a $15.0 million increase in medical supplies and other expenses, a $1.3 million increase in depreciation and amortization and a $1.2 million increase in employee benefits.

Fiscal Year Ended 2007 Compared to Fiscal Year Ended 2008

For the fiscal year ended June 30, 2008, excess of revenues and gains over expenses and losses totaled $6.9 million for a margin of 1.5%, which was a $24.4 million decrease from the prior year. This decrease was due to investment losses of ($5.5) million in 2008, compared to $19.9 million of investment income in 2007.

For the fiscal year ended June 30, 2008, total operating income increased $0.6 million, or 4.5%, from the prior year. Net patient service revenue increased due to growth in discharges, births, surgical cases, emergency visits and diagnostic tests. The increase in operating income was driven by the increase in patient volumes and expansion of services offered.

Total operating expenses increased $42.2 million, or 10.2%, from the prior year. The largest increase was a $17.4 million increase in medical supplies and other expenses, followed by a $16.1 million increase in salaries. Other increases included a $7.2 million increase in employee benefits and a $1.8 million increase in depreciation and amortization.

Percentage of Patient Revenues by Payor

A substantial portion of the Corporation's revenues is derived from third-party payors. This table sets forth the sources of gross patient service revenues by payor for the fiscal years ended June 30, 2008, 2009 and 2010.

	As of June 30,		
	2008	**2009**	**2010**
Medicare	33.83%	32.71%	32.93%
Medicare Managed Care	5.87%	6.72%	7.26%
Medicaid	4.26%	3.67%	4.77%
Managed Care	51.33%	51.70%	48.37%
Self Pay	2.63%	3.02%	3.32%
Commercial/Other	2.08%	2.17%	3.35%
Total	**100.0%**	**100.0%**	**100.0%**

There are no capitation agreements. The Corporation has developed a managed care strategy that is updated annually and permits the Corporation to evaluate the performance of each of its managed care contracts.

Historical Debt Service Coverage

This table sets forth the Long-Term Debt Service Coverage Ratio for the Members of the Obligated Group for the fiscal years ended June 30, 2008, 2009 and 2010:

(In Thousands of Dollars, Except Ratios)	2008	2009	2010
Excess of Revenues over Expense	$ 6,663	$(10,113)	$ 49,004
Add:			
Depreciation and Amortization	22,974	24,266	26,580
Interest Expense	5,390	4,873	4,426
Unrealized (Gain) Loss on Investments	11,488	18,185	(292)
Income Available for Debt Service [A]	$ 46,515	$ 37,211	$ 79,718
Maximum Annual Debt Service [B]	$ 16,899	$ 17,377	$ 14,443
Historical Long-Term Debt Service Coverage Ratio [A/B]	2.75	2.14	5.52

Historical Pro-Forma Debt Service Coverage

The following table sets forth the historical pro-forma debt service coverage ratio for the Obligated Group for the fiscal years ended June 30, 2008, 2009 and 2010. The calculation measures how many times the Obligated Group's Income Available for Debt Service would have covered the Maximum Annual Debt Service on all outstanding indebtedness of the Obligated Group after the issuance of the Series 2010A Bonds and the refunding of the Refunded Bonds. The table assumes that the Series 2010A Bonds had been outstanding for each fiscal year presented in the table.

(In Thousands of Dollars, Except Ratios)	2008	2009	2010
Excess of Revenues over Expense	$ 6,663	$(10,113)	$ 49,004
Add:			
Depreciation and Amortization	22,974	24,266	26,580
Interest Expense	5,390	4,873	4,426
Unrealized (Gain) Loss on Investments	11,488	18,185	(292)
Income Available for Debt Service [A]	$ 46,515	$ 37,211	$ 79,718
Historical Pro-Forma Maximum Annual Debt Service [B]*	$ 10,336	$ 10,336	$ 10,336
Historical Pro-Forma Long-Term Debt Service Coverage Ratio [A/B]	4.50	3.60	7.71

* Includes debt service requirements on the Series 2010A Bonds, a tax-exempt equipment financing and various capital lease obligations. See also Note 6 in Appendix B.

Liquidity Ratios

This table sets forth the Obligated Group's liquidity as of June 30, 2008, 2009 and 2010:

Liquidity and Capitalization
(Dollars in thousands)

	As of June 30,		
	2008	**2009**	**2010**
Cash and Cash Equivalents	$ 18,127	$ 35,643	$ 62,513
Investments	136,440	108,783	123,032
Total Cash & Investments	154,567	144,426	185,545
Operating Expenses	446,913	482,103	513,187
Depreciation & Amortization Expense	22,974	24,266	26,580
Net Operating Expenses	423,939	457,837	486,607
Days	366	365	365
Daily Cash Requirements	$ 1,158	$ 1,254	$ 1,333
Days Cash on Hand	133	115	139

Investment Policy

The Board of Trustees and the Board of Directors have adopted investment policies establishing asset classes, asset allocation targets, return objectives and performance benchmarks. The asset allocation policy currently provides for a target allocation of 23% US equity, 22% non-US equity, 15% hedge funds, 10% real estate and 30% fixed income. Investment decisions are made by the Investment Committee of the Board of Trustees and the Board of Directors under the guidance of an investment advisor. As of June 30, 2010, the Obligated Group's investment portfolio had a market value of over $122 million.

CHARITY CARE AND COMMUNITY BENEFIT

The Corporation considers extenuating circumstances associated with uninsured patients and may request documents to verify patient financial circumstances. Debt forgiveness percentages and maximum out of pocket amounts are based on the patient's family income in relation to Federal Poverty Guidelines.

Uninsured Self-Pay Discounts

Uninsured self-pay patients that are ineligible for the financial and charity assistance programs listed above are eligible for an automatic 15% discount on total charges.

Prompt Pay Discounts

Uninsured self-pay patients are eligible for further discounts on charges in addition to financial and charity assistance. The amount of the discount is dependent on when payment in full is received in relation to the final bill date.

Healthcare Reform

Under the most likely scenarios of healthcare reform, management expects charity care costs (as a percentage of revenue) will moderate, as an increasing percentage of the population is covered by health insurance. Charity care costs are expected to remain into the future, as it will take time for the uninsured to obtain insurance coverage and the problem of the underinsured (i.e., unable to pay a deductible) is expected to continue. Management expects healthcare reform will begin to have an impact on charity care in 2014.

Community Benefits

In addition to providing care without charge, or at amounts less than established rates to certain patients identified as qualifying for charity care, the Corporation also recognizes its responsibility to provide health care services and programs for the benefit of the community, at no cost or at reduced rates. The Corporation sponsors many community health initiatives, including breast and prostate screenings, cardiovascular and pulmonary awareness and diabetes education programs that ultimately result in the overall improved health of the community. The Rex Healthcare Emergency Response Team provides emergency aid and medical treatment at special events in the Wake County area. The Corporation also provides contributions, both cash and in-kind, to various charitable and community organizations.

STRATEGIC INITIATIVES

The Corporation's vision is "To provide the best in health services by bringing together compassionate care and leading edge technology." Its mission is to be the healthcare provider of choice in Wake County and surrounding counties. The Corporation stresses superb nursing care across all of its clinical service lines. Additionally, the Corporation works closely with its employed and community-based physicians to ensure high quality patient outcomes.

Management has identified five areas, known as the Levers of Competitive Advantage, where it wants to consistently focus its efforts. Management believes that investing its time and energy in these five areas will result in the Corporation maintaining its leadership in those areas where it is a market leader and will result in increased market share in those areas where it is second in market share. The Levers of Competitive Advantage are:

- Ease of Use
- Economics
- Physician Loyalty
- Quality
- Technology

In developing its Strategic Plan, management ensures that key initiatives support or reinforce one or more of these Levers. The Strategic Plan is a multi-year guiding document that is developed with input from physicians and key service line staff and is reviewed annually with the Corporation's Board of Directors. Specific, pertinent aspects of the Strategic Plan are reviewed and discussed at every Board meeting. The goals of the Plan are to:

- Identify the best opportunities to grow market share
- Isolate and leverage competitive advantages
- Develop vision for the Corporation as a part of UNCHCS
- Assure ongoing clinical quality and financial performance
- Reinforce our partnership with physicians, staff, patients and community

By using the Levers as a perspective to guide its strategies, management believes that it is currently, and will continue to be, well-positioned for the advent of healthcare reform. Some of

these strategies include expanding the Corporation's primary care network in terms of geography and size to meet the demands of the newly insured population in the market. Cost reductions through retooling operations using *Lean* process improvement techniques, leveraging information technology, and benchmarking to best practices have yielded significant savings.

The Corporation's medical staff covers all major adult specialties and subspecialties. In the past year, the Corporation has focused on physician alignment, including hiring general surgeons and heart and vascular specialists, and investigating ways to align community physicians through technological connectivity to the hospital.

FUTURE CAPITAL PLANS

North Carolina Cancer Hospital at Rex

The Corporation plans to renovate and expand its existing space for oncology services and establish the North Carolina Cancer Hospital at Rex on the main campus of Rex Hospital. A Certificate of Need from the State was obtained on July 29, 2010. The estimated cost of the North Carolina Cancer Hospital at Rex is approximately $60 million, which is expected to be financed with approximately $30 million in cash from operations and $30 million from the proceeds of revenue bonds to be issued in 2011.

Heart & Vascular Services

The Corporation will construct a new building at the main campus of Rex Hospital for the consolidation of Heart & Vascular Services. This project will reduce the number of locations where cardiovascular services are performed at the hospital, resulting in improved ease of use and patient experience. Heart & Vascular consolidation is expected to be funded from operations.

Same Day Surgery Renovation

This project will right-size eight operating rooms and move four operating rooms to a new outpatient facility to be built across the street from the main campus of Rex Hospital on Macon Pond Road in Raleigh. Pre- and post-operating space will expand from 37 to 54 bays. Waiting and registration space will be moved to a more convenient location. The Same Day Surgery renovation is expected to be financed from operations.

Front Entrance and Public Concourse

This project will connect the North Carolina Cancer Hospital at Rex, the Main Entrance of Rex Hospital and Same Day Surgery. The new front entrance will allow for easier patient drop off and will improve navigation of Rex Hospital. As part of the interior renovations, the main laboratory will be expanded. This project is expected to be financed from operations.

The combined estimated cost of the projects described under "Heart & Vascular Services", "Same Day Surgery Renovation" and "Front Entrance and Public Concourse" is $132.1 million.

EMPLOYEES

The Corporation enjoys favorable relations with its employees (which Rex refers to as co-workers). In 2008 and 2009, it was named one of the Best Places to Work in Healthcare by *Modern Healthcare* magazine. In 2008, the Corporation ranked 15th on this list. In 2009, the Corporation was the only North Carolina hospital to receive this honor. For more than 10 years,

the Corporation has been named one of the best workplaces for working women by *Carolina Parent* magazine.

The Corporation's human resources department recruits employees through various outlets including print, online, and radio media. In addition, interactive advertising approaches, such as social networking sites, search engine optimization, blucasting, and e-postcards are also in development. The Corporation participates in school career fairs, professional job fairs, and offers co-worker referral bonuses. Hard-to-fill positions and strategic initiatives are reviewed annually and supporting recruitment plans are created.

The Corporation is committed to retention of all nursing and non-nursing staff. Nursing staff turnover is less than 10%. Salary and benefits are annually reviewed to ensure market competitiveness, a co-worker satisfaction survey is conducted bi-annually and formal and spontaneous recognition programs are in place. Further, management believes that communication with co-workers is essential to employee retention and has several communication methods in place, including monthly newsletters, a daily email newsblast, executive rounding, and quarterly co-worker forum meetings with the Corporation's president.

As of June 30, 2010 the Corporation employed a total of 4,716 co-workers. Of the total co-workers, approximately 64.2% are related to direct patient care (nursing, patient care non-RN and clinical paraprofessional), 22.8% are professional and administrative and 13.0% are support.

The Corporation provides a wide array of benefits for its employees. Eligible co-workers have three options for health and dental insurance with coverage effective the first day of employment. In addition, the Corporation has an onsite childcare center for its co-workers' children. A 403(b) retirement plan with employer matching is available for all co-workers and those hired before January 2009 participate in the Corporation's defined benefit pension plan. Tuition reimbursement, scholarships and a 529 college savings plan are also available for co-workers.

The Corporation takes a proactive approach to developing leaders and succession planning. Managers assess and identify co-workers with high potential for advancement and prepare them for future leadership roles in accordance with a development plan. The Rex Center for Leadership Excellence provides six professional development certificate paths for co-workers at every stage of their career. The certification paths include a combination of assessments, coaching/mentoring, role shadowing, project work, classroom training and on-the-job developmental assignments. In addition, all co-workers have access to an onsite MHA/MBA program.

ACCREDITATION, LICENSES AND MEMBERSHIPS

The Corporation's facilities are licensed by the Division of Health Service Regulation of the North Carolina Department of Health and Human Services. The facilities have been approved by the Centers for Medicare and Medicaid Services for participation in the Medicare and Medicaid programs. The Corporation is a member of the American Hospital Association and the North Carolina Hospital Association. The Corporation was last accredited by The Joint Commission in March, 2009. The next Joint Commission survey is expected in 2011.

EDUCATION AND RESEARCH

The Corporation has more than 60 agreements with health professional training programs throughout the Southeast. In addition to agreements with UNC-Chapel Hill, the Corporation has also entered into agreements with Duke University, East Carolina University and Western Carolina University for health professional training and other medical education programs. In addition, the Corporation has agreements with local programs offered by Durham

Technical Community College and Johnston Community College. The Corporation currently supports these programs financially, through teaching resources, classroom space, and clinical practice sites. The Corporation is committed to supporting the next generation of health care providers through hands-on work experience, as evidenced by the number of affiliations currently in place. The Corporation meets annually with representatives from all of these schools in order to identify training opportunities.

In addition to its academic relationships, the Corporation supports community-based health care professional organizations. The Corporation is a member of the Healthcare Works! Coalition, a coordinated effort between local facilities and community colleges to enhance the careers of health care workers in the region. The Corporation serves as a Wake Area Health Education Center-affiliated training site for American Heart Association sanctioned training programs, listed in the table below.

American Health Association Sanctioned Programs
Advanced Cardiac Life Support Initial Provider
Advanced Cardiac Life Support Provider Renewal
Basic Life Support
Healthcare Provider CPR
Neonatal Resuscitation Initial Provider
Neonatal Resuscitation Renewal
Pediatric Cardio Pulmonary Resuscitation
Pediatric Advanced Life Support Initial Provider
Pediatric Advanced Life Support Renewal

The Wake Area Health Education Center provides health care-related educational programs and services to workers and facilities throughout the region. The Corporation's co-workers regularly participate in such programs.

INSURANCE

The Corporation has a comprehensive property and casualty insurance program, including general and professional liability coverage, that is reviewed and approved annually by the Chief Financial Officer. The program is deemed to provide adequate protection for the Corporation and its affiliates against any reasonably foreseeable risks or claims. The Corporation purchases coverage for general and professional liability claims and has excess coverage in the event the primary policies are exhausted.

LITIGATION

The Corporation is involved in litigation arising in the normal course of business. After consultation with legal counsel, management believes these matters will be resolved without a material adverse effect on the Corporation's financial condition or results of operations.

APPENDIX B

AUDITED FINANCIAL STATEMENTS OF
REX HEALTHCARE, INC. AND SUBSIDIARIES

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REX HEALTHCARE, INC. AND SUBSIDIARIES

COMBINED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED JUNE 30, 2010 AND 2009

REX HEALTHCARE, INC. AND SUBSIDIARIES
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YEARS ENDED JUNE 30, 2010 AND 2009

LarsonAllen LLP
CPAs, Consultants & Advisors
www.larsonallen.com

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Rex Healthcare, Inc. and Subsidiaries
Raleigh, North Carolina

We have audited the accompanying combined balance sheets of Rex Healthcare, Inc. and Subsidiaries ("Rex") for the years ended June 30, 2010 and 2009 and the related combined statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of Rex's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects the combined financial position of Rex Healthcare, Inc. and Subsidiaries as of June 30, 2010 and 2009, and the combined results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis on pages 2 through 7 and the Schedule of Funding Progress on page 36 are both supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic combined financial statements of Rex, taken as a whole. The accompanying combining schedules on pages 32 through 35 are presented for the purpose of additional analysis of the combined financial statements rather than to present the financial position, results of operations and changes in net assets of the individual entities. Accordingly, we do not express an opinion on the financial position, results of operations or changes in net assets of the individual entities. However, such information has been subjected to the auditing procedures applied in our audits of the basic combined financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic combined financial statements taken as a whole.

LarsonAllen LLP

LarsonAllen LLP

Charlotte, North Carolina
September 13, 2010

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a worldwide network of independent accounting and consulting firms.

Overview

The Management's Discussion and Analysis section of the Rex Healthcare, Inc. and Subsidiaries ("Rex") annual financial report is designed to provide a general overview of the financial position and operating results as of and for the fiscal years ended June 30, 2010 and 2009. This discussion and analysis should be read in conjunction with the combined financial statements and related notes which follow this discussion and analysis.

Rex Healthcare, Inc. is a private, not-for-profit health care organization located in Raleigh, North Carolina, and a member of the University of North Carolina Health Care System. The flagship facility is Rex Hospital, Inc., a 433-bed community hospital. Rex has a 115-year history of providing excellent health services. Rex Hospital, Inc. provides comprehensive care, including emergency, general surgery, orthopedics, oncology, vascular, cardiac, gynecology, and obstetric services on its main campus. Rex Hospital, Inc. reaches beyond the hospital setting to provide long-term care and sub-acute rehabilitation in two skilled nursing centers – a 120-bed center in Raleigh and a 107-bed facility in Apex. In Cary, Rex offers outpatient surgery, urgent care, diagnostics and a wellness center. At its Wakefield campus, Rex provides outpatient surgery, a full cancer center with medical and radiation oncology services, urgent care, diagnostics, family medicine and a wellness center. At its Knightdale campus, Rex provides urgent care, diagnostics, family medicine, wound care and a sleep disorders center. In addition, Rex has a fourth medically supervised wellness center in Garner. Rex operates a home health service, outpatient rehab in three locations, and a senior health center in an underserved market in downtown Raleigh. Rex also provides radiation oncology services in Johnston County.

Current Year Events

Rex Healthcare had a successful fiscal year 2010. Significant time was spent on planning for the future. Certificate of need applications were filed for major additions/renovations to Rex's main campus in Raleigh, including a cancer hospital, heart and vascular center and surgical services. Rex Healthcare of Wakefield and Rex Healthcare of Knightdale celebrated one-year anniversaries by exceeding expectations at both campuses.

Physician alignment was a priority at Rex Healthcare during the past fiscal year. Three new groups were created under Rex Physicians, LLC – Rex Surgical Specialists, Rex Heart & Vascular Specialists and Rex Thoracic Specialists.

Rex continued to be recognized with significant accolades. *Modern Healthcare* magazine named Rex one of the top 100 places to work in health care (9th top hospital). Professional Research Consultants (PRC) nationally recognized Rex Healthcare for its shining achievements in patient service and awarded Three East the Five Star Performer Award for Best Overall Quality of Care, scoring in the top 10% of hospitals. Rex was also awarded the Four Star Award in two areas, Patient Satisfaction and Executive Leadership in co-worker satisfaction. The 2010 Patient Satisfaction Award, specific to outpatient services and outpatient surgery, was the third consecutive year of achievement. This year's Executive Leadership Award recognized Rex's team in the top 25% of PRC leadership teams in the country. Additionally, leaders in Rex Hematology Oncology presented best practice strategies to consistently meet patients' needs at the annual national PRC meeting.

Current Year Events (Continued)

The National Research Corporation (NRC) named Rex Healthcare a Consumer Choice Award winner in 2009. Rex was designated a Bariatric Center of Excellence in 2010 by the American Society for Metabolic and Bariatric Surgery (ASMBS). Rex Hospital was the only Wake County hospital that ranked above the national average for heart attack patient survival rates, according to Hospital Compare.

Rex was also recognized nationally by HealthGrades in 2010 with numerous awards including the Distinguished Hospital Award for Clinical Excellence, the Patient Safety Excellence Award and the Outstanding Patient Experience Award. Rex was also one of the top hospitals to receive Excellence Awards for bariatric surgery and emergency medicine.

Finally, Rex's A+ bond rating was affirmed with a stable outlook by Standard & Poor's. This occurred while the outlook for the not-for-profit health care industry was negative.

Using this Financial Report

Rex's financial statements report information of Rex using accounting methods similar to those used by private-sector health organizations. These statements offer short and long-term financial information about its activities.

Balance Sheet

The balance sheet includes all of Rex's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Rex's creditors (liabilities). The balance sheet also provides the basis for evaluating the capital structure of Rex and assessing the liquidity and financial flexibility of Rex.

Statement of Revenues, Expenses and Changes in Net Assets

Revenues and expenses are accounted for in the statement of revenues, expenses and changes in net assets. This statement measures the success of Rex's operations over the past year and can be used to determine whether Rex has successfully recovered all of its costs through its fees and other sources of revenue, profitability and credit worthiness.

Statement of Cash Flows

The final required statement is the statement of cash flows. The statement reports cash receipts, cash payments and net changes in cash resulting from operating, investing and capital and related financing activities. It also provides answers to such questions as where cash comes from, what cash was used for and what the change in the cash balance was during the reporting period.

Notes to the Combined Financial Statements

Notes to the combined financial statements are designed to give the reader additional information concerning Rex and further supports the statements noted above.

Financial Analysis

The statement of revenues, expenses and changes in net assets reports the net assets of Rex and the changes affecting them. Rex's net assets, the difference between assets and liabilities, are a way to measure financial health or financial position. Over time, increases or decreases in Rex's net assets are one indicator of whether its financial health is improving or deteriorating. However, one will also need to consider other non-financial factors such as changes in economic conditions, population growth and new or changed governmental legislation.

Condensed Combined Balance Sheets

The following condensed combined balance sheets show the combined financial position at June 30, 2010, 2009, and 2008 (in $000's):

	2010	2009	2008
ASSETS			
Current Assets	$ 143,526	$ 112,477	$ 102,176
Capital Assets, Net	261,418	240,388	220,788
Noncurrent Assets	136,265	120,875	149,675
Total Assets	$ 541,209	$ 473,740	$ 472,639
LIABILITIES			
Long-Term Debt, Including Current Portion	$ 111,148	$ 99,788	$ 101,923
Other Liabilities	85,655	76,487	62,718
Total Liabilities	196,803	176,275	164,641
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	150,270	140,600	118,865
Restricted	4,123	4,525	4,513
Unrestricted	190,013	152,340	184,620
Total Net Assets	344,406	297,465	307,998
Total Liabilities and Net Assets	$ 541,209	$ 473,740	$ 472,639

Current assets increased $31,049 (27.6%) and $10,301 (10.1%) in 2010 and 2009, respectively. The increases result from improved reimbursement associated with renegotiated payor contracts and disciplined expense control.

Noncurrent assets increased $15,390 (12.7%) in 2010, as investment earnings resulted in the recovery of a portion of portfolio value lost during the bear market of 2008 and 2009. Fiscal year 2009 saw a decrease in noncurrent assets of $28,800 (19.2%).

Financial Analysis (Continued)

During 2010 and 2009, long-term debt increased $11,360 (11.4%) and decreased $2,135 (2.1%), respectively. In each year regularly scheduled payments on the Series 1998 Revenue Bonds and the Tax-Exempt Lease Financing resulted in decreases to long-term debt. The increase in 2010 is the net result of such debt repayments and the assumption of an additional $24,216 of indebtedness in conjunction with our acquisition of full ownership of our suburban campus in the Wakefield community. The decrease in fiscal year 2009 is the net result of such debt repayments and the incurrence of an additional $7,328 of indebtedness in conjunction with the development of our suburban campus in the Wakefield development.

Net assets increased $46,941 (15.8%) as a result of strong operating performance and investment earnings. Net assets decreased $10,533 (3.4%) during 2009, primarily the result of investment losses. Investment income contributed $15,243 and ($28,084) in 2010 and 2009, respectively, to the increase (decrease) in net assets. For further information on this change, see the following statement of revenues, expenses and changes in net assets.

Capital Assets

Rex's investment in capital assets consisted of the following at June 30, 2010, 2009 and 2008 (in $000's):

	2010	2009	2008
Land and Land Improvements	$ 49,679	$ 42,816	$ 39,733
Buildings and Improvements	264,540	235,763	212,329
Equipment	273,734	260,626	238,322
Total Capital Assets	587,953	539,205	490,384
Accumulated Depreciation	(334,139)	(304,200)	(280,704)
Total Capital Assets, Net	253,814	235,005	209,680
Construction in Progress	7,604	5,383	11,108
Total Capital Assets	$ 261,418	$ 240,388	$ 220,788

The increase in Rex's investment in capital assets in 2010 and 2009 represents purchases of capital assets, net of disposals and depreciation expense, combined with the capital assets of Rex CDP Ventures, LLC and subsidiaries which were acquired by Rex during fiscal year 2010. During 2010, Rex's major routine capital investments included two replacement linear accelerators, new inpatient beds and a replacement cardiac catheterization lab. Rex continued to invest in information technology with enhancements to the electronic medical record system.

During 2009, Rex invested in the development of suburban campuses in the Wakefield community and in Knightdale. The Wakefield campus offers a wide range of diagnostic and treatment services including primary care, laboratory, radiology, oncology and outpatient surgery services. The Knightdale campus offers a selection of primary care, laboratory and radiology services. Rex also continued to invest in enhancements to the electronic medical record system and purchased a second daVinci Robotic Surgery System, a linear accelerator, a 64-slice CT scanner. Rex also upgraded its video surgical equipment to digital technology.

Financial Analysis (Continued)

Condensed Combined Statements of Revenues, Expenses and Changes in Net Assets

While the combined balance sheets show the change in financial position of net assets, the following combined statements of revenues, expenses and changes in net assets provides answers to the nature and source of these changes for the years ended June 30, 2010, 2009 and 2008 (in $000's):

	2010	2009	2008
Operating Revenues	$ 571,001	$ 513,126	$ 469,461
Operating Expenses	535,228	492,560	455,403
Operating Income	35,773	20,566	14,058
Nonoperating Income (Loss)	10,987	(31,099)	(7,141)
Distributions and Other	181	-	-
Increase (Decrease) in Net Assets	46,941	(10,533)	6,917
Net Assets, Beginning of Period	297,465	307,998	301,081
Net Assets, End of Period	$ 344,406	$ 297,465	$ 307,998

Operating Income

The increase in operating revenues in 2010 and 2009 is primarily the result of increased reimbursement resulting from renegotiated payor contracts. In addition, Rex recognized $2,860 in operating revenues related to the North Carolina Medicaid Reimbursement Initiative Program in 2010 compared to $2,390 in 2009. The increases in operating expenses in each year are the result of changes in patient volumes, inflation and expansion of services offered, mitigated by coordinated cost control measures. The increase in operating income is the net result of all these factors.

Nonoperating Income

Nonoperating income consisted of the following for the years ended June 30, 2010, 2009 and 2008 (in $000's):

	2010	2009	2008
Interest Income	$ 471	$ 1,326	$ 2,098
Dividend Income	1,885	2,051	2,608
Realized Gains (Losses), Net	12,425	(12,591)	1,705
Net Change in Unrealized Gains (Losses) on Investments	751	(18,628)	(11,742)
Brokerage Fees	(597)	(515)	(500)
Income from Investments in Affiliates	308	273	306
Total Investment Income (Loss)	15,243	(28,084)	(5,525)
Other	(4,256)	(3,015)	(1,616)
Total Nonoperating Income (Loss)	$ 10,987	$ (31,099)	$ (7,141)

Financial Analysis (Continued)

In 2010, investment income increased significantly as the overall financial markets rebounded. The gains occurred across all investment classes and markets. Investment income decreased precipitously in 2009, the direct result of the overall global investment climate and economic recession. The investment losses Rex experienced are not unique. Substantial losses were experienced across all asset classes and markets.

Finance Contact

Rex's financial statements are designed to present users with a general overview of Rex's finances and to demonstrate Rex's accountability. If you have any questions about this report or need additional financial information, inquiries may be sent to:

Chief Financial Officer
Rex Healthcare, Inc.
4420 Lake Boone Trail
Raleigh, North Carolina 27607

REX HEALTHCARE, INC. AND SUBSIDIARIES
COMBINED BALANCE SHEETS
JUNE 30, 2010 AND 2009
(IN $000's)

	2010	2009
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 64,571	$ 36,475
Patient Accounts Receivable, Net of Allowance for Uncollectible Accounts of Approximately $7,557 in 2010 and $7,459 in 2009	57,446	53,642
Other Receivables	5,637	5,555
Inventories	9,983	10,027
Prepaid Expenses and Other Current Assets	5,889	6,778
Total Current Assets	143,526	112,477
ASSETS LIMITED AS TO USE	126,692	111,958
CAPITAL ASSETS, NET	261,418	240,388
OTHER ASSETS		
Investments in Affiliates	5,321	4,254
Deferred Debt Issuance Costs, Net	1,531	1,515
Other Assets	2,721	3,148
Total Other Assets	9,573	8,917
Total Assets	$ 541,209	$ 473,740
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	$ 11,844	$ 13,077
Vendor Accounts Payable	29,498	33,522
Accrued Expenses and Other Liabilities	39,528	32,929
Estimated Third-Party Payor Settlements	15,758	9,490
Total Current Liabilities	96,628	89,018
LONG-TERM DEBT, Net of Current Maturities	99,304	86,711
OTHER NONCURRENT LIABILITIES	871	546
Total Liabilities	196,803	176,275
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	150,270	140,600
Restricted	4,123	4,525
Unrestricted	190,013	152,340
Total Net Assets	344,406	297,465
Total Liabilities and Net Assets	$ 541,209	$ 473,740

See accompanying Notes to Combined Financial Statements.

REX HEALTHCARE, INC. AND SUBSIDIARIES
COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2010 AND 2009
(IN $000's)

	2010	2009
OPERATING REVENUES		
Net Patient Service Revenue (Net of Provision for Uncollectible Accounts of Approximately $22,867 in 2010 and $27,392 in 2009)	$ 552,635	$ 496,857
Other Operating Revenues	18,366	16,269
Total Operating Revenues	571,001	513,126
OPERATING EXPENSES		
Salaries	226,298	209,037
Employee Benefits	59,098	50,450
Medical Supplies and Other Expenses	218,681	203,932
Depreciation and Amortization	26,725	24,268
Interest	4,426	4,873
Total Operating Expenses	535,228	492,560
OPERATING INCOME	35,773	20,566
NONOPERATING INCOME (LOSS)		
Investment Income (Loss), Net	15,243	(28,084)
Other, Net	(4,256)	(3,015)
Nonoperating Income (Loss), Net	10,987	(31,099)
EXCESS OF REVENUES AND GAINS OVER (UNDER) EXPENSES AND LOSSES	46,760	(10,533)
DISTRIBUTIONS AND OTHER	181	-
Net Assets - Beginning of Year	297,465	307,998
NET ASSETS - END OF YEAR	$ 344,406	$ 297,465

See accompanying Notes to Combined Financial Statements.

REX HEALTHCARE, INC. AND SUBSIDIARIES
COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009
(IN $000's)

	2010	2009
OPERATING ACTIVITIES		
Receipts from Third-Party Payors and Patients	$ 554,717	$ 509,687
Payments to and on Behalf of Employees	(279,058)	(258,215)
Payments to Suppliers	(225,543)	(205,696)
Other Receipts	16,654	20,194
Net Cash Provided by Operating Activities	66,770	65,970
INVESTING ACTIVITIES		
Purchases and Sales of Investments, Net	(13,806)	9,692
Cash from Acquisition of Remaining Interest in Ventures	452	-
Investment Income (Loss)	14,492	(9,456)
Other Nonoperating Loss	(4,075)	(2,918)
Net Cash Used in Investing Activities	(2,937)	(2,682)
CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of Capital Assets	(17,895)	(36,868)
Cash Received from Disposal of Capital Assets	-	1,337
Cash Paid for Financing Costs	(125)	-
Proceeds from Issuance of Capital Debt	-	7,328
Principal Paid on Capital Debt	(13,089)	(12,127)
Interest Paid on Capital Debt	(4,451)	(4,895)
Net Cash Used in Financing Activities	(35,560)	(45,225)
INCREASE IN CASH AND CASH EQUIVALENTS	28,273	18,063
Cash and Cash Equivalents - Beginning of Year	38,011	19,948
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 66,284	$ 38,011
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO COMBINED BALANCE SHEETS:		
Cash and Cash Equivalents in Current Assets	$ 64,571	$ 36,475
Cash and Cash Equivalents in Assets Limited as to Use	1,713	1,536
Total Cash and Cash Equivalents	$ 66,284	$ 38,011

See accompanying Notes to Combined Financial Statements.

REX HEALTHCARE, INC. AND SUBSIDIARIES
COMBINED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2010 AND 2009
(IN $000's)

	2010	2009
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	$ 35,773	$ 20,469
Interest Expense Considered Capital Financing Activity	4,426	4,873
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Provision for Uncollectible Accounts	22,867	27,392
Depreciation and Amortization	28,298	24,344
Loss on Disposal of Assets	85	739
Changes in Assets and Liabilities:		
Patient and Other Receivables, Net	(27,053)	(19,031)
Accounts Payable and Accrued Expenses	(524)	959
Estimated Third-Party Payor Settlements	6,268	6,566
Other Assets and Liabilities, Net	(3,370)	(341)
Net Cash Provided by Operating Activities	$ 66,770	$ 65,970
SUPPLEMENTAL DISCLOSURE OF NON-CASH INFORMATION		
Net Change in Unrealized Gains (Losses) on Investments	$ 751	$ (18,628)
Additions to Capital Assets Included in Current Liabilities	$ 2,592	$ 6,100
Capital Assets Acquired through Capital Lease Obligations	$ 413	$ 2,625

See accompanying Notes to Combined Financial Statements.

NOTE 1 ORGANIZATION AND DESCRIPTION OF THE COMPANY

Rex Healthcare, Inc. ("Rex") is a North Carolina not-for-profit corporation organized to provide a broad range of health care services to residents of the Triangle area of North Carolina. Acting through its network of operating affiliates, Rex provides health care to patients from several locations through continued development of acute care and non-hospital programs.

Rex's sole member is the University of North Carolina Health Care System ("UNCHCS"). UNCHCS appoints eight of the thirteen seats on Rex's Board of Trustees. Additionally, UNCHCS reviews and approves Rex's annual operating and capital budgets. As required by accounting principles generally accepted in the United States of America, the combined financial statements of Rex present the financial position and results of operations of the parent entity and its blended component units which are described below:

Rex Hospital, Inc. – Rex Hospital, Inc. (the "Hospital"), located in Raleigh, North Carolina, is a 433-bed hospital. The Hospital provides inpatient, outpatient and emergency services primarily to the residents of Wake County, North Carolina. The Hospital operates on its main campus Rex Cancer Center, Rex Women's Center and Rex Rehabilitation and Nursing Care Center of Raleigh, a 120-bed nursing facility. The Hospital provides outpatient surgery, urgent care and diagnostics at its Cary, North Carolina campus. At its Wakefield campus, Rex provides urgent care, family medicine and diagnostics. During 2009, Rex expanded the services offered at its Wakefield campus to include outpatient surgery, oncology and wellness services. Also during 2009, Rex developed its Knightdale campus which provides urgent care, diagnostics, family medicine, wound care and a sleep disorders center. Rex also operates Rex Rehabilitation and Nursing Care Center of Apex, a 107-bed nursing facility located in Apex, North Carolina.

Rex Holdings, LLC - Rex formed and became the sole member of Rex Holdings, LLC ("Holdings"), a single member limited liability company. Holdings was formed to hold membership interest in various limited liability companies. During fiscal year 2010, there was no activity related to this entity.

Rex Physicians, LLC - Holdings formed and became the sole member of Rex Physicians LLC ("Physicians"), a single member limited liability company which has elected to be treated as a taxable corporation. Physicians was formed to operate specialty physician practices serving the residents of Wake County and surrounding areas. Physicians currently operates physician practices in the areas of general surgery, heart and vascular services, and thoracic surgery.

Rex Enterprises Company, Inc. – Rex Enterprises Company, Inc. ("Enterprises") is a North Carolina for-profit corporation organized to hold investments in various affiliates and to promote the development of real property in support of the mission of Rex.

NOTE 1 ORGANIZATION AND DESCRIPTION OF THE COMPANY (CONTINUED)

Rex CDP Ventures, LLC ("Ventures"), is a limited liability company organized to own and develop real estate in the Wakefield community of northern Wake County. Prior to June 15, 2010, Enterprises owned a 50% interest in Ventures and accounted for this investment using the equity method of accounting. Enterprises' investment in Ventures totaled approximately $1,232,000 at June 30, 2009. On June 15, 2010, Enterprises purchased the remaining 50% interest in Ventures from Wakefield Rex Investors, LLC and accordingly began combining the financial position and results of Ventures in the combined financial statements. At June 30, 2010, Ventures was the sole member of the following limited liability companies:

Rex Wakefield Wellness, LLC - Enterprises formed and became the sole member of Rex Wakefield Wellness, LLC ("Wellness"), a single member limited liability company. Wellness was created to develop a wellness center building on the Wakefield campus of the Hospital. The Hospital leases the building from Wellness. On June 15, 2010, Enterprises contributed its membership interest in Wellness to Ventures.

Rex CDP Ventures - HT, LLC - Ventures formed and became the sole member of Rex CDP Ventures - HT, LLC ("HT"), a single member limited liability company. HT was formed to develop a retail unit of the Wakefield campus of the Hospital.

Wakefield Rex Investors MOB, LLC - Wakefield Rex Investors, LLC, formed and became the sole member of Rex Wakefield Investors MOB, LLC ("MOB") a single member limited liability company. MOB was formed to develop a medical office building on the Wakefield campus of the Hospital. On June 15, 2010, Wakefield Rex Investors, LLC contributed its ownership interest in MOB to Ventures.

Rex Healthcare Foundation, Inc. – Rex Healthcare Foundation, Inc. (the "Foundation") is a North Carolina not-for-profit corporation organized to promote the health and welfare of the people of the Triangle area by promoting philanthropic contributions and public support of Rex.

Rex Home Services, Inc. – The Hospital owns Rex Home Services, Inc. ("Home Services"), a North Carolina not-for-profit corporation, organized to provide home health services primarily to the residents of Wake County, North Carolina.

Smithfield Radiation Oncology, LLC – Smithfield Radiation Oncology, LLC ("SRO") is a limited liability company organized to own and operate a linear accelerator. The Hospital is the sole member of SRO.

The financial statements include the accounts of Rex, the Hospital, Enterprises, Physicians, the Foundation, Home Services and SRO. All significant intercompany transactions and balances have been eliminated in combination.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

As a result of the transfer of the membership interest to UNCHCS, an agency of the State of North Carolina, Rex is subject to the application of accounting pronouncements issued by the Governmental Accounting Standards Board (GASB). In 1993, GASB issued Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that use Proprietary Fund Accounting* (the Statement), which provides guidance on how GASB pronouncements affect government entities that use business-type accounting and financial reporting. The provisions of the Statement were effective for periods beginning after December 15, 1993. As is allowable under the Statement, Rex has elected to follow the GASB hierarchy exclusively regarding authoritative literature issued after November 30, 1989.

Use of Estimates

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

Cash and Cash Equivalents

For purposes of the statement of cash flows, all highly liquid investments with an original maturity of three months or less, and which are not designated as investments, are considered to be cash equivalents and are recorded at cost which approximates market value.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market.

Investments

Investments in marketable debt and equity securities with readily determinable fair values, including assets whose use is limited, are measured at fair value in the accompanying balance sheets. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in nonoperating income (loss) in the accompanying combined financial statements. The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in Affiliates

Enterprises own a 50% interest in Quality Textile Services, Inc. ("QTS"), a Raleigh, North Carolina company that provides laundry services to local hospitals. Enterprises exercises significant influence over QTS; however, it does not control it through a majority voting interest. This investment is accounted for using the equity method of accounting; accordingly, Enterprises' investment has been adjusted for its share of QTS's operations. Enterprises' equity in the net income of this affiliate totaled approximately $27,000 and $42,000 for the years ended June 30, 2010 and 2009, respectively, and is included in net nonoperating income. Enterprises received no cash distributions from QTS during 2010 or 2009. Enterprises' investment in QTS totaled approximately $2,299,000 and $2,272,000 as of June 30, 2010 and 2009, respectively. Separate financial statements for QTS are not publicly available.

Enterprises owns a 32.5% interest in Rex Cary MOB, LLC, a company that in July 2003, built and began leasing a medical office building in Cary, North Carolina. Enterprises exercises significant influence over Rex Cary MOB, LLC; however, it does not control it through a majority voting interest. This investment is accounted for using the equity method of accounting; accordingly, Enterprises' investment has been adjusted for its share of Rex Cary MOB, LLC's operations. Enterprises' equity in the net income of this affiliate totaled approximately $281,000 and $231,000 for the years ended June 30, 2010 and 2009, respectively, and is included in net nonoperating income. Additionally, Enterprises received cash distributions from Rex Cary MOB, LLC totaling approximately $131,000 and $121,000 during 2010 and 2009, respectively. Enterprises' investment in Rex Cary MOB, LLC totaled approximately $599,000 and $450,000 as of June 30, 2010 and 2009, respectively. Separate financial statements for Rex Cary MOB, LLC are not publicly available.

Enterprises owns less than a 5% interest in Rex MOB Partners, LLC, a company that operates a multi-tenant medical office building in Raleigh, North Carolina on land leased from the Hospital. This investment is accounted for using the cost method of accounting. Enterprises' investment in Rex MOB Partners, LLC totaled approximately $300,000 as of June 30, 2010 and 2009. Separate financial statements for Rex MOB Partners, LLC are not publicly available.

Capital Assets

Capital asset acquisitions are recorded at cost and include interest on funds used to finance the acquisition or construction of major capital projects. Assets under capital lease are stated at the present value of the minimum lease payments at the inception of the lease. Depreciation is provided on both straight-line and accelerated methods over the estimated useful lives of the depreciable assets which is generally 5 to 15 years for equipment, 5 to 15 years for building improvements, and 30 to 40 years for buildings.

Assets under capital leases and leasehold improvements are depreciated over the estimated useful life or the related lease term, whichever is shorter; generally periods ranging from 5 to 7 years. Depreciation of assets under capital leases and leasehold improvements is included in depreciation and amortization expense in the accompanying statements of revenues, expenses and changes in net assets.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Debt Issuance Costs

Deferred debt issuance costs are amortized over the term of the related bond issuance under a method which approximates the effective interest method over the life of the bonds. Amortization of deferred debt issuance costs totaled approximately $109,000 for both years ended June 30, 2010 and 2009. Cumulative amortization of deferred debt issuance costs totaled approximately $1,312,000 and $1,203,000 as of June 30, 2010 and 2009, respectively.

Other Assets

Other assets consisted of the following at June 30, 2010 and 2009 (in $000's):

	2010	2009
Goodwill	$ 1,862	$ 1,993
Other Assets	859	1,155
Total	$ 2,721	$ 3,148

The excess of purchase price over the fair values of identifiable net assets acquired has been allocated to goodwill. Management periodically evaluates the carrying value and remaining amortization periods of unamortized amounts based on an analysis of estimated undiscounted operating earnings from the operations of each specific business. Any events or circumstances occurring during the year or future years that might have an impact on such carrying value or remaining amortization periods are considered. Other than amortization, no adjustments have been made to the carrying value of the goodwill as of June 30, 2010.

Proprietary Fund Accounting

Rex utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

Net Assets

In accordance with GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, net assets are categorized as invested in capital assets, net of related debt, restricted and unrestricted. Invested in capital assets, net of related debt is intended to reflect the portion of net assets that are associated with non-liquid capital assets less outstanding debt related to capital assets. Restricted net assets are assets generated from revenues that have third-party limitation on their use. Unrestricted net assets have no third-party restrictions on use.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets (Continued)

Restricted net assets included the following at June 30, 2010 and 2009 (in $000's):

	2010	2009
Restricted Net Assets:		
Expendable:		
Donations to Foundation for Various Scholarships, Lectureships and Buildings	$ 386	$ 499
Donations to Rex for Various Supplies, Equipment and Patient Charity Care	3,306	2,932
Certificate of Deposit Maintained with North Carolina Insurance Department for Workers' Compensation Self-Insurance Program	-	818
Total Expendable:	3,692	4,249
Nonexpendable Restricted Net Assets:		
Donations to Foundation for Endowments	431	276
Total Restricted Net Assets	$ 4,123	$ 4,525

Net Patient Service Revenue

Net patient service revenue is recorded at established rates when services are provided with contractual adjustments, estimated bad debt expenses, and services qualifying as charity care deducted to arrive at net patient service revenue. Contractual adjustments arise under reimbursement agreements with certain insurance carriers, health maintenance organizations and preferred provider organizations, which provide for payments that are generally less than established billing rates. Contractual adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in the future as final settlements are determined.

Medicare and Medicaid Programs

The Hospital renders care to patients covered by the Medicare and Medicaid programs. Services rendered to Medicare program beneficiaries and inpatient services rendered to Medicaid program beneficiaries are paid primarily at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors and cover both operating and capital costs. Outpatient services rendered to Medicaid beneficiaries are reimbursed based on a percentage of actual costs incurred. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by fiscal intermediaries. Final settlements under the Medicare and Medicaid programs are based on regulations established by the respective programs and as interpreted by fiscal intermediaries. The Hospital's classification of patients under the Medicare and Medicaid programs and the appropriateness of their admission are subject to review by an independent peer review organization.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Medicare and Medicaid Programs (Continued)

Accounts receivable and patient service revenue relating to these programs are stated at estimated net realizable amounts in the accompanying combined financial statements. The Hospital's Medicare cost reports have been audited through June 30, 2007. During 2010, the Hospital filed the 2009 Medicare cost report, resulting in a tentative cash settlement of approximately $171,000. During 2009, the Hospital filed the 2008 Medicare cost report, resulting in a tentative cash settlement of approximately $169,000. For the years ended June 30, 2010 and 2009, net patient service revenue decreased by approximately $2,486,000 and $1,901,000, respectively, as a result of changes in estimates related to various third-party accruals and reserves.

The Hospital receives disproportionate share funds from Medicaid under the North Carolina Medicaid Reimbursement Initiative Program (the "Program"). The Hospital recognized approximately $2,860,000 and $2,390,000 of disproportionate share funds as net patient service revenue during the years ended June 30, 2010 and 2009, respectively. Amounts reported as estimated third-party reserves at June 30, 2010 and 2009 included approximately $1,318,000 and $780,000, respectively, related to funds received from the Program during years 2004 to 2010. Management continues to evaluate the settlement process related to the Program and records amounts in estimated third-party reserves in accordance with this evaluation.

In addition, proposed regulations by the Centers for Medicare and Medicaid Services published in the Federal Register could have resulted in the elimination of the Program effective September 1, 2007; however, Congress approved in 2007 and 2008, moratoriums that postponed any regulations which could have resulted in the elimination of the Program, the latest of which had an expiration date of April 1, 2009. The American Recovery and Reinvestment Tax Act of 2009, passed by Congress in February 2009, states that it is the sense of Congress that the Secretary of Health and Human Services should not promulgate as final, regulations published in the Federal Register as described above. Management is uncertain how this directive will affect the future of the Program. Accordingly, any future payments beyond June 30, 2010 are uncertain.

Other Payors

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations of Credit Risk

Rex provides services primarily to residents of Wake and surrounding counties without collateral or other proof of ability to pay. Concentrations of credit risk with respect to patient accounts receivable are limited due to large numbers of patients served and formalized agreements with third-party payors. Rex has significant accounts receivable whose collectibility is dependent upon the performance of certain governmental programs, primarily Medicare. Management does not believe there are significant credit risks associated with these governmental programs. The aggregate mix of accounts receivable from patients and third-party payors was as follows at June 30, 2010 and 2009:

	2010	2009
Medicare	28 %	25 %
Medicaid	3	4
Managed Care	48	52
Self Pay	21	19
Total	100 %	100 %

Charity Care

Rex provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Because Rex does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue or accounts receivable in the accompanying financial statements. Rex maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy. The amount of charity care provided, based on charges foregone, was approximately $44,000,000 and $45,000,000 for the years ended June 30, 2010 and 2009, respectively.

Functional Expenses

Rex does not present expense information by functional classification because its resources and activities are primarily related to providing health care services. Further, since Rex receives substantially all of its resources from providing health care services in a manner similar to a business enterprise, other indicators contained in these financial statements are considered important in evaluating how well management has discharged its stewardship responsibilities.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating Income

Rex classifies all revenues and expenses earned or incurred in the course of providing health care to patients as operating activities.

Nonoperating Income (Loss)

Nonoperating income (loss) consists primarily of investment income and other miscellaneous income and expense items. Activities related to Ventures and its affiliates are included in other nonoperating income (loss). Nonoperating income (loss) consisted of the following for the years ended June 30, 2010 and 2009 (in $000's):

	2010	2009
Interest Income	$ 471	$ 1,326
Dividend Income	1,885	2,051
Realized Gains (Losses), Net	12,425	(12,591)
Net Change in Unrealized Gains (Losses) on Investments	751	(18,628)
Brokerage Fees	(597)	(515)
Income from Investments in Affiliates	308	273
Total Investment Income (Loss)	15,243	(28,084)
Other	(4,256)	(3,015)
Total Nonoperating Income (Loss)	$ 10,987	$ (31,099)

Capitalized Interest

Interest incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. There was no interest capitalized during the years ended June 30, 2010 or 2009.

Risk Management

Rex is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; employee health, dental, and accident benefits; and medical malpractice (see Note 10). Commercial insurance and stop loss coverage is purchased for claims arising from such matters, subject to various deductibles.

Tax-Exempt Status

Rex, the Hospital, the Foundation, and Home Services are exempt from federal income tax under Section 501(a) as organizations described in Section 501(c)(3) of the Internal Revenue Code. Enterprises is a taxable corporation that has net operating loss carryforwards. Physicians is a single member limited liability company that has elected to be taxed as a for-profit corporation. Physicians currently has a net operating loss. Accordingly, no provision for income taxes has been reflected in these combined financial statements.

Rex is the sole member of SRO, a single member limited liability corporation. Enterprises is the sole member of Ventures, a single member limited liability corporation. As such, SRO and Ventures are considered disregarded entities for tax purposes.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain amounts in the 2009 combined financial statements have been reclassified to conform to the 2010 presentation with no effect on previously reported excess of revenues and gains over expenses and losses or net assets.

NOTE 3 CASH, CASH EQUIVALENTS AND INVESTMENTS

Assets Limited as to Use

At June 30, 2010 and 2009, Rex had the following investments, all of which were held by custodians that are agents of Rex (in $000's):

	2010	2009
Cash and Cash Equivalents	$ 1,713	$ 1,536
Certificates of Deposit	300	868
Mutual Funds	80,346	23,466
Equities	7,010	33,034
Alternative Investments	28,254	22,674
Common Trust Funds	9,069	30,380
	$ 126,692	$ 111,958

As of June 30, 2010, all of these investments had maturities of one year or less.

Interest rate risk – Rex has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The policy requires that the duration of the portfolio shall not exceed six years and its average maturity shall range between two and six years.

Credit risk – Rex's investment policy allows it to invest in (i) direct obligations or obligations on which the principal and interest are unconditionally guaranteed by the United States government; (ii) obligations issued by an approved agency or corporation wholly-owned by the United States government; (iii) interest-bearing time deposits, certificates of deposit or other approved forms of deposits in any bank or trust company in North Carolina which satisfies insurance and, if necessary, collateral requirements for holding Company money; and (iv) corporate notes and bonds.

Alternative investments are investments in the common stock of limited investment companies that offer a pattern of returns different from that of the overall market and occasionally have lesser levels of liquidity. Examples of alternative investments include non-publicly traded companies, real estate and hedge funds.

NOTE 3 CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Assets Limited as to Use (Continued)

Concentration of credit risk – Rex limits the amount it may invest in any single issuer. Fixed income holdings in a single issuer (excluding obligations of the United States Government, its agencies and government sponsored entities) shall be limited to 5 percent of the portfolio measured at market value at the time of purchase. Treasuries, agencies and government-sponsored entities have no issuer limits. Securities rated under "A-" are limited to 3% per issuer.

Custodial credit risk – At year end, Rex's investments were not exposed to custodial credit risk.

The carrying amount of deposits and investments included in the combined balance sheets are as follows at June 30, 2010 and 2009 (in $000's):

	2010	2009
Carrying Amount:		
Deposits	$ 66,284	$ 38,011
Investments	124,979	110,422
	$ 191,263	$ 148,433
Included in the Following Balance Sheet Captions:		
Cash and Cash Equivalents	$ 64,571	$ 36,475
Assets Limited as to Use:		
Restricted by Contributors and Grantors	4,123	3,707
North Carolina Department of Insurance	-	818
Funds Held in Escrow	470	-
Designated for Long-Term Investment	122,099	107,433
	$ 191,263	$ 148,433

All investments in securities are on deposit with Rex's fiduciary agent, which holds these securities by book entry in its fiduciary Federal Reserve accounts. Rex's ownership of these securities is identified through the internal records of the fiduciary agent. Certain of these securities are optionally callable at par by the issuer on specified dates.

NOTE 4 CAPITAL ASSETS AND ACCUMULATED DEPRECIATION

A summary of changes in the historical cost of capital assets and accumulated depreciation and amortization related to capital assets are as follows (in $000's):

For the year ended June 30, 2010:

	June 30, 2009	Transfers/ Additions	Transfers/ Retirements	June 30, 2010
PROPERTY AND EQUIPMENT				
Land	$ 27,634	$ 6,741	$ -	$ 34,375
Land Improvements	15,182	122	-	15,304
Buildings and Improvements	235,763	28,777	-	264,540
Equipment	260,626	13,579	(471)	273,734
Construction in Progress	5,383	15,326	(13,105)	7,604
Total	544,588	64,545	(13,576)	595,557
ACCUMULATED DEPRECIATION				
Land Improvements	5,432	619	-	6,051
Buildings	99,402	13,905	10	113,317
Equipment	199,366	15,765	(360)	214,771
Total	304,200	30,289	(350)	334,139
Property and Equipment, Net	$ 240,388	$ 34,256	$ (13,226)	$ 261,418

For the year ended June 30, 2009:

	June 30, 2008	Transfers/ Additions	Transfers/ Retirements	June 30, 2009
PROPERTY AND EQUIPMENT				
Land	$ 28,189	$ 453	$ (1,008)	$ 27,634
Land Improvements	11,544	3,638	-	15,182
Buildings and Improvements	212,329	24,700	(1,266)	235,763
Equipment	238,322	22,435	(131)	260,626
Construction in Progress	11,108	27,318	(33,043)	5,383
Total	501,492	78,544	(35,448)	544,588
ACCUMULATED DEPRECIATION				
Land Improvements	5,038	394	-	5,432
Buildings	90,581	9,142	(321)	99,402
Equipment	185,085	14,381	(100)	199,366
Total	280,704	23,917	(421)	304,200
Property and Equipment, Net	$ 220,788	$ 54,627	$ (35,027)	$ 240,388

The capital acquisitions' figures above are presented net of transfers from construction in progress to operating asset categories and sales and other dispositions. Depreciation and amortization expense totaled approximately $27,678,000 and $24,344,000 for the years ended June 30, 2010 and 2009, respectively. Depreciation expense related to Ventures and related entities is included in other nonoperating income, net. The expense shown in the table above is net of decreases in accumulated depreciation for sales and other dispositions of capital assets. At June 30, 2010 and 2009, equipment under capital obligations had a cost of approximately $4,214,000 and $4,198,000, respectively, and accumulated amortization of approximately $1,414,000 and $1,174,000, respectively.

NOTE 5 ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consisted of the following at June 30, 2010 and 2009 (in $000's):

	2010	2009
Accrued Salaries, Wages and Payroll-Related Withholdings	$ 21,290	$ 15,961
Accrued Paid Time Off	12,075	11,066
Reserve for Workers' Compensation Claims	1,743	1,418
Reserve for Employee Health Benefit Claims	2,135	1,955
Reserve for Medical Malpractice Claims	1,247	1,085
Other	1,038	1,444
	$ 39,528	$ 32,929

NOTE 6 LONG-TERM DEBT

A summary of long-term debt and changes in long-term debt for the years ended June 30, 2010 and 2009 is as follows (in $000's):

	June 30, 2008	Borrowings	Payments and Discount Amortization	June 30, 2009	Borrowings	Payments and Discount Amortization	June 30, 2010
Bonds Payable:							
Series 1998	$ 85,573	$ -	$ (5,701)	$ 79,872	$ -	$ (5,966)	$ 73,906
Tax-Exempt Financing	15,629	-	(6,095)	9,534	-	(6,303)	3,231
Construction Loan	-	7,328	-	7,328	24,216	-	31,544
Obligations Under Capital Lease	721	2,625	(292)	3,054	413	(1,000)	2,467
	$ 101,923	$ 9,953	$ (12,088)	$ 99,788	$ 24,629	$ (13,269)	$ 111,148

Series 1998 Bonds Payable

In March 1998, Rex issued $124,215,000 Hospital Revenue Bonds (Series 1998 Bonds) through the North Carolina Medical Care Commission (the "Commission") under a Master Indenture and other related agreements. The proceeds were used to refund a portion of the Series 1993 Bonds and to finance certain capital projects. The Series 1998 Bonds mature annually in amounts ranging from $3,425,000 to $8,415,000 and bear interest at rates between 4.63% and 5.00% for amounts maturing between 2008 and 2023.

The Series 1998 Bonds are secured by a pledge of and a lien on the accounts receivable and the proceeds thereof derived from the ownership and operation of the Obligated Group. In the Master Indenture agreements for the Series 1998 Bonds, the Obligated Group includes Rex and the Hospital.

Under the terms of the Master Indenture agreement for the series 1998 Bonds, the Obligated Group is subject to certain financial covenants including but not limited to

NOTE 6 LONG-TERM DEBT (CONTINUED)

Series 1998 Bonds Payable (Continued)
limitations on the transfer or sale of the Obligated Group's assets, limitations on the incurrence of additional indebtedness, maintenance of adequate insurance coverage on property, and maintenance of its tax-exempt status. Under the agreements, the Obligated Group must also maintain a defined level of income available for debt service. As of June 30, 2009 and 2008, Rex believed that the Obligated Group was in compliance with all debt covenants.

Series 2010A and 2011 Bonds
Subsequent to June 30, 2010, Rex expects to issue Series 2010A and Series 2011 tax-exempt bonds as follows:

Series 2010A Bonds
$122,000,000 Series 2010A fixed rate health care facilities revenue and revenue refunding bonds. The proceeds will be used to refund the outstanding balance of the Series 1998 Bonds, fund the relocation and replacement of its central energy plant, and to reimbursement itself for routine capital expenditures. The Series 2010A Bonds are subject to mandatory redemption beginning in 2011 through 2040.

Series 2011 Bonds
Series 2011 health care facilities revenue bonds. The proceeds will be used to fund the renovation and expansion of Rex's existing cancer hospital. The Series 2011 Bonds are subject to mandatory redemption beginning in 2011 through 2030. The amount has not yet been determined.

Rex expects to incur a loss on early extinguishment of debt of approximately $3,487,000 in connection with the refunding transaction described above. This amount will be deferred and amortized over the remaining life of the Series 1998 Bonds.

Tax-Exempt Equipment Financing
In December 2005, Rex entered into a tax-exempt equipment financing arrangement through the Commission for $30,000,000. The proceeds were used in connection with a lease-purchase financing of various capital equipment. This amount matures quarterly in amounts ranging from approximately $1,455,000 to $1,623,000 for amounts maturing between 2008 and 2011 and bears interest at a fixed rate of 3.37%.

Construction Loan
Ventures entered into a construction loan agreement with Wellness, HT and MOB as "Co-Borrowers" to fund the construction of the Wakefield campus. The loan bears interest at the BBA LIBOR daily floating rate plus 1.45% (1.78% at June 30, 2010) and requires interest only payments through April 2011. At that point, under the terms of a loan modification, all net cash flow from the Rex CDP properties will be applied to the outstanding principal balance of the construction loan through December 2010. Beginning in January 2011, 50% of the net cash flow from properties will be applied to the outstanding principal balance of the construction loan until the note becomes due in March 2012. In addition to these payments, monthly principal and interest payments begin in May 2011, with a final balloon payment due and payable on March 31, 2012.

NOTE 6 LONG-TERM DEBT (CONTINUED)

Construction Loan (Continued)

Proceeds from the loan are drawn for specific projects in the Wakefield development and are allocated to the appropriate Co-Borrower for each project. Repayments of the loan will be made primarily using proceeds from lease rental payments from various lessees (See Note 10). The total maximum amount allowable under the loan is $38,360,707, of which, approximately $31,544,000 was outstanding at June 30, 2010 (in $000's):

Rex Wakefield Wellness, LLC	$ 7,547
Rex CDP Ventures, LLC	5,342
Rex CDP Ventures-HT LLC	2,369
Wakefield Rex Investors MOB, LLC	16,286
	$ 31,544

The loan is collateralized by the real property. Each of the four individual Co-Borrowers are jointly and severally liable for repayment of the loan. The loan is guaranteed by Enterprises.

Obligations Under Capital Lease

Rex has entered into non-cancellable capital lease obligations for several pieces of equipment as of June 30, 2009 which expire at various dates through 2015.

Total future debt service requirements subsequent to June 30, 2010 are as follows (in $000's):

	Bonds	Tax-Exempt Financing	Construction Loan	Obligations Under Capital Lease	Interest	Total
Year Ending June 30:						
2011	$ 6,305	$ 3,231	$ 1,175	$ 1,133	$ 4,395	$ 16,239
2012	6,590	-	30,369	908	4,555	42,422
2013	6,915	-	-	404	3,076	10,395
2014	7,265	-	-	20	2,730	10,015
2015	7,625	-	-	2	2,367	9,994
2016-2020	27,220	-	-	-	6,542	33,762
2021-2023	12,495	-	-	-	1,270	13,765
Total Payments	74,415	$ 3,231	$ 31,544	$ 2,467	$ 24,935	$ 136,592
Unamortized Bond Discount	(509)	-	-	-	-	(509)
Total Debt Service	$ 73,906	$ 3,231	$ 31,544	$ 2,467	$ 24,935	$ 136,083

NOTE 7 LINE OF CREDIT

During the year ended June 30, 2009, the Hospital entered into a note agreement for a short-term revolving line of credit with a financial institution for an amount up to $50,000,000 to support short-term normal operating expenses and to enhance liquidity. The line of credit is collateralized by the Hospital's accounts receivable. Interest is due and payable monthly at the monthly London Inter-Bank Offered Rate ("LIBOR") plus 1.25 percent. The outstanding principal amount along with any accrued interest will be due upon the maturity date of March 31, 2011. The Hospital has not drawn any proceeds on this line of credit, thus, at June 30, 2010, there was no outstanding balance.

NOTE 8 RELATED PARTY TRANSACTIONS

UNCHCS provides certain administrative, management, legal and contracting services to Rex. Rex paid UNCHCS approximately $4,087,000 and $2,439,000 for such services during the years ended June 30, 2010 and 2009, respectively. UNCHCS paid Rex approximately $238,000 and $413,000 for such services during the years ended June 30, 2010 and 2009, respectively.

Under a management agreement effective January 1, 2000, UNCHCS assumed responsibility for the management and day-to-day operations of Rex Home Services, Inc. In return, UNCHCS receives the full amount of any net profit from Rex Home Services, Inc. or reimburses Rex Home Services, Inc. for the full amount of any net loss from such operations. During the years ended June 30, 2010 and 2009, this agreement resulted in approximately $1,098,000 and $2,027,000, respectively, paid to UNCHCS.

The preceding and other transactions resulted in net payables due to UNCHCS of approximately $240,000 and $840,000 as of June 30, 2010 and 2009, respectively, which is included in accrued expenses and other liabilities in the accompanying combined balance sheets.

The Hospital paid QTS (an equity investment, discussed in Note 2) approximately $1,343,000 and $1,310,000 for laundry services during the years ended June 30, 2010 and 2009, respectively.

The Hospital paid Rex Cary MOB, LLC (an equity investment discussed in Note 2) approximately $820,000 and $790,000 in rent expenditures for the use of surgical and office suites during the years ended June 30, 2010 and 2009, respectively.

Rex MOB Partners, LLC (a cost based investment discussed in Note 2) paid the Hospital approximately $134,000 and $260,000 for rent during the years ended June 30, 2010 and 2009, respectively.

NOTE 9 EMPLOYEE BENEFITS

Rex Employees' Retirement Plan
The Hospital sponsors the Rex Employees' Retirement Plan (the "Plan"), a single-employer defined benefit retirement plan available to eligible employees. The benefit formula is based on the highest five consecutive years of an employee's compensation during the 10 plan years preceding retirement.

During the year ended June 30, 2009, the Hospital amended the Plan to (1) reduce early retirement benefits by increasing the retirement age from 62 to 65, and (2) freeze access to the Plan for eligible employees hired after February 1, 2009. In addition, the Hospital revised certain actuarial assumptions to (1) change the amortization period for gains and losses from 10 to 30 years and (2) change the asset valuation method from 20% to 30% above and below market value. The impact of the Plan amendments and the changes in actuarial assumptions reduced the annual pension cost by approximately $4,850,000 for the year ended June 30, 2009.

NOTE 9 EMPLOYEE BENEFITS (CONTINUED)

Funding amounts for the Plan are based upon actuarial calculations. The Plan utilized the projected unit-credit method to determine the annual contributions. The Hospital contributed approximately $6,141,000 and $6,283,000 to the Plan in 2010 and 2009, respectively. There are no employee contributions to the Plan.

Plan assets held in trust on behalf of the Plan participants consisted primarily of equity securities, U.S. Treasury securities and corporate bonds at June 30, 2010 and 2009. The actuarial value of Plan assets was determined by using a five-year moving average method.

The following table shows the trend in Rex's annual pension cost (APC), percentage of APC contributed, and net pension asset (in $000's):

	Trend Information		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
Fiscal Year Ending:			
June 30, 2010	$ (6,141)	100.00 %	$ -
June 30, 2009	(6,283)	100.00	-
June 30, 2008	(5,950)	100.00	-

As of January 1, 2010, the most recent actuarial valuation date, the Plan was 86.8% funded. The actuarial accrued liability for benefits was approximately $171,627,000 and the actuarial value of assets was approximately $149,019,000 resulting in an unfunded actuarial accrued liability of approximately $22,608,000. The covered payroll was approximately $192,666,000 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 8.87%.

The schedule of funding progress, presented as Required Supplementary Information following the Notes to the Combined Financial Statements, presents multi-year trend information about whether the actuarial value of Plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The following assumptions were used in the January 1, 2010 and 2009 actuarial variations:

Inflation Rate	3.00%
Investment Rate of Return	8.00%
Projected Salary Increases	3.75%

Tax Deferred Annuity Retirement Plan

The Hospital sponsors a defined contribution retirement plan covering substantially all employees. The Hospital matches one-half of each participant's voluntary contributions on a graduated scale based on length of service not to exceed 5% of the participant's annual salary. Employer contributions totaled approximately $5,402,000 and $5,215,000 for the years ended June 30, 2010 and 2009, respectively. Participant contributions totaled approximately $13,648,000 and $13,191,000 for the years ended June 30, 2010 and 2009, respectively.

NOTE 10 COMMITMENTS AND CONTINGENCIES

Commitments

The Hospital has entered into certain agreements, in connection with ongoing development and support of its electronic medical records system. Future minimum payments are as follows at June 30, 2010 (in $000's):

Year Ending June 30:	
2011	$ 110
2012	468
	$ 578

In connection with the Wakefield development (see Note 6), the Hospital has entered into a lease with Wellness to lease the wellness center. In addition, the Hospital entered into a lease with MOB for part of the medical office building. Rex has certain other noncancelable operating leases for the rental of office space and equipment. Future rent payments under these leases subsequent to June 30, 2010 are as follows (in $000's):

Year Ending June 30:	Wellness Center	Medical Office Building	Office Space and Equipment	Total
2011	$ 798	$ 1,518	$ 5,162	$ 7,478
2012	798	1,545	4,400	6,743
2013	798	1,573	3,285	5,656
2014	835	1,602	2,100	4,537
2015	862	1,630	1,808	4,300
2016-2020	4,418	8,605	7,882	20,905
2021-2025	4,771	9,249	5,580	19,600
2026-2029	3,434	7,162	-	10,596
	$ 16,714	$ 32,884	$ 30,217	$ 79,815

Total rental expense, including rental expense under noncancelable leases, was approximately $8,626,000 and $5,627,000 for the years ended June 30, 2010 and 2009, respectively.

Contingencies

The Hospital self-insures a portion of its workers' compensation exposure up to $350,000 per claim. An accrual for the self-insurance program is established to provide for estimated claims and losses and applicable legal expenses for claims incurred through June 30, 2009 but not reported. This accrual was determined by an actuary and totaled approximately $1,743,000 and $1,418,000 at June 30, 2010 and 2009, respectively. The accrual is included in accrued expenses and other liabilities in the accompanying combined balance sheets. Commercial insurance has been obtained for coverage in excess of the self-insured amounts.

NOTE 10 COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Hospital self-insures a portion of its employee health benefits exposure up to $200,000 per incident. An accrual for the self-insurance program is established to provide for estimated claims and losses and applicable legal expenses for claims incurred through June 30, 2010 but not reported. This accrual was determined by an actuary and totaled approximately $2,135,000 and $1,955,000 at June 30, 2010 and 2009, respectively. The accrual is included in accrued expenses and other liabilities in the accompanying balance sheets. Commercial insurance has been obtained for coverage in excess of the self-insured amounts.

Rex is involved in litigation arising in the normal course of business. After consultation with legal counsel, management estimates these matters will be resolved without a material adverse effect on Rex's financial position or results of operations.

During 2004, the Hospital entered into an agreement whereby patients without insurance that meet contractually specified criteria can apply for medical loans from a third-party lender. Under this medical loan program, approved patients owe the third-party lender and the Hospital receives payment and recognizes revenue at the time medical services are provided. The Hospital is then contingently obligated to repurchase accounts receivable balances once the borrower does not make three scheduled monthly payments. Total accounts which the Hospital could possibly be required to repurchase were approximately $409,000 and $557,000 at June 30, 2010 and 2009, respectively. The Hospital establishes a reserve for accounts it believes it will have to repurchase based on historical experience with this program. The Hospital reserved approximately $49,000 and $59,000 for potential recourse that was included in the net accounts receivable, at June 30, 2010 and 2009, respectively.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers.

Management believes Rex is in compliance with fraud and abuse as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayment for patient services previously billed.

NOTE 11 COMMUNITY BENEFITS

In addition to providing care without charge, or at amounts less than established rates to certain patients identified as qualifying for charity care, Rex also recognizes its responsibility to provide health care services and programs for the benefit of the community, at no cost or at reduced rates. Rex sponsors many community health initiatives, including breast and prostate cancer screenings, cardiovascular and pulmonary awareness and diabetes education programs that ultimately result in the overall improved health of our community. The Rex Healthcare Emergency Response Team provides emergency aid and medical treatment at special events in the Wake County area. Rex also provides contributions, cash and in-kind, to various charitable and community organizations. The costs of these programs are included in operating expenses in the accompanying statements of revenues, expenses and changes in net assets.

SUPPLEMENTARY INFORMATION

REX HEALTHCARE, INC. AND SUBSIDIARIES
COMBINING BALANCE SHEET
JUNE 30, 2010
(IN $000's)

	Rex Hospital, Inc. (Obligated Group)	Combined Rex Enterprises Company, Inc.	Rex Physicians, LLC	Rex Healthcare Foundation, Inc.	Rex Home Services, Inc.	Smithfield Radiation Oncology, LLC	Total Nonobligated Group	Eliminations	Combined Rex Healthcare, Inc. and Subsidiaries
ASSETS									
CURRENT ASSETS									
Cash and Cash Equivalents	**$ 62,513**	$ 873	$ 499	$ 664	$ -	$ 22	**$ 2,058**	$ -	**$ 64,571**
Short-Term Investments	**-**	-	-	-	-	-	**-**	**-**	**-**
Patient Accounts Receivable, Net	**56,115**	-	(35)	-	1,300	66	**1,331**	**-**	**57,446**
Other Receivables	**15,670**	-	-	184	233	-	**417**	(10,450)	**5,637**
Inventories	**9,983**	-	-	-	-	-	**-**	**-**	**9,983**
Prepaid Expenses and Other Current Assets	**5,889**	-	-	-	-	-	**-**	-	**5,889**
Total Current Assets	**150,170**	873	464	848	1,533	88	**3,806**	(10,450)	**143,526**
ASSETS LIMITED AS TO USE	**123,032**	-	-	3,660	-	-	**3,660**	-	**126,692**
CAPITAL ASSETS, NET	**226,507**	34,369	535	7	-	-	**34,911**	-	**261,418**
OTHER ASSETS									
Investment in Affiliates	**336**	4,985	-	-	-	-	**4,985**	-	**5,321**
Deferred Debt Issuance Costs, Net	**1,531**	-	-	-	-	-	**-**	-	**1,531**
Other Assets	**812**	941	-	-	-	1,862	**2,803**	(894)	**2,721**
	2,679	5,926	-	-	-	1,862	**7,788**	(894)	**9,573**
Total Assets	**$ 502,388**	$ 41,168	$ 999	$ 4,515	$ 1,533	$ 1,950	**$ 50,165**	$ (11,344)	**$ 541,209**
LIABILITIES AND NET ASSETS									
CURRENT LIABILITIES									
Current Maturities of Long-Term Debt	**$ 10,669**	$ 1,175	$ -	$ -	$ -	$ -	**$ 1,175**	$ -	**$ 11,844**
Vendor Accounts Payable	**28,393**	486	326	100	179	14	**1,105**	-	**29,498**
Accrued Expenses and Other Liabilities	**38,589**	5,570	2,358	-	541	2,920	**11,389**	(10,450)	**39,528**
Estimated Third-Party Settlements	**15,716**	-	42	-	-	-	**42**	-	**15,758**
Total Current Liabilities	**93,367**	7,231	2,726	100	720	2,934	**13,711**	(10,450)	**96,628**
LONG-TERM DEBT, Net of Current Maturities	**68,935**	30,369	-	-	-	-	**30,369**	-	**99,304**
OTHER NONCURRENT LIABILITIES	**1,765**	-	-	-	-	-	**-**	(894)	**871**
Total Liabilities	**164,067**	37,600	2,726	100	720	2,934	**44,080**	(11,344)	**196,803**
NET ASSETS									
Invested in Capital Assets, Net of Related Debt	**146,903**	2,825	535	7	-	-	**3,367**	-	**150,270**
Restricted	**1,003**	-	-	3,120	-	-	**3,120**	-	**4,123**
Unrestricted	**190,415**	743	(2,262)	1,288	813	(984)	**(402)**	-	**190,013**
Total Net Assets	**338,321**	3,568	(1,727)	4,415	813	(984)	**6,085**	-	**344,406**
Total Liabilities and Net Assets	**$ 502,388**	$ 41,168	$ 999	$ 4,515	$ 1,533	$ 1,950	**$ 50,165**	$ (11,344)	**$ 541,209**

REX HEALTHCARE, INC. AND SUBSIDIARIES
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2010
(IN $000's)

	Rex Hospital, Inc. (Obligated Group)	Combined Rex Enterprises Company, Inc.	Rex Physicians, LLC	Rex Healthcare Foundation, Inc.	Rex Home Services, Inc.	Smithfield Radiation Oncology, LLC	**Total Nonobligated Group**	Eliminations	**Rex Healthcare, Inc. and Subsidiaries**
OPERATING REVENUES									
Net Patient Service Revenue	**$ 533,028**	$ -	$ 11,047	$ -	$ 7,863	$ 697	**$ 19,607**	$ -	**$ 552,635**
Other Operating Revenues	**16,514**	-	9	1,843	-	-	**1,852**	-	**18,366**
Total Operating Revenues	**549,542**	-	11,056	1,843	7,863	697	**21,459**	-	**571,001**
OPERATING EXPENSES									
Salaries	**211,564**	-	9,031	621	4,860	222	**14,734**	-	**226,298**
Employee Benefits	**56,586**	-	1,321	100	1,042	49	**2,512**	-	**59,098**
Medical Supplies and Other Expenses	**214,031**	77	2,412	703	1,961	665	**5,818**	(1,168)	**218,681**
Depreciation and Amortization	**26,580**	-	19	2	-	124	**145**	-	**26,725**
Interest	**4,426**	-	-	-	-	-	**-**	-	**4,426**
Total Operating Expenses	**513,187**	77	12,783	1,426	7,863	1,060	**23,209**	(1,168)	**535,228**
OPERATING INCOME (LOSS)	**36,355**	(77)	(1,727)	417	-	(363)	**(1,750)**	1,168	**35,773**
NONOPERATING INCOME (LOSS)									
Investment Income (Loss), Net	**14,414**	339	-	490	-	-	**829**	-	**15,243**
Other, Net	**(1,765)**	(971)	-	(352)	-	-	**(1,323)**	(1,168)	**(4,256)**
Nonoperating Income (Loss), Net	**12,649**	(632)	-	138	-	-	**(494)**	(1,168)	**10,987**
EXCESS OF REVENUES AND GAINS OVER EXPENSES AND LOSSES	**49,004**	(709)	(1,727)	555	-	(363)	**(2,244)**	**-**	**46,760**
DISTRIBUTIONS AND OTHER	**-**	181	-	-	-	-	**181**	-	**181**
CHANGE IN NET ASSETS	**49,004**	(528)	(1,727)	555	-	(363)	**(2,063)**	-	**46,941**
Net Assets - Beginning of Year	**289,317**	4,096	-	3,860	813	(621)	**8,148**	-	**297,465**
NET ASSETS - END OF YEAR	**$ 338,321**	$ 3,568	$ (1,727)	$ 4,415	$ 813	$ (984)	**$ 6,085**	$ -	**$ 344,406**

REX HEALTHCARE, INC. AND SUBSIDIARIES
COMBINING BALANCE SHEET – REX ENTERPRISES COMPANY, INC.
JUNE 30, 2010
(IN $000's)

	Rex CDP Ventures, LLC	Wakefield Rex Investors MOB, LLC	Rex Wakefield Wellness, LLC	Rex CDP Ventures HT, LLC	Eliminations	**Combined Rex CDP Ventures, LLC**	Rex Enterprises Company, Inc.	Eliminations	**Combined Rex Enterprises Company, Inc.**
ASSETS									
CURRENT ASSETS									
Cash and Cash Equivalent	$ 130	$ 200	$ 195	$ 122	$ -	**$ 647**	$ 226	$ -	**$ 873**
Due from Affiliates	41	135	300	-	(476)	**-**	-	-	**-**
Total Current Assets	171	335	495	122	(476)	**647**	226	-	**873**
CAPITAL ASSETS, NET	8,091	16,149	6,476	3,653	-	**34,369**	-	-	**34,369**
OTHER ASSETS									
Investment in Affiliates	-	-	-	-	-	**-**	8,840	(3,855)	**4,985**
Deferred Rent Asset	-	387	527	27	-	**941**	-	-	**941**
Total Assets	$ 8,262	$ 16,871	$ 7,498	$ 3,802	$ (476)	**$ 35,957**	$ 9,066	$ (3,855)	**$ 41,168**
LIABILITIES AND MEMBER'S EQUITY									
CURRENT LIABILITIES									
Current Maturities of Long-Term Debt	$ 18	$ 447	$ 477	$ 233	$ -	**$ 1,175**	$ -	$ -	**$ 1,175**
Vendor Accounts Payable	450	33	1	2	-	**486**	-	-	**486**
Due to Affiliates	437	24	11	4	(476)	**-**	-	-	**-**
Accrued Expenses and Other Liabilities	-	45	14	13	-	**72**	5,498	-	**5,570**
Total Current Liabilities	905	549	503	252	(476)	**1,733**	5,498	-	**7,231**
LONG-TERM DEBT, Net of Current Maturities	5,324	15,839	7,070	2,136	-	**30,369**	-	-	**30,369**
Total Liabilities	6,229	16,388	7,573	2,388	(476)	**32,102**	5,498	-	**37,600**
NET ASSETS									
Invested in Capital Assets, Net of Related Debt	2,749	(137)	(1,071)	1,284	-	**2,825**	-	-	**2,825**
Restricted	-	-	-	-	-	**-**	-	-	**-**
Unrestricted	(716)	620	996	130	-	**1,030**	3,568	(3,855)	**743**
Total Net Assets	2,033	483	(75)	1,414	-	**3,855**	3,568	(3,855)	**3,568**
Total Liabilities and Member's Equity	$ 8,262	$ 16,871	$ 7,498	$ 3,802	$ (476)	**$ 35,957**	$ 9,066	$ (3,855)	**$ 41,168**

REX HEALTHCARE, INC. AND SUBSIDIARIES
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS – REX ENTERPRISES COMPANY, INC.
YEAR ENDED JUNE 30, 2010
(IN $000's)

	Rex CDP Ventures, LLC	Wakefield Rex Investors MOB, LLC	Rex Wakefield Wellness, LLC	Rex CDP Ventures HT, LLC	**Combined Rex CDP Ventures, LLC**	Rex Enterprises Company, Inc.	Eliminations	**Rex Enterprises Company, Inc.**
OPERATING REVENUES								
Net Patient Service Revenue	$ -	$ -	$ -	$ -	**$ -**	$ -	**$ -**	**$ -**
Other Operating Revenues	-	-	-	-	**-**	-	**-**	**-**
Total Operating Revenues	-	-	-	-	**-**	-	**-**	**-**
OPERATING EXPENSES								
Salaries	-	-	-	-	**-**	-	**-**	**-**
Employee Benefits	-	-	-	-	**-**	-	**-**	**-**
Medical Supplies and Other Expenses	-	-	-	-	**-**	77	**-**	**77**
Depreciation and Amortization	-	-	-	-	**-**	-	**-**	**-**
Interest	-	-	-	-	**-**	-	**-**	**-**
Total Operating Expenses	-	-	-	-	**-**	77	**-**	**77**
OPERATING INCOME (LOSS)	-	-	-	-	**-**	(77)	**-**	**(77)**
NONOPERATING INCOME (LOSS)								
Investment Income (Loss), Net	-	-	-	-	**-**	339	**-**	**339**
Other, Net	(9)	(33)	(938)	9	**(971)**	-	**-**	**(971)**
Nonoperating Income (Loss), Net	(9)	(33)	(938)	9	**(971)**	339	**-**	**(632)**
EXCESS OF REVENUES AND GAINS OVER EXPENSES AND LOSSES	(9)	(33)	(938)	9	**(971)**	262	-	**(709)**
DISTRIBUTIONS AND OTHER	2,042	516	(77)	1,405	**3,886**	150	**(3,855)**	**181**
CHANGE IN NET ASSETS	2,033	483	(1,015)	1,414	**2,915**	412	(3,855)	(528)
Net Assets - Beginning of Year	-	-	940	-	**940**	3,156	**-**	**4,096**
NET ASSETS - END OF YEAR	$ 2,033	$ 483	$ (75)	$ 1,414	**$ 3,855**	$ 3,568	$ (3,855)	**$ 3,568**

REX HEALTHCARE, INC. AND SUBSIDIARIES
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR REX EMPLOYEES' RETIREMENT PLAN
(UNAUDITED)
JUNE 30, 2010
(IN $000's)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
January 1, 2006	$ 112,397	$ 125,975	$ 13,578	89.22 %	$ 128,526	10.56 %
January 1, 2007	123,721	136,052	12,331	90.94	140,917	8.75
January 1, 2008	139,324	151,747	12,423	91.81	152,626	8.14
January 1, 2009	140,562	155,914	15,352	90.15	173,000	8.87
January 1, 2010	149,019	171,627	22,608	86.83	199,427	11.34

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

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APPENDIX C

DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

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DEFINITIONS OF CERTAIN TERMS

The following is a summary of the definitions of certain terms contained in the Loan Agreement, the Trust Agreement or the Master Indenture and used in this Official Statement:

"2010A Bonds" means the Commission's Health Care Facilities Revenue and Revenue Refunding Bonds (Rex Healthcare) Series 2010A in the aggregate principal amount of $122,965,000.

"Account Lien Amount" means the product of (x) the Coverage Factor multiplied by (y) an amount equal to the Obligated Group's net patient accounts (as shown in its Financial Statements for the most recent Fiscal Year for which Financial Statements are available).

"Accountant" means a firm of independent certified public accountants that is a member of the American Institute of Certified Public Accountants (or its successor organization) and is licensed to practice in the State of North Carolina.

"Accounts" means any right to payment of a monetary obligation, whether or not earned by performance, (i) for property that has been or is to be sold, leased, licensed, assigned or otherwise disposed of, (ii) for services rendered or to be rendered, or (iii) for a secondary obligation incurred or to be incurred. The term "Accounts" shall include healthcare insurance receivables. The term "Accounts" shall not include (i) rights to payment evidenced by chattel paper or an instrument, (ii) commercial tort claims, (iii) deposit accounts, (iv) investment property, (v) letter-of-credit rights or letters of credit, or (vi) rights to payment for money or funds advanced or sold. Any terms used in this definition (other than the term "Accounts") shall have the meanings given such terms, if any, in the UCC.

"Act" means the Health Care Facilities Finance Act, Chapter 131A of the General Statutes of North Carolina, as amended, or any successor statute.

"Additional Indebtedness" means any Indebtedness incurred by the Parent Corporation, the Corporation or any other Member of the Obligated Group subsequent to the issuance of the Existing Obligations or incurred by any other Member of the Obligated Group contemporaneously with or subsequent to its becoming a Member of the Obligated Group.

"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 (i) is directly or indirectly controlled by any Member of the Obligated Group or by any Person which directly or indirectly controls any Member of the Obligated Group or (ii) directly or indirectly controls any Member of the Obligated Group. For purposes of this definition, control means the power to direct the management and policies of a Person through the ownership of not less than a majority of its voting securities or the right to designate or elect not less than a majority of the members of its board of directors or other governing board or body by contract or otherwise. "Affiliate" includes each Person who is an "affiliate" of a Member of the Obligated Group under generally accepted accounting principles.

"Balloon Long-Term Indebtedness" means Long-Term Indebtedness twenty-five percent (25%) or more of the principal payments of which are due in a single year, which portion of the principal is not required by the documents pursuant to which such Indebtedness is incurred to be amortized by payment or redemption prior to such year.

"Beneficial Owner" means the Person in whose name a 2010A Bond is recorded as beneficial owner of such 2010A Bond by the Securities Depository or a Participant or an Indirect Participant on the

records of such Securities Depository, Participant or Indirect Participant, as the case may be, or such Person's subrogee.

"Bond Counsel" means a firm of attorneys knowledgeable and experienced in the law relating to municipal securities and the law relating to federal and State taxation of interest thereon and approved by the Commission.

"Bond Fund" means the North Carolina Medical Care Commission Health Care Facilities Revenue and Revenue Refunding Bonds (Rex Healthcare), Series 2010A Bond Fund created and so designated by the Trust Agreement and consisting of the Interest Account, the Principal Account and the Sinking Fund Account.

"Bond Index" means the Bond Buyer thirty (30) year "Revenue Bond Index", as then published most recently by The Bond Buyer, New York, New York, or, if such index is no longer available, such index for comparable thirty (30) year maturity tax-exempt revenue bonds as may be certified to the Master Trustee by a firm of investment bankers or a financial advisory firm.

"Bond Trustee" means the Bond Trustee at the time serving as such under the Trust Agreement, whether the original or a successor trustee, which initially will be U.S. Bank National Association.

"Bond Year" means the period commencing on July 1 of any year and ending on June 30 of the following year, except that the initial Bond Year means the period commencing on the Closing Date and ending on June 30, 2011.

"Book Entry Bonds" means 2010A Bonds for which a Securities Depository or its nominee is the Holder.

"Business Day" means any day on which banks in the city in which the corporate trust office of the Bond Trustee is located are open for commercial banking purposes.

"Capitalization" means the sum of the aggregate principal amount of Long-Term Indebtedness of the Members of the Obligated Group, plus (i) aggregate unrestricted fund balance or unrestricted net assets of the nonprofit Members of the Obligated Group and (ii) the aggregate excess of assets over liabilities of the proprietary Members of the Obligated Group, if any, all as calculated in accordance with generally accepted accounting principles.

"Capitalized Interest Account" means the account in the Construction Fund created and so designated by the Trust Agreement.

"Closing" or "Closing Date" means the date on which the 2010A Bonds are delivered against payment therefor.

"Code" means the Internal Revenue Code of 1986, as amended, and all regulations promulgated thereunder.

"Commission" means the North Carolina Medical Care Commission of the Department of Health and Human Services of the State of North Carolina and any successor thereto.

"Commission Bonds" means any Related Bonds issued by the Commission or the issuance of which was subject to the approval of the Local Government Commission.

"Commission Representative" means each of the persons at the time designated to act on behalf of the Commission in a written certificate furnished to the Corporation and the Bond Trustee, which certificate shall contain the specimen signature(s) of such person(s) and shall be signed on behalf of the Commission by its Chairman or Vice Chairman.

"Completion Indebtedness" means any Long-Term Indebtedness incurred by any Member of the Obligated Group for the purpose of financing the completion of facilities, the acquisition, construction or equipping of which Long-Term Indebtedness has theretofore been incurred in accordance with the provisions of the Master Indenture, to the extent necessary to provide a completed and equipped facility of the type and scope contemplated at the time that such Long-Term Indebtedness theretofore incurred was originally incurred, and, to the extent the same shall be applicable, in accordance with the general plans and specifications for such facility as originally prepared with only such changes as have been made in conformance with the documents pursuant to which such Long-Term Indebtedness theretofore incurred was originally incurred.

"Construction Account" means the account in the Construction Fund created and so designated by the Trust Agreement.

"Construction Fund" means the North Carolina Medical Care Commission Health Care Facilities Revenue and Revenue Refunding Bonds (Rex Healthcare), Series 2010A Construction Fund created and so designated by the Trust Agreement and consisting of the Issuance Account, the Construction Account and the Revolving Fund Account.

"Consultant" means a Person which is not, and no member, stockholder, director, officer or employee of which is, an officer, director, trustee or employee of any Member of the Obligated Group or any Affiliate, and which is a professional consultant of favorable repute for having the skill and experience necessary to render the particular report required by the provision of the Master Indenture in which such requirement appears.

"Corporation" means Rex Hospital, Inc., a nonprofit corporation duly organized and validly existing under the laws of the State and constituting a "non-profit agency" within the meaning of the Act, with its principal place of business in Wake County, North Carolina, and its permitted successors.

"Corporation Representative" means each of the persons at the time designated to act on behalf of the Corporation in a written certificate furnished to the Commission and the Bond Trustee, which certificate will contain the specimen signature(s) of such person(s) and will be signed on behalf of the Corporation by the President or the Chief Financial Officer of the Corporation.

"Cost" means, as applied to the Project, such costs as are eligible costs within the purview of the Act, and without intending thereby to limit or restrict any proper definition of such word under the Act, includes the following:

(1) the cost of all labor, materials and services, the cost of all lands, property, rights, rights of way, easements, franchises and other interests as may be deemed necessary or convenient by a Corporation Representative for such acquisition, construction and equipping, the cost of all machinery and equipment, financing charges, engineering and legal expenses, costs of plans, specifications, surveys, other expenses necessary or incident to determining the feasibility or practicality of such acquisition, construction and equipping, marketing and development expenses, administrative expenses, and such other expenses as may be necessary or incident to the financing, acquisition, construction and equipping of the Project and the placing of the Project in operation;

(2) Issuance Costs;

(3) the cost of borings and other preliminary investigations to determine foundation or other conditions, expenses necessary or incident to determining the feasibility or practicability of constructing the Project and fees and expenses of engineers, architects, management consultants and health care consultants for making studies, surveys and estimates of expenses of engineers and architects for preparing plans and specifications and supervising construction as well as for the performance of all other duties of engineers and architects set forth in the Trust Agreement in relation to the acquisition, construction and equipping of the Project;

(4) all other items of expense not elsewhere described in this definition incident to the acquisition, construction and equipping of the Project and the financing thereof, including operating reserves, moving expenses, the acquisition of lands, property rights, rights of way, easements, franchises and interests in or relating to lands, including title insurance, cost of surveys and other expenses in connection with such acquisition, and expenses of administration, all properly chargeable, in the opinion of the Corporation Representative, to the acquisition, construction and equipping of the Project;

(5) interest accruing on the 2010A Bonds prior to the completion of the Project and for an additional period not to exceed two years after the date of completion of the Project; and

(6) any obligation or expense incurred before or after the date of the Trust Agreement or paid by the Commission or the Corporation for any of the foregoing purposes.

"Coverage Factor" means an amount determined in accordance with the following schedule:

Long-Term Debt Service Coverage Ratio for Preceding Fiscal Year	Coverage Factor
greater than or equal to 4.0	100%
less than 4.0 but greater than or equal to 3.0	75%
less than 3.0 but greater than or equal to 2.0	50%
less than 2.0 but greater than or equal to 1.5	25%
less than 1.5	0%

"Credit Facility" means a bond or financial guaranty insurance policy, letter of credit, standby bond purchase agreement, a line of credit or similar credit enhancement or liquidity facility established to provide credit or liquidity support for Indebtedness.

"Credit Facility Provider" means the issuer of a Credit Facility.

"Cross-over Date" means, with respect to Cross-over Refunding Indebtedness, the date on which the principal portion of the related Cross-over Refunded Indebtedness is to be paid or redeemed from the proceeds of such Cross-over Refunding Indebtedness.

"Cross-over Refunded Indebtedness" means Indebtedness refunded by Cross-over Refunding Indebtedness.

"Cross-over Refunding Indebtedness" means Indebtedness issued for the purpose of refunding other Indebtedness if the proceeds of such refunding Indebtedness are irrevocably deposited in escrow to

secure the payment on the applicable redemption date or maturity date of the refunded Indebtedness, and the earnings on such escrow deposit (i) are required to be applied to pay interest on such refunding Indebtedness until the Cross-over Date and (ii) shall not be used directly or indirectly to pay interest on the Cross-over Refunded Indebtedness.

"Defeasance Obligations" means, to the extent permitted by law, (i) noncallable Government Obligations, (ii) evidences of ownership of a proportionate interest in specified noncallable Government Obligations, which Government Obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity of custodian, (iii) Defeased Municipal Obligations and (iv) evidences of ownership of a proportionate interest in specified Defeased Municipal Obligations, which Defeased Municipal Obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity of custodian.

"Defeased Municipal Obligations" means, with respect to the Master Indenture and the Obligations, obligations of state or local government municipal bond issuers which are not callable at the option of the obligor prior to maturity or for which irrevocable instructions have been given by the obligor to pay such obligations on the date fixed for redemption and which are rated, based on an irrevocable escrow account or fund, in the highest rating category by Fitch, if rated by Fitch, Moody's, if rated by Moody's, and S& P, if rated by S&P, respectively, provision for the payment of the principal of, redemption premium, if any, and interest on which shall have been made by deposit in an escrow fund or account with a trustee or escrow agent of Defeasance Obligations or cash, which escrow fund or account shall be applied only to the payment of the principal of, redemption premium, if any, and interest on such obligations of state or local government municipal bond issuers, when due and payable, and shall be sufficient, as verified by a nationally recognized Accountant, to pay the principal of, redemption premium, if any, and interest on such obligations of state or local government municipal bond issuers. An obligation need not be rated by each of Fitch, Moody's and S&P to qualify as a Defeased Municipal Obligation, but such obligation must be rated by at least one of Fitch, Moody's or S&P to so qualify.

"Defeased Municipal Obligations" means, with respect to the Trust Agreement, obligations of state or local government municipal bond issuers which are rated in the highest rating category by S&P and Moody's, provision for the payment of the principal of and interest on which have been made by deposit with a trustee or escrow agent of (i) noncallable Government Obligations or (ii) evidences of ownership of a proportionate interest in specified noncallable Government Obligations, which Government Obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity of custodian, and the maturing principal of and interest on such Government Obligations or evidences of ownership, when due and payable, shall provide sufficient money to pay the principal of, premium, if any, and interest on such obligations of such state or local government municipal bond issuers.

"Defeased Obligations" means Obligations issued under Supplements that have been discharged, or provision for the discharge of which has been made, pursuant to their terms and the terms of such Supplements.

"Derivative Agreement" means, without limitation, (i) any and all swap transactions, basis swaps, credit derivative transactions, forward rate transactions, commodity swaps, commodity options, forward commodity contracts, equity or equity index swaps or options, bond or bond price or bond index swaps or options or forward bond or forward bond price or forward bond index transactions, interest rate options, cap transactions, floor transactions, collar transactions, or any other similar transactions or any combination of any of the foregoing (including any options to enter into any of the foregoing), whether or not any such transaction is governed by or subject to any master agreement; (ii) any contract providing for

payments based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices; (iii) any contract to exchange cash flows or payments or series of payments; (iv) any and all transactions of any kind, and the related confirmations, which are subject to the terms and conditions of, or governed by, any form of master agreement published by the International Swaps and Derivatives Association, Inc.; and (v) any other type of contract or arrangement that the Member of the Obligated Group entering into such contract or arrangement determines is to be used, or is intended to be used, to manage or reduce the cost of Indebtedness, to convert any element of Indebtedness from one form to another, to maximize or increase investment return, to minimize investment return risk or to protect against any type of financial risk or uncertainty.

"Derivative Indebtedness" means Indebtedness or the portion of any Indebtedness with respect to which a Member of the Obligated Group shall have entered into a Derivative Agreement.

"Derivative Obligations" means the payment obligations of a Member of the Obligated Group under a Derivative Agreement that hedges Indebtedness, including but not limited to regularly scheduled payments and termination payments.

"Derivative Period" means the period during which a Derivative Agreement is in effect.

"DTC" means The Depository Trust Company, New York, New York.

"Electronic Means" means telephone, telecopy, telegraph, telex, internet, facsimile transmission or any other similar means of electronic communication. Any communication by telephone as an Electronic Means shall be promptly confirmed in writing or by one of the other means of electronic communication authorized in this definition.

"Eminent Domain" means the eminent domain or condemnation power by which all or any part of the Operating Assets may be taken for public use or any agreement that is reached in lieu of proceedings to exercise such power.

"Equipment" means equipment as defined in the UCC.

"Event of Default" means, with respect to the Loan Agreement, each of those events set forth under the caption "SUMMARY OF THE LOAN AGREEMENT—Events of Default and Remedies" herein, with respect to the Trust Agreement, each of those events set forth under the caption "SUMMARY OF THE TRUST AGREEMENT—Events of Default" herein, and, with respect to the Master Indenture, each of those events set forth under the caption "SUMMARY OF THE MASTER INDENTURE—Defaults and Remedies--Events of Default" herein.

"Existing Obligations" means the Obligations issued and Outstanding as of the effective date of the Master Indenture, namely Obligation No. 3 and Obligation No. 4.

"Financial Statements" means consolidated or combined financial statements of the Parent Corporation and its Affiliates, if any, for a Fiscal Year, or for such other period for which an audit has been performed, prepared in accordance with generally accepted accounting principles consistently applied and including such statements as are necessary for a fair presentation of financial position, results of operations and changes in unrestricted net assets and cash flows as of the end of such period, which have been audited and reported upon by an Accountant. If any Member of the Obligated Group is not an Affiliate of the Parent Corporation, "Financial Statements" shall also mean consolidated or combined financial statements of such Member of the Obligated Group and its Affiliates, if any, for the same Fiscal Year (or other period) as the Financial Statements of the Parent Corporation, prepared in accordance with

generally accepted accounting principles consistently applied, which have been audited and reported upon by an Accountant. If any Affiliate of the Parent Corporation is not a Member of the Obligated Group or if any Member of the Obligated Group is not an Affiliate of the Parent Corporation, Financial Statements of the Parent Corporation shall also include, in an additional information section, unaudited consolidating or combining financial statements for the same Fiscal Year (or other period) from which the accounts of any Affiliate of the Parent Corporation which is not a Member of the Obligated Group have been eliminated and to which the accounts of any Member of the Obligated Group which is not an Affiliate have been added by extracting the balances of such accounts from audited consolidated or combined financial statements of such Member of the Obligated Group and its Affiliates, if any.

"Fiscal Year" means the fiscal year of each Member of the Obligated Group, which shall be the period commencing on the first day of July of each calendar year and ending on the last day of June of the following calendar year unless the Master Trustee**,** the Commission and each Related Bond Trustee is notified in writing by an Obligated Group Representative of a change in such period for all of the Members of the Obligated Group, in which case the Fiscal Year shall be the period set forth in such notice.

"Fitch" means Fitch, Inc., d/b/a Fitch Ratings, a Delaware corporation, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Commission, with the approval of the Parent Corporation and the Corporation, by notice to the Bond Trustee and the Master Trustee.

"Governing Body" means, when used with respect to any Member of the Obligated Group, its board of directors, board of trustees or other board or group of individuals in which the powers of such Member of the Obligated Group are vested.

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

"Governmental Restrictions" means federal, state or other applicable governmental laws or regulations affecting any Member of the Obligated Group and its health care facilities that place restrictions and limitations on the (i) fees and charges to be fixed, charged and collected by any Member of the Obligated Group or (ii) the amount or timing of the receipt of such revenues.

"Gross Receipts" means all revenues, income, receipts and money (other than proceeds of borrowing) received in any period by or on behalf of any Member of the Obligated Group, including, but without limiting the generality of the foregoing, (a) revenues derived from its operations, (b) gifts, grants, bequests, donations and contributions and the income therefrom, exclusive of any gifts, grants, bequests, donations and contributions to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of Obligations, (c) proceeds derived from (i) insurance, except to the extent otherwise required by the Master Indenture to be applied in a manner inconsistent with their use for the payment of Obligations, (ii) Accounts, (iii) securities and other investments, (iv) inventory and other tangible and intangible Property, (v) medical or hospital insurance, indemnity or reimbursement programs or agreements and (vi) contract rights and other rights and assets now or hereafter owned, held, or possessed by each Member of the Obligated Group, and (d) rentals received from the leasing of real or tangible personal Property.

"Guaranty" means any obligation of any Member of the Obligated Group guaranteeing in any manner, directly or indirectly, any obligation of any Person that is not a Member of the Obligated Group

which obligation of such other Person would, if such obligation were the obligation of a Member of the Obligated Group, constitute Indebtedness under the Master Indenture.

"Holder" means, with respect to the Master Indenture, the owner of any Obligation issued under the Master Indenture and, with respect to the Trust Agreement, means the Person who shall be the registered owner of any Bond.

"Income Available for Debt Service" means, with respect to the Obligated Group, as to any Fiscal Year, its excess of revenues over expenses, plus depreciation, amortization and interest expense on Long-Term Indebtedness and other non-cash expenses deducted in computing excess of revenues over expenses, all as determined in accordance with generally accepted accounting principles consistently applied; provided, however, that (1) no determination thereof shall take into account (a) any unrealized gain or loss, including any unrealized gain or loss resulting from the periodic valuation of investments or Derivative Agreements that do not involve the sale, transfer or other disposition of any such investment or Derivative Agreement or the termination of any Derivative Agreement, (b) any gain or loss resulting from either the extinguishment of Indebtedness or the sale, exchange or other disposition of capital assets constituting Property, Plant and Equipment not made in the ordinary course of business, or (c) any impairment losses on any assets, including but not limited to debt and equity securities, long-lived assets and goodwill and other intangible assets (provided, however, that realized gains and losses on assets that suffer an impairment loss shall be determined without giving effect to any reduction in basis resulting from such impairment loss), (2) revenues shall not include income from the investment of Qualified Escrow Funds to the extent that such income is applied to the payment of principal or interest on Long-Term Indebtedness which is excluded from the determination of Long-Term Debt Service Requirement or Related Bonds secured by such Long-Term Indebtedness, and (3) with respect to Derivative Indebtedness, any amount of regularly scheduled payments made by a Member of the Obligated Group to a counterparty to a Derivative Agreement that is included in the Long-Term Debt Service Requirement shall be treated as an interest expense and any amount of regularly scheduled payments made by a counterparty to a Derivative Agreement to a Member of the Obligated Group that is included in the Long-Term Debt Service Requirement shall offset interest expense and shall not be included in revenue.

"Indebtedness" means (i) all indebtedness of Members of the Obligated Group for borrowed money, (ii) all installment sales, conditional sales and capital lease obligations, incurred or assumed by any Member of the Obligated Group, and (iii) all Guaranties, whether constituting Long-Term Indebtedness or Short-Term Indebtedness. Indebtedness shall not include obligations of any Member of the Obligated Group to another Member of the Obligated Group.

"Indirect Participant" means a broker-dealer, bank or other financial institution for which the Securities Depository holds 2010A Bonds as a securities depository through a Participant.

"Insurance Consultant" means a Person which is not, and no member, stockholder, director, trustee, officer or employee of which is, an officer, director, trustee or employee of any Member of the Obligated Group or an Affiliate, which is qualified to survey risks and to recommend insurance coverage for hospitals, health-related facilities and services and organizations engaged in such operations.

"Interest Account" means the account in the Bond Fund created and so designated by the Trust Agreement.

"Interest Payment Date" means January 1, 2011 and each January 1 and July 1 thereafter, to and including July 1, 2030.

"Investment Obligations" means any investment to the extent from time to time permitted by applicable law, including but not limited to Sections 131A-14 and 159-30 of the General Statutes of North Carolina, as amended, or any successor statutes.

"Issuance Account" means the account in the Construction Fund created and so designated by the Trust Agreement.

"Issuance Costs" means issuance costs within the meaning of Section 147(g) of the Code.

"Letter of Representations" means the Blanket Letter of Representations dated October 31, 1995, executed by the Commission and delivered to DTC and any amendments thereto or successor blanket agreements between the Commission and any successor Securities Depository, relating to a system of Book-Entry Bonds to be maintained by such Securities Depository with respect to any bonds, notes or other obligations issued by the Commission.

"Lien" means any interest in Property securing an obligation owed to, or a claim by, a Person other than the owner of such Property, whether such interest arises by contract, statute or common law, including, but not limited to any mortgage, deed of trust or pledge of, security interest in or encumbrance on any Property of any Member of the Obligated Group which secures any Indebtedness or any other obligation of any Member of the Obligated Group or which secures any obligation of any Person, other than an obligation to any Member of the Obligated Group. The term "Lien" shall include any easements, covenants, restrictions, conditions, encroachments, reservations, rights-of-way, leases and other title exceptions and encumbrances affecting real property.

"Loan" means the loan of the proceeds of the 2010A Bonds made by the Commission to the Corporation pursuant to the Loan Agreement.

"Loan Agreement" means the Loan Agreement, dated as of October 1, 2010, between the Commission and the Corporation, pursuant to which the proceeds of the 2010A Bonds are loaned by the Commission to the Corporation, including all amendments or supplements thereto as therein permitted.

"Loan Repayments" means, with respect to the Loan Agreement, those payments designated by and set forth in the Loan Agreement, which payments are described under the caption "SUMMARY OF THE LOAN AGREEMENT—Loan Repayments" herein.

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

"Lockbox Accounts" means all accounts established by the Master Trustee into which are deposited only the Gross Receipts received by the Master Trustee pursuant to the Master Indenture as described in paragraph (d) under the caption below entitled "SUMMARY OF THE MASTER INDENTURE—Particular Covenants--Nature of Obligations; Payment of Principal and Interest; Security; Further Assurances; Deposit of Gross Receipts".

"Long-Term Debt Service Coverage Ratio" means, for each Fiscal Year, the ratio determined by dividing the Income Available for Debt Service for such Fiscal Year by Maximum Annual Debt Service. If any Fiscal Year consists of less than twelve (12) months as a result of a change in Fiscal Year or a merger or consolidation permitted under the Master Indenture as described under the caption below entitled "SUMMARY OF THE MASTER INDENTURE—Particular Covenants--Consolidation, Merger, Sale of Conveyance", (i) Income Available for Debt Service for such Fiscal Year shall be the lesser of (A) actual Income Available for Debt Service for such Fiscal Year converted to a 12-month figure by

multiplying the dollar amount by the ratio of twelve (12) to the actual number of months in the Fiscal Year and (B) Income Available for Debt Service for the twelve (12) months ending at the end of such Fiscal Year, calculated on the basis of unaudited financial statements if audited financial statements are not available.

"Long-Term Debt Service Requirement" means, for each Fiscal Year, the aggregate of the payments made or to be made in respect of the principal of and interest (whether or not separately stated) on Outstanding Long-Term Indebtedness of the Obligated Group during such period, as determined in accordance with generally accepted accounting principles consistently applied, also taking into account:

(i) with respect to Balloon Long-Term Indebtedness, the amount of principal which would be payable in such Fiscal Year if the original aggregate principal amount of such Balloon Long-Term Indebtedness were amortized from the date of incurrence thereof over a period of twenty-five (25) years (or, if the term thereof exceeds twenty-five (25) years, over a period equal to such term) on a level debt service basis at an interest rate equal to, at the option of the Obligated Group, either (a) the Bond Index (provided that this clause (a) shall be applicable only in the case of Indebtedness the interest on which is tax-exempt), (b) the interest rate set forth in an opinion of a banking institution or an investment banking institution knowledgeable in health care finance delivered to the Master Trustee as the interest rate at which the Obligated Group could reasonably expect to borrow the same by issuing an Obligation with the same term as assumed above; provided, however, that if the date of calculation is within twelve (12) calendar months of the actual maturity of such Balloon Long-Term Indebtedness, the full amount of principal payable at maturity shall be included in such calculation unless a Member of the Obligated Group has (1) designated prior to the due date of such principal available funds for the payment of such principal or (2) obtained a binding commitment from a bank, insurance company or other financial institution to refinance such Balloon Long-Term Indebtedness, in which case the amortization schedule established by such commitment shall apply, or (c) if such Balloon Long-Term Indebtedness is also Variable Rate Indebtedness, the interest rate computed as provided in clause (ii) below;

(ii) with respect to Variable Rate Indebtedness, interest shall be calculated at (a) in the case of Outstanding Variable Rate Indebtedness, the rate which is equal to the average of the actual interest rates which were in effect (weighted according to the length of the period during which each such interest rate was in effect) for the most recent 12-month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a 12-month period) and (b) in the case of Variable Rate Indebtedness proposed to be incurred, either (i) if the interest on such Variable Rate Indebtedness will be tax-exempt, the rate which is equal to the 52-week running average of the SIFMA Index for the most recent date available, or (ii) otherwise, the rate such proposed Variable Rate Indebtedness will bear (computed using a 52-week running average of any index or reference rate for the most recent date available);

(iii) with respect to any Guaranty, (a) if no payments are required to be made thereunder and such Guaranty constitutes a contingent liability under generally accepted accounting principles, the Long-Term Debt Service Requirement with respect to such Guaranty shall be deemed to be equal to zero, or (b) if any Member of the Obligated Group has made a payment under such Guaranty, then, during the period commencing on the date of such other payment and ending on the day which is one year after the Person whose obligation is the subject of such Guaranty resumes making all payments on such guaranteed obligation, (i) with respect to a historical computation, 100% of the amount actually paid by a Member of the Obligated Group for principal and interest on such guaranteed indebtedness during the period for which the

computation is being made shall be taken into account and (ii) with respect to a projected computation, either (A) 100% of the amount payable for principal and interest on such guaranteed indebtedness during the period for which the computation is being made shall be taken into account or (B) at the option of the Obligated Group, the amount indicated in a written report of a Consultant that is delivered to the Master Trustee to be the amount that such Consultant estimates that the Obligated Group will have to pay for principal and interest on such guaranteed indebtedness during the period for which the computation is being made shall be taken into account; and

(iv) with respect to Derivative Indebtedness, (a) if the provider of the Derivative Agreement has a long-term credit rating of at least "A" (without regard to any rating refinement or gradation by numerical modifier or otherwise) assigned to it by at least two of Fitch, Moody's, and S&P and has not defaulted on its payment obligations thereunder, the interest on such Derivative Indebtedness during any Derivative Period shall be calculated by adding (x) the amount of interest payable by a Member of the Obligated Group on such Derivative Indebtedness pursuant to its terms and (y) the amount of interest payable by such Member of the Obligated Group under the Derivative Agreement and subtracting (z) the amount of interest payable by the provider of the Derivative Agreement at the rate specified in the Derivative Agreement, or (b) if the provider of the Derivative Agreement does not have a long-term rating of at least "A" (without regard to any rating refinement or gradation by numerical modifier or otherwise) assigned to it by at least two of Fitch, Moody's and S&P or is in default thereunder, the interest on such Derivative Indebtedness shall be the interest calculated as if such Derivative Agreement had not been executed;

provided, however, that interest shall be excluded from the determination of Long-Term Debt Service Requirement to the extent the same is provided from the proceeds of Long-Term Indebtedness; provided further, notwithstanding the foregoing, the aggregate of the payments to be made with respect to principal of and interest on Outstanding Long-Term Indebtedness shall not include principal and interest payable from Qualified Escrow Funds (other than principal and interest so payable solely by reason of the Obligated Group's failure to make payments from other sources).

"Long-Term Indebtedness" means all Indebtedness incurred or assumed by any Member of the Obligated Group, including (a) Guaranties, (b) Short-Term Indebtedness if a commitment by an institutional lender exists to provide financing to retire such Short-Term Indebtedness and such commitment provides for the repayment of principal on terms which would, if such commitment were implemented, constitute Long-Term Indebtedness, and (c) the current portion of Long-Term Indebtedness, for any of the following:

(1) money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, longer than one (1) year;

(2) leases which are required to be capitalized in accordance with generally accepted accounting principles having an original term, or renewable at the option of the lessee for a period from the date originally incurred, longer than one (1) year; and

(3) installment sale or conditional sale contracts having an original term in excess of one (1) year;

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

"Master Indenture" means the Amended and Restated Master Trust Indenture, dated as of October 1, 2010, by and between the Parent Corporation, the Corporation and the Master Trustee, including any amendments or supplements thereto.

"Master Trustee" means U.S. Bank National Association, Raleigh, North Carolina, and its successors in the trusts created under the Master Indenture.

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

"Member of the Obligated Group" means, initially, the Parent Corporation and the Corporation, and, thereafter, any other Person which shall become a Member of the Obligated Group pursuant to the Master Indenture and excluding any Person which shall have 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 their assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" will be deemed to refer to any other nationally recognized securities rating agency designated by the Commission, with the approval of the Parent Corporation and the Corporation, by notice to the Master Trustee and Bond Trustee.

"MSRB" means the Municipal Securities Rulemaking Board.

"Net Book Value" means, when used in connection with Property, Plant and Equipment or other Property of any Person, the value of such Property, Plant and Equipment or other Property, net of accumulated depreciation, as it is carried on the books of such Person in conformity with generally accepted accounting principles consistently applied, and when used in connection with Property, Plant and Equipment or other Property of the Obligated Group, means the aggregate of the values so determined with respect to such Property, Plant and Equipment or other Property of the Obligated Group determined in such a manner that no portion of such value of Property, Plant and Equipment or other Property is included more than once.

"Non-Recourse Indebtedness" means any Indebtedness incurred to finance the purchase, acquisition or improvement of Property that is secured by a Lien on such Property, if the holder of such Indebtedness has no recourse, directly or indirectly, to any Member of the Obligated Group or any other Property of any Member of the Obligated Group for any deficiency judgment resulting from a foreclosure of the collateral for such Indebtedness.

"Obligated Group" means, collectively, the Members of the Obligated Group.

"Obligated Group Representative" means each Person at the time designated to act on behalf of the Obligated Group in a written certificate furnished to the Master Trustee, which certificate shall contain the specimen signature of such Person and shall be signed on behalf of the Obligated Group by the President and Chief Executive Officer of the Parent Corporation or by his designee.

"Obligation" means the evidence of particular Indebtedness issued under the Master Indenture.

"Obligation No. 3" means the Obligation dated as of March 31, 2009 issued by the Corporation to First-Citizens Bank & Trust Company as evidence of the Corporation's obligations to repay drawings under an operating line of credit.

"Obligation No. 4" means the Obligation dated as of the Closing Date issued by the Corporation to the Commission as evidence of the Corporation's obligation to repay the Loan, and assigned to the Bond Trustee.

"Officer's Certificate" means, with respect to the Master Indenture, a certificate signed by (i) an Obligated Group Representative or (ii) the chairman of the Governing Body, or the president or chief executive officer, or the chief financial officer, or the chairman of the finance committee of the Governing Body of a Member of the Obligated Group, as the context requires.

"Officer's Certificate" means, with respect to the Loan Agreement and the Trust Agreement, a certificate signed by a Commission Representative, an Obligated Group Representative or a Corporation Representative, as the case may be.

"Operating Assets" means any or all land, leasehold interests, buildings, machinery, equipment, hardware and inventory owned or operated by each Member of the Obligated Group and used in its respective trades or businesses, whether separately or together with other such assets, but not including cash, investment securities and other Property held for investment purposes.

"Opinion of Bond Counsel" means an opinion in writing signed by an attorney or firm of attorneys acceptable 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, with respect to the Master Indenture, an opinion in writing signed by an attorney or firm of attorneys acceptable to the Master Trustee who may be counsel for any Member of the Obligated Group or other counsel acceptable to the Master Trustee.

"Opinion of Counsel" means, with respect to the Trust Agreement, an opinion in writing signed by an attorney or firm of attorneys acceptable to the Bond Trustee who may be counsel for the Commission or the Corporation or other counsel.

"Outstanding" means, when used with reference to the 2010A Bonds as of a particular date, all 2010A Bonds theretofore issued under the Trust Agreement, except:

(i) 2010A Bonds theretofore cancelled by the Bond Trustee or delivered to the Bond Trustee for cancellation;

(ii) 2010A Bonds for the payment of which money, Defeasance Obligations, or a combination of both, sufficient to pay, on the date when such 2010A Bonds are to be paid or redeemed, the principal amount of or the Redemption Price of, and the interest accruing to such date on, the 2010A Bonds to be paid or redeemed, has been deposited with the Bond Trustee in trust for the Holders of such 2010A Bonds; Defeasance Obligations shall be deemed to be sufficient to pay or redeem 2010A Bonds on a specified date if the principal of and the interest on such Defeasance Obligations, when due, will be sufficient to pay on such date the Redemption Price of, and the interest accruing on, such 2010A Bonds to such date;

(iii) 2010A Bonds in exchange for or in lieu of which other 2010A Bonds have been issued; and

(iv) Bonds deemed to have been paid in accordance with the Trust Agreement.

"Outstanding" means, when used with reference to Indebtedness, as of any date of determination, all Indebtedness theretofore issued or incurred and not paid and discharged other than (i) Obligations theretofore cancelled by the Master Trustee or delivered to the Master Trustee for cancellation, (ii) Indebtedness deemed paid and no longer Outstanding under the documents pursuant to which such Indebtedness was incurred, (iii) Defeased Obligations and (iv) Obligations in lieu of which other Obligations have been authenticated and delivered or have been paid pursuant to the provisions of the Supplement regarding mutilated, destroyed, lost or stolen Obligations unless proof satisfactory to the Master Trustee has been received that any such Obligation is held by a bona fide purchaser; provided, however, that for purposes of determining whether the Holders of the requisite principal amount of Obligations have concurred in any direction, consent, waiver or 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 deemed not to be Outstanding; provided, further, that for purposes of determining whether the Master Trustee shall be protected in relying on any such direction, consent, waiver or other action, only such Obligations or Related Bonds which the Master Trustee has actual notice or knowledge are so owned shall be deemed not to be Outstanding.

"Parent Corporation" means Rex Healthcare, Inc., a nonprofit corporation duly organized and validly existing under the laws of the State of North Carolina, and its permitted successors.

"Participant" means a broker-dealer, bank or other financial institution for which the Securities Depository holds 2010A Bonds as a securities depository.

"Permitted Liens" means the Permitted Liens as described under the caption "SUMMARY OF THE MASTER INDENTURE—Particular Covenants--Limitations on Creation of Liens" herein.

"Person" means an individual, association, unincorporated organization, corporation, limited liability company, partnership, joint venture, business trust or a government or an agency or a political subdivision thereof, or any other entity.

"Pledged Assets" means all Accounts of each Member of the Obligated Group, now owned or hereafter acquired, and all proceeds thereof, and all Lockbox Accounts.

"Principal Account" means the account in the Bond Fund created and so designated by the Trust Agreement.

"Project" means the Project described in the front part of this Official Statement under the caption "PLAN OF FINANCING—The Project," including any modifications thereof, substitutions therefor or additions thereto.

"Property" means any and all rights, titles and interests in and to any and all property whether real or personal, tangible or intangible and wherever situated.

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

"Put Indebtedness" means Long-Term Indebtedness twenty-five percent (25%) or more of the principal of which is required, at the option of the owner thereof, to be purchased or redeemed at one time.

"Qualified Escrow Funds" means amounts deposited in a segregated escrow fund or other similar fund or account in connection with the issuance of Long-Term Indebtedness or Related Bonds secured by

such Long-Term Indebtedness which fund is required by the documents establishing such fund to be applied toward the Obligated Group's payment obligations with respect to principal or interest on (a) such Long-Term Indebtedness or Related Bonds or (b) other Long-Term Indebtedness or Related Bonds issued prior to the establishment of such fund.

"Rating Agency" means, as of any date, each of Fitch, if the 2010A Bonds are then rated by Fitch, Moody's, if the 2010A Bonds are then rated by Moody's, and S&P, if the 2010A Bonds are then rated by S&P, and, if any such entity is dissolved or liquidated or longer performs the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Commission with the approval of the Corporation by notice to the Bond Trustee.

"Redemption Fund" means the North Carolina Medical Care Commission Health Care Facilities Revenue and Revenue Refunding Bonds (Rex Healthcare), Series 2010A Redemption Fund created and so designated by the Trust Agreement.

"Redemption Price" means, with respect to any 2010A Bonds or portion thereof, the principal amount of such 2010A Bonds or portion thereof plus the applicable premium, if any, payable upon redemption thereof in the manner contemplated in accordance with its terms, the terms of the Series Resolution providing for the issuance thereof and the Trust Agreement.

"Regular Record Date" means the 15th day (whether or not a Business Day) of the month preceding any Interest Payment Date.

"Related Bond Indenture" means any indenture, trust agreement, bond resolution or other comparable instrument pursuant to which a series of Related Bonds is issued.

"Related Bond Issuer" means the issuer of any issue of Related Bonds.

"Related Bond Trustee" means the trustee and its successors in the trusts created under any Related Bond Indenture.

"Related Bonds" means (a) revenue bonds or other obligations issued by any state, territory or possession of the United States or any municipal corporation or political subdivision formed under the laws thereof or any constituted authority or agency or instrumentality of any of the foregoing empowered to issue obligations on behalf thereof, and (b) any bonds issued by any other Person, in either case the proceeds of which are loaned or otherwise made available to a Member of the Obligated Group in consideration, whether in whole or in part, of-the execution, authentication and delivery of an Obligation to or for the order of such governmental issuer or Person or in consideration of the execution and delivery of a Guaranty issued by a Member of the Obligated Group which Guaranty is represented by an Obligation.

"Replacement Master Indenture" means an existing or new indenture, bond order, bond resolution or similar instrument pursuant to which a Substitute Obligation is issued.

"Required Payments under the Agreement" means, with respect to the Loan Agreement, the payments so designated by and set forth in the Loan Agreement, which payments are described under the caption "SUMMARY OF THE LOAN AGREEMENT—Required Payments Under the Agreement."

"Revolving Fund Account" means the account in the Construction Fund created and so designated by the Trust Agreement.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and their assigns, and if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Commission, with the approval of the Parent Corporation and the Corporation, by notice to the Bond Trustee and the Master Trustee.

"Securities Depository" means DTC or other recognized securities depository selected by the Commission, which maintains a book entry system in respect of the 2010A Bonds, and includes any substitute for or successor to the securities depository initially acting as Securities Depository.

"Securities Depository Nominee" means, as to any Securities Depository, such Securities Depository or the nominee of such Securities Depository in whose name there are registered on the registration books maintained by the Bond Trustee certificates to be delivered to such Securities Depository or its custodian and immobilized during the continuation with such Securities Depository of participation in its book entry system.

"Serial Bonds" means the 2010A Bonds that are stated to mature on July 1 in the years 2011 to 2025, inclusive.

"Series Resolution" means the resolution of the Commission providing for the issuance of the 2010A Bonds that is required to be adopted prior to the issuance of the 2010A Bonds pursuant to the Trust Agreement.

"Short-Term Indebtedness" means all Indebtedness, other than the current portion of Long-Term Indebtedness, incurred or assumed by one or more Members of the Obligated Group, for any of the following:

(i) money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, of one (1) year or less;

(ii) leases which are required to be capitalized in accordance with generally accepted accounting principles having an original term, or renewable at the option of the lessee for a period from the date originally incurred, of one (1) year or less; and

(iii) installment sale or conditional sale contracts having an original term of one (1) year or less.

"SIFMA Index" means, with respect to the Master Indenture, for the most recent date available, the Securities Industry and Financial Markets Association Municipal Swap Index as disseminated by Municipal Market Data, a Thomson Financial Services Company, or its successor, or if such index is not available, another index certified to the Master Trustee to be comparable by a commercial or investment banking institution knowledgeable in municipal finance.

"Sinking Fund Account" means the account in the Bond Fund created and so designated by the Trust Agreement.

"Sinking Fund Requirement" means, with respect to the Term Bonds for any Bond Year, the principal amount fixed or computed as provided in the Trust Agreement for the retirement of the Term Bonds by purchase or redemption on July 1 of the following Bond Year. The aggregate amount of the Sinking Fund Requirements for the Term Bonds, together with the amount due upon the final maturity of

the Term Bonds, is equal to the aggregate principal amount of the Term Bonds. Any principal amount of Term Bonds retired by operation of the Sinking Fund Account by purchase in excess of the total amount of the Sinking Fund Requirement, to and including such July 1, will be credited against and reduce the future Sinking Fund Requirements for the Term Bonds in such manner as specified in an Officer's Certificate of the Corporation Representative filed with the Bond Trustee. The Sinking Fund Requirement is set forth in the front part of this Official Statement under the caption "DESCRIPTION OF THE 2010A BONDS—Redemption--*Mandatory Redemption.*"

"State" means the State of North Carolina.

"Substitute Obligation" means an original replacement note or other similar obligation, duly authorized and issued under and pursuant to a Replacement Master Indenture.

"Supplement" means an indenture supplemental to, and authorized and executed pursuant to the terms of, the Master Indenture.

"Supplement No.4" means Supplemental Indenture for Obligation No. 4, dated as of October 1, 2010 by and between the Corporation and the Master Trustee.

"Tax Certificate" means the Tax Certificate and Agreement executed by the Commission and the Corporation in connection with the issuance of the Bonds.

"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 the 2010A Bonds that are stated to mature on July 1, 2030.

"Total Operating Revenues" means, with respect to the Obligated Group, as to any period of time, total operating revenues, as determined in accordance with generally accepted accounting principles consistently applied.

"Total Required Payments" means the sum of Loan Repayments and Required Payments under the Agreement.

"Transfer" means any act or occurrence the result of which is to dispossess any Person of any asset or interest therein, including specifically, but without limitation, the forgiveness of any debt.

"Trust Agreement" means the Trust Agreement securing the 2010A Bonds, dated as of October 1, 2010 by and between the Commission and the Bond Trustee, including any trust agreement amendatory thereof or supplemental thereto.

"UCC" means the North Carolina version of the Uniform Commercial Code, Chapter 25 of the General Statutes of North Carolina, as amended, or any successor statute.

"Variable Rate Indebtedness" means any portion of Indebtedness the interest rate on which is not established at the time of incurrence at a fixed or constant rate to its maturity.

SUMMARY OF THE MASTER INDENTURE

The following is a summary of certain provisions of the Master Indenture; however, it is not a comprehensive description and reference is made to the full text of the Master Indenture for a complete recital of its terms.

Indebtedness, Authorization, Issuance and Terms of Obligations

There is no limit on the principal amount or number of Obligations that may be issued under the Master Indenture to evidence and secure Indebtedness or Derivative Obligations, except as limited by the provisions of the Master Indenture or of any Supplement, but no Obligations may be issued unless the provisions of the Master Indenture are followed. Any Member of the Obligated Group proposing to incur Indebtedness or Derivative Obligations to be evidenced and secured by an Obligation issued under the Master Indenture shall, at least seven days prior to the date of the incurrence of such Indebtedness or Derivative Obligation, give written notice of its intention to incur such Indebtedness or Derivative Obligation and issue such Obligation, including in such notice the amount of Indebtedness or Derivative Obligations to be incurred, to the other Members of the Obligated Group and to the Master Trustee. Each Member of the Obligated Group is jointly and severally liable for each and every Obligation. (Sec. 2.01)

Any Member of the Obligated Group and the Master Trustee may from time to time enter into a Supplement in order to create an Obligation under the Master Indenture. Such Supplement shall set forth the date of such Obligation, the date or dates on which the principal of, redemption premium, if any, and interest or other payments on such Obligation shall be payable, the form of such Obligation and such other terms and provisions as shall conform to the provisions of the Master Indenture. (Sec. 2.04)

Particular Covenants

Nature of Obligations; Payment of Principal and Interest; Security; Further Assurances; Deposit of Gross Receipts

(a) Each Obligation issued pursuant to the Master Indenture shall be a joint and several general obligation of each Member of the Obligated Group. Each Member of the Obligated Group covenants to promptly pay or cause to be paid the principal of, redemption premium, if any, and interest on each Obligation issued under the Master Indenture, and any other payments, including the purchase or redemption price of Put Indebtedness, required to be made under the Supplement creating such Obligation and under such Obligation, at the place, on the dates and in the manner provided in the Master Indenture, in the Supplement creating such Obligation and in such Obligation according to the terms thereof whether at maturity, upon proceedings for redemption, by acceleration or otherwise.

(b) To secure (i) the prompt payment of the principal of, redemption premium, if any, and the interest on the Obligations and any other payments, including the purchase or redemption price of Put Indebtedness, required to be made under the Supplements creating the Obligations and under the Obligations, and (ii) the performance by each Member of the Obligated Group of its other obligations under the Master Indenture, each Member of the Obligated Group grants to the Master Trustee a security interest in its Pledged Assets. The Master Trustee shall, upon written request of a Member of the Obligated Group, execute any document, instrument or agreement necessary to cause the Lien on Pledged Assets and any other Property securing the Obligations issued under the Master Indenture to be pari passu with a Lien permitted under subparagraph (b)(xx) under the subcaption "Limitations on Indebtedness" below. Prior to its receipt of a request from the Master Trustee as described in subparagraph (d) below, any Member of the Obligated Group may transfer, or incur Indebtedness secured by, all or any part of its Pledged Assets free of such security interest, subject to the limitations described under the subcaptions

"Limitations on Creation of Liens," "Limitations on Indebtedness," "Transfer of Operating Assets; Transfer of Cash and Investments; Sale of Accounts" and "Consolidation, Merger, Sale or Conveyance" of this caption "SUMMARY OF THE MASTER INDENTURE—Particular Covenants."

(c) Prior to the issuance and delivery of the Existing Obligations, each Member of the Obligated Group will have filed, in the office of the North Carolina Secretary of State in Raleigh, North Carolina, a UCC financing statement evidencing the security interest of the Master Trustee in the Pledged Assets in the form and containing the information required by the UCC. Each Member of the Obligated Group shall also execute and deliver to the Master Trustee from time to time such Supplements as may be necessary or appropriate to include its Pledged Assets as security under the Master Indenture. In addition, each Member of the Obligated Group covenants that it will prepare and file such UCC financing statements or amendments to or terminations of existing UCC financing statements which shall be necessary to comply with applicable law or as required due to changes in the Obligated Group. Continuation statements as shall be necessary to continue the security interest created under the Master Indenture are required to be filed to maintain the perfection of such security interest.

(d) If an Event of Default has occurred and is continuing, the Master Trustee may require that each Member of the Obligated Group deliver all Gross Receipts to it for deposit into one or more Lockbox Accounts. Each Member of the Obligated Group covenants that, if an Event of Default under the Master Indenture shall have occurred and be continuing, it will, immediately upon receipt of a written request from the Master Trustee, deliver or direct to be delivered to the Master Trustee all Gross Receipts then on hand and as subsequently received until such Event of Default has been cured. (Sec. 3.01)

Status as Tax-Exempt Organization

So long as the Master Indenture remains in effect, each Member of the Obligated Group which is a Tax-Exempt Organization at the time it becomes a Member of the Obligated Group agrees that, so long as all amounts due or to become due on any Related Bond have not been fully paid to the holder thereof, it will not take any action or fail to take any action, or suffer any action to be taken by others, including any action or failure to act which would result in the alteration or loss of its status as a Tax-Exempt Organization, which would, in the Opinion of Bond Counsel, result in the interest on any Related Bond which is not includable in the gross income of the holder thereof for federal income tax purposes becoming includable in the gross income of the holder of any Related Bond for federal income tax purposes. (Sec. 3.02)

Insurance

Each Member of the Obligated Group agrees that it will maintain, or cause to be maintained, the following types of insurance (including one or more self-insurance programs considered to be adequate by an Insurance Consultant, other than a self-insurance program insuring against any casualty loss to its Property, Plant and Equipment) in such amounts as, in its judgment, are customarily maintained by health care facilities of like size and are adequate to protect it and its Property, Plant and Equipment and operations: (i) comprehensive general public liability insurance, including blanket contractual liability and automobile insurance including owned and hired automobiles (excluding collision and comprehensive coverage thereon), (ii) fire, lightning, windstorm, hail, explosion, riot, riot attending a strike, civil commotion, damage from aircraft, smoke and uniform standard coverage and vandalism and malicious mischief endorsements and business interruption insurance, (iii) professional liability or medical malpractice insurance, (iv) workers' compensation insurance, and (v) boiler insurance.

The Obligated Group shall retain an Insurance Consultant to review the requirements of the immediately preceding paragraph and the insurance requirements of the Members of the Obligated Group

from time to time (but not less frequently than biennially with respect to risks covered by insurance companies and not less frequently than annually with respect to risks for which the Members of the Obligated Group are self-insured). If the Insurance Consultant makes recommendations for the increase, decrease or elimination of any coverage required under the immediately preceding paragraph, the Obligated Group shall increase or cause to be increased, decrease or eliminate such coverage in accordance with such recommendations, subject to a good faith determination of the Governing Body of the Parent Corporation that such recommendations, in whole or in part, are in the best interests of the Obligated Group. Notwithstanding the foregoing, each Member of the Obligated Group shall have the right, without giving rise to an Event of Default solely on such account, (i) to maintain insurance coverage below that most recently recommended by the Insurance Consultant, if the Obligated Group furnishes the Master Trustee a report of the Insurance Consultant to the effect that the insurance so provided affords either the greatest amount of coverage available for the risk being insured against at rates which in the judgment of the Insurance Consultant are reasonable in connection with reasonable and appropriate risk management, or the greatest amount of coverage necessary by reason of state or federal laws now or hereafter in existence limiting medical and malpractice liability, or (ii) to adopt alternative risk management programs which the Insurance Consultant determines to be reasonable, including, without limitation, to self-insure in whole or in part individually or in connection with other institutions, to participate in programs of captive insurance companies, to participate with other health care institutions in mutual or other cooperative insurance or other risk management programs, to participate in state or federal insurance programs, to take advantage of state or federal laws now or hereafter in existence limiting medical and malpractice liability, or to establish or participate in other alternative risk management programs; all as may be approved by the Insurance Consultant as reasonable and appropriate risk management by the Obligated Group. If any Member of the Obligated Group shall be self-insured for any coverage required under the immediately preceding paragraph, the report of the Insurance Consultant mentioned above shall state whether the anticipated funding of any self-insurance fund is actuarially sound, and if not, the required funding to produce such result. If the Insurance Consultant determines that the anticipated funding of any self-insurance fund is not actuarially sound, the Obligated Group covenants that it will fund such self-insurance fund in the manner recommended by the Insurance Consultant. (Sec. 3.03)

Insurance and Condemnation Proceeds

Amounts that do not exceed 20% of the Net Book Value of the Property, Plant and Equipment of the Obligated Group received by any Member of the Obligated Group as insurance proceeds with respect to any casualty loss or as condemnation awards may be used in such manner as the recipient may determine, including, without limitation, applying such moneys to the partial payment or prepayment of any Indebtedness in accordance with the terms thereof and of any pertinent Supplement.

Amounts that exceed 20% of the Net Book Value of the Property, Plant and Equipment of the Obligated Group received by any Member of the Obligated Group as insurance proceeds with respect to any casualty loss or as condemnation awards shall be applied in such manner as the recipient may determine if the recipient notifies the Master Trustee and, within 12 months after the casualty loss or taking and prior to expending such proceeds, delivers to the Master Trustee:

(i) (A) an Officer's Certificate of an Obligated Group Representative certifying the forecasted Long-Term Debt Service Coverage Ratio for each of the two Fiscal Years following the date on which such proceeds or awards are forecasted to have been fully applied, which Long-Term Debt Service Coverage Ratio for each such period will be not less than 1.50, as shown by pro forma financial statements for each such period, accompanied by a statement of the relevant assumptions including assumptions as to the use of such proceeds or awards, upon which such pro forma statements are based and (B) a written report of a Consultant confirming such certification; or

(ii) a written report of a Consultant stating the Consultant's recommendations, including recommendations as to the use of such proceeds or awards, to cause the Long-Term Debt Service Coverage Ratio for each of the periods described in clause (i) of this paragraph to be not less than 1.20, or, if in the opinion of the Consultant the attainment of such level is impracticable, at the highest practicable level. (Sec. 3.04)

Limitations on Creation of Liens

(a) 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 Pledged Assets or any other Property now owned or hereafter acquired by it other than Permitted Liens.

(b) Permitted Liens shall consist of the following:

(i) Liens on Pledged Assets or any other Property created by the Master Indenture and any other Lien securing all Obligations on a parity basis;

(ii) Any Lien on the Property of the Parent Corporation or the Corporation which existed on the date of authentication and delivery of Obligation No. 3 and was disclosed in writing to the Master Trustee; provided, however, that no such Lien may be increased, extended, renewed or modified to apply to any Property of any Member of the Obligated Group not subject to such Lien on such date or to secure Indebtedness not Outstanding as of the date hereof, unless such Lien as so extended, renewed or modified otherwise qualifies as a Permitted Lien;

(iii) Any Lien on the Property of a Person in existence as of the date such Person becomes a Member of the Obligated Group that is disclosed to the Master Trustee in an Officer's Certificate of such Person; provided, however, that no such Lien may be increased, extended, renewed or modified to apply to any Property of any Member of the Obligated Group not subject to such Lien on such date, unless such Lien as so extended, renewed or modified otherwise qualifies as a Permitted Lien;

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

(v) Any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable any Member of the Obligated Group to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with workers' compensation, unemployment insurance, pension or profit sharing plans or other social security, or to share in the privileges or benefits required for companies participating in such arrangements;

(vi) Any judgment Lien against any Member of the Obligated Group so long as such judgment is being contested in good faith and execution thereon is stayed;

(vii) (A) Rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any Property; (B) any Liens on any Property for taxes, assessments, levies, fees, water and sewer

rents, and other governmental and similar charges and any Liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such Property, which are not due and payable or which are not delinquent or which, or the amount or validity of which, are being contested and execution thereon is stayed or, with respect to Liens of mechanics, materialmen, laborers, suppliers or vendors, have been due for less than 90 days; (C) easements, rights-of-way, servitudes, restrictions, oil, gas or other mineral reservations and other minor defects, encumbrances, and irregularities in the title to any Property which, if such Lien arises after a Member of the Obligated Group has acquired such Property, do not, in the Opinion of Counsel to the Obligated Group, materially impair the use of such Property or materially and adversely affect the value thereof; and (D) landlord's liens;

(viii) (A) Any Lien on Equipment securing Indebtedness incurred to purchase such Equipment, and (B) if no Event of Default has occurred and is continuing under the Master Indenture as of the date such Lien is incurred, any Lien on Property which is part of the Property, Plant and Equipment securing Long-Term Indebtedness, provided that the aggregate principal amount of all Indebtedness secured by Liens permitted under the Master Indenture as described in this subparagraph (b)(viii) shall not exceed 20% of the Net Book Value of the Property of the Obligated Group as shown on the Financial Statements for the most recent Fiscal Year for which Financial Statements are available;

(ix) Any Lien on inventory which does not exceed the greater of (A) 25% of the Net Book Value thereof or (B) $1,000,000;

(x) Any Lien securing Non-Recourse Indebtedness permitted by the Master Indenture as described below in subparagraph (e) under the subcaption "--Limitations on Indebtedness";

(xi) Any Lien on Accounts that are sold pursuant to the Master Indenture as described below in subparagraph (c) under the subcaption "--Transfer of Operating Assets; Transfer of Cash and Investments; Sale of Accounts" or that are pledged to secure Indebtedness permitted by the Master Indenture described below in subparagraph (g) under the subcaption "--Limitations on Indebtedness";

(xii) Any Lien on Property acquired by a Member of the Obligated Group if (A) such Lien was originally created by a Person who is not a Member of the Obligated Group, (B) the Lien was not created for the purpose of enabling such Member of the Obligated Group to avoid the limitations hereof on creation of Liens on Property of the Obligated Group and (C), if requested by the Master Trustee, such Member of the Obligated Group delivers an Officer's Certificate to that effect;

(xiii) Any Liens on Property subordinate to a Lien described in subparagraph (i) of this paragraph (b) required by a statute under which a Related Bond is issued;

(xiv) Any Lien in favor of a creditor or a trustee on the proceeds of Indebtedness and any earnings thereon prior to the application of such proceeds and such earnings;

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

(xvi) Any Lien on pledges, gifts or grants to be received in the future, including any income derived from the investment thereof;

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

(xviii) Liens on Property due to rights of third party payors for recoupment of amounts paid to any Member of the Obligated Group;

(xix) Rights of the United States of America under 42 U.S.C. § 291;

(xx) Any Lien securing the obligations of a Member of the Obligated Group under a Derivative Agreement which, if required by the provider of such a Derivative Agreement, may be pari passu with the Lien on Pledged Assets and any other Property securing the Obligations issued under the Master Indenture; and

(xxi) Any Lien on Related Bonds and the earnings and proceeds therefrom in favor of the provider of a Credit Facility for such Related Bonds arising from such provider's purchase of any of the Related Bonds pursuant to the terms of such Credit Facility. (Sec. 3.05)

Limitations on Indebtedness

Each Member of the Obligated Group covenants and agrees that it will not incur any Additional Indebtedness if, after giving effect to all other Outstanding Indebtedness incurred by the Obligated Group, such Indebtedness could not be incurred pursuant to (a) through (j), inclusive, below. Any Additional Indebtedness may be incurred only in the manner and pursuant to the terms set forth in the Master Indenture in (a) through (j) below.

(a) Long-Term Indebtedness may be incurred if prior to incurrence of the Long-Term Indebtedness there is delivered to the Master Trustee:

(i) an Officer's Certificate of an Obligated Group Representative certifying that (A) immediately after the incurrence of the proposed Long-Term Indebtedness the aggregate principal amount of all Outstanding Long-Term Indebtedness will not exceed 65% of Capitalization; and (B) the forecasted Long-Term Debt Service Coverage Ratio, taking the proposed Long-Term Indebtedness into account, for (1) in the case of Long-Term Indebtedness (other than a Guaranty) to finance capital improvements, the first complete Fiscal Year next succeeding the date on which such capital improvements are expected to be placed in operation or (2) in the case of Long-Term Indebtedness not financing capital improvements or in the case of a Guaranty, the first complete Fiscal Year next succeeding the date on which the Indebtedness is incurred, is not less than 1.20; or

(ii) an Officer's Certificate of an Obligated Group Representative certifying that the Long-Term Debt Service Coverage Ratio for the most recent Fiscal Year preceding the date of delivery of such Officer's Certificate for which there are Financial Statements available, taking all Outstanding Long-Term Indebtedness incurred after such period and the proposed Long-Term Indebtedness into account as if such Long-Term Indebtedness had been incurred at the beginning of such period and excluding any Long-Term Indebtedness to be refunded with the proceeds of the proposed Long-Term Indebtedness, is not less than 1.35; or

(iii) (A) an Officer's Certificate of an Obligated Group Representative demonstrating that the Long-Term Debt Service Coverage Ratio for the period mentioned in clause (a) (ii) above, excluding the proposed Long-Term Indebtedness, was at least 1.20 and (B) a written report of a Consultant demonstrating that the forecasted Long-Term Debt Service Coverage Ratio is not less than 1.35 for (x) in the case of Long-Term Indebtedness (other than a Guaranty) to finance capital improvements, each of the 2 full Fiscal Years succeeding the date on which such capital improvements are expected to be in operation or (y) in the case of Long-Term Indebtedness not financing capital improvements or in the case of a Guaranty, each of the 2 full Fiscal Years succeeding the date on which the Indebtedness is incurred, as shown by pro forma financial statements for the Obligated Group for each such period, accompanied by a statement of the relevant assumptions upon which such pro forma financial statements for the Obligated Group are based; provided, however, that if the Long-Term Debt Service Coverage Ratio calculated pursuant to this clause (a) (iii) (B) is greater than 1.50, an Officer's Certificate of an Obligated Group Representative may be substituted for the required Consultant's report; provided, further, if the report of a Consultant states that Governmental Restrictions have been imposed which make it impossible for the coverage requirements of this subsection (a)(iii) to be met, then such coverage requirements shall be reduced to the maximum coverage permitted by such Governmental Restrictions but in no event less than 1.00.

(b) In addition to Long-Term Indebtedness permitted to be incurred under clause (a) above, Long-Term Indebtedness may be incurred provided that there shall be delivered to the Master Trustee an Officer's Certificate of an Obligated Group Representative certifying that immediately after giving effect to any Long-Term Indebtedness incurred pursuant to this clause (b), the aggregate principal amount of Outstanding Long-Term Indebtedness incurred under this clause (b) shall not exceed 25% of Total Operating Revenues as reflected in the Financial Statements for the most recent Fiscal Year for which Financial Statements are available; provided, further, that immediately after giving effect to any Long-Term Indebtedness incurred pursuant to this clause (b), the aggregate principal amount of Indebtedness Outstanding under this clause (b), clause (d) below and clause (g) below shall not exceed 25% of Total Operating Revenues in the Financial Statements for the most recent Fiscal year for which Financial Statements are available.

(c) Long-Term Indebtedness may be incurred for the purpose of refunding any Outstanding Long-Term Indebtedness without limitation if, prior to the incurrence of such Long-Term Indebtedness, there is delivered to the Master Trustee (i) an Officer's Certificate of an Obligated Group Representative certifying that, taking into account the Long-Term Indebtedness proposed to be incurred and the existing Long-Term Indebtedness to remain Outstanding after giving effect to the refunding, Maximum Annual Debt Service will not increase by more than 10% and (ii) an Opinion of Counsel stating that upon the incurrence of such proposed Long-Term Indebtedness, and application of the proceeds thereof (on the Cross-over Date, in the case of Cross-over Refunding Indebtedness), the Outstanding Long-Term Indebtedness to be refunded thereby will no longer be Outstanding.

(d) Short-Term Indebtedness may be incurred subject to the limitation that immediately after giving effect to any Short-Term Indebtedness incurred pursuant to this clause (d), the aggregate principal amount of all Outstanding Short-Term Indebtedness shall not exceed 25% of Total Operating Revenues as reflected in the Financial Statements for the most recent Fiscal Year for which Financial Statements are available; provided, however, that there shall be a period of at least 20 consecutive calendar days during each such Fiscal Year for which Financial Statements are available during which Outstanding Short-Term Indebtedness (excluding Short-Term Indebtedness incurred pursuant to clause (g) below) shall not exceed 3% of Total Operating Revenues; provided, further, that immediately after giving effect to any Short-Term Indebtedness incurred pursuant to this clause (d), the aggregate principal amount of Indebtedness Outstanding under this clause (d), clause (b) above and clause (g) below shall not exceed 25% of Total

Operating Revenues as reflected in the Financial Statements for the most recent Fiscal Year for which Financial Statements are available.

(e) Non-Recourse Indebtedness may be incurred without limit.

(f) Completion Indebtedness may be incurred without limit; provided, however, that prior to the incurrence of Completion Indebtedness, an Obligated Group Representative shall furnish to the Master Trustee the following: (i) a certificate of an architect estimating the costs of completing the facilities for which Completion Indebtedness is to be incurred and (ii) an Officer's Certificate of the chief financial officer of the Member of the Obligated Group for which Completion Indebtedness is to be incurred certifying that the amount of Completion Indebtedness to be incurred will be sufficient, together with other funds, if applicable, to complete construction of the facilities in respect of which Completion Indebtedness is to be incurred.

(g) Indebtedness secured by Accounts may be incurred if prior to the incurrence of such Indebtedness there is delivered to the Master Trustee an Officer's Certificate of an Obligated Group Representative certifying that immediately after the incurrence of such Indebtedness, the amount of Accounts that have been pledged to secure Indebtedness that has been issued pursuant to this clause (g) and is then Outstanding will not exceed the difference between (i) the Account Lien Amount and (ii) an amount equal to the Net Book Value of any patient Accounts that have been sold pursuant to clause (c) of the section below subtitled "Sale, Lease or Other Disposition of Operating Assets; Disposition of Cash and Investments; Sale of Accounts" in the then current 12-month period described in said clause (c); provided, however, that (A) the determination of whether a disposition of Accounts is a sale or loan shall be made in accordance with generally accepted accounting principles and (B) any Indebtedness issued pursuant to this provision shall be considered to be Short-Term Indebtedness subject to the incurrence test set forth in clause (d) above.

(h) Put Indebtedness may be incurred, if prior to the incurrence of such Put Indebtedness (A) the conditions described in clauses (a)(i), (a)(ii) or (a)(iii) above under this caption are met and (B) a binding commitment from a bank or other financial institution exists to provide financing sufficient to pay the purchase price of such Put Indebtedness on any date on which the owner of such Put Indebtedness may demand payment thereof pursuant to the terms of such Put Indebtedness. Notwithstanding the provisions of the preceding sentence, clause (B) of such sentence shall be effective only during any period when Related Bonds issued by the Commission that are rated lower than "AA-" or "Aa3" by Fitch, S&P or Moody's, respectively, or are not rated are outstanding and, during any such period, the provisions of clause (B) of such sentence may be waived in writing by the Commission with the written consent of the Local Government Commission.

(i) A Guaranty may be incurred by a Member of the Obligated Group if the obligation that is the subject of such Guaranty could be incurred by such Member of the Obligated Group under the Master Indenture as described under this subheading "--Limitations on Indebtedness."

(j) Indebtedness may be incurred without limitation by any Member of the Obligated Group under a Credit Facility. (Sec. 3.06)

Long-Term Debt Service Coverage Ratio

(a) Each Member of the Obligated Group covenants to set and collect rates and charges for its facilities, services and products such that the Long-Term Debt Service Coverage Ratio, calculated at the end of each Fiscal Year, will not be less than 1.20; provided, however, that in any case where Long-Term Indebtedness or any portion thereof has been incurred to acquire or construct capital

improvements, the Long-Term Debt Service Requirement with respect thereto shall not be taken into account in making the foregoing calculation until the first Fiscal Year commencing after the occupation or utilization of such capital improvements unless the Long-Term Debt Service Requirement with respect thereto is required to be paid from sources other than the proceeds of such Long-Term Indebtedness prior to such Fiscal Year.

(b) If at any time the Long-Term Debt Service Coverage Ratio required by clause (a) above, as derived from the most recent Financial Statements for the most recent Fiscal Year, is not met, the Obligated Group covenants to retain a Consultant within 30 days after its receipt of Financial Statements to make recommendations to increase such Long-Term Debt Service Coverage Ratio 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. Any Consultant so retained shall be required to submit such recommendations within 45 days after being so retained. Each Member of the Obligated Group agrees that it will, to the extent permitted by law, follow the recommendations of the Consultant. So long as a Consultant shall be retained and each Member of the Obligated Group shall follow such Consultant's recommendations to the extent permitted by law, these provisions shall be deemed to have been complied with even if the Long-Term Debt Service Coverage Ratio for the following Fiscal Year is below the required level; provided, however, that the revenues of the Obligated Group shall not be less than the amount required to pay when due the total operating expenses of the Obligated Group and to pay when due the debt service on all Indebtedness of the Obligated Group for such Fiscal Year and further provided, however, that the Obligated Group shall not be required to retain a Consultant to make recommendations pursuant to this clause (b) more frequently than biennially.

(c) If a report of a Consultant is delivered to the Master Trustee, which report shall state that Governmental Restrictions have been imposed which make it impossible for the coverage requirement in clause (a) above to be met, then such coverage requirement shall be reduced to the maximum coverage permitted by such Governmental Restrictions but in no event less than 1.00 and thereafter, for so long as such Governmental Restrictions are in effect, a report of a Consultant stating that Governmental Restrictions which make it impossible for the coverage requirement in clause (a) above to be met are still in effect shall be delivered to the Master Trustee biennially. (Sec. 3.07)

Transfer of Operating Assets; Transfer of Cash and Investments; Sale of Accounts

(a) Each Member of the Obligated Group agrees that it will not Transfer in any Fiscal Year Operating Assets except for Transfers:

(i) To any Person if (A) the disposition of which is permitted pursuant to the provisions of the Master Indenture relating to Property that is no longer useful and (B) the Net Book Value of which does not exceed 5% of the unrestricted net assets (plus, in case of proprietary Members of the Obligated Group, the excess of assets over liabilities, if applicable) of the Obligated Group, as shown on the Financial Statements for the most recent Fiscal Year for which such Financial Statements are available;

(ii) To any Person if, prior to the sale, lease or other disposition, there is delivered to the Master Trustee an Officer's Certificate of an Obligated Group Representative stating that such Operating Assets have become inadequate, obsolete, worn out, unsuitable, unprofitable, undesirable or unnecessary and the sale, lease, removal or other disposition thereof will not (A) impair the structural soundness, efficiency or economic value of the remaining Operating Assets or (B) adversely affect the amount of Total Operating Revenues of the Obligated Group; provided, however, that an Officer's Certificate of an Obligated Group Representative shall not be required to be delivered to the Master Trustee with respect to the Transfer of any such

Operating Assets having an aggregate Net Book Value of less than the greater of (A) $1,000,000 per year or (B) 2.5% of all Property of the Obligated Group, as shown on the Financial Statements for the most recent Fiscal Year for which such Financial Statements are available;

(iii) To another Member of the Obligated Group without limit;

(iv) To any Person provided that there shall be delivered to the Master Trustee prior to such Transfer either:

(A) an Officer's Certificate of an Obligated Group Representative certifying the Long-Term Debt Service Coverage Ratio, adjusted to exclude the revenues and expenses derived from the Operating Assets proposed to be disposed of, for the most recent Fiscal Year preceding the date of delivery of such Officer's Certificate for which Financial Statements are available and such Long-Term Debt Service Coverage Ratio is not less than 1.30 and not less than 65% of what it would have been were such Transfer not to take place; or

(B) the report of a Consultant to the effect that the forecasted Long-Term Debt Service Coverage Ratio, taking such Transfer into account, for each of the two Fiscal Years succeeding the date on which such Transfer is expected to occur, is not less than 1.30 and not less than 65% of what it would have been were such Transfer not to take place, accompanied by a statement of the relevant assumptions upon which such forecasts are based; or

(v) To any Person provided that (A) the Member of the Obligated Group proposing to make such Transfer shall receive, as consideration for such Transfer, cash, services or Property equal to the fair market value of the asset so transferred (fair market value of real property shall be evidenced by a written report of an independent appraiser who is a Member of the Appraisal Institute (MAI) which report shall state the fair market value of a date not more than one year prior to the date as of which such fair market value is being determined), and (B) if the fair market value of the asset to be transferred exceeds 5% of the unrestricted net assets (plus, in the case of proprietary Members of the Obligated Group, the excess of assets over liabilities, if applicable) of the Obligated Group as shown on the Financial Statements for the most recent Fiscal Year for which such Financial Statements are available, then there shall be delivered to the Master Trustee prior to such Transfer either:

(1) an Officer's Certificate of an Obligated Group Representative certifying the Long-Term Debt Service Coverage Ratio, adjusted to exclude the revenues and expenses derived from the Operating Assets proposed to be disposed of, for the most recent Fiscal Year preceding the date of delivery of such Officer's Certificate for which Financial Statements are available and such Long-Term Debt Service Coverage Ratio is not less than 1.30 and not less than 65% of what it would have been were such Transfer not to take place; or

(2) the report of a Consultant to the effect that the forecasted Long-Term Debt Service Coverage Ratio, taking such Transfer into account, for each of the two Fiscal Years succeeding the date on which such Transfer is expected to occur is not less than 1.30 and not less than 65% of what it would have been were such Transfer not to take place, accompanied by a statement of the relevant assumptions upon which such forecasts are based.

Each Member of the Obligated Group covenants to maintain records adequate to enable the Master Trustee to ascertain that the provisions of paragraph (v) above have been complied with and to make such records available to the Master Trustee upon written request.

(b) Each Member of the Obligated Group agrees that it will not Transfer in any Fiscal Year cash or investments except for Transfers:

(i) To another Member of the Obligated Group without limit.

(ii) To any Person if the Long-Term Debt Service Coverage Ratio for the most recent Fiscal Year for which Financial Statements are available would not be reduced below 1.75 if the fair market value of the cash or investments that are the subject of the proposed Transfer was deducted from Income Available for Debt Service for such period; provided however, that there shall be filed with the Master Trustee an Officer's Certificate of an Obligated Group Representative, accompanied by and based upon such Financial Statements, demonstrating compliance with the foregoing limitation prior to making any Transfer otherwise permitted by this paragraph (ii) in any given Fiscal Year which would, in the aggregate, exceed 0.5% of Total Operating Revenues as shown on such Financial Statements.

(iii) To any Person provided that the Member of the Obligated Group proposing to make such Transfer shall receive as consideration for such Transfer Property, cash, securities or services the fair market value of which is at least equal to the amount of the cash or investments so transferred and further provided that, if the Master Trustee so requests, the Member of the Obligated Group proposing to make such Transfer can demonstrate the foregoing in an Officer's Certificate filed with the Master Trustee.

(c) Each Member of the Obligated Group agrees that it will not Transfer Accounts, provided, however, that prior to its receipt of a request from the Master Trustee pursuant to paragraph (d) of the subcaption above entitled "--Nature of Obligations; Payment of Principal and Interest; Security; Further Assurances; Deposit of Gross Receipts," any Member of the Obligated Group will have the right to sell, in any 12-month period beginning on the latest date the Financial Statements for the preceding Fiscal Year may be delivered pursuant to clause (a) of the section below entitled "--Filing of Financial Statements, Certificate of No Default and Other Information," its Accounts in an amount not to exceed the difference between (i) the Account Lien Amount and (ii) the amount of Accounts that have been pledged to secure Outstanding Indebtedness incurred by any Member of the Obligated Group pursuant to clause (g) under the subcaption above entitled "--Limitations on Indebtedness" during such 12-month period, if such Member of the Obligated Group shall (i) receive as consideration for such sale cash, services or Property equal to the fair market value of the accounts receivable so sold, with the fair market value thereof to be determined in the following manner: (1) as certified to the Master Trustee in an Officer's Certificate of such Member of the Obligated Group that the cash, services or Property received in exchange for the accounts receivable had a value at least equal to 80% of the net book value of such accounts receivable as reflected on the balance sheet of such Member of the Obligated Group or (2) if the value of the cash, services or Property to be received in exchange for the accounts receivable has a value less than 80% of the net book value of such accounts receivable, then as certified in a report by a Consultant chosen by the Members of the Obligated Group that the value of the cash, services or Property to be received in exchange for the accounts receivable is the reasonable fair market value of such accounts receivable based on standards applicable to the health care industry and (ii) deliver to the Master Trustee an Officer's Certificate of such Member of the Obligated Group stating that such sale of accounts receivable constitutes a "sale" under generally accepted accounting principles.

(d) Notwithstanding the foregoing provisions under this heading, nothing in the foregoing provisions shall be construed as limiting the ability of any Member of the Obligated Group to purchase or sell Property (other than Operating Assets, but including inventory) in the ordinary course of business or to transfer cash, securities and other investment properties in connection with ordinary investment transactions where such purchases, sales and transfers are for substantially equivalent value. Furthermore, nothing in the foregoing provisions will be construed as limiting the ability of any Member of the Obligated Group to expend funds in the ordinary course of business for operations, maintenance or management fees. (Sec. 3.08)

Consolidation, Merger, Sale or Conveyance

(a) Each Member of the Obligated Group covenants that it will not merge or consolidate with, or sell or convey all or substantially all of its assets to any Person that is not a Member of the Obligated Group, unless:

(i) Either a Member of the Obligated Group will be the successor Person, or if the successor Person is not a Member of the Obligated Group, such successor Person shall execute and deliver to the Master Trustee an instrument, accompanied by an Opinion of Counsel that the instrument is enforceable, containing the agreement of such successor Person to assume the due and punctual payment of the principal of, redemption premium, if any, and interest or other payments on all Outstanding Obligations issued under the Master Indenture according to their tenor and the due and punctual performance and observance of all the covenants and conditions of the Master Indenture and any Supplement to the Master Indenture and granting to the Master Trustee a security interest in the Pledged Assets of such successor Person; and

(ii) No Member of the Obligated Group immediately after such merger or consolidation, or such sale or conveyance would be in default in the performance or observance of any covenant or condition of the Master Indenture; and

(iii) If all amounts due or to become due on any Related Bond, the interest on which is not includable in the gross income of the holder thereof for purposes of federal income taxation under the Code, have not been fully paid to the holder thereof, there shall have been delivered to the Master Trustee an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that under then existing law the consummation of such merger or consolidation or sale or conveyance, whether or not contemplated on any date of the delivery of such Related Bond, would not adversely affect the exclusion of interest payable on such Related Bond from the gross income of the holder thereof for purposes of federal income taxation; and

(iv) There is delivered to the Master Trustee an Officer's Certificate of an Obligated Group Representative demonstrating that the conditions described in clause (a) under the subcaption above entitled "--Limitations on Indebtedness" above have been satisfied for the issuance of an additional one dollar ($1.00) of Additional Indebtedness, assuming such merger, consolidation or sale of assets had occurred at the beginning of the most recent Fiscal Year for which Financial Statements are available, and there is also delivered to the Master Trustee either (A) an Officer's Certificate of an Obligated Group Representative stating and demonstrating that if such merger, consolidation, sale or conveyance of assets had occurred at the beginning of the most recent Fiscal Year for which Financial Statements are available, the Long-Term Debt Service Coverage Ratio for such period would not have been reduced by more than 35%; provided, however, that in no event shall such Long-Term Debt Service Coverage Ratio be reduced to less than 1.20, or (B) (1) a written report of a Consultant indicating that the forecasted average Long-Term Debt Service Coverage Ratio for the two Fiscal Years succeeding the

proposed date of such merger, or consolidation, or sale or conveyance of assets is greater than 1.35; provided, however, that compliance with the test set forth in this clause (B)(1) may be evidenced by an Officer's Certificate of an Obligated Group Representative in lieu of a Consultant's report where the Long-Term Debt Service Coverage Ratio for each of the two most recent Fiscal Years for which Financial Statements are available preceding the proposed date of such merger or consolidation, or sale or conveyance of assets is greater than 2.00 and that for the most recent Fiscal Year for which Financial Statements are available it would not have been reduced by more than 35% if such merger or consolidation, or sale or conveyance of assets had occurred at the beginning of such period and (2) an Officer's Certificate of an Obligated Group Representative demonstrating that the unrestricted fund balance or unrestricted net assets (or excess of assets over liabilities, as the case may be) of the successor, resulting or acquiring corporation, as the case may be, after giving effect to said merger or consolidation, or sale or conveyance of assets is not less than 90% of the unrestricted fund balance or unrestricted net assets (or excess of assets over liabilities, as the case may be) of the Member of the Obligated Group which was merged into, consolidated with or whose assets were acquired by, such successor Person as reflected in the most recent Financial Statements; provided, however, that the requirements in clause (B)(2) need not be met if there is delivered to the Master Trustee an Officer's Certificate of an Obligated Group Representative stating and demonstrating that the Long-Term Debt Service Coverage Ratio, assuming such merger or consolidation, or sale or conveyance of assets had occurred at the beginning of the most recent Fiscal Year for which Financial Statements are available would have been greater than the Long-Term Debt Service Coverage Ratio for such period as reflected in the Financial Statements of the Obligated Group for such period.

(b) In case of any such consolidation or merger or sale or conveyance and upon any such assumption by the successor Person, such successor Person shall succeed to and be substituted for its predecessor, with the same effect as if it had been named in the Master Indenture as such predecessor or had become a Member of the Obligated Group pursuant to the Master Indenture, as the case may be. Such successor Person thereupon may cause to be signed, and may issue in its own name Obligations issuable under the Master Indenture; and upon the order of such successor Person and subject to all the terms, conditions and limitations in the Master Indenture prescribed, the Master Trustee shall authenticate and shall deliver Obligations that such successor Person shall have caused to be signed and delivered to the Master Trustee. All Outstanding Obligations so issued by such successor Person under the Master Indenture shall in all respects have the same security position and benefit under the Master Indenture as Outstanding Obligations theretofore or thereafter issued in accordance with the terms of the Master Indenture as though all of such Obligations had been issued under the Master Indenture without any such consolidation or merger, or sale or conveyance having occurred.

(c) In case of any such consolidation or merger or sale or conveyance such changes in phraseology and form (but not in substance) may be made in Obligations thereafter to be issued under the Master Indenture as may be appropriate.

(d) The Master Trustee may accept an Opinion of Counsel as conclusive evidence that any such consolidation or merger or sale or conveyance, and any such assumption, complies with the provisions of the Master Indenture and that it is proper for the Master Trustee, under the provisions of the Master Indenture, to join in the execution of any instrument required to be executed and delivered by the Master Indenture. (Sec. 3.09)

Filing of Financial Statements, Certificate of No Default and Other Information

The Obligated Group covenants that it will:

(a) Within 30 days after receipt of the audit report mentioned below but in no event later than 120 days after the end of each Fiscal Year for which Financial Statements are reported upon by an Accountant, file with the Master Trustee and with each Holder who may have so requested in writing or on whose behalf the Master Trustee may have so requested, a copy of the Financial Statements as of the end of such Fiscal Year accompanied by the report of such Accountant.

(b) Within 30 days after the receipt of the audit report mentioned above, but in no event later than 120 days after the end of each Fiscal Year, file with the Master Trustee and with each Holder who may have so requested or in whose behalf the Master Trustee may have so requested, an Officer's Certificate of an Obligated Group Representative stating the Long-Term Debt Service Coverage Ratio for such Fiscal Year and stating, to the best knowledge of the signer of such Officer's Certificate, whether any Member of the Obligated Group is not in compliance with any covenant contained in the Master Indenture and, if so, specifying each such failure to comply of which the signer of such Officer's Certificate may have knowledge and whether such failure to comply has been cured. If any Event of Default has not been cured, then the signer of such Officer's Certificate shall identify, to the best of his/her knowledge, what, if any, action will be taken to cure such noncompliance.

(c) If an Event of Default shall have occurred and be continuing, to the extent permitted by law, (i) file with the Master Trustee such other financial statements and information concerning its operations and financial affairs (or of any consolidated or combined group of companies, including its consolidated or combined Affiliates, including any Member of the Obligated Group) as the Master Trustee may from time to time reasonably request, excluding specifically donor records, patient records and personnel records and (ii) provide access to its facilities for the purpose of inspection by the Master Trustee during regular business hours or at such other times as the Master Trustee may reasonably request.

(d) Within 30 days after its receipt thereof, file with the Master Trustee a copy of each report which any provision of the Master Indenture requires to be prepared by a Consultant or an Insurance Consultant.

(e) The Obligated Group shall be deemed to have satisfied its obligations to file information with a Holder who requests such information by making such information accessible electronically. (Sec. 3.10)

Parties Becoming Members of the Obligated Group

Persons which are not Members of the Obligated Group may, with the prior written consent of the Parent Corporation, become Members of the Obligated Group, if:

(a) The Person which is becoming a Member of the Obligated Group shall execute and deliver to the Master Trustee an instrument containing the agreement of such Person (i) to become a Member of the Obligated Group under the Master Indenture and any Supplements and thereby become subject to compliance with all provisions of the Master Indenture and any Supplements pertaining to a Member of the Obligated Group, including the pledge and security interest provided for in the Master Indenture and the performance and observance of all covenants and obligations of a Member of the Obligated Group under the Master Indenture, (ii) to adopt the same Fiscal Year as that of the Parent Corporation; and (iii) unconditionally and irrevocably guaranteeing to the Master Trustee and each other

Member of the Obligated Group that all Obligations issued and then Outstanding or to be issued and Outstanding under the Master Indenture will be paid in accordance with the terms thereof and of the Master Indenture when due; and

(b) Each instrument executed and delivered to the Master Trustee in accordance with subsection (a) above shall be accompanied by an Opinion of Counsel, addressed to and satisfactory to the Master Trustee, to the effect that such instrument has been duly authorized, executed and delivered by such Person and constitutes a valid and binding obligation enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy laws, insolvency laws, other laws affecting creditors' rights generally, equity principles and laws dealing with fraudulent conveyances; and

(c) There shall be filed with the Master Trustee an Officer's Certificate of an Obligated Group Representative demonstrating that the conditions described in clause (a)(ii) under the subcaption above entitled "--Limitations on Indebtedness" have been satisfied for the incurrence of an additional $1.00 of Additional Indebtedness, assuming such admission actually occurred at the beginning of the most recent Fiscal Year for which Financial Statements are available, and there is also delivered to the Master Trustee either (i) an Officer's Certificate of an Obligated Group Representative demonstrating that the Long-Term Debt Service Coverage Ratio for the most recent Fiscal Year for which Financial Statements are available (A) would not have been reduced by more than 35% and would not have been reduced to less than 1.20 or (B) would be greater than in the absence of such Person becoming a Member of the Obligated Group; or (ii) the written report of a Consultant demonstrating that the forecasted average Long-Term Debt Service Coverage Ratio for the two Fiscal Years succeeding the proposed date of such admission is not less than 1.35; provided, however, that compliance with the tests set forth in clause (ii) may be evidenced by an Officer's Certificate of an Obligated Group Representative in lieu of a Consultant's report where the Long-Term Debt Service Coverage Ratio for each of the two most recent Fiscal Years for which Financial Statements are available preceding the proposed date of such admission is not less than 2.00 and that for the most recent Fiscal Year for which Financial Statements are available it would not have been reduced by more than 35% if such admission had occurred at the beginning of such period; and

(d) All amounts due or to become due on any Related Bond, the interest on which is not includable in the gross income of the holders thereof for purposes of federal income taxation, have not been paid to the holders thereof, there shall be filed with the Master Trustee an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that the admission of such Person to the Obligated Group would not adversely affect the exclusion of the interest on any such Related Bond from the gross income of the holder thereof for purposes of federal income taxation; and

(e) After giving effect to the admission of such Person as a Member of the Obligated Group, the combined unrestricted fund balance or unrestricted net assets of such Person (or the excess of such Person's assets over its liabilities as the case may be) and the unrestricted fund balance or unrestricted net assets (plus the excess of assets over liabilities, if applicable) of the Obligated Group is not less than 90% of the unrestricted fund balance or unrestricted net assets (plus the excess of assets over liabilities, if applicable) of the Obligated Group at the end of the Fiscal Year immediately preceding the year in which such Person shall become a Member of the Obligated Group; provided, however, that the requirements of this clause (e) will be deemed satisfied if there is delivered to the Master Trustee an Officer's Certificate of an Obligated Group Representative stating and demonstrating that the Long-Term Debt Service Coverage Ratio, assuming such addition to the Obligated Group had occurred at the beginning of the most recent Fiscal Year for which Financial Statements are available would have been greater than the Long-Term Debt Service Coverage Ratio for such period as reflected in the Financial Statements for such period; and

(f) The Person which is becoming a Member of the Obligated Group is not a Tax-Exempt Organization, there shall be filed with the Master Trustee, an Opinion of Counsel, in form and substance satisfactory to the Master Trustee, to the effect that the addition of such Person the Obligated Group will not result in the registration of any Obligations under the Securities Act of 1933, as amended, or the qualification of this Indenture or any Supplement under the Trust Indenture Act of 1939, as amended, or if such registration or qualification is required, that all applicable registration and qualification provisions of said acts have been complied with. (Sec. 3.11)

Withdrawal from the Obligated Group

(a) No Member of the Obligated Group may withdraw from the Obligated Group without the prior written consent of the Parent Corporation and unless, prior to the taking of such action, there is delivered to the Master Trustee:

(i) An Officer's Certificate of an Obligated Group Representative demonstrating that (A) all Obligations issued by such Member of the Obligated Group are no longer Outstanding, or (B) an amount of cash or Defeasance Obligations sufficient to accomplish the requirement of clause (A) of this paragraph has been paid by such Member of the Obligated Group to the Master Trustee; provided, however, that if all amounts due or to become due on any Related Bonds which bear interest which is not includable in the gross income of the holder thereof under the Code have not been fully paid to the holders thereof, there shall be delivered to the Master Trustee 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, whether or not contemplated on the date of delivery of any Related Bond, would not cause the interest payable on such Related Bond to become includable in the gross income of the holder thereof under the Code; and

(ii) An Officer's Certificate of an Obligated Group Representative demonstrating that the conditions described in clause (a)(ii) under the subcaption above entitled "--Limitations on Indebtedness" have been satisfied for the incurrence of an additional one dollar ($1.00) of Additional Indebtedness, assuming such withdrawal to have occurred at the beginning of the most recent Fiscal Year for which Financial Statements are available, and either (A) an Officer's Certificate of an Obligated Group Representative demonstrating that the Long-Term Debt Service Coverage Ratio for the most recent Fiscal Year for which Financial Statements are available (1) would not, if such withdrawal had occurred at the beginning of such period, be reduced by more than 35% and would not be reduced to less than 1.20 or (2) would be greater than in the absence of such withdrawal; or (B) a written report of a Consultant demonstrating that the forecasted average Long-Term Debt Service Coverage Ratio for the two Fiscal Years succeeding the proposed date of such withdrawal is greater than 1.35; provided, however, that compliance with the test set forth in clause (B) above may be evidenced by an Officer's Certificate of an Obligated Group Representative in lieu of a Consultant's report where the Long-Term Debt Service Coverage Ratio for each of the two Fiscal Years succeeding the proposed date of such withdrawal is greater than 2.00 and not less than 65% of what it would have been were such withdrawal not to take place, assuming such withdrawal had occurred on the first day of the most recent Fiscal Year for which Financial Statements are available.

(b) Upon the withdrawal of any Member from the Obligated Group pursuant to clause (a) above, all liability of such Member of the Obligated Group with respect to all Obligations Outstanding under the Master Indenture shall cease, any guaranty by such Member of the Obligated Group pursuant to the Master Indenture shall be released and discharged in full, and the Master Trustee shall execute and deliver to such Member of the Obligated Group all UCC termination statements necessary to terminate

the security interest in the Pledged Assets of such Member of the Obligated Group pursuant to the Master Indenture. (Sec. 3.12)

Replacement Master Indenture

Each Holder of an Obligation evidencing and securing Indebtedness other than Related Bonds shall surrender such Obligation to the Master Trustee and each Related Bond Trustee for Related Bonds shall surrender any Obligation issued to secure such Related Bonds to the Master Trustee, upon presentation to the Holder or the Related Bond Trustee, as the case may be, of the following:

(a) an original replacement note or similar obligation (the "Substitute Obligation") duly authenticated and issued under and pursuant to an existing or new indenture, bond resolution, bond order or other instrument pursuant to which indebtedness is incurred or issued (the "Replacement Master Indenture") by which the party or parties purported to be obligated thereby (collectively the "New Group") have agreed to be bound; provided, however, that:

(i) the trustee under such Replacement Master Indenture (the "New Trustee") shall be an independent corporate trustee (which may be the Master Trustee or a Related Bond Trustee) meeting the eligibility requirements of the Master Trustee as set forth in the Master Indenture; and

(ii) so long as any Commission Bonds are outstanding, the Replacement Master Indenture shall have been approved by the Local Government Commission and the Commission, unless the Replacement Master Indenture is an existing indenture, bond resolution, bond order or other instrument pursuant to which indebtedness is incurred or issued to which any member of the New Group is already a party and the issuance of bonds secured thereby has already been authorized or approved, as the case may be, by the Commission and the Local Government Commission, in which case the consent of the Commission and the Local Government Commission shall not be required;

(b) an original executed counterpart or certified copy of the Replacement Master Indenture pursuant to which each member of the New Group has agreed (i) to become a member of the New Group and thereby to become subject to compliance with all provisions of the Replacement Master Indenture and (ii) unconditionally and irrevocably (subject to the right of such Person to cease its status as a member of the New Group pursuant to the terms and conditions of the Replacement Master Indenture) to jointly and severally make payments upon each note and obligation, including the Substitute Obligation, issued under the Replacement Master Indenture at the times and in the amounts provided in each such note or obligation;

(c) an Opinion of Counsel addressed to the Holder of an Obligation evidencing and securing Indebtedness other than Related Bonds or to the Related Bond Trustee, as the case may be, and the Obligated Group to the effect that: (i) the Replacement Master Indenture has been duly authorized, executed and delivered or has been duly adopted by the New Group, the Substitute Obligation has been duly authorized, executed and delivered by the New Group, and the Replacement Master Indenture and the Substitute Obligation are each a legal, valid and binding obligation of the New Group, enforceable in accordance with their terms, subject in each case to exceptions for bankruptcy, insolvency, fraudulent conveyance and other laws generally affecting enforcement of creditors' rights and application of general principles of equity and any other customary exceptions; (ii) all requirements and conditions to the issuance of the Substitute Obligation set forth in the Replacement Master Indenture have been complied with and satisfied; and (iii) the registration of the Substitute Obligation under the Securities Act of 1933, as amended, and qualification of the Replacement Master Indenture under the Trust Indenture Act of

1939, as amended, is not required, or, if such registration or qualification is required, that all applicable registration and qualification provisions of said Acts have been complied with;

(d) an Officer's Certificate of an Obligated Group Representative to the effect that (i) the New Group could, after giving effect to the Substitute Obligation, meet the conditions of the Master Indenture for the incurrence of one dollar ($1.00) of additional Long-Term Indebtedness as described under clause (a) of the subcaption above entitled "--Limitations on Indebtedness", as demonstrated in such certificate, (ii) the unrestricted fund balance, unrestricted net assets or, with respect to proprietary members of the New Group, excess of assets over liabilities of the New Group, is not less than ninety percent (90%) of the unrestricted fund balance, unrestricted net assets or, with respect to proprietary members of the New Group, excess of assets over liabilities, of the Obligated Group and (iii) the New Group would not be in default under the provisions of the Master Indenture described under the subcaption above entitled "--Limitations on Creation of Liens";

(e) an Opinion of Bond Counsel to the effect that the surrender by the Related Bond Trustee of the Obligation and the acceptance by the Related Bond Trustee of the Substitute Obligation will not adversely affect the validity of the Related Bonds or any exemption for the purposes of federal or state income taxation to which interest on the Related Bonds would otherwise be entitled;

(f) evidence that (i) written notice of such substitution, together with a copy of such Replacement Master Indenture, has been given by the New Group to each rating agency then rating any Obligation or Related Bonds and (ii) the then current rating, if any, on such Obligation or Related Bonds will not be withdrawn or reduced by any such rating agency as a result of such substitution;

(g) evidence that written notice of such substitution and rating confirmation, together with a copy of such Replacement Master Indenture, has been given by the New Group to each Holder of an Obligation evidencing and securing Indebtedness other than Related Bonds or to the Related Bond Trustee under each Related Bond Indenture as the case may be, not less than thirty (30) days prior to the execution and delivery of the Replacement Master Indenture;

(h) such forecasts and other opinions and certificates as the Commission or the Local Government Commission may require and such other opinions and certificates as the Holder of an Obligation evidencing and securing Indebtedness other than Related Bonds or the Related Bond Trustee, as the case may be, or the Credit Facility Provider, if any, may reasonably require, together with such reasonable indemnities as the Holder of an Obligation evidencing and securing Indebtedness other than Related Bonds or the Related Bond Trustee, as the case may be, the Commission, the Local Government Commission or the Credit Facility Provider, if any, may request; and

(i) so long as there has been no suspension of the right of a Credit Facility Provider for Related Bonds to give its direction or consent in the event that any direction or consent is requested or permitted by the Master Indenture and such Credit Facility Provider has been deemed to be the registered owner of the Obligation to be surrendered for the purpose of any such direction or consent, the prior written consent of such Credit Facility Provider to the terms and provisions of the Replacement Master Indenture.

Notwithstanding such provisions of the Master Indenture, no Substitute Obligation may extend the stated maturity of or time for paying interest or other payments on any Obligation surrendered to the Master Trustee or reduce the principal amount of or the redemption premium or rate of interest or other payments payable on such Obligation without the consent of each Holder of such Obligation evidencing and securing Indebtedness other than Related Bonds affected thereby or the registered owners of all Related Bonds then Outstanding affected thereby, as the case may be. (Sec. 3.13)

Default and Remedies

Events of Default

An Event of Default under the Master Indenture is any of the following events: (a) the failure by the Members of the Obligated Group to make any payment of the principal of, the redemption premium, if any, or interest on any Obligation issued and Outstanding under the Master Indenture, and any other payments, including the purchase or redemption price of Put Indebtedness, required to be made under the Supplement creating such Obligation and under such Obligation, 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 of any Supplement; (b) the failure by any Member of the Obligated Group to perform, observe or comply with any covenant or agreement under the Master Indenture, other than as described in the immediately preceding clause (a), and such failure continues for a period of 30 days after written notice of such failure, requiring the same to be remedied, shall have been given to the Members of the Obligated Group by the Master Trustee, or to the Members of the Obligated Group and the Master Trustee by the Holders of at least 25% in aggregate principal amount of Obligations then Outstanding, provided, however, that if said failure is such that it cannot be corrected within such 30-day period after the receipt of such notice, no Event of Default will exist if corrective action is instituted within such 30-day period and diligently pursued until the Event of Default is corrected; (c) an Event of Default shall occur under a Related Bond Indenture or upon a Related Bond; (d) failure by any Member of the Obligated Group to make any required payment with respect to any Indebtedness in an aggregate outstanding principal amount equal to or greater than one-half of one percent (0.5%) of Income Available for Debt Service for the most recent Fiscal Year for which Financial Statements are available, except Non-Recourse Indebtedness, Obligations issued and Outstanding under the Master Indenture and Related Bonds, whether such Indebtedness now exists or shall hereafter be created, when and as the same shall become due and payable and any period of grace with respect thereto shall have expired, or another event of default as defined in any instrument, indenture or mortgage evidencing or securing such Indebtedness shall have occurred and be continuing, and as a result of such failure to pay or other event of default such Indebtedness shall have been accelerated; provided, however, that acceleration of such Indebtedness shall not constitute an Event of Default if such Member of the Obligated Group in good faith is contesting the validity, amount or collectability of such Indebtedness and maintains reserves satisfactory to the Master Trustee for the payment of such Indebtedness pending the resolution of such contest; (e) the entry of a decree or order by a court having jurisdiction in the premises for an order for relief against any Member of the Obligated Group, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of such Member of the Obligated Group under the United States Bankruptcy Code or any other applicable federal or state law, or appointing a receiver, liquidator, custodian, assignee or sequestrator (or other similar official) of such Member of the Obligated Group or of any substantial part of its Property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order unstayed and in effect for a period of 90 consecutive days; and (f) the institution by any Member of the Obligated Group of proceedings for an order for relief, or the consent by it to an order for relief against it, or the filing by it of a petition or answer or consent seeking reorganization, arrangement, adjustment, composition or relief under the United States Bankruptcy Code or any other similar applicable federal or state law, or the consent by it to the filing of any such petition or to the appointment of a receiver, liquidator, custodian, assignee, trustee or sequestrator (or other similar official) of such Member of the Obligated Group or of any substantial part of its Property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due, or the taking of corporate action by any member of the Obligated Group in furtherance of any such action. (Sec. 4.01)

Acceleration; Annulment of Acceleration

Upon the occurrence and during the continuation of any Event of Default under the Master Indenture, the Master Trustee may and, upon the written request of (i) the Holders of not less than 25% in aggregate principal amount of Obligations Outstanding or (ii) any Person properly exercising the right given to such Person under any Supplement to require acceleration of all or a portion of the Obligations issued pursuant to such Supplement (which right shall not be granted to any Person with regard to an Obligation evidencing and securing Derivative Obligations), shall, by notice to the Members of the Obligated Group and each Related Bond Trustee, declare all Obligations Outstanding immediately due and payable, whereupon such Obligations shall become and be immediately due and payable, anything in the Obligations or in the Master Indenture to the contrary notwithstanding; provided, however, that if the terms of any Supplement give a Person the right to consent to acceleration of all or a portion of the Obligations issued pursuant to said Supplement, such Obligations issued pursuant to such Supplement may not be accelerated by the Master Trustee unless such consent is properly obtained pursuant to the terms of such Supplement. In the event Obligations are accelerated there shall be due and payable on such Obligations an amount equal to the total principal amount of all such Obligations, plus all interest accrued thereon to the date of acceleration and, to the extent permitted by applicable law, interest which accrues thereon to the date of payment.

If, at any time after the Obligations has been so declared to be immediately due and payable and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such Event of Default, (i) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee money sufficient to pay all matured installments of interest or other payments and all principal or redemption prices then due (other than the principal then due only because of such declaration) of all Obligations Outstanding; (ii) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee money sufficient to pay the charges, compensation, expenses, disbursements, advances, fees and liabilities of the Master Trustee; (iii) 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 (iv) every Event of Default (other than a default in the payment of the principal of such Obligations then due only because of such declaration) shall have been remedied, then the Master Trustee may, and upon the written request of Holders of not less than 25% in aggregate principal amount of the Obligations Outstanding shall, 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. (Sec. 4.02)

Additional Remedies and Enforcement of Remedies

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, shall, proceed forthwith to protect and enforce its rights and the rights of the Holders by such suits, actions or proceedings as the Master Trustee, being advised by counsel, shall deem expedient, including, but not limited to, such proceedings set forth in the Master Indenture.

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 the Obligations then Outstanding, shall, upon being indemnified to its satisfaction, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient (i) to prevent any impairment of the security under the Master Indenture by any acts which may be unlawful or in violation of the Master Indenture, or (ii) to preserve or protect the interests of the Holders, provided that such request and action are not in conflict with any

applicable law or the Master Indenture and, in the Master Trustee's sole judgment, are not unduly prejudicial to the interest of the Holders not making such request. (Sec. 4.03)

Application of Gross Receipts and Other Moneys After Default

During the continuance of an Event of Default all Gross Receipts and other moneys received by the Master Trustee pursuant to any right given or action taken under the Master Indenture, after payment of (i) the costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses and advances incurred or made by the Master Trustee with respect thereto and all other fees and expenses of the Master Trustee under the Master Indenture and (ii) in the sole discretion of the Master Trustee (provided, however, that in exercising such discretion the Master Trustee may take action, or refrain from taking action, consistent with the report of a Consultant), the payment of the expenses of operating any Member of the Obligated Group, shall be applied as follows:

(a) 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 order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full all installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the Persons entitled thereto, without discrimination or preference; 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 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 Persons entitled thereto without discrimination or preference, except Derivative Obligations evidenced and secured by an Obligation that are subordinate to other Obligations; and Third: to the payment to the Persons entitled thereto of any unpaid Derivative Obligations evidenced and secured by an Obligation that are subordinate to other Obligations which shall have become due, in the order of their due dates, and if the amounts available shall not be sufficient to pay in full all such unpaid Derivative Obligations due on any date, then to the payment thereof ratably, according to the amounts of unpaid Derivative Obligations due on such date, to the Persons entitled thereto, without any discrimination or preference.

(b) If the principal of all Outstanding Obligations shall have become or have been declared to be due and payable: First: 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 Obligation over any other Obligation, ratably, according to the amounts due respectively for principal and interest, to the Persons entitled thereto, without discrimination or preference, except Derivative Obligations evidenced and secured by an Obligation that are subordinate to other Obligations; and Second: to the payment of Derivative Obligations evidenced and secured by an Obligation that are subordinate to other Obligations.

(c) 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 paragraph (b) above 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 paragraph (a) above.

Moneys to be applied by the Master Trustee during a continuance of an Event of Default 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 available and the likelihood of additional moneys becoming available 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 any unpaid Obligation until such Obligation shall be presented to the Master Trustee for appropriate endorsement of any partial payment or for cancellation if fully paid.

Whenever all Obligations and interest thereon have been paid under the provisions of the Master Indenture and all expenses and charges of the Master Trustee have been paid, any balance remaining shall be paid to the Persons entitled to receive the same; if no other Person is entitled thereto, then the balance shall be paid to the Members of the Obligated Group, their respective successors, or as a court of competent jurisdiction may direct.

Notwithstanding any provision of the Master Indenture as described under this caption to the contrary, for purposes of the information described under this caption, "interest" on Obligations that evidence and secure Derivative Obligations shall mean regularly scheduled payments under the applicable Derivative Agreement and "principal" of such Obligations shall mean termination payments under the applicable Derivative Agreement and any other payments except regularly scheduled payments under the applicable Derivative Agreement. Unless otherwise provided in the Supplement creating an Obligation that evidences and secures Derivative Obligations, payment of the portion of such Obligation that evidences and secures termination payments and any other payments except regularly scheduled payments under a Derivative Agreement shall be subordinate to payment of other Obligations. (Sec. 4.04)

Holders' Control of Proceedings

If an Event of Default shall have occurred and be continuing, the Holders of not less than a majority in aggregate principal amount of Obligations then Outstanding shall have the right, subject to the terms of the Master Indenture, to direct the method and place of conducting any enforcement proceedings. (Sec. 4.07)

Waiver of Event of Default

No delay or omission of the Master Trustee or of any Holder to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein. Every power and remedy given under the Master Indenture to the Master Trustee and the Holders, respectively, may be exercised from time to time and as often as may be deemed expedient by them. The Master Trustee may waive any Event of Default which in its opinion shall have been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by it under the provisions of the Master Indenture or before the completion of the enforcement of any other remedy under the Master Indenture. The Master Trustee, upon the written request of the Holders of not less than a majority in aggregate principal amount of Obligations then Outstanding, shall waive any Event of Default under the Master Indenture and its consequences, except payment defaults which have not been cured, which may be waived only by written consent of the Holders of all the Obligations (with respect to which such payment default exists) then Outstanding. In case of a waiver of an Event of Default under the Master Indenture, the Members of the Obligated Group, the Master Trustee and the Holders shall be restored to their former positions and rights under the Master Indenture, but no such waiver shall extend to any subsequent or other Event of Default or impair any right consequent thereon. (Sec. 4.09)

Appointment of Receiver

Upon the occurrence of any Event of Default unless the same shall have been waived, the Master Trustee shall be entitled, if it shall so elect, to the appointment of a receiver or receivers of any or all of the Property of the Obligated Group with such powers as the court making such appointment shall confer. (Sec. 4.10)

Notice of Default

The Master Trustee shall, within ten days after it has knowledge of the occurrence of an Event of Default, mail to all Holders as the names and addresses of such Holders appear upon the books of the Master Trustee, notice of such Event of Default known to the Master Trustee, unless such Event of Default shall have been cured before the giving of such notice; provided that, except in the case of default in the payment of the principal of, redemption premium, if any, or interest or other payment on any of the Obligations and the Events of Default specified in clauses (e) and (f) under the caption above entitled "Defaults and Remedies--Events of Default", the Master Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors or a responsible officer of the Master Trustee in good faith determines that the withholding of such notice is in the interests of the Holders. (Sec. 4.12)

Resignation and Removal of the Master Trustee

The Master Trustee may resign on its own motion or may be removed at any time by an instrument or instruments in writing signed by the Holders of not less than a majority of the principal amount of Obligations then Outstanding, or if no Event of Default shall have occurred and be continuing, by an instrument in writing signed by an Obligated Group Representative. (Sec. 5.04)

Supplements and Amendments

Supplements Not Requiring Consent of Holders

The Master Indenture may be supplemented or amended without the consent of or notice to any of the Holders for one or more of the following purposes: (a) to cure an ambiguity or formal defect or omission which shall not materially and adversely affect the interests of the Holders; (b) to correct or supplement any provision which may be inconsistent with any other provision, 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 Holders any additional rights, remedies, powers or authority that may lawfully be granted or conferred upon them; (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 to any Member of the Obligated Group; and (g) to comply with any state or federal securities law. (Sec. 6.01)

Supplements Requiring Consent of Holders

Other than supplements referred to in the preceding paragraph and, if any Commission bonds are outstanding, to the consent of the Commission, and not otherwise, the Holders of not less than a majority in aggregate principal amount of Obligations then Outstanding shall have the right to consent to and approve the execution of Supplements modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Master Indenture and becoming a part of the Master Indenture, except a Supplement which would:

(i) Effect a change in the times, amounts or currency of payment of the principal of, redemption premium, if any, and interest or other payment on any Obligation or a reduction in the principal amount or redemption price of any Obligation or the rate of interest thereon, without the consent of the Holder of such Obligation;

(ii) Permit the preference or priority of any Obligation over any other Obligation, without the consent of the Holders of all Obligations then Outstanding; or

(iii) 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.

All Supplements executed pursuant to the Master Indenture shall be binding on all Holders and subsequent Holders of Obligations. (Sec. 6.02)

Satisfaction and Discharge of Indenture

If (i) an Obligated Group Representative shall deliver to the Master Trustee for cancellation all Obligations theretofore authenticated and not theretofore cancelled, or (ii) all Obligations not theretofore canceled or delivered to the Master Trustee for cancellation have become due and payable and money sufficient to pay the same shall have been deposited with the Master Trustee, or (iii) all Obligations that have not become due and payable and have not been canceled or delivered to the Master Trustee for cancellation shall be Defeased Obligations, and if in all cases the Members of the Obligated Group shall also pay or cause to be paid all other sums payable under the Master Indenture by the Members of the Obligated Group, 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, shall execute proper instruments acknowledging satisfaction of and discharging the Master Indenture. (Sec. 7.01).

SUMMARY OF THE LOAN AGREEMENT

The following is a summary of certain provisions of the Loan Agreement; however, it is not a comprehensive summary and reference is made to the full text of the Loan Agreement for a complete recital of its terms.

Security for the Loan

As evidence of the Corporation's obligation to repay the Loan, the Corporation will execute and deliver Obligation No. 4 to the Commission. Obligation No. 4 is issued under and secured by the Master Indenture and Supplement No. 4. The Master Indenture provides that the Members of the Obligated Group may incur additional indebtedness, including the issuance of Obligations, secured by the security for Obligation No. 4 on a pari passu basis for the purposes, under the terms and conditions and to the extent described in the Master Indenture. (Sec. 3.01)

Total Required Payments

The Corporation is required to make Loan Repayments and Required Payments under the Agreement when due. Loan Repayments under the Loan Agreement are to be paid, when due and payable, to the Bond Trustee for deposit in the Bond Fund or the Redemption Fund, as the case may be. Required Payments under the Agreement are to be paid by the Corporation directly, when due and payable, to the persons, firms, governmental agencies and other entities entitled thereto, including the United States of America as provided in the Tax Certificate, as the case may be. (Sec. 3.02)

Loan Repayments

Loan Repayments are required to be sufficient in the aggregate to repay the Loan and interest thereon and to pay in full, when due (whether by maturity, redemption, acceleration or otherwise), all 2010A Bonds issued under the Trust Agreement, together with the total interest and redemption premium, if any, thereon. The Corporation is required to repay the Loan in semiannual interest installments beginning on December 25, 2010 and continuing each June 25 and December 25 thereafter, and in annual principal installments beginning on June 25, 2011 and as otherwise provided in the Loan Agreement, each installment being deemed a Loan Repayment. The Corporation may prepay all or any part of the Loan as provided in the Loan Agreement. (Sec. 3.03)

Required Payments Under the Agreement

Under the Loan Agreement, the Corporation will pay, when due and payable, as Required Payments under the Agreement, the following costs and expenses, exclusive of costs and expenses payable from the proceeds of the 2010A Bonds:

(i) the fees and other costs payable to the Master Trustee and the Bond Trustee;

(ii) all costs incurred in connection with the purchase or redemption of 2010A Bonds to the extent money is not otherwise available therefor;

(iii) the fees and other costs incurred for services of such attorneys, Consultants and accountants as are employed to make examinations, provide services, render opinions or prepare reports required under the Loan Agreement, the Master Indenture, the Trust Agreement or Supplement No. 4;

(iv) reasonable fees and other costs that the Corporation is obligated to pay, not otherwise paid under the Loan Agreement or the Trust Agreement, incurred by the Commission in connection with its administration and enforcement of, and compliance with, the Loan Agreement or the Trust Agreement, including, but not limited to, the administration fee presently imposed by the Commission, which the Corporation acknowledges may be increased from time to time, in an annual amount equal to .02% of the 2010A Bonds Outstanding on June 30 of each calendar year, which annual amount will be a minimum of $500 per annum, but will not exceed $10,000 per annum and is payable July 15 of each calendar year commencing July 15, 2011, and reasonable attorneys' fees; provided, however, that the current formula and current minimum and maximum amounts stated above are subject to change at any time by the Commission;

(v) all costs incurred by the Commission or the Bond Trustee in connection with the discontinuation of or withdrawal from any book entry system for the 2010A Bonds or any transfer from one book-entry system to another including, without limitation, the printing and issuance of additional or substitute 2010A Bonds in connection with such withdrawal, discontinuance or transfer; and

(vi) fees and other costs incurred in connection with the issuance of the 2010A Bonds, including those of the LGC, to the extent such fees and other costs are not paid from the proceeds of the 2010A Bonds.

The Corporation will also cause to be paid, as Required Payments under the Agreement, the Rebate Requirement (as defined in the Tax Certificate) to the United States of America. The Corporation has also agreed to pay all costs incurred by the Commission in connection with the filing of Internal Revenue Service Form 8038-T with respect to the Bonds. (Sec. 3.04)

Absolute Obligation to Make Total Required Payments

The obligation of the Corporation under the Loan Agreement to make the Loan Repayments, the Required Payments under the Agreement and all other payments under Obligation No. 4 and to perform and observe the other agreements contained in the Loan Agreement is absolute and unconditional. The Corporation will pay without abatement, diminution or deduction (whether for taxes or otherwise) all such amounts regardless of any cause or circumstance whatsoever, including, without limitation, any defense, set-off, recoupment or counterclaim that the Corporation may have or assert against the Commission or the Bond Trustee or any other Person. (Sec. 3.06)

Special Covenants

The Loan Agreement provides that the Corporation will comply with each covenant, condition and agreement in the Master Indenture and the Loan Agreement. The Loan Agreement also sets forth certain other agreements of the Corporation with respect to: examination of books and records of the Obligated Group by the Bond Trustee, the Commission and the LGC; furnishing to the Commission, the LGC, the Bond Trustee, each Rating Agency and the MSRB financial statements, certificates, reports and certain other information required to be furnished under the Master Indenture to the Master Trustee; the execution and delivery of supplements, amendments and other corrective instruments as may reasonably be required with respect to the performance of the Loan Agreement; inspection of Operating Assets by the Commission, the Bond Trustee and the Holders of not less than 25% in aggregate principal amount of the Outstanding 2010A Bonds; the investment of funds under the Trust Agreement; withdrawal from the Obligated Group; removal of the Master Trustee and secondary market disclosure.

The Corporation further covenants in the Loan Agreement that, if the Long-Term Debt Service Coverage Ratio for any Fiscal Year is not greater than 2.0, the Corporation will file with the Commission, together with its cumulative unaudited quarterly financial statements for the current Fiscal Year, an Officer's Certificate setting forth (i) the measures being taken and to be taken by the Obligated Group, and the results of any such measures taken, to increase the Long-Term Debt Service Coverage Ratio or the reasons why the management of the Members of the Obligated Group has determined that it is in the Obligated Group's best interest to maintain the Long-Term Debt Service Coverage Ratio at the current level and (ii) an estimate of the Long-Term Debt Service Coverage Ratio based on an estimate of the Income Available for Debt Service for the current Fiscal Year determined by annualizing the figures available for the period from the beginning of the current Fiscal Year to date and the fraction of the Long-Term Debt Service Requirement corresponding to the same period considered for purposes of estimating the Income Available for Debt Service. Such Officer's Certificate will be required until the Long-Term Debt Service Coverage Ratio for the current or any subsequent Fiscal Year, based on the Long-Term Debt Service Requirement and the actual Income Available for Debt Service for such Fiscal Year, is greater than 2.0. The requirements of the Master Indenture with respect to the Long-Term Debt Service Coverage Ratio will not apply to any estimate of the Long-Term Debt Service Coverage Ratio determined pursuant to this paragraph. If a report of a Consultant is delivered to the Master Trustee, which report states that Governmental Restrictions have been imposed which make it impossible for the coverage requirement in the first sentence of this paragraph to be met, then such coverage requirement will be reduced to the maximum coverage permitted by such Governmental Restrictions but in no event less than 1.0 until such Governmental Restrictions are changed, modified reduced. The Commission may waive such requirements at any time without notice to or consent of the Holders. (Art. V)

Withdrawal from Obligated Group

So long as any 2010A Bonds are Outstanding, the Corporation agrees that it will not withdraw from the Obligated Group pursuant to the Master Indenture without the prior written consent of the Commission. (Sec. 5.08)

Amendment of Master Indenture

So long as any 2010A Bonds are Outstanding, the Master Indenture will not be amended without the prior written consent of the Commission if such amendment would require the consent of all or a portion of the Holders of the Obligations Outstanding. (Sec. 5.10)

Events of Default and Remedies

Events of Default under the Loan Agreement include: (a) failure of the Corporation to make any payment when due, whether at maturity, redemption, acceleration or otherwise, under the Loan Agreement or Obligation No. 4, (b) failure of the Corporation to perform, observe or comply with any covenant, condition or agreement on its part under the Loan Agreement (other than a failure to make any payment described in (a) above), including any covenant, condition or agreement in the Master Indenture applicable to the Corporation and incorporated by reference in the Loan Agreement, and such failure continues for a period of 30 days after the date on which written notice of such failure, requiring the same to be remedied, has been given to the Corporation by the Bond Trustee, or to the Corporation and the Bond Trustee by the Holders of at least 25% in aggregate principal amount of the 2010A Bonds then Outstanding; provided, however, that if such performance, observation or compliance requires work to be done, action to be taken or conditions to be remedied, which by their nature cannot reasonably be done, taken or remedied, as the case may be, within such 30-day period, no Event of Default will be deemed to have occurred or to exist if, and so long, as the Corporation will commence such performance, observation or compliance within such period and will diligently and continuously prosecute the same to

completion, or (c) the Master Trustee has declared the aggregate principal amount of Obligation No. 4 and all interest due thereon immediately due and payable in accordance with the Master Indenture. (Sec. 6.01)

Upon the happening of an Event of Default under the Loan Agreement, the Commission may take the following remedial steps: (i) in the case of an Event of Default described in (a) in the preceding paragraph, whatever action at law or in equity is necessary or desirable to collect the payments then due; (ii) in the case of an Event of Default described in (b) in the preceding paragraph, whatever action at law or in equity is necessary or desirable to enforce performance, observance or compliance by the Corporation with any covenant, condition or agreement by the Corporation under the Loan Agreement or the Master Indenture; and (iii) in the case of an Event of Default described in (c) in the preceding paragraph, take such action or cease such action as the Master Trustee directs, but only to the extent such directions are consistent with the provisions of the Master Indenture.

In the event the principal of the 2010A Bonds has been accelerated pursuant to the Trust Agreement, the Commission will declare the entire unpaid aggregate amount of the Loan to be immediately due and payable, together with all interest accrued and all premiums due thereon to the date of such acceleration. (Sec. 6.02)

Prepayment of Loans

Optional Prepayment. The Corporation has the option to prepay all or any portion of the unpaid aggregate amount of the Loan, together with accrued interest to the date of prepayment, by purchasing 2010A Bonds and delivering them to the Bond Trustee for cancellation or by redeeming 2010A Bonds in accordance with the terms and provisions of the Trust Agreement. Such prepayment will be made by the Corporation taking, or causing the Commission to take, the actions required (i) for payment of the 2010A Bonds, whether by redemption or purchase prior to maturity or by payment at maturity, or (ii) to effect the purchase, redemption or payment at maturity of less than all of the Outstanding 2010A Bonds according to their terms. (Sec. 7.01)

Extraordinary Prepayment. The Corporation has the option to prepay all or a portion (in an amount not less than $100,000) of the unpaid aggregate principal amount of the Loan, together with accrued interest to the date of prepayment, from amounts received by the Corporation as insurance proceeds with respect to any casualty loss or failure of title or as condemnation awards, upon the occurrence of the damage or destruction of all or any part of the Operating Assets by fire or casualty, or loss of title to or use of all or any part of the Operating Assets as a result of the failure of title or as a result of Eminent Domain proceedings or proceedings in lieu thereof (if damage, destruction or loss of such part causes the Operating Assets in the aggregate to be impracticable to operate, as evidenced by an Officer's Certificate filed with the Commission and the Bond Trustee).

The Corporation has the option to prepay all of the unpaid aggregate principal amount of the Loan, together with accrued interest to the date of prepayment, upon the occurrence of changes in the Constitution of the United States of America or of the State or of legislative or administrative action, or failure of administrative action by the United States or the State or any agency or political subdivision of either thereof, or by reason of any judicial decision to such extent that, in the opinion of the Board of Directors of the Corporation (expressed in a resolution) and in the opinion of an independent architect, engineer or Consultant (as may be appropriate for the particular event), both filed with the Commission and the Bond Trustee, (i) the Loan Agreement is impossible to perform without unreasonable delay or (ii) unreasonable burdens or excessive liabilities not being imposed on the date of the Loan Agreement are imposed on the Corporation.

Subject to the provisions of the Master Indenture, the provisions of the Loan Agreement described in the preceding paragraphs under this subcaption will not prohibit the Corporation from applying insurance proceeds with respect to any casualty loss or condemnation awards or payments in lieu thereof to the optional prepayment of the Loan in accordance with the provisions of the Loan Agreement described under the subcaption entitled "--Optional Prepayment." (Sec. 7.02)

Notice. To make a prepayment in accordance with the provisions of the Loan Agreement, as described under the preceding paragraphs under this caption, the Corporation Representative will give written notice to the Commission and the Bond Trustee that will specify therein (i) the date of the intended prepayment of the Loan, which will not be less than 45 days from the date notice is mailed, (ii) the aggregate principal amount of the 2010A Bonds to be purchased, redeemed or paid at maturity and the date or dates on which the purchase, redemption or payment is to occur, (iii) the source of the money that will be used by the Corporation to make such prepayment of the Loan and (iv) subject to the requirements of the Trust Agreement, the maturity or maturities of the 2010A Bonds to be purchased, redeemed or paid.

The Corporation has the right to condition any notice of prepayment given under the Loan Agreement in the same manner provided for redemption notices for 2010A Bonds in the Trust Agreement. If a conditional redemption of the 2010A Bonds does not occur for the reasons permitted under the Trust Agreement, the corresponding notice of prepayment under the Loan Agreement will be deemed revoked. (Sec. 7.03)

Members, Directors, Officers and Employees of Commission, Corporation, Parent Corporation and LGC Not Liable

Neither the members, officers and employees of the Commission or the LGC nor the members of the Board of Directors or the officers and employees of the Corporation or the Parent Corporation will be personally liable for any costs, losses, damages or liabilities caused or subsequently incurred by the Corporation or any officer, director or agent thereof in connection with or as a result of the Loan Agreement. (Sec. 10.01)

Amendments to Loan Agreement

The Loan Agreement may be amended, without the consent of or notice to any of the Holders of 2010A Bonds, to (i) cure any ambiguity or formal defect or omission therein or in any supplement thereto; (ii) correct or supplement any provisions therein which may be inconsistent with any other provisions therein or make any other provisions with respect to matters which do not affect, materially and adversely, the interests of the Holders; (iii) grant to or confer upon the Bond Trustee for the benefit of the Holders any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Holders or the Bond Trustee; (iv) add conditions, limitations and restrictions on the Corporation to be observed thereafter; or (v) make any conforming changes necessitated by the delivery of a Substitute Obligation in accordance with the provisions of the Master Indenture. Any other amendments to the Loan Agreement require approval of the Holders of a majority in aggregate principal amount of the 2010A Bonds then Outstanding; provided, however, that certain amendments require the consent of the Holders of all 2010A Bonds then Outstanding. (Sec. 10.02)

Exclusion From Gross Income Covenant

The Corporation covenants that it will not take, and will exercise such control as it may have with respect to the each other Member of the Obligated Group to cause such other Members of the Obligated Group not to take, any action which will, or fail to take or fail to exercise such control as it may have with

respect to each other Member of the Obligated Group to not allow such other Members of the Obligated Group to fail to take any action which failure will, cause interest on the 2010A Bonds to become includable in the gross income of the Holders for federal income tax purposes pursuant to the provisions of the Code; provided, however, that the Commission shall have no obligation to pay any amounts necessary to comply with this covenant other than from money received by the Commission from the Corporation for such purposes. (Sec. 10.10)

Replacement Master Indenture

In the event that a Substitute Obligation under a Replacement Master Indenture is delivered to the Bond Trustee pursuant to the provisions of the Master Indenture, references to the Master Indenture and Obligation No. 4 in the Loan Agreement will be deemed to be references to such Replacement Master Indenture and such Substitute Obligation, references to the Master Trustee in such Loan Agreement will be deemed to be references to the trustee under the Replacement Master Indenture and references to the Obligated Group will be deemed to be references to the New Group. (Sec. 10.11)

SUMMARY OF THE TRUST AGREEMENT

Various Funds and Accounts Created by the Trust Agreement

The Trust Agreement creates the following funds:

1. the Construction Fund, in which there is established a Construction Account, an Issuance Account, a Capitalized Interest Account and a Revolving Fund Account,

2. the Bond Fund, in which there is established an Interest Account, a Principal Account and a Sinking Fund Account, and

3. the Redemption Fund.

The money and securities in each of the aforementioned funds and accounts, except the Revolving Fund Account, will be held in trust by the Bond Trustee and will be subject to a lien and charge in favor of the Holders of the 2010A Bonds until paid out or transferred as provided in the Trust Agreement. The money in the Revolving Fund Account will be held by the Corporation. (Sec. 4.01 and Sec. 5.01)

Construction Fund

Payment of the Cost of the Project will be made from the Construction Fund. All Issuance Costs incurred in connection with the 2010A Bonds to be paid from the initial proceeds of the 2010A Bonds will be paid only from the Issuance Account. All money received by the Commission from any source for Issuance Costs will be deposited immediately upon its receipt to the credit of the Issuance Account. Other items which constitute Costs of the Project but are not Issuance Costs may be paid from the Issuance Account. Items which constitute Costs of the Project, excluding Issuance Costs, will be paid from the Construction Account or the Capitalized Interest Account. (Sec. 4.02)

Requisitions signed by a Corporation Representative and, if so requested by a Commission Representative in writing to the Corporation and the Bond Trustee (or by telephone to the Corporation or the Bond Trustee, followed by delivery of such written request), approved by the Commission Representative will be filed with the Bond Trustee before payments from the Construction Fund (except payments of interest on the Bonds from the Capitalized Interest Account) are made in accordance with the

Trust Agreement. Upon receipt of such requisition, the Bond Trustee will pay the obligations set forth in such requisition out of money in the Construction Fund. In addition, upon receipt of a requisition signed by a Corporation Representative and, if so requested by a Commission Representative in writing to the Corporation and the Bond Trustee (or by telephone to the Corporation or the Bond Trustee, followed by delivery of such written request), approved by the Commission Representative, the Bond Trustee will transfer from the Construction Account to the Revolving Fund Account at one time or from time to time, a sum or sums aggregating not more than One Million Dollars ($1,000,000) to be used by the Corporation as a revolving fund for the payment of items of Cost, other than Issuance Costs, that cannot conveniently be paid as otherwise provided in the Trust Agreement. (Sec. 4.04)

When the Project is completed, which fact is required to be evidenced to the Bond Trustee by an Officer's Certificate of a Corporation Representative delivered to the Bond Trustee and the Commission pursuant to the Loan Agreement together with an Opinion of Counsel to the effect that there are no mechanics', workers', repairmen's, architects', engineers', surveyors', carriers', laborers', contractors' or materialmen's liens on any property constituting a part of the Project on file in any public office where the same should be filed in order to be perfected against any part of the Project and that the time within which such liens can be filed has expired, or, if there are any such liens, that such liens have been bonded or adequately secured by an irrevocable bank letter of credit so long as such liens continue to exist, the balance in the Construction Fund will be applied by the Bond Trustee, subject to the provisions of the Trust Agreement, for any purpose, including the payment of principal of the 2010A Bonds, permitted by the Act which, in the opinion of Bond Counsel, will not cause interest on the 2010A Bonds to become includable in the gross income of the Holders thereof for federal income tax purposes pursuant to the provisions of the Code. In the event such opinion is not delivered to the Bond Trustee, the balance in the Construction Fund will be transferred by the Bond Trustee to the Interest Account. (Sec. 4.06)

Deposits to the Bond Fund

The Bond Trustee will deposit all amounts received as Loan Repayments in the following order, subject to credits provided in the Trust Agreement:

(i) to the credit of the Interest Account, beginning on December 25, 2010, and continuing on the 25th day of each June and December thereafter, that amount which is equal to the interest payable on the 2010A Bonds on the next ensuing Interest Payment Date;

(ii) to the credit of the Principal Account, beginning on June 25, 2011 and continuing on the 25th day of each June thereafter, that amount which is equal to the principal of all Serial Bonds due on the next ensuing July 1;

(iii) to the credit of the Sinking Fund Account, beginning on June 25, 2026 and continuing on the 25th day of each June thereafter, that amount which is equal to the amount required to retire the Term Bonds to be called by mandatory redemption or to be paid at maturity on the next ensuing July 1 in accordance with the Sinking Fund Requirement therefor; and

(iv) to the credit of the Interest Account or the Redemption Fund, as applicable, any amount that may from time to time be required to enable the Bond Trustee to pay interest on and the Redemption Price of 2010A Bonds as and when 2010A Bonds are called for redemption other than mandatory redemption in accordance with the Sinking Fund Requirement therefor.

To the extent that investment earnings are credited to the Interest Account, the Principal Account or the Sinking Fund Account in accordance with the Trust Agreement or amounts are credited thereto as a result of the application of 2010A Bond proceeds or a transfer of investment earnings on any other fund

or account held by the Bond Trustee, or otherwise, future deposits to such accounts will be reduced by the amount so credited, and the Loan Repayments due from the Corporation following the date upon which such amounts are credited will be reduced by the amounts so credited.

To the extent that amounts will be transferred from the Capitalized Interest Account to the Interest Account, future deposits to the Interest Account will be reduced by the amount to be transferred, and the Loan Repayments due from the Corporation shall be reduced by the amounts to be transferred.

All amounts received by the Bond Trustee as principal of or interest accruing on 2010A Bonds that have been accelerated pursuant to the Trust Agreement will be deposited in the Bond Fund and applied in accordance with the provisions of the Trust Agreement described under the subcaption entitled "Pro-Rata Application of Funds." (Sec. 5.02)

Bond Fund Accounts

Interest Account

If the 2010A Bonds are not Book Entry Bonds, not later than 10:00 a.m. on each Interest Payment Date, or date for the payment of defaulted interest, or date upon which 2010A Bonds are to be redeemed, the Bond Trustee will withdraw from the Interest Account and remit by mail, or to the extent permitted by the Trust Agreement, by wire transfer the amount required for paying interest on such 2010A Bonds when due and payable.

If the 2010A Bonds are Book Entry Bonds, at such time as to enable the Bond Trustee to make payments of interest on the 2010A Bonds in accordance with any existing agreement between the Bond Trustee and any Securities Depository, the Bond Trustee will withdraw from the Interest Account and remit by wire transfer, in Federal Reserve or other immediately available funds, the amounts required to pay to any Holder which is a Securities Depository Nominee interest on the 2010A Bonds on the next succeeding Interest Payment Date; provided, however, that in no event will such wire transfer be made later than 10:00 a.m. on each Interest Payment Date.

In the event the balance in the Interest Account on the 25th day of the month next preceding an Interest Payment Date or date upon which 2010A Bonds are to be redeemed is insufficient for the payment of interest becoming due on the 2010A Bonds on the next ensuing Interest Payment Date or date upon which 2010A Bonds are to be redeemed, the Bond Trustee will notify the Corporation of the amount of the deficiency. Upon notification, the Corporation will immediately deliver to the Bond Trustee an amount sufficient to cure the same. (Sec. 5.03)

Principal Account

Not later than 10:00 a.m. on each July 1, the Bond Trustee shall withdraw from the Principal Account and set aside the amount necessary to pay the principal of all Serial Bonds maturing on such July 1.

In the event that the balance in the Principal Account on any June 25 is insufficient for the payment of principal becoming due on the next ensuing July 1, the Bond Trustee shall notify the Corporation of the amount of the deficiency. Upon notification, the Corporation shall immediately deliver to the Bond Trustee an amount sufficient to cure the same. (Sec. 5.04)

Sinking Fund Account

Money held for the credit of the Sinking Fund Account will be applied during each Bond Year to the retirement of Term Bonds then Outstanding as provided in the Trust Agreement.

In the event the balance in the Sinking Fund Account on the 25th day of June in any year is insufficient for the payment of the Sinking Fund Requirement on the Term Bonds on the next ensuing July 1, the Bond Trustee will notify the Corporation of the amount of such deficiency. Upon notification, the Corporation will, not later than two Business Days prior to such July 1, deliver to the Bond Trustee an amount sufficient to cure the same. (Sec. 5.05)

Redemption Fund

Money held for the credit of the Redemption Fund will be applied to the purchase or redemption of 2010A Bonds as provided in the Trust Agreement. The expenses in connection with the purchase or redemption of 2010A Bonds are required to be paid by the Corporation as part of the Required Payments under the Agreement. (Sec. 5.06)

Investment of Money

Money held for the credit of all funds and accounts (other than the Revolving Fund Account) created under the Trust Agreement will be continuously invested and reinvested by the Bond Trustee in Investment Obligations to the extent practicable in accordance with the instructions of the Corporation as provided in the Trust Agreement, subject to the yield restrictions set forth in the Tax Certificate. Any such Investment Obligations are required to mature not later than the respective dates when the money held for the credit of such funds or accounts will be required for the purposes intended.

The money held for the credit of the Revolving Fund Account will be invested by the Corporation in Investment Obligations, subject to yield restrictions set forth in the Tax Certificate.

Investment Obligations credited to any fund or account established under the Trust Agreement will be held by or under the control of the Bond Trustee and while so held will be deemed at all times to be part of such fund or account in which such money was originally held, and the interest accruing thereon and any profit or loss realized upon the disposition or maturity of such investment will be credited to or charged against such fund or account; provided, however, that the interest accruing on any Investment Obligation credited to the Construction Account and any profit realized or any loss realized upon the maturity or disposition of such Investment Obligation prior to the completion of the Project, as evidenced in accordance with the provisions of the Trust Agreement, shall be credited to, or charged against, the Capitalized Interest Account. The Bond Trustee will sell at the market price available or reduce to cash a sufficient amount of such Investment Obligations whenever it is necessary so to do in order to provide moneys to make any payment or transfer of moneys from any such fund or account. The Bond Trustee will not be liable or responsible for any loss resulting from any such investment or liquidation of investments. (Sec. 6.02)

Events of Default

Each of the following events is an Event of Default under the Trust Agreement:

(a) payment of any installment of interest on any 2010A Bond is not made by the Commission when the same has become due and payable; or

(b) payment of the principal or the redemption premium, if any, of any 2010A Bond is not made by the Commission when the same has become due and payable, whether at maturity or by proceedings for redemption or pursuant to a Sinking Fund Requirement or otherwise; or

(c) default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Trust Agreement or any agreement supplemental thereto and such default continues for thirty (30) days or such further time as may be granted in writing by the Bond Trustee after receipt by the Commission, of a written notice from the Bond Trustee specifying such default and requiring the same to be remedied; provided, however, that if such performance requires work to be done, action to be taken, or conditions to be remedied, which by their nature cannot reasonably be done, taken, or remedied, as the case may be, within such 30-day period or other period, no Event of Default will be deemed to have occurred or to exist if, and so long as, the Commission commences such performance within such period and diligently and continuously prosecutes the same to completion; or

(d) an "Event of Default" has occurred under the Loan Agreement, and such "Event of Default" has not been remedied or waived. (Sec. 8.01)

Remedies on Default

Upon the happening and continuance of any Event of Default, the Bond Trustee may, and upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of 2010A Bonds then Outstanding will, by notice in writing to the Commission and the Corporation, declare the principal of all 2010A Bonds then Outstanding (if not then due and payable) to be due and payable immediately, and upon such declaration the same will become and be immediately due and payable, anything contained in the 2010A Bonds or in the Trust Agreement to the contrary notwithstanding. Such declaration may be rescinded under the circumstances specified in the Trust Agreement. (Sec. 8.02)

Upon the happening and continuance of any Event of Default, then and in every such case the Bond Trustee may, and upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of 2010A Bonds then Outstanding, subject to the indemnification provisions of the Trust Agreement described below under the subcaption "Indemnification of Bond Trustee as Condition for Remedial Action," will, proceed to protect and enforce its rights and the rights of the Holders under the laws of the State or under the Trust Agreement by such suits, actions or special proceedings in equity or at law, or by proceedings in the office of any board or officer having jurisdiction, either for the specific performance of any covenant or agreement contained in the Trust Agreement or in aid or execution of any power granted in the Trust Agreement or for the enforcement of any proper legal or equitable remedy, as the Bond Trustee, being advised by counsel chosen by the Bond Trustee, deems most effectual to protect and enforce such rights.

In the enforcement of any remedy under the Trust Agreement, the Bond Trustee will be entitled to sue for, enforce payment of and receive any and all amounts then or during any Event of Default becoming and remaining due from the Commission for principal, interest or otherwise under any of the provisions of the Trust Agreement or of the 2010A Bonds, together with interest on overdue payments of principal at the rate or rates of interest payable on any 2010A Bonds Outstanding and all costs and expenses of collection and of all proceedings under the Trust Agreement, without prejudice to any other right or remedy of the Bond Trustee or of the Holders and to recover and enforce any judgment or decree against the Commission, but solely as provided in the Trust Agreement, for any portion of such amounts remaining unpaid and interest, costs and expenses as above described, and to collect (but solely from

money available for such purposes), in any manner provided by law, the money adjudged or decreed to be payable. (Sec. 8.03)

Control of Proceedings

The Holders of a majority in aggregate principal amount of 2010A Bonds then Outstanding will have the right, subject to the indemnification provisions of the Trust Agreement described below under the subcaption "Indemnification of Bond Trustee as Condition for Remedial Action," by an instrument or concurrent instruments in writing executed and delivered to the Bond Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Bond Trustee pursuant to the Trust Agreement, provided that such direction is in accordance with law and the provisions of the Trust Agreement. (Sec. 8.06)

Restrictions upon Actions by Individual Holders

Except as provided in the Trust Agreement, no Holder will have any right to institute any suit, action or proceeding in equity or at law on any 2010A Bond or for the execution of any trust or for any other remedy under the Trust Agreement unless such Holder previously has given to the Bond Trustee written notice of the Event of Default on account of which such suit, action or proceeding is to be instituted, and unless also the Holders of not less than twenty-five percent (25%) in aggregate principal amount of 2010A Bonds then Outstanding have made a written request of the Bond Trustee after the right to exercise such powers or right of action as the case may be, has accrued, and have afforded the Bond Trustee a reasonable opportunity either to proceed to exercise the powers granted in the Trust Agreement or to institute such action, suit or proceedings in its or their name, and unless, also, there has been offered to the Bond Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Bond Trustee has 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 and trusts or to any other remedy under the Trust Agreement.

Notwithstanding the foregoing provisions, and without complying therewith, the Holders of not less than twenty-five percent (25%) in aggregate principal amount of 2010A Bonds then Outstanding may institute any such suit, action or proceeding in their own names for the benefit of all Holders. It is understood and intended that, except as otherwise above provided, no one or more Holders will have any right in any manner whatsoever by his or their action to affect, disturb or prejudice the security of the Trust Agreement, or to enforce any right under the Trust Agreement except in the manner provided, that all proceedings at law or in equity will be instituted, had and maintained in the manner provided in the Trust Agreement and for the benefit of all Holders and that any individual rights of action or other right given to one or more of such Holders by law are restricted by the rights and remedies provided in the Trust Agreement. (Sec. 8.07)

Notwithstanding the first paragraph under this caption, nothing in the Trust Agreement will affect or impair the right of any Holder of 2010A Bonds to enforce the payment of the principal of and interest on his 2010A Bond or the obligation of the Commission to pay the principal of and interest on each 2010A Bond to the Holder thereof at the time and place in said 2010A Bond expressed. (Sec. 8.12)

Pro-Rata Application of Funds

Anything in the Trust Agreement to the contrary notwithstanding, if at any time the money in the Bond Fund is not sufficient to pay the interest on or the principal of the 2010A Bonds as the same becomes due and payable (either by their terms or by acceleration of maturities under the provisions of

the Trust Agreement described above under the subcaption "Remedies on Default"), such money, together with any money then available or thereafter becoming available for such purpose, whether through the exercise of the remedies provided for in the Trust Agreement or otherwise, will be applied as follows:

(a) if the principal of all 2010A Bonds has not become or has not been declared due and payable, all such money in the Bond Fund will be applied:

first: to the payment to the persons entitled thereto of all installments of interest on 2010A Bonds then due and payable in the order in which such installments became due and payable and, if the amount available is not 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 such 2010A Bonds;

second: to the payment to the person entitled thereto of the unpaid principal of any 2010A Bonds that has become due and payable (other than 2010A Bonds called for redemption for the payment of which money is held pursuant to the Trust Agreement), in the order of their due dates, and, if the amount available is not sufficient to pay in full the principal of 2010A Bonds due and payable on any particular date, then to the payment ratably according to the amount of such principal due on such date, to the persons entitled thereto without discrimination or preference; and

third: to the payment of the interest on and the principal of 2010A Bonds, to the purchase and retirement of 2010A Bonds, and to the redemption of 2010A Bonds, all in accordance with the provisions of the Trust Agreement.

(b) If the principal of all 2010A Bonds has become or has been declared due and payable, all such money will be applied to the payment of principal and interest then due upon the 2010A Bonds to the persons entitled thereto without preference or priority of principal over interest or interest over principal, or of any installment of interest over any other installment of interest or 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 preference.

(c) If the principal of all 2010A Bonds has been declared due and payable and if such declaration thereafter is rescinded and annulled under the Trust Agreement, then, subject to the provisions of the Trust Agreement described in paragraph (b) above in the event that the principal of all 2010A Bonds later becomes due and payable or is declared due and payable, the money then remaining in and thereafter accruing to the Bond Fund will be applied in accordance with the provisions of the Trust Agreement described in paragraph (a) above.

Whenever money is to be applied by the Bond Trustee pursuant to the Trust Agreement, such money will be applied by the Bond Trustee at such times and from time to time, as the Bond Trustee in its sole discretion determines, having due regard for the amount of such money available for such application and the likelihood of additional money becoming available for such application in the future; the setting aside of such money, in trust for the proper purpose, will constitute proper application by the Bond Trustee, and the Bond Trustee will incur no liability whatsoever to the Commission, to any Holder or to any other person for any delay in applying any such money so long as the Bond Trustee acts with reasonable diligence, having due regard for the circumstances, and ultimately applies the same in accordance with such provisions of the Trust Agreement as may be applicable at the time of application

by the Bond Trustee. Whenever the Bond Trustee exercises such discretion in applying such money, it will fix the date (which will be an Interest Payment Date unless the Bond Trustee deems another date more suitable) upon which application is to be made and upon such date interest on the amounts of principal to be paid on such date will cease to accrue. The Bond Trustee is required to give notice by first class mail, postage prepaid, to all Holders of the fixing of any such date, and will not be required to make payment to the Holder of any 2010A Bonds until such 2010A Bonds are surrendered to the Bond Trustee for cancellation if fully paid. (Sec. 8.04)

Notice of Default

The Bond Trustee will immediately notify the Commission, the LGC and the Corporation of the occurrence of any Event of Default. The Bond Trustee is required to mail to the Master Trustee and to all Holders at their addresses as they appear on the registration books written notice of the occurrence of any Event of Default within thirty (30) days after the Bond Trustee receives notice of the same.

Except upon the happening of an Event of Default with respect to the payment of the principal of and interest on or redemption premium on 2010A Bonds when due, the failure of the Corporation to make any payment when due under the Loan Agreement or Obligation No. 4 or the acceleration of Obligation No. 4 by the Master Trustee in accordance with the Master Indenture, the Bond Trustee may withhold notice of any Event of Default to Holders if, in its opinion, such withholding is in the interest of the Holders. The Bond Trustee will not be subject to any liability to any Holder by reason of its failure to mail any such notice. (Sec. 8.11)

Indemnification of Bond Trustee as Condition for Remedial Action

The Bond Trustee will be under no obligation to institute any suit or to take any remedial proceeding (including, but not limited to, the appointment of a receiver or the acceleration of the maturity date of any or all 2010A Bonds) under the Trust Agreement or the Loan Agreement or to enter any appearance or in any way defend in any suit in which it may be made defendant, or to take any steps in the execution of any of the trusts created by the Trust Agreement or in the enforcement of any rights and powers under the Trust Agreement, until it is indemnified to its satisfaction against any and all costs and expenses, outlays and counsel fees and other reasonable disbursements, and against all liability. The Bond Trustee nevertheless may begin suit, or appear in and defend suit, or do anything else in its judgment proper to be done by it as the Bond Trustee, without indemnity, and in such case the Commission, at the request of the Bond Trustee, will reimburse the Bond Trustee from the revenues of the Commission derived from funds available under the Loan Agreement for all costs, expenses, outlays and counsel fees and other reasonable disbursements properly incurred in connection therewith. If the Commission fails to make such reimbursement, the Bond Trustee may reimburse itself from any money in its possession under the provisions of the Trust Agreement and will be entitled to a preference therefor over any 2010A Bonds Outstanding under the Trust Agreement. (Sec. 9.02)

Resignation and Removal of Bond Trustee

No resignation or removal of the Bond Trustee and no appointment of a successor Bond Trustee pursuant to the provisions of the Trust Agreement will be effective until the acceptance of appointment by the successor Bond Trustee under the provisions of the Trust Agreement.

Subject to the provisions of the preceding paragraph, the Bond Trustee may resign and thereby become discharged from the trusts created by the Trust Agreement, by notice in writing given to the Commission and the Corporation, and mailed, postage prepaid, at the Bond Trustee's expense, to each Holder, not less than sixty (60) days before such resignation is to take effect, but such resignation will

take effect immediately upon the appointment of a new Bond Trustee if such new Bond Trustee is appointed before the time set forth in such notice and accepts the trusts under the Trust Agreement.

The Bond Trustee may be removed (i) at any time, by an instrument or concurrent instruments in writing, executed by the Holders of not less than a majority in aggregate principal amount of 2010A Bonds then Outstanding and filed with the Commission or (ii) so long as no Event of Default has occurred and is continuing, by an instrument executed by the Corporation, subject to the prior written consent of the Commission, not less than sixty (60) days before such removal is to take effect as stated in said instrument or instruments.

The Bond Trustee may also be removed at any time for acting or proceeding in violation of, or for failing to act or proceed in accordance with, any provisions of the Trust Agreement with respect to the duties and obligations of the Bond Trustee by any court of competent jurisdiction upon the application of the Commission or the Holders of not less than 25% in aggregate principal amount of 2010A Bonds then Outstanding. (Sec. 9.12, Sec. 9.13 and Sec. 9.14)

Appointment of Successor Bond Trustee

If at any time the Bond Trustee resigns, is removed, is dissolved or otherwise becomes incapable of acting, or the bank or trust company acting as Bond Trustee is taken over by any governmental official, agency, department or board, the position of Bond Trustee will thereupon become vacant. If the position of Bond Trustee becomes vacant for any reason, the Corporation will recommend and the Commission will appoint a Bond Trustee to fill such vacancy. A successor Bond Trustee will not be required if the Bond Trustee sells or assigns substantially all of its trust business and the vendee or assignee continues in the trust business, or if a transfer of the trust department of the Bond Trustee is required by operation of law, provided that such vendee, assignee or transferee (i) is a bank or trust company duly authorized to exercise corporate trust powers and subject to examination by federal or state authority, (ii) is in good standing, (iii) has a combined capital, surplus and undivided profits, either directly or by a guarantee of a corporation related to the Bond Trustee, aggregating not less than One Hundred Million Dollars ($100,000,000) and (iv) is approved by the Commission and the Corporation. The Commission will cause the Bond Trustee to mail notice of any such appointment made by it, postage prepaid, to all Holders.

At any time within one (1) year after any such vacancy has occurred, the Holders of not less than twenty-five percent (25%) in aggregate principal amount of 2010A Bonds then Outstanding, by an instrument or concurrent instruments in writing, executed by such Holders and filed with the Commission, may nominate a successor Bond Trustee, which the Commission will appoint and which will supersede any Bond Trustee theretofore appointed by the Commission.

If no appointment of a successor Bond Trustee is made pursuant to the provisions described above, any Holder under the Trust Agreement or any retiring Bond Trustee may apply to any court of competent jurisdiction to appoint a successor Bond Trustee. Such court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Bond Trustee.

Any successor Bond Trustee appointed is required to (i) be a bank or trust company which is duly authorized to exercise corporate trust powers and subject to examination by federal or state authority, (ii) be in good standing, (iii) have a combined capital, surplus and undivided profits aggregating not less than One Hundred Million Dollars ($100,000,000) and (iv) be approved by the Commission and the Corporation. (Sec. 9.15)

Compensation and Indemnification of Bond Trustee

Subject to the provisions of any contract between the Commission and the Bond Trustee relating to the compensation of the Bond Trustee, the Commission will pay or cause the Corporation to pay to the Bond Trustee reasonable compensation for all services performed by it under the Trust Agreement and also all its reasonable expenses, charges and other disbursements and those of its attorneys, agents and employees incurred in and about the administration and the performance of its powers and duties under the Trust Agreement and will indemnify and save the Bond Trustee harmless against any liabilities that it may incur in the proper exercise and performance of its powers and duties under the Trust Agreement. If the Commission fails to cause any payment required by the Trust Agreement to be made, the Bond Trustee may make such payment from any money in its possession under the provisions of the Trust Agreement and will be entitled to a preference therefor over any 2010A Bonds Outstanding under the Trust Agreement. (Sec. 9.05)

Holders of 2010A Bonds Deemed Holders of Obligation No. 4

In the event that any request, direction or consent is requested or permitted by the Master Indenture of the registered owners of Obligations issued thereunder, including Obligation No. 4, the Holders of 2010A Bonds then Outstanding will be deemed to be registered owners of Obligation No. 4 for the purpose of any such request, direction or consent in the proportion that the aggregate principal amount of 2010A Bonds then Outstanding held by each such Holder of 2010A Bonds bears to the aggregate principal amount of all 2010A Bonds then Outstanding. (Sec. 10.03)

Modification of the Trust Agreement

The Commission and the Bond Trustee may, from time to time and at any time, enter into agreements supplemental to the Trust Agreement, without the consent of or notice to any Holder, to effect any one or more of the following: (a) cure any ambiguity or defect or omission, correct or supplement any provision in the Trust Agreement or any supplemental trust agreement to the Trust Agreement, (b) grant to or confer upon the Bond Trustee for the benefit of the Holders any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Holders or the Bond Trustee which are not contrary to or inconsistent with the Trust Agreement as then in effect or to subject to the pledge and lien of the Trust Agreement additional revenues, properties or collateral, including Defeasance Obligations, (c) add other conditions, limitations and restrictions to the Trust Agreement, which are not contrary to or inconsistent with the Trust Agreement as then in effect, (d) add other covenants and agreements to be observed by the Commission to the Trust Agreement or surrender any right or power reserved to or conferred upon the Commission under the Trust Agreement, which are not contrary to or inconsistent with the Trust Agreement as then in effect, (e) comply with any federal or state securities law, (f) make any other change that is determined by the Bond Trustee, who may rely upon an Opinion of Counsel, to be not materially adverse to the interests of the Holders, (g) if all of the 2010A Bonds are Book Entry Bonds, amend, modify, alter or replace the Letter of Representations as provided in the Trust Agreement or other provisions relating to Book Entry Bonds, and (h) facilitate the issuance and delivery of certificated 2010A Bonds to Beneficial Owners if the book entry system for the 2010A Bonds is discontinued. (Sec. 11.01)

The Trust Agreement may be amended in any particular by the Holders of not less than a majority in aggregate principal amount of the 2010A Bonds then Outstanding; provided, however, that nothing contained in the Trust Agreement will permit (a) an extension of the maturity of the principal of or the interest on any 2010A Bonds without the consent of the Holders of such 2010A Bonds, (b) a reduction in the principal amount of or the redemption premium or the rate of interest on any 2010A Bonds without the consent of the Holders of such 2010A Bonds, (c) the creation of a pledge of receipts and revenues to

be received by the Commission under the Loan Agreement superior to the pledge created by the Trust Agreement without the consent of the Holders of all 2010A Bonds Outstanding, (d) a preference or priority of any 2010A Bond over any other 2010A Bond without the consent of the Holders of all 2010A Bonds Outstanding, or (e) a reduction in the aggregate principal amount of 2010A Bonds required for consent to such supplemental trust agreement without the consent of the Holders of all 2010A Bonds Outstanding. (Sec. 11.02)

Defeasance

When, among other things, the principal, premium, if any, and interest due upon all of the 2010A Bonds is paid or sufficient money or Defeasance Obligations, or a combination of money and Defeasance Obligations, are held by the Bond Trustee for such purpose, then the right, title and interest of the Bond Trustee in the funds and accounts created by the Trust Agreement will cease and the Bond Trustee will release the Trust Agreement. (Art. XII)

No Recourse Against Members, Officers or Employees of Commission or LGC

No recourse under, or upon, any statement, obligation, covenant, or agreement contained in the Trust Agreement, or in any 2010A Bond, or in the Loan Agreement, or in any document or certification whatsoever, or under any judgment obtained against the Commission or the LGC or by the enforcement of any assessment or by any legal or equitable proceeding by virtue of any constitution or statute or otherwise or under any circumstances, will be had against any member, officer or employee, as such, of the Commission or the LGC, either directly or through the Commission or the LGC, respectively, or otherwise, for the payment for or to, the Commission or the LGC or any receiver of either of them, or for, or to, any Holder or otherwise, of any sum that may be due and unpaid upon any such 2010A Bond. (Sec. 13.08)

Replacement Master Indenture

In the event that a Substitute Obligation under a Replacement Master Indenture is delivered to the Bond Trustee pursuant to the provisions the Master Indenture, references to the Master Indenture and Obligation No. 4 in the Trust Agreement will be deemed to be references to such Replacement Master Indenture and such Substitute Obligation, references to the Corporation and the other Members of the Obligated Group in the Trust Agreement will be deemed to be references to the obligated parties under the Replacement Master Indenture, as such are described therein, and references to the Master Trustee in the Trust Agreement will be deemed to be references to the trustee under the Replacement Master Indenture. (Sec. 13.16)

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APPENDIX D

FORM OF BOND COUNSEL OPINION

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Robinson Bradshaw

October __, 2010

North Carolina Medical Care Commission
Raleigh, North Carolina

Re: $122,965,000 North Carolina Medical Care Commission Health Care Facilities Revenue and Revenue Refunding Bonds (Rex Healthcare) Series 2010A

Ladies and Gentlemen:

We have acted as bond counsel to the North Carolina Medical Care Commission (the "Commission") in connection with the issuance by the Commission of the referenced bonds (the "2010A Bonds"). In such capacity, we have examined such law and such certified proceedings, certifications and other documents as we have deemed necessary to render this opinion.

The 2010A Bonds are issued pursuant to Chapter 131A of the General Statutes of North Carolina, as amended, and a Trust Agreement dated as of October 1, 2010 (the "Trust Agreement") between the Commission and U.S. Bank National Association, as bond trustee (the "Bond Trustee"). The Commission will lend the proceeds of the 2010A Bonds to Rex Hospital, Inc. (the "Corporation") under a Loan Agreement dated as of October 1, 2010 (the "Loan Agreement") between the Commission and the Corporation. The 2010A Bonds are secured by, among other things, payments to be made by the Corporation on Obligation No. 4 dated as of the date hereof ("Obligation No. 4") issued by the Corporation to the Commission under the Master Trust Indenture, dated as of January 1, 1993 (the "Original Master Indenture"), among the Corporation, The New Trustees of the Rex Hospital, Inc., now known as Rex Healthcare, Inc. (the "Parent Corporation"), Rex Healthcare Services, Inc., to which the Corporation is the successor by merger, Rex Management Services, Inc., to which the Corporation is the successor by merger, and First-Citizens Bank & Trust Company, succeeded by U.S. Bank National Association (the "Master Trustee"), as evidence of the obligation of the Corporation to repay the loan of the proceeds of the 2010A Bonds and assigned by the Commission to the Bond Trustee as security for the payment of the 2010A Bonds. Simultaneously with the issuance of Obligation No. 4, the Original Master Indenture will be amended and restated pursuant to an Amended and Restated Master Trust Indenture, dated as of October 1, 2010 (as supplemented, the "Master Indenture"), between the Corporation, the Parent Corporation and the Master Trustee. As provided in the Master Indenture, each Member of the Obligated Group (as defined in the Master Indenture) is jointly and severally liable for Obligation No. 4 and all other Obligations (as defined in the Master Indenture) issued under the Master Indenture. As of the date hereof, the Corporation and the Parent Corporation are the only Members of the Obligated Group. As security for all Obligations issued under the Master Indenture, each of the Corporation and the Parent Corporation has granted to the Master Trustee a security interest in its Pledged Assets, subject to Permitted Liens (both as defined in the Master Indenture). A financing statement with respect to the security interest in the Pledged Assets of the Corporation and the Parent Corporation has been filed with the Secretary of State of the State of North Carolina.

As to questions of fact material to our opinion, we have relied upon representations of the Commission, the Corporation and the Parent Corporation contained in various documents, certified proceedings and other certifications of public officials furnished to us, and certifications furnished to us by and on behalf of the Corporation and the Parent Corporation without undertaking to verify the same by independent investigation.

Based on the foregoing, we are of the opinion that, under existing law:

1. The 2010A Bonds have been duly authorized and executed by the Commission and are valid and binding limited obligations of the Commission, payable in accordance with their terms from payments to be made by the Corporation or the other Members of the Obligated Group pursuant to Obligation No. 4 and the Loan Agreement, certain funds held by the Bond Trustee under the Trust Agreement and certain other sources.

2. The Trust Agreement has been duly authorized, executed, and delivered by the Commission and is a valid and binding obligation of the Commission, enforceable against the Commission. The Trust Agreement creates a valid lien on the rights and property described in the granting clauses thereof.

3. The Loan Agreement has been duly authorized, executed, and delivered by the Commission and the Corporation, and is a valid and binding obligation of the Commission and the Corporation, enforceable against the Commission and the Corporation.

4. The Master Indenture has been duly authorized, executed, and delivered by each Member of the Obligated Group, and is a valid and binding obligation of each Member of the Obligated Group, enforceable against each Member of the Obligated Group. Obligation No. 4 has been duly authorized, executed and issued by the Corporation, and is a valid and binding obligation of each Member of the Obligated Group, enforceable against each Member of the Obligated Group.

5. The Master Indenture is effective to create in favor of the Master Trustee a security interest in the Pledged Assets of each Member of the Obligated Group to the extent that a security interest in such assets may be created under North Carolina's version of Article 9 of the Uniform Commercial Code (the "UCC"), which security interest has been perfected to the extent it could be perfected by the filing of financing statements under the UCC. Continuation statements meeting the requirements of the UCC must be filed as required by law to continue the perfection of such security interest. The security interest in certain items constituting Pledged Assets is subject to exceptions under the UCC and may be limited by the powers of the State of North Carolina and the federal government to restrict assignment of the right to payment from such entities.

6. Interest on the 2010A Bonds is excludable from gross income for federal income tax purposes, and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. The opinion set forth in the preceding sentence is subject to the condition that the Commission and the Corporation comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the 2010A Bonds in order that interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The Commission and the Corporation have covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the 2010A Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the 2010A Bonds. In rendering the opinion set forth in the first sentence of this paragraph, we have relied on the opinion of K&L Gates LLP, Research Triangle Park, North Carolina, counsel to the Obligated Group, that the Corporation is an organization that is exempt from federal income taxation under Section 501(a) of the Code by virtue of being an organization described in Section 501(c)(3) of the Code.

7. Interest on the 2010A Bonds is exempt from State of North Carolina income taxes.

The rights of the holders of the 2010A Bonds and the enforceability of the 2010A Bonds, the Trust Agreement, the Loan Agreement, Obligation No. 4 and the Master Indenture are limited by bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium, and other similar laws affecting creditors' rights generally and by equitable principles, whether considered at law or in equity.

We express no opinion herein (a) regarding the accuracy, adequacy, or completeness of the Official Statement relating to the 2010A Bonds, or (b) except as stated above, regarding federal, state, or local tax consequences arising with respect to the 2010A Bonds.

In rendering this opinion, we have relied upon the opinion of K&L Gates LLP with respect to the due authorization, execution and delivery by the Members of the Obligated Group of the Master Indenture and the due authorization, execution, delivery and issuance, as the case may be, by the Corporation of the Loan Agreement and Obligation No. 4.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Respectfully submitted,

[To be signed "Robinson, Bradshaw & Hinson, P.A.]

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APPENDIX E

BOOK-ENTRY ONLY SYSTEM

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BOOK-ENTRY ONLY SYSTEM

General. The information provided under this caption, "*General*," has been provided by the Depository Trust Company (which we refer to as "DTC"). No representation is made by us, the Corporation, the Parent Corporation, the Bond Trustee or the underwriters as to the accuracy or adequacy of such information provided by DTC or as to the absence of material adverse changes in such information subsequent to the date hereof.

DTC, New York, New York, will act as securities depository for the 2010A Bonds. The 2010A Bonds will be issued as fully registered securities registered in the name of Cede & Co., DTC's partnership nominee. One fully registered 2010A Bond certificate will be issued for each maturity of the 2010A Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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 (which we refer to as "Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations.

DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (which we refer to as "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 (which we refer to as "Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. 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 and www.dtc.org.

Purchases of 2010A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2010A Bonds on DTC's records. The ownership interest of each actual owner of a 2010A Bond (which we refer to as a "beneficial owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial owners will not receive written confirmation from DTC of their purchase. Beneficial owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the beneficial owner entered into the transaction. Transfers of beneficial ownership interests in the 2010A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in the 2010A Bonds, except in the event that use of the book-entry only system for the 2010A Bonds is discontinued.

To facilitate subsequent transfers, all 2010A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. (or such other nominee as

requested by an authorized representative of DTC). The deposit of 2010A Bonds with DTC and their registration in the name of Cede & Co. (or such other nominee as requested by an authorized representative of DTC) effect no change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the 2010A Bonds. DTC's records reflect only the identity of the Direct Participants to whose accounts such 2010A 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 2010A Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2010A Bonds, such as redemptions, defaults and proposed amendments to the security documents.

Redemption notices will be sent to DTC. If less than all of the 2010A Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2010A Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an "Omnibus Proxy" to us as soon as possible after the record date. The "Omnibus Proxy" assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2010A Bonds are credited on the record date identified in a listing attached to the "Omnibus Proxy."

Principal, premium and interest payments on the 2010A Bonds will be made to Cede & Co. (or such other nominee as requested by an authorized representative of DTC). DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Bond Trustee or us on each payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect Participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Direct and Indirect Participant and not of us, DTC, the Corporation or the Bond Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium and interest to Cede & Co. (or such other nominee as requested by an authorized representative of DTC) is the responsibility of the Bond Trustee. Disbursement of such payments to Direct Participants will be the responsibility of DTC and disbursement of such payments to the beneficial owners will be the responsibility of the Direct Participants and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2010A Bonds at any time by giving reasonable notice to the Bond Trustee and us. Under such circumstances, in the event that a successor depository is not obtained, 2010A Bond certificates are required to be printed and delivered. We may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, 2010A Bond certificates will be printed and delivered to DTC.

Limitation. **For so long as the 2010A Bonds are registered in the name of DTC or its nominee, Cede & Co., we and the Bond Trustee will recognize only DTC or its nominee, Cede & Co., as the registered owner of the 2010A Bonds for all purposes, including payments, notices and voting. So long as Cede & Co. is the registered owner of the 2010A Bonds, references in this official**

statement to registered owners of the 2010A Bonds shall mean Cede & Co. and shall not mean the beneficial owners of the 2010A Bonds.

Because DTC is treated as the owner of the 2010A Bonds for substantially all purposes under the Trust Agreement and the Loan Agreement, beneficial owners may have a restricted ability to influence in a timely fashion remedial action or the giving or withholding of requested consents or other directions. In addition, because the identity of beneficial owners is unknown to us, the Bond Trustee, the Corporation or DTC, it may be difficult to transmit information of potential interest to beneficial owners in an effective and timely manner. Beneficial owners should make appropriate arrangements with their broker or dealer regarding distribution of information regarding the 2010A Bonds that may be transmitted by or through DTC.

Under the Trust Agreement, payments made by the Bond Trustee to DTC or its nominee shall satisfy the Corporation's obligations under the Loan Agreement or Obligation No. 4 to the extent of the payments so made.

None of the Corporation, the Parent Corporation, the Bond Trustee or we have any responsibility or obligation with respect to:

- the accuracy of the records of DTC, its nominee or any Direct Participant or Indirect Participant with respect to any beneficial ownership interest in any 2010A Bonds;
- the delivery to any Direct Participant or Indirect Participant or any other person, other than a registered owner as shown in the bond register kept by the Bond Trustee, of any notice with respect to any 2010A Bond including, without limitation, any notice of redemption with respect to any 2010A Bond;
- the payment to any Direct Participant or Indirect Participant or any other person, other than a registered owner as shown in the bond register kept by the Bond Trustee, of any amount with respect to the principal of, premium, if any, or interest on, any 2010A Bond; or
- any consent given by DTC or its nominee as registered owner.

Prior to any discontinuation of the book-entry only system hereinabove described, we and the Bond Trustee may treat Cede & Co. (or such other nominee of DTC) as, and deem Cede & Co. (or such other nominee) to be, the absolute registered owner of the 2010A Bonds for all purposes whatsoever, including, without limitation:

- the payment of principal, premium, if any, and interest on the 2010A Bonds;
- giving notices of redemption and other matters with respect to the 2010A Bonds;
- registering transfers with respect to the 2010A Bonds; and
- the selection of 2010A Bonds for redemption.

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