

OFFICIAL STATEMENT

NEW ISSUE: Book Entry Only

Rating: Standard & Poor's: "AAA"  
(See "RATING")

BOND COUNSEL IS NOT RENDERING ANY OPINION WITH RESPECT TO THE TREATMENT OF INTEREST ON THE BONDS FOR PURPOSES OF FEDERAL INCOME TAXATION, AND SUCH INTEREST IS EXPECTED TO BE INCLUDED IN GROSS INCOME FOR PURPOSES OF FEDERAL INCOME TAXATION. See "TAX MATTERS" herein.

**\$23,165,000**  
**Coulee Medical Foundation**  
**Taxable Revenue Build America Bonds (Direct Pay)**  
**(GNMA Collateralized - Coulee Medical Center)**  
**Series 2009A**

**Dated: As set forth herein**

**Due: As shown on inside cover**

The Coulee Medical Foundation (the "Issuer") is issuing \$23,165,000 in aggregate principal amount of its Taxable Revenue Build America Bonds (Direct Pay) (GNMA Collateralized – Coulee Medical Center) Series 2009A (the "Bonds") on a draw down basis and on behalf of Douglas, Grant, Lincoln & Okanogan Counties Public Hospital District No. 6 (the "District"). The Bonds are being issued pursuant to a Trust Indenture, dated as of October 1, 2009 (the "Indenture"), by and between the Issuer and U.S. Bank National Association, as trustee (the "Trustee") in order to finance the costs of the acquisition, construction and equipping of the Project, as described herein (the "Project"), and to pay certain costs associated with the issuance of the Bonds.

The Issuer was formed by the District pursuant to Chapter 24.03 of the Revised Code of the State of Washington and is intended by the District to comply with the requirements of Internal Revenue Service Revenue Ruling 63-20. The Bonds are being issued on behalf of the District, as a governmental unit. Pursuant to the terms of a Site Lease (defined herein), the Issuer will lease the real property which will be used as the site (the "Site") for the Project from the District. The Issuer will lease the Site together with all improvements and equipment back to the District to operate the Project pursuant to an Operating Lease (defined herein). Following the redemption or discharge of the Bonds and prepayment of the Mortgage Note (defined herein), the Issuer's leasehold interest in the Project will terminate.

The Bonds are issuable only as fully registered bonds without coupons in the denomination of \$5,000 principal amount or any integral multiple of \$1,000 in excess thereof. Interest on the Bonds will be payable on the 20th of each month, commencing December 20, 2009. Purchasers of the Bonds will not receive certificates representing their interests in the Bonds purchased. Bonds will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York. Principal of and interest on the Bonds is payable by the Trustee, to Cede & Co. See "BOOK ENTRY ONLY SYSTEM."

The Federal Housing Administration ("FHA") has issued a commitment (the "Commitment") that will allow Red Mortgage Capital, Inc. (the "Lender"), upon compliance with the terms and conditions thereof, to originate a mortgage loan to the Issuer, evidenced by the Issuer's promissory note (the "Mortgage Note") in favor of the Lender and secured by a leasehold deed of trust (the "Leasehold Mortgage") on the Project and to issue and deliver to the Trustee, on or prior to the dates set forth herein, fully modified mortgage backed securities in respect of such loan (the "GNMA Securities") guaranteed as to timely payment of principal and interest by the Government National Mortgage Association ("GNMA"), with respect to the Mortgage Note. Certain proceeds of the Bonds will be used to acquire GNMA Securities guaranteed as to timely payment of principal and interest by GNMA from the Lender to provide financing to the Issuer, for the financing of the Project. Prior to acquisition of the GNMA Securities, the Bonds will be secured by certain of the Bond proceeds invested by the Trustee in Qualified Investments (defined herein). See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

The Bonds are subject to redemption prior to maturity as described herein. **Persons who purchase Bonds at a price in excess of their principal amount risk the loss of any premium paid in the event the Bonds are redeemed prior to maturity.** See "THE BONDS" and "INVESTMENT CONSIDERATIONS AND CERTAIN BONDHOLDERS' RISKS."

THE BONDS, TOGETHER WITH INTEREST THEREON, AND REDEMPTION PREMIUM, IF ANY, ARE SPECIAL, LIMITED OBLIGATIONS OF THE ISSUER SECURED BY THE TRUST ESTATE, ARE AND SHALL ALWAYS BE PAYABLE SOLELY FROM THE REVENUES AND INCOME DERIVED FROM THE TRUST ESTATE AND ARE AND SHALL ALWAYS BE A VALID CLAIM OF THE OWNER THEREOF ONLY AGAINST THE REVENUES AND INCOME DERIVED FROM THE TRUST ESTATE, WHICH REVENUES AND INCOME SHALL BE USED FOR NO OTHER PURPOSE THAN TO PAY THE PRINCIPAL INSTALLMENTS OF, REDEMPTION PREMIUM, IF ANY, AND INTEREST ON THE BONDS, EXCEPT AS MAY BE EXPRESSLY AUTHORIZED OTHERWISE IN THE INDENTURE AND IN THE FINANCING AGREEMENT.

NEITHER THE BOARD OF THE ISSUER NOR ANY PERSON EXECUTING THE BONDS SHALL BE LIABLE PERSONALLY ON THE BONDS BY REASON OF THE ISSUANCE THEREOF. THE BONDS AND THE OBLIGATION TO PAY INTEREST THEREON, PRINCIPAL INSTALLMENTS AND REDEMPTION PREMIUMS, IF ANY, SHALL NOT BE A DEBT OF ANY CITY, COUNTY, THE STATE OF WASHINGTON, OR ANY POLITICAL SUBDIVISION OF THE STATE. NEITHER THE STATE OF WASHINGTON, NOR ANY POLITICAL SUBDIVISION THEREOF, SHALL BE LIABLE ON THE BONDS OR THE OBLIGATION TO PAY INTEREST THEREON, PRINCIPAL INSTALLMENTS AND REDEMPTION PREMIUMS, NOR IN ANY EVENT SHALL THE BONDS OR THE OBLIGATIONS TO PAY INTEREST THEREON, PRINCIPAL INSTALLMENTS AND REDEMPTION PREMIUMS BE PAYABLE OUT OF ANY FUNDS OR PROPERTIES OF THE ISSUER, THE STATE OF WASHINGTON, NOR ANY POLITICAL SUBDIVISION THEREOF, OTHER THAN FROM THE REVENUES AND INCOME DERIVED FROM THE TRUST ESTATE. THE BONDS SHALL NOT CONSTITUTE AN INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. NO OWNER OF THE BONDS SHALL HAVE THE RIGHT TO COMPEL THE EXERCISE OF THE TAXING POWER, IF ANY, OF THE ISSUER, THE STATE OF WASHINGTON OR ANY POLITICAL SUBDIVISION THEREOF, TO PAY ANY PRINCIPAL INSTALLMENT OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS.

THE BONDS ARE NOT A DEBT OF THE UNITED STATES OF AMERICA, THE UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT OR ANY OTHER FEDERAL GOVERNMENTAL AGENCY AND ARE NOT GUARANTEED BY THE FULL FAITH AND CREDIT OF THE UNITED STATES.

This cover page contains only a brief description of the Issuer, the Bonds, the Project and the security therefor. It is not intended to be a summary of material information with respect to the Bonds. Investors should read this entire Official Statement to obtain information necessary to make an informed investment decision.

*The Bonds are offered when, as and if issued and received by the Red Capital Markets, Inc., Columbus, Ohio (the "Underwriter"), subject to the approving opinion of Eichner & Norris PLLC, Washington, D.C., Bond Counsel, as to the validity of the Bonds and the approval of certain other matters for the Issuer. Certain legal matters will be passed upon for the Underwriter by its counsel, Eichner & Norris PLLC, Washington, D.C. Certain legal matters will be passed upon for the Lender by its counsel, Krooth & Altman LLP, Washington, D.C. and for the Issuer by its counsel, Stamper Rubens, P.S., Spokane, Washington. It is expected that the Bonds will be available for delivery to The Depository Trust Company in New York, New York, as set forth herein.*



Dated: October 15, 2009

**MATURITIES, INTEREST RATES AND PRICES**

**2009A Term Bonds**

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>CUSIP</u>
April 20, 2036	\$23,165,000	6.50%	100%	222102 AA3

(Plus accrued interest)

No broker, dealer, salesman or other Person has been authorized by the Issuer, the Lender or the Underwriter to give any information or to make any representations with respect to the Bonds other than those contained in this Official Statement and, if given or made, such information or representations must not be relied upon as having been authorized by the Issuer, the Lender or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor will there be any sale of the Bonds by any Person in any jurisdiction in which it is unlawful for such Person to make such offer, solicitation or sale. The information set forth herein has been obtained from the Lender and the Issuer and other sources believed by the Underwriter to be reliable. This information is not guaranteed as to accuracy and is not to be construed as a representation of such by the Underwriter, the Lender or the Issuer. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder will, under any circumstances, create any implication that there has been no change in the information or opinions set forth herein since the date hereof. The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

The information set forth herein relating to the Project and the Issuer has been obtained from the Issuer, and all other information herein has been obtained by other sources deemed by the Issuer and the Underwriter to be reliable, but is not to be construed as a representation by the Issuer or the Underwriter. The information herein is subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Issuer or the Underwriter since the date hereof.

No registration statement relating to the Bonds has been filed with the Securities and Exchange Commission (the "Commission") or with any state securities agency. The Bonds have not been approved or disapproved by the Commission or any state securities agency, nor has the Commission or any state securities agency passed upon the accuracy or adequacy of this Official Statement. Any representation to the contrary is a criminal offense.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH TEND TO STABILIZE OR MAINTAIN THE MARKET PRICE FOR THE BONDS ABOVE THE LEVELS WHICH WOULD OTHERWISE PREVAIL. SUCH ACTIVITIES, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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## OFFICIAL STATEMENT

**\$23,165,000**

**Coulee Medical Foundation  
Taxable Revenue Build America Bonds (Direct Pay)  
(GNMA Collateralized - Coulee Medical Center)  
Series 2009A**

### INTRODUCTORY STATEMENT

This Official Statement sets forth certain information concerning the Coulee Medical Foundation (the “Issuer”), and the issuance and sale of \$23,165,000 in aggregate principal amount of its Taxable Revenue Build America Bonds (GNMA Collateralized – Coulee Medical Center) Series 2009A (the “Bonds”) on a draw down basis and on behalf of Douglas, Grant, Lincoln & Okanogan Counties Public Hospital District No. 6 (the “District”), which was established by a public vote in November, 1990 with the primary purpose of providing health care services to area residents and visitors.

The Issuer is a Washington nonprofit corporation formed by the District pursuant to Chapter 24.03 of the Revised Code of the State of Washington. The Bonds are being issued pursuant to a resolution by the Board of the Issuer adopted on September 30, 2009 (the “Bond Resolution”) on behalf of the District, as a governmental unit. It is the intent of the District and the Issuer to comply with the requirements of Internal Revenue Service Revenue Ruling 63-20 and Revenue Procedure 82-26. The organization of the Issuer and the issuance of the Bonds were approved and adopted by the Board of the District pursuant to a resolution on September 30, 2009 (the “District Resolution”).

The Bonds will be issued under and secured by a Trust Indenture dated as of October 1, 2009 (the “Indenture”) between the Issuer and U.S. Bank National Association as trustee (the “Trustee”), in order to finance the costs of the acquisition, construction and equipping of the Project, as described under “THE PROJECT AND THE PRIVATE PARTICIPANTS” herein (the “Project”), and to pay certain costs associated with the issuance of the Bonds.

Pursuant to the terms of a site lease dated as of October 1, 2009 (the “Site Lease”) by and between the District, as lessor, and the Issuer, as lessee, the Issuer will lease the real property which will be used as the site (the “Site”) for the Project from the District for a term of 50 years from the date of the Mortgage Note. The Issuer will lease the Site together with all improvements and equipment back to the District to operate the Project pursuant to an operating lease dated as of October 1, 2009 (the “Operating Lease”) by and between the Issuer, as lessor, and the District, as lessee. Following the redemption or discharge of the Bonds and prepayment of the Mortgage Note, the Issuer’s leasehold interest in the Project will terminate.

The following is a summary of certain information contained in this Official Statement, to which reference should be made for a complete statement thereof. The Bonds are offered to potential investors only by means of the entire Official Statement, including the cover page, this introductory statement and the Appendices hereto. No Person is authorized to detach this introductory statement from the Official Statement or otherwise use it without the entire Official Statement. Capitalized terms used but not defined herein will have the meanings ascribed to them in the Indenture, the Financing Agreement or as set forth under “CERTAIN DEFINITIONS” attached hereto as Appendix A.

## **Security for the Bonds**

The principal of, premium, if any, and interest on the Bonds are payable from the payments on the GNMA Securities and from any other security pledged under the Indenture. Prior to the acquisition of the GNMA Securities by the Trustee, the Bonds will be secured by certain of the Bond proceeds held in Qualified Investments. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” and “INVESTMENT CONSIDERATIONS AND CERTAIN BONDHOLDERS’ RISKS.”

## **Certain Bondholder Risks**

The purchase of the Bonds involves a number of risks. These risks include, but are not limited to, the risks described under the caption “INVESTMENT CONSIDERATIONS AND CERTAIN BONDHOLDERS’ RISKS” herein. Each investor in the Bonds should carefully review this entire Official Statement, including that section.

## **GNMA Securities**

The Bonds are to be secured primarily by fully modified mortgage backed securities in the aggregate principal amount of \$23,165,000 (the “GNMA Securities”), to be issued by Red Mortgage Capital, Inc. (the “Lender”), guaranteed as to principal and interest by the Government National Mortgage Association (“GNMA”), with respect to the Mortgage Note. See “THE GNMA MORTGAGED BACKED SECURITIES PROGRAM.” The construction period is estimated to be approximately 19 months.

## **The Bonds**

The Bonds are available in book entry only form. See “BOOK ENTRY ONLY SYSTEM.” So long as Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), is the registered owner of the Bonds, references herein to the Bondholders or registered owners of the Bonds mean Cede & Co. and not the beneficial owners of the Bonds.

The Bonds are issued in fully registered form without coupons in the denomination of \$5,000 principal amount or any integral multiple of \$1,000 in excess thereof. See “THE BONDS.”

The Bonds are subject to optional redemption prior to maturity as a whole or in part at any time on or after December 20, 2019, upon payment of the redemption prices set forth under “THE BONDS — Redemption — Optional Redemption.” The Bonds are also subject to extraordinary mandatory redemption and mandatory sinking fund redemption as described under “THE BONDS—Redemption—Special Mandatory Redemption” and “—Mandatory Sinking Fund Redemption.”

**Any Person who purchases a Bond above par should consider the risk that such premium may be lost in the event that the Bond is redeemed prior to maturity. See “INVESTMENT CONSIDERATIONS AND CERTAIN BONDHOLDERS’ RISKS.”**

## **Certain Legal and Other Matters**

The Issuer has consented to the appointment of U.S. Bank National Association to serve as the Trustee under the Indenture. Certain legal matters relating to the authorization and validity of the Bonds will be passed upon by Eichner & Norris PLLC, Washington, D.C., as Bond Counsel. Certain legal matters will be passed upon for the Lender by its Counsel, Krooth & Altman LLP, Washington, D.C. and for the Issuer by its Counsel, Stamper Rubens, P.S., Spokane, Washington. Certain legal matters will be

passed upon for the Underwriter by Eichner & Norris PLLC, Washington, D.C., counsel to the Underwriter.

### **Issuer; Issuance and Delivery of Bonds**

The Bonds are being issued on a draw down basis and on behalf of the District, as a governmental entity, under the provisions of the Bond Resolution adopted by the Board of the Issuer on September 30, 2009.

The Bonds are offered when, as and if issued and received by the Underwriter, subject to the approving opinion of Bond Counsel. It is expected that the Bonds will be available for delivery in book entry only form to DTC in New York, New York as set forth in the Indenture.

### **Continuing Disclosure**

Pursuant to the Continuing Disclosure Agreement, the Issuer has covenanted for the benefit of Bondholders to provide certain financial information and operating data relating to the Issuer by not later than 180 days after the end of its fiscal year in each year commencing with the fiscal year ending 2009 (the “Annual Report”), and to provide notices of the occurrence of certain enumerated events, if deemed by the Issuer to be material. The Annual Report will be filed by U.S. Bank National Association, as dissemination agent, on behalf of the Issuer with the MSRB’s Electronic Municipal Market Access system as provided at <http://www.emma.msrb.org> (“EMMA”) and with a State of Washington information depository if one is established by the State (collectively, the “Repositories”). The notices of material events will be filed by the dissemination agent on behalf of the Issuer with the Repositories. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized under “APPENDIX D—FORM OF THE CONTINUING DISCLOSURE AGREEMENT” attached hereto. These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

### **Miscellaneous**

The information contained herein is current as of the date of this Official Statement set forth on the cover page hereof. The information contained herein is subject to change after such date. The Issuer has not provided information regarding GNMA and does not certify as to the accuracy or sufficiency of the information regarding GNMA, and is not responsible for such information provided herein.

### **Additional Information**

Brief descriptions of the Issuer, the Bonds, the security for the Bonds, the Project, the Indenture, the Financing Agreement, the Mortgage Note and the Leasehold Mortgage are included in this Official Statement and the Appendices hereto. All references herein to the Indenture, the Financing Agreement, the Mortgage Note, the Leasehold Mortgage and other documents and agreements are qualified in their entirety by reference to such documents and agreements, copies of which are available for inspection at the offices of the Trustee and the Issuer.

## **THE ISSUER**

The Issuer is a Washington nonprofit corporation formed pursuant to Chapter 24.03 of the Revised Code of the State of Washington. It is the intent of the District and the Issuer to comply with the requirements of Internal Revenue Service Revenue Ruling 63-20 and Revenue Procedure 82-26.

THE BONDS, TOGETHER WITH INTEREST THEREON, AND REDEMPTION PREMIUM, IF ANY, ARE SPECIAL, LIMITED OBLIGATIONS OF THE ISSUER SECURED BY THE TRUST ESTATE, ARE AND SHALL ALWAYS BE PAYABLE SOLELY FROM THE REVENUES AND INCOME DERIVED FROM THE TRUST ESTATE AND ARE AND SHALL ALWAYS BE A VALID CLAIM OF THE OWNER THEREOF ONLY AGAINST THE REVENUES AND INCOME DERIVED FROM THE TRUST ESTATE, WHICH REVENUES AND INCOME SHALL BE USED FOR NO OTHER PURPOSE THAN TO PAY THE PRINCIPAL INSTALLMENTS OF, REDEMPTION PREMIUM, IF ANY, AND INTEREST ON THE BONDS, EXCEPT AS MAY BE EXPRESSLY AUTHORIZED OTHERWISE IN THE INDENTURE AND IN THE FINANCING AGREEMENT.

NEITHER THE BOARD OF THE ISSUER NOR ANY PERSON EXECUTING THE BONDS SHALL BE LIABLE PERSONALLY ON THE BONDS BY REASON OF THE ISSUANCE THEREOF. THE BONDS AND THE OBLIGATION TO PAY INTEREST THEREON, PRINCIPAL INSTALLMENTS AND REDEMPTION PREMIUMS, IF ANY, SHALL NOT BE A DEBT OF ANY CITY, COUNTY, THE STATE OF WASHINGTON, OR ANY POLITICAL SUBDIVISION OF THE STATE. NEITHER THE STATE OF WASHINGTON, NOR ANY POLITICAL SUBDIVISION THEREOF, SHALL BE LIABLE ON THE BONDS OR THE OBLIGATION TO PAY INTEREST THEREON, PRINCIPAL INSTALLMENTS AND REDEMPTION PREMIUMS, NOR IN ANY EVENT SHALL THE BONDS OR THE OBLIGATIONS TO PAY INTEREST THEREON, PRINCIPAL INSTALLMENTS AND REDEMPTION PREMIUMS BE PAYABLE OUT OF ANY FUNDS OR PROPERTIES OF THE ISSUER, THE STATE OF WASHINGTON, NOR ANY POLITICAL SUBDIVISION THEREOF, OTHER THAN FROM THE REVENUES AND INCOME DERIVED FROM THE TRUST ESTATE. THE BONDS SHALL NOT CONSTITUTE AN INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. NO OWNER OF THE BONDS SHALL HAVE THE RIGHT TO COMPEL THE EXERCISE OF THE TAXING POWER, IF ANY, OF THE ISSUER, THE STATE OF WASHINGTON OR ANY POLITICAL SUBDIVISION THEREOF, TO PAY ANY PRINCIPAL INSTALLMENT OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS.

#### **THE DISTRICT**

*The information presented under this caption "THE DISTRICT" has been supplied by the District. The Underwriter has not independently verified such information, and does not assume responsibility for the accuracy or sufficiency of such information.*

Douglas, Grant, Lincoln & Okanogan Counties Public Hospital District No. 6 (the "District") d/b/a Coulee Medical Center, a public hospital district organized and operating under the laws of the State of Washington. The District owns and operates Coulee Medical Center, a 25 bed Critical Access Hospital ("CAH") (the "Hospital") and Coulee Family Medicine Clinic, a rural health clinic (the "Clinic") located in Grand Coulee, Washington, approximately 85 miles northwest of Spokane, Washington. The District was established by a public vote in November 1990 with the primary purpose of providing health care services to the residents of and visitors to the District, including the communities comprising Douglas, Grant, Lincoln and Okanogan counties. As a public hospital district, the District is a municipal corporation and political subdivision of the State, and therefore its income is exempt from federal income tax. See "APPENDIX F – CERTAIN INFORMATION ABOUT THE DISTRICT AND THE PROJECT" attached hereto for additional information on the District and "APPENDIX G – AUDITED AND UNAUDITED FINANCIAL STATEMENTS" attached hereto for the audited financial statements for the fiscal years ended December 31, 2006, 2007 and 2008 and unaudited fiscal year-to-date financial information.

Pursuant to the terms of a site lease dated as of October 1, 2009 (the "Site Lease") by and between the District, as lessor, and the Issuer, as lessee, the Issuer will lease the real property which will be used as the site (the "Site") for the Project from the District for a term of 50 years from the date thereof. The Issuer will lease the Site together with all improvements and equipment back to the District to operate the Project pursuant to an operating lease dated as of October 1, 2009 (the "Operating Lease") by and between the Issuer, as lessor, and the District, as lessee. Following the redemption or discharge of the Bonds and prepayment of the Mortgage Note, the Issuer's leasehold interest in the Project will terminate.

### **SOURCES AND USES OF BOND PROCEEDS**

The estimated sources and uses of funds relating to the Bonds (exclusive of accrued interest) are set forth in the following table:

<b>Sources of Funds</b>	
Bond Proceeds	\$23,165,000
Hospital Equity	<u>3,433,000</u>
<b>Total</b>	<b><u>\$26,598,000</u></b>
<b>Uses of Funds</b>	
Development Costs	\$24,698,529
Rating Agency Required Deposits	183,000
HUD Required Deposits	694,950
Mortgage Costs	594,783
Bond Costs of Issuance Fund	<u>426,738</u>
<b>Total</b>	<b><u>\$26,598,000</u></b>

### **THE BONDS**

The Bonds are available in book entry only form. See "BOOK ENTRY ONLY SYSTEM" below. So long as Cede & Co., as nominee of DTC, is the registered owner of the Bonds, references herein to the Bondholders or holders or registered owners or owners of the Bonds mean Cede & Co. and not the beneficial owners of the Bonds.

#### **General**

The Bonds are issuable in the denominations of \$5,000 principal amount or any integral multiple of \$1,000 in excess thereof. Any Bonds drawn prior to the first Interest Payment Date will be dated as of October 1, 2009 and each subsequent draw of Bonds shall be dated as of the immediately preceding Interest Payment Date. Except as otherwise provided in the Indenture, the principal amount of Bonds outstanding and due shall only be such aggregate amount as has been drawn down and interest shall accrue only on such principal amount as has actually been drawn. The Bonds will mature on the dates and in the amounts at the rates set forth on the cover page hereof. Interest will be payable the 20th day of each calendar month, commencing December 20, 2009 (each an "Interest Payment Date") in accordance with the provisions of the Indenture, whether at maturity, upon acceleration or otherwise, as provided therein. Interest will be calculated and be due on a basis of a 360 day year consisting of twelve 30 day months. Principal of, premium, if any, and interest on the Bonds will be payable by the Trustee to Cede & Co.

## **Limited Obligations**

The Bonds and the interest thereon are limited obligations of the Issuer, payable solely from the Revenues and the Trust Estate, which are hereby specifically assigned and pledged to such purposes in the manner and to the extent provided herein. Neither the United States of America nor HUD, FHA, any other agency of the United States of America, GNMA or the State or any county, municipality or other political subdivision thereof shall in any event be liable for the payment of the principal of, premium, if any, or interest on the Bonds or for the performance of any pledge, obligation or agreement of any kind whatsoever of the Issuer, and none of the Bonds or any of the Issuer's agreements or obligations shall be construed to constitute an indebtedness of or a pledge of the faith and credit of or a loan of the credit of any of the foregoing within the meaning of any constitutional or statutory provision whatsoever.

THE BONDS, TOGETHER WITH INTEREST THEREON, AND REDEMPTION PREMIUM, IF ANY, ARE SPECIAL, LIMITED OBLIGATIONS OF THE ISSUER SECURED BY THE TRUST ESTATE, ARE AND SHALL ALWAYS BE PAYABLE SOLELY FROM THE REVENUES AND INCOME DERIVED FROM THE TRUST ESTATE AND ARE AND SHALL ALWAYS BE A VALID CLAIM OF THE OWNER THEREOF ONLY AGAINST THE REVENUES AND INCOME DERIVED FROM THE TRUST ESTATE, WHICH REVENUES AND INCOME SHALL BE USED FOR NO OTHER PURPOSE THAN TO PAY THE PRINCIPAL INSTALLMENTS OF, REDEMPTION PREMIUM, IF ANY, AND INTEREST ON THE BONDS, EXCEPT AS MAY BE EXPRESSLY AUTHORIZED OTHERWISE IN THE INDENTURE AND IN THE FINANCING AGREEMENT.

NEITHER THE BOARD OF THE ISSUER NOR ANY PERSON EXECUTING THE BONDS SHALL BE LIABLE PERSONALLY ON THE BONDS BY REASON OF THE ISSUANCE THEREOF. THE BONDS AND THE OBLIGATION TO PAY INTEREST THEREON, PRINCIPAL INSTALLMENTS AND REDEMPTION PREMIUMS, IF ANY, SHALL NOT BE A DEBT OF ANY CITY, COUNTY, THE STATE OF WASHINGTON, OR ANY POLITICAL SUBDIVISION OF THE STATE. NEITHER THE STATE OF WASHINGTON, NOR ANY POLITICAL SUBDIVISION THEREOF, SHALL BE LIABLE ON THE BONDS OR THE OBLIGATION TO PAY INTEREST THEREON, PRINCIPAL INSTALLMENTS AND REDEMPTION PREMIUMS, NOR IN ANY EVENT SHALL THE BONDS OR THE OBLIGATIONS TO PAY INTEREST THEREON, PRINCIPAL INSTALLMENTS AND REDEMPTION PREMIUMS BE PAYABLE OUT OF ANY FUNDS OR PROPERTIES OF THE ISSUER, THE STATE OF WASHINGTON, NOR ANY POLITICAL SUBDIVISION THEREOF, OTHER THAN FROM THE REVENUES AND INCOME DERIVED FROM THE TRUST ESTATE. THE BONDS SHALL NOT CONSTITUTE AN INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

NO OWNER OF THE BONDS SHALL HAVE THE RIGHT TO COMPEL THE EXERCISE OF THE TAXING POWER, IF ANY, OF THE ISSUER, THE STATE OF WASHINGTON OR ANY POLITICAL SUBDIVISION THEREOF, TO PAY ANY PRINCIPAL INSTALLMENT OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS.

THE BONDS ARE NOT A DEBT OF THE UNITED STATES OF AMERICA, THE UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT OR ANY OTHER FEDERAL GOVERNMENTAL AGENCY AND ARE NOT GUARANTEED BY THE FULL FAITH AND CREDIT OF THE UNITED STATES.

No recourse shall be had for the payment of the principal of, redemption premium, if any, and interest on any of the Bonds or for any claim based thereon or upon any obligation, covenant or agreement contained in the Indenture or the Financing Agreement or the Bond Purchase Agreement

against any past, present or future member, commissioner, officer, agent or employee of the Issuer, or any incorporator, member, officer, employee, director or trustee of any successor corporation, as such, either directly or through the Issuer or any successor corporation, under any rule of law or equity, statute or constitution or by the enforcement of any assessment or penalty or otherwise, and all such liability of any such incorporator, member, officer, employee, director, agent or trustee as such is hereby expressly waived and released as a condition of and consideration for the execution of the Indenture or the Financing Agreement and the issuance of the Bonds. See “INVESTMENT CONSIDERATIONS AND CERTAIN BONDHOLDERS’ RISKS—Limited Security.”

## **Redemption**

The Bonds shall be subject to redemption prior to maturity, as provided in the form of the Bonds and as provided in the Indenture.

***Special Mandatory Redemption.*** The Bonds shall be subject to special mandatory redemption prior to maturity on the earliest practicable date for which notice of redemption can be given by the Trustee pursuant to the Indenture, unless otherwise provided, at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date but without premium (except as provided below):

(a) After the Closing Date, in part, on the first Business Day which is 10 days after any Draw Down Date if the corresponding GNMA Delivery Date has not occurred (and the Corresponding CLC delivered to the Trustee) within 10 days of such Draw Down Date (or such later date as shall be permitted by the Indenture), in a principal amount equal to the Bonds that were drawn down on such Draw Down Date, from amounts on deposit in the Acquisition Fund; provided however, that such 10-day period may be extended as set forth in the Indenture.

(b) [Reserved].

(c) As a whole or in part, on the first Business Day at least 10 days after the PLC Delivery Date if the PLC is not delivered to the Trustee by the PLC Delivery Date (or such later date as shall be permitted by the Indenture), to the extent of amounts remaining on deposit in the Acquisition Fund.

(d) In part on the earliest practicable date after the delivery of the PLC to the Trustee, to the extent the PLC, as delivered, is in a principal amount less than the principal amount of Bonds drawn to date and Outstanding (less any regularly scheduled principal payments made on the Mortgage Loan prior to the PLC Delivery Date), from amounts on deposit in the Acquisition Fund.

(e) As a whole or in part on the earliest practicable date to the extent that the Trustee receives payments on the GNMA Securities in excess of regularly scheduled payments (except payments representing optional prepayments on the Mortgage Loan) including (but not limited to) payments representing:

(i) casualty insurance proceeds, condemnation awards or other amounts applied to the prepayment of the Mortgage Loan following a partial or total destruction or condemnation of the Project;

(ii) mortgage insurance proceeds or other amounts received with respect to the Mortgage Loan following the occurrence of an event of default under the Mortgage Loan; or

(iii) a mandatory prepayment of the Mortgage Loan required by the applicable rules, regulations, policies and procedures of FHA or GNMA (including the possible exercise by HUD of its right to override the prepayment and premium provisions of the Mortgage Note under certain circumstances);

(f) As a whole on the CLC Maturity Date (or such later date as shall be permitted by the Indenture) in the event the PLC is not delivered to the Trustee at least 5 days prior to the CLC Maturity Date (or such later date as shall be permitted by the Indenture).

If less than all the Outstanding Bonds shall be called for redemption pursuant to the provisions (a) through (f) described above, an amount of Bonds of each maturity of each series shall be redeemed (and the scheduled sinking fund redemptions described below will be reduced) so that the resulting decrease in debt service on the Bonds for the one-month period ending on each Interest Payment Date is proportional, as nearly as practicable, to the decrease in the payments on the GNMA Securities in each such one-month period.

In the event of a redemption pursuant to the provisions described above, the Bonds will be redeemed at a redemption price of 100% of the principal amount thereof plus accrued interest to the redemption date.

***Scheduled Mandatory Redemption.*** The Bonds shall be subject to scheduled mandatory redemption on the respective Interest Payment Dates set forth in the schedules below, at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date, in the following principal amounts, subject to pro rata reduction of such scheduled mandatory redemption payments to the extent that such Bonds are redeemed prior to maturity otherwise than pursuant to such scheduled mandatory redemption; **provided, however, that any such scheduled mandatory redemption payments set forth below that occur prior to the PLC Delivery Date shall be deferred to the Interest Payment Date immediately following the PLC Delivery Date (as such date may be extended pursuant to the Indenture):**

[Remainder of page intentionally left blank]

**Bonds due April 20, 2036**

<b>Redemption Date</b>	<b>Principal Amount</b>	<b>Redemption Date</b>	<b>Principal Amount</b>
11/20/2012	\$595,000	11/20/2016	\$43,000
12/20/2012	33,000	12/20/2016	43,000
1/20/2013	33,000	1/20/2017	44,000
2/20/2013	33,000	2/20/2017	44,000
3/20/2013	34,000	3/20/2017	44,000
4/20/2013	34,000	4/20/2017	44,000
5/20/2013	34,000	5/20/2017	45,000
6/20/2013	34,000	6/20/2017	45,000
7/20/2013	34,000	7/20/2017	45,000
8/20/2013	35,000	8/20/2017	45,000
9/20/2013	35,000	9/20/2017	46,000
10/20/2013	35,000	10/20/2017	46,000
11/20/2013	35,000	11/20/2017	46,000
12/20/2013	35,000	12/20/2017	46,000
1/20/2014	36,000	1/20/2018	47,000
2/20/2014	36,000	2/20/2018	47,000
3/20/2014	36,000	3/20/2018	47,000
4/20/2014	36,000	4/20/2018	47,000
5/20/2014	36,000	5/20/2018	48,000
6/20/2014	37,000	6/20/2018	48,000
7/20/2014	37,000	7/20/2018	48,000
8/20/2014	37,000	8/20/2018	48,000
9/20/2014	37,000	9/20/2018	49,000
10/20/2014	37,000	10/20/2018	49,000
11/20/2014	38,000	11/20/2018	49,000
12/20/2014	38,000	12/20/2018	50,000
1/20/2015	38,000	1/20/2019	50,000
2/20/2015	38,000	2/20/2019	50,000
3/20/2015	39,000	3/20/2019	50,000
4/20/2015	39,000	4/20/2019	51,000
5/20/2015	39,000	5/20/2019	51,000
6/20/2015	39,000	6/20/2019	51,000
7/20/2015	39,000	7/20/2019	52,000
8/20/2015	40,000	8/20/2019	52,000
9/20/2015	40,000	9/20/2019	52,000
10/20/2015	40,000	10/20/2019	52,000
11/20/2015	40,000	11/20/2019	53,000
12/20/2015	40,000	12/20/2019	53,000
1/20/2016	41,000	1/20/2020	53,000
2/20/2016	41,000	2/20/2020	54,000
3/20/2016	41,000	3/20/2020	54,000
4/20/2016	41,000	4/20/2020	54,000
5/20/2016	42,000	5/20/2020	55,000
6/20/2016	42,000	6/20/2020	55,000
7/20/2016	42,000	7/20/2020	55,000
8/20/2016	42,000	8/20/2020	55,000
9/20/2016	43,000	9/20/2020	56,000
10/20/2016	43,000	10/20/2020	56,000

**Bonds due April 20, 2036**

<b>Redemption Date</b>	<b>Principal Amount</b>	<b>Redemption Date</b>	<b>Principal Amount</b>
11/20/2020	\$56,000	11/20/2024	\$74,000
12/20/2020	57,000	12/20/2024	74,000
1/20/2021	57,000	1/20/2025	75,000
2/20/2021	57,000	2/20/2025	75,000
3/20/2021	58,000	3/20/2025	75,000
4/20/2021	58,000	4/20/2025	76,000
5/20/2021	58,000	5/20/2025	76,000
6/20/2021	59,000	6/20/2025	77,000
7/20/2021	59,000	7/20/2025	77,000
8/20/2021	59,000	8/20/2025	78,000
9/20/2021	60,000	9/20/2025	78,000
10/20/2021	60,000	10/20/2025	79,000
11/20/2021	60,000	11/20/2025	79,000
12/20/2021	61,000	12/20/2025	79,000
1/20/2022	61,000	1/20/2026	80,000
2/20/2022	61,000	2/20/2026	80,000
3/20/2022	62,000	3/20/2026	81,000
4/20/2022	62,000	4/20/2026	81,000
5/20/2022	62,000	5/20/2026	82,000
6/20/2022	63,000	6/20/2026	82,000
7/20/2022	63,000	7/20/2026	83,000
8/20/2022	63,000	8/20/2026	83,000
9/20/2022	64,000	9/20/2026	83,000
10/20/2022	64,000	10/20/2026	84,000
11/20/2022	65,000	11/20/2026	84,000
12/20/2022	65,000	12/20/2026	85,000
1/20/2023	65,000	1/20/2027	85,000
2/20/2023	66,000	2/20/2027	86,000
3/20/2023	66,000	3/20/2027	86,000
4/20/2023	66,000	4/20/2027	87,000
5/20/2023	67,000	5/20/2027	87,000
6/20/2023	67,000	6/20/2027	88,000
7/20/2023	67,000	7/20/2027	88,000
8/20/2023	68,000	8/20/2027	89,000
9/20/2023	68,000	9/20/2027	89,000
10/20/2023	69,000	10/20/2027	90,000
11/20/2023	69,000	11/20/2027	90,000
12/20/2023	69,000	12/20/2027	91,000
1/20/2024	70,000	1/20/2028	91,000
2/20/2024	70,000	2/20/2028	92,000
3/20/2024	71,000	3/20/2028	92,000
4/20/2024	71,000	4/20/2028	93,000
5/20/2024	71,000	5/20/2028	93,000
6/20/2024	72,000	6/20/2028	94,000
7/20/2024	72,000	7/20/2028	94,000
8/20/2024	73,000	8/20/2028	95,000
9/20/2024	73,000	9/20/2028	96,000
10/20/2024	73,000	10/20/2028	96,000

**Bonds due April 20, 2036**

<b>Redemption Date</b>	<b>Principal Amount</b>	<b>Redemption Date</b>	<b>Principal Amount</b>
11/20/2028	\$97,000	8/20/2032	\$124,000
12/20/2028	97,000	9/20/2032	125,000
1/20/2029	98,000	10/20/2032	126,000
2/20/2029	98,000	11/20/2032	126,000
3/20/2029	99,000	12/20/2032	127,000
4/20/2029	99,000	1/20/2033	128,000
5/20/2029	100,000	2/20/2033	129,000
6/20/2029	100,000	3/20/2033	129,000
7/20/2029	101,000	4/20/2033	130,000
8/20/2029	102,000	5/20/2033	131,000
9/20/2029	102,000	6/20/2033	132,000
10/20/2029	103,000	7/20/2033	132,000
11/20/2029	103,000	8/20/2033	133,000
12/20/2029	104,000	9/20/2033	134,000
1/20/2030	104,000	10/20/2033	135,000
2/20/2030	105,000	11/20/2033	135,000
3/20/2030	106,000	12/20/2033	136,000
4/20/2030	106,000	1/20/2034	137,000
5/20/2030	107,000	2/20/2034	138,000
6/20/2030	107,000	3/20/2034	138,000
7/20/2030	108,000	4/20/2034	139,000
8/20/2030	109,000	5/20/2034	140,000
9/20/2030	109,000	6/20/2034	141,000
10/20/2030	110,000	7/20/2034	141,000
11/20/2030	111,000	8/20/2034	142,000
12/20/2030	111,000	9/20/2034	143,000
1/20/2031	112,000	10/20/2034	144,000
2/20/2031	112,000	11/20/2034	145,000
3/20/2031	113,000	12/20/2034	145,000
4/20/2031	114,000	1/20/2035	146,000
5/20/2031	114,000	2/20/2035	147,000
6/20/2031	115,000	3/20/2035	148,000
7/20/2031	116,000	4/20/2035	149,000
8/20/2031	116,000	5/20/2035	150,000
9/20/2031	117,000	6/20/2035	150,000
10/20/2031	118,000	7/20/2035	151,000
11/20/2031	118,000	8/20/2035	152,000
12/20/2031	119,000	9/20/2035	153,000
1/20/2032	120,000	10/20/2035	154,000
2/20/2032	120,000	11/20/2035	155,000
3/20/2032	121,000	12/20/2035	156,000
4/20/2032	122,000	1/20/2036	156,000
5/20/2032	122,000	2/20/2036	157,000
6/20/2032	123,000	3/20/2036	158,000
7/20/2032	124,000	4/20/2036 <sup>†</sup>	161,000

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<sup>†</sup>Maturity.

**Optional Redemption.** The Bonds shall be subject to redemption on any date on or after December 20, 2019, in whole or in part, from payments on the GNMA Securities representing voluntary prepayments on the Mortgage Loan pursuant to the Financing Agreement, whether from the proceeds of refunding bonds, other funds of the Issuer or otherwise, from such maturities or parts thereof as may be selected by the Issuer, at the redemption prices set forth in the table below, expressed as percentages of the principal amount of the Bonds to be redeemed, plus accrued interest to the redemption date, as follows:

<b>Redemption Dates</b>	<b>Redemption Prices</b>
December 20, 2019 through December 19, 2020	102%
December 20, 2020 through December 19, 2021	101
December 20, 2021 and thereafter	100

In the event of an optional redemption of the Bonds on a date on which the redemption price includes a redemption premium, the Bonds shall not be redeemed unless the Trustee shall have Seasoned Funds in its possession in an amount equal to the redemption premium on the Bonds.

**Selection of Bonds for Redemption.** The Bonds may be redeemed only in Authorized Denominations. If less than all of the Bonds are redeemed, in the case of redemption pursuant to the Indenture, Bonds shall be redeemed in accordance with the respective schedules set forth in such section. In the event the Bonds are redeemed in part and not in whole other than in accordance with the Indenture, the Bonds to be redeemed shall be selected pro rata by maturity and the scheduled mandatory redemption requirements for each maturity described in the Indenture shall be adjusted so that the resulting decrease in debt service on the Bonds (including scheduled mandatory redemption payments) during each one-month period commencing on each Interest Payment Date is proportional, as nearly as practicable, to the decrease in the payments on the GNMA Securities during each such one-month period. All Bonds to be redeemed within the same maturity shall be selected randomly or in such other manner as the Trustee deems fair.

Except as otherwise described above, any Bonds to be called for redemption shall be selected by the Trustee by lot in such manner as the Trustee in its absolute discretion shall determine, such selection to be made prior to the date on which notice of such redemption must be given. Bonds shall be redeemed as soon as practicable after an event causing a redemption shall have occurred.

**Notice of Redemption.** Except as provided below, notice of redemption shall be mailed, first-class postage prepaid, by the Trustee, not less than 15 or more than 30 days prior to the redemption date (except as otherwise described below), to (a) the respective holders of any Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee as of the Special Record Date, and (b) the MSRB's Electronic Municipal Market Access system as provided at <http://www.emma.msrb.org> ("EMMA"). Notice of redemption shall also be given by telecopy or certified, registered or overnight mail to Securities Depositories (described below) two days prior to the mailing of notice of redemption to the Bondholders and EMMA. Each notice of redemption shall state the date of such notice, the applicable Special Record Date, the redemption date, the redemption price, the place or places of redemption (including the name and appropriate address or addresses of the Trustee), the CUSIP number (if any), the distinctive numbers of the Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of said Bonds the redemption price thereof or of said specified portion of the principal amount thereof in the case of a Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered at the address of the Trustee specified in the redemption notice.

Notice of redemption of Bonds shall be given by the Trustee for and on behalf of, and at the expense of, the Issuer. The Trustee shall mail a second notice to Bondholders with respect to any Bond called for redemption but not tendered for redemption within 60 days of the redemption date.

Failure by the Trustee to give notice pursuant to the Indenture to EMMA or the Securities Depositories shall not affect the sufficiency of the proceedings for redemption. Failure by the Trustee to mail notice of redemption pursuant to the Indenture to any one or more of the respective holders of any Bonds designated for redemption shall not affect the sufficiency of the proceedings for redemption with respect to the Bondholder or Bondholders to whom such notice was mailed.

Notwithstanding the foregoing or any other provision of the Indenture, in the event of a redemption by reason of (a) voluntary prepayments on the GNMA Securities, (b) a redemption pursuant to the provisions described in subparagraphs (a), (c) or (d) under the caption “THE BONDS - Redemption - Special Mandatory Redemption” above, (c) prepayments on the Mortgage Loan without notice or prepayment penalty pursuant to the provisions described in subparagraphs (e)(i), (ii) or (iii) under the caption “THE BONDS - Redemption - Special Mandatory Redemption” above, or (d) a redemption pursuant to the provision described in subparagraph (f) under the caption “THE BONDS - Redemption - Special Mandatory Redemption” above, the Trustee shall give notice of redemption of Bonds at least 5 days, and not more than 10 days, prior to such redemption immediately upon receipt of notice of prepayment of the Mortgage Loan or the principal payment of the CLCs, in each case from the Lender in accordance with the Financing Agreement. However, such notice of redemption shall not be required if the circumstances do not permit the Trustee to give such notice in accordance with the preceding sentence, provided that the Trustee shall give such notice as soon as practicable.

Notice of redemption having been given in the manner provided above, and money sufficient for the redemption being held by the Trustee for that purpose, the Bonds so called for redemption shall become due and payable on the redemption date, and interest thereon shall cease to accrue from and after the redemption date, and the holders of the Bonds so called for redemption shall thereafter no longer have any security or benefit under the Indenture except to receive payment of the redemption price for such Bonds from such money.

In addition to sending notice of redemption of Bonds to Bondholders, the Trustee shall, immediately upon receipt of notice of prepayment of the Mortgage Loan or the principal payment of the CLCs from the Lender in accordance with the Financing Agreement, notify the Rating Agency then rating the Bonds of such prepayment or principal payment.

### **BOOK ENTRY ONLY SYSTEM**

The Bonds will be available in book entry form only in denominations of \$5,000 and any integral multiple of \$1,000 in excess thereof. Purchasers of the Bonds will not receive certificates representing their interests in the Bonds purchased.

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued on a draw down basis as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for the Bonds, in the aggregate principal amount of such issue, 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 (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has 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](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

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

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, 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 Direct and Indirect Participants.

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

Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

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

## **SECURITY AND SOURCES OF PAYMENT FOR THE BONDS**

The Bonds will be secured under the Indenture by (a) all right, title and interest of the Issuer in and to all Revenues (as defined in the Indenture), derived or to be derived by the Issuer or the Trustee for the account of the Issuer under the terms of the Indenture and the Financing Agreement (other than the Reserved Rights of the Issuer as defined in the Indenture), together with all other Revenues received by the Trustee for the account of the Issuer arising out of or on account of the Trust Estate; (b) all right, title and interest of the Issuer in and to the GNMA Securities, including all payments and proceeds with respect thereto and any interest, profits or other income derived from the investment thereof; and (c) all funds, moneys and securities and any and all other rights and interests in property whether tangible or intangible from time to time by delivery or by writing of any kind conveyed, mortgaged, pledged, assigned or transferred as and for additional security under the Indenture for the Bonds by the Issuer or by anyone on its behalf or with its written consent to the Trustee, which is authorized under the Indenture to receive any and all such property at any and all times and to hold and apply the same subject to the terms of the Indenture.

Bond proceeds held in the Acquisition Fund and the Bond Fund will be invested by the Trustee in Qualified Investments. Funds will be advanced by the Trustee prior to the receipt of CLCs (as defined herein) (other than the initial CLC) to fund amounts for which the Trustee has received evidence of FHA Insurance under the procedures set forth in the Indenture. See “APPENDIX B—SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE — Acquisition Fund.”

THE BONDS, TOGETHER WITH INTEREST THEREON, AND REDEMPTION PREMIUM, IF ANY, ARE SPECIAL, LIMITED OBLIGATIONS OF THE ISSUER SECURED BY THE TRUST ESTATE, ARE AND SHALL ALWAYS BE PAYABLE SOLELY FROM THE REVENUES AND INCOME DERIVED FROM THE TRUST ESTATE AND ARE AND SHALL ALWAYS BE A VALID CLAIM OF THE OWNER THEREOF ONLY AGAINST THE REVENUES AND INCOME DERIVED FROM THE TRUST ESTATE, WHICH REVENUES AND INCOME SHALL BE USED FOR NO OTHER PURPOSE THAN TO PAY THE PRINCIPAL INSTALLMENTS OF, REDEMPTION PREMIUM, IF ANY, AND INTEREST ON THE BONDS, EXCEPT AS MAY BE EXPRESSLY AUTHORIZED OTHERWISE IN THE INDENTURE AND IN THE FINANCING AGREEMENT.

NEITHER THE BOARD OF THE ISSUER NOR ANY PERSON EXECUTING THE BONDS SHALL BE LIABLE PERSONALLY ON THE BONDS BY REASON OF THE ISSUANCE THEREOF. THE BONDS AND THE OBLIGATION TO PAY INTEREST THEREON, PRINCIPAL INSTALLMENTS AND REDEMPTION PREMIUMS, IF ANY, SHALL NOT BE A DEBT OF ANY CITY, COUNTY, THE STATE OF WASHINGTON, OR ANY POLITICAL SUBDIVISION OF THE STATE. NEITHER THE STATE OF WASHINGTON, NOR ANY POLITICAL SUBDIVISION THEREOF, SHALL BE LIABLE ON THE BONDS OR THE OBLIGATION TO PAY INTEREST THEREON, PRINCIPAL INSTALLMENTS AND REDEMPTION PREMIUMS, NOR IN ANY EVENT SHALL THE BONDS OR THE OBLIGATIONS TO PAY INTEREST THEREON, PRINCIPAL INSTALLMENTS AND REDEMPTION PREMIUMS BE PAYABLE OUT OF ANY FUNDS OR PROPERTIES OF THE ISSUER, THE STATE OF WASHINGTON, NOR ANY POLITICAL SUBDIVISION THEREOF, OTHER THAN FROM THE REVENUES AND INCOME DERIVED FROM THE TRUST ESTATE. THE BONDS SHALL NOT CONSTITUTE AN INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

NO OWNER OF THE BONDS SHALL HAVE THE RIGHT TO COMPEL THE EXERCISE OF THE TAXING POWER, IF ANY, OF THE ISSUER, THE STATE OF WASHINGTON OR ANY POLITICAL SUBDIVISION THEREOF, TO PAY ANY PRINCIPAL INSTALLMENT OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS.

THE BONDS ARE NOT A DEBT OF THE UNITED STATES OF AMERICA, THE UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT OR ANY OTHER FEDERAL GOVERNMENTAL AGENCY AND ARE NOT GUARANTEED BY THE FULL FAITH AND CREDIT OF THE UNITED STATES.

## THE GNMA MORTGAGE BACKED SECURITIES PROGRAM

*The summary and explanation of the GNMA Mortgage-Backed Securities Program and the other documents referred to herein do not purport to be complete, and reference is made to the GNMA I Mortgage-Backed Securities Guide (GNMA Handbook 5500.3 REV-6, as amended) and to said documents for full and complete statements of their provisions.*

The Government National Mortgage Association (“GNMA”) is a non-stock corporate instrumentality of the United States within the Department of Housing and Urban Development (“HUD”) with its principal office in Washington, D.C.

The GNMA Securities will be a “fully modified pass-through” mortgage-backed security issued and serviced by the Mortgage Lender. The face amount of the GNMA Securities will be in the same amount as the outstanding principal balance of the Mortgage Note. The Mortgage Lender will be required to pass through to the Trustee, as the holder of the GNMA Securities, by the 15th day of each month the monthly scheduled installments of principal and interest on the Mortgage Note (less the GNMA guarantee fee and the Mortgage Lender’s servicing fee), whether or not the Mortgage Lender receives such payment from the Issuer, plus any unscheduled prepayments of principal of the Mortgage Note received by the Mortgage Lender. GNMA guarantees the timely payment of the principal of and interest on the GNMA Securities.

Two types of GNMA Securities are intended to be issued by the Mortgage Lender in connection with the financing of the Project: (i) Construction Loan Certificates (“CLCs”), which are to be issued with respect to each construction loan advance under the Mortgage Loan and (ii) the Project Loan Certificate (“PLC”), which is to be issued with respect to the permanent Mortgage Loan. CLCs are expected to be dated the first day of the month following the month in which a construction advance is made under the Mortgage Loan and to provide that accrued interest for thirty (30) days is payable by the Mortgage Lender to the Trustee as holder of the CLCs commencing forty-five (45) days after the issue date, and continuing on the fifteenth (15th) day of each successive month thereafter until maturity of the CLCs (as such may be extended with the approval of GNMA) or exchange of the CLCs for the PLC, whichever is earlier.

### **GNMA Guaranty**

GNMA is authorized by Section 306(g) of Title III of the National Housing Act to guarantee the timely payment of the principal of, and interest on, securities which are based on and backed by mortgage pools consisting of a single mortgage insured by the Federal Housing Administration (“FHA”) pursuant to Section 242 of the National Housing Act. Section 306(g) of the National Housing Act further provides that “[t]he full faith and credit of the United States is pledged to the payment of all amounts which may be required to be paid under any guaranty under this subsection.” An opinion, dated December 12, 1969, of the then Assistant Attorney General of the United States, states that such guaranties under Section 306(g) of mortgage-backed securities of the type being delivered to the Trustee on behalf of the Issuer are authorized to be made by GNMA and “would constitute general obligations of the United States backed by its full faith and credit.”

Pursuant to such authority, GNMA, upon delivery of the GNMA Securities to the Mortgage Lender in accordance with the GNMA Guaranty Agreement (as hereinafter defined), will have guaranteed the timely payment of the principal of and interest on the GNMA Securities.

## **GNMA Borrowing Authority**

In order to meet its obligations under such guaranty, GNMA, in its corporate capacity under Section 306(d) of Title III of the National Housing Act, may issue its general obligations to the United States Treasury Department (the “Treasury”) in an amount outstanding at any one time sufficient to enable GNMA, with no limitations as to amount, to perform its obligations under its guaranty of the timely payment of the principal of and interest on the GNMA Securities. The Treasury is authorized to purchase any obligations so issued by GNMA and has indicated in a letter dated February 13, 1970, from the then Secretary of the Treasury to the then Secretary of HUD that the Treasury will make loans to GNMA, if needed, to implement the aforementioned guaranty.

GNMA warrants to the holder of the GNMA Securities in the GNMA Guaranty Agreement, that, in the event it is called upon at any time to make good its guaranty of the payment of principal of and interest on the GNMA Securities, it will, if necessary, in accordance with Section 306(d), apply to the Treasury for a loan or loans in amounts sufficient to make payments of principal and interest on the GNMA Securities.

## **Servicing of the Mortgage Loan**

The Mortgage Lender is responsible for servicing and otherwise administering the Mortgage Loan in accordance with generally accepted practices of the mortgage banking industry and the GNMA Servicer’s Guide.

The monthly remuneration of the Mortgage Lender, for its servicing and administrative functions, and the guaranty fee charged by GNMA, are based on the unpaid principal amount of the GNMA Securities outstanding. The total of the servicing and guaranty fees with respect to the GNMA Securities is 0.25% per annum, payable monthly, calculated on the principal balance of the GNMA Securities outstanding on the last day of the month preceding such date of calculation. Of the 0.25% total fee, part is paid to GNMA as a guaranty fee, and the remainder is retained by the Mortgage Lender as a servicing fee. The GNMA Securities carry an interest rate that is 0.25% per annum less than the interest rate on the Mortgage Note because the servicing and guaranty fee is deducted from payments on the Mortgage Note.

It is expected that interest and principal payments on the Mortgage Note will be the source of money for payments on the GNMA Securities. If such payments are less than what is due, the Mortgage Lender may advance its own funds to ensure timely payment of scheduled installments of principal and interest due on the GNMA Securities. GNMA guarantees such timely payment in the event of the failure of the Mortgage Lender to pass through such scheduled principal and interest payments when due.

The Mortgage Lender is required to advise GNMA in advance of any impending default on scheduled payments on the GNMA Securities so that GNMA as guarantor will be able to continue such payments as scheduled on the 15th day of each month. If, however, such payments are not received as scheduled, the Trustee, on behalf of the Issuer, has recourse directly to GNMA.

The guaranty agreement entered into by GNMA and the Mortgage Lender in connection with the issuance of the GNMA Securities (the “GNMA Guaranty Agreement”) will provide that, in the event of a default by the Mortgage Lender, including (i) a request to GNMA to make a payment of principal or interest on a GNMA Securities when the Issuer is not in default under the Mortgage Note, (ii) insolvency of the Mortgage Lender, or (iii) default by the Mortgage Lender under any other guaranty agreement with GNMA, GNMA will have the right, by letter to the Mortgage Lender, to effect and complete the extinguishment of the Mortgage Lender’s interest in the Mortgage Note, and the Mortgage Note will thereupon become the absolute property of GNMA, subject only to the unsatisfied rights of the holder of

the GNMA Securities. In such event, the GNMA Guaranty Agreement will provide that on and after the time GNMA directs such a letter of extinguishment to the Mortgage Lender, GNMA will be the successor in all respects to the Mortgage Lender in its capacity under the GNMA Guaranty Agreement and the transaction and arrangements set forth or arranged for therein, and will be subject to all responsibilities, duties and liabilities (except the Mortgage Lender's indemnification of GNMA), theretofore placed on the Mortgage Lender by the terms and provisions of the GNMA Guaranty Agreement, provided that at any time, GNMA may enter into an agreement with any other eligible issuer of GNMA securities under which the latter undertakes and agrees to assume any part or all such responsibilities, duties or liabilities theretofore placed on the Mortgage Lender, and provided that, no such agreement will detract from or diminish the responsibilities, duties or liabilities of GNMA in its capacity as guarantor of the GNMA Securities or otherwise adversely affect the rights of the holders thereof.

### **Payment of Principal and Interest on the GNMA Securities**

As a condition to the issuance of each CLC, the Mortgage Lender will be obligated to deliver certain documents to GNMA prior to the anticipated delivery date of such GNMA Securities, including evidence of the advance of the Mortgage Loan and its endorsement for FHA Insurance. During this period between the date of an advance under the Mortgage Loan and the issuance of a GNMA guaranty of the related CLC, it is possible that the Issuer could default under the Leasehold Mortgage or the Mortgage Note or the Mortgage Lender could default under the GNMA Guaranty Agreement. GNMA has stated, among other things, that, in the event of either or both types of default, it nevertheless will (except in the event of fraud or misrepresentation by the Mortgage Lender) be obligated to approve the issuance of the CLC corresponding to the advance under the Mortgage Note made prior to the default (GNMA has not made such a statement with respect to issuance of a PLC).

In the event the Mortgage Lender is in default under the GNMA Guaranty Agreement subsequent to an advance under the Mortgage Note but prior to approval by GNMA of the issuance of a CLC corresponding to such advance, GNMA is not required to assume the Mortgage Lender's liability and responsibility under the Leasehold Mortgage and the building loan agreement to complete the financing of the Project and the issuance of the remaining GNMA Securities. If it were to decide to complete the financing, at its option, GNMA could either assume the role of the Mortgage Lender and issue the GNMA Securities to the Trustee, or could arrange for issuance of the GNMA Securities by another authorized issuer of GNMA Securities. In the event GNMA decides not to complete or arrange for the completion of the financing, no further proceeds of the Bonds would be advanced to acquire additional GNMA Securities with respect to the Project. GNMA would remain obligated to make payments under GNMA Securities previously issued.

Payment of interest on the GNMA Securities is required to be made in monthly installments on or before the 15th day of each month commencing the month next following the date of issuance of such GNMA Securities. The CLCs shall provide for payment of interest only until maturity at a rate equal to the interest rate on the Mortgage Note less the guaranty and servicing fees computed in accordance with the GNMA Mortgage-Backed Securities Guide. Accrued interest for 30 days shall be payable to the holders of the securities commencing on the 15th day of the month next following the issue date and shall be due continuously on the 15th day of each successive month. The CLCs will mature on the earlier of their stated maturity date or upon issuance of the PLC (i.e., after the final endorsement of the Mortgage Note and after the Mortgage Lender has complied with all of the requirements of the said guide for issuance of the PLC). The CLC Maturity Date was established by allowing at least 200% of the HUD anticipated construction time. Upon approval by GNMA, in instances of mortgage default or other unusual circumstances preventing the finally endorsed mortgage from becoming eligible for mortgage-backed security pooling, retirement shall be by payment of cash. Payment of principal on the PLC is

expected to commence 15 days after the commencement of amortization of principal of the Mortgage Note.

Each of the monthly installments shall be subject to adjustment by reason of any prepayments or other early or unscheduled recoveries of principal on the Mortgage Note. In any event, the Mortgage Lender is required to pay to the Trustee, as holder of the GNMA Securities, monthly installments of not less than the interest due on the GNMA Securities at the rate specified in the GNMA Securities, together with any scheduled installments of principal whether or not collected from the Issuer (unless the Issuer has credited a prior prepayment against a scheduled installment of principal) and any prepayments or early recovery of principal. Final payment of the PLC shall be made upon surrender of the outstanding PLC.

### **Liability of Mortgage Lender**

The GNMA Securities will not constitute a liability of nor evidence any recourse against the Mortgage Lender. The GNMA Securities are based on and backed by the Leasehold Mortgage on the real property securing the Mortgage Note. Recourse may be had by the Trustee only to GNMA in the event of any failure of timely payment as provided for in the GNMA Guaranty Agreement with respect to the GNMA Securities.

### **THE MORTGAGE NOTE AND MORTGAGE**

*This summary and explanation of the Mortgage Note and Leasehold Mortgage does not purport to be comprehensive and is qualified in its entirety by reference to the Mortgage Note and Leasehold Mortgage for full and complete statements of their provisions.*

The Leasehold Mortgage from the Issuer to the Lender secures the Mortgage Note. The Mortgage Loan proceeds will be disbursed by the Lender in accordance with the progress of the construction and equipping of the Project, and the Lender will be reimbursed for advances upon the purchase of the initial CLC, the funding of interim advances under the Mortgage Loan and the purchase of the PLC by the Trustee. The Mortgage Loan disbursements will be insured by FHA as the construction and equipping of the Project progresses under Section 242 of the National Housing Act, as amended, and the regulations thereunder. Upon the purchase of CLCs, the Lender will make payments thereon which may differ from the Mortgage Note payments. Upon the purchase of the PLC from the Lender by the Trustee, monthly scheduled installments of principal and interest on the Mortgage Note (less the GNMA guaranty fee and the Lender's servicing fee) will be passed through to the Trustee or its nominee as scheduled payments of principal and interest on the GNMA Security.

The Mortgage Loan, as evidenced by the Mortgage Note and Leasehold Mortgage, (a) will be insured by FHA pursuant to and in accordance with the provisions of Section 242 of the National Housing Act, as amended, and applicable regulations thereunder, as evidenced by the endorsement by FHA of the Mortgage Note evidencing the Mortgage Loan, (b) will be in the principal amount of \$23,165,000 which is subject to being reduced, without penalty, upon final endorsement of the Mortgage Loan for FHA Insurance, (c) will bear interest at the rate of 6.76% per annum; (d) will have a final maturity of April 1, 2036, (e) will be payable interest only monthly through April 1, 2011 and will thereafter be payable in equal monthly installments of principal and interest, commencing on May 1, 2011, (f) will be secured on a nonrecourse basis and (g) will not be subject to prepayment prior to November 30, 2019, without the consent of the holder of the Mortgage Note except that the Mortgage Note will be subject to prepayment in whole or in part (i) at any time without premium or penalty, (A) from the proceeds of any casualty insurance or condemnation awards received following a partial or total destruction or condemnation of the Project, in the event and to the extent that such casualty proceeds or condemnation awards are not applied

to the repair or restoration of the Project in accordance with the FHA Loan Documents, (B) from the proceeds of mortgage insurance or other amounts received by the Holder with respect to the indebtedness evidenced by the Mortgage Note in accordance with applicable HUD regulations, following a default under the Mortgage Note, or (C) as may be otherwise required by any applicable regulations, policies and procedures of HUD or GNMA, (ii) at the option of the Issuer, on the last day of any month after November 30, 2019, upon at least 30 days' advance written notice to the Lender, and upon payment of all or part of the principal amount of the Mortgage Note then outstanding together with the applicable prepayment premium attributable to that portion of prepaid principal of the Mortgage Note, (iii) without prepayment penalty if HUD determines that prepayment will avoid an FHA insurance claim and therefore is in the best interest of the federal government, notwithstanding any prepayment prohibition imposed and/or penalty required by the Mortgage Note with respect to prepayments made prior to November 30, 2020 and (iv) without prepayment penalty pursuant to a final non-appealable order of a bankruptcy court while the Issuer is under the supervision of such court. In the event of a partial prepayment described in subparagraphs (i), (ii), (iii) or (iv) above, the Mortgage Note may be reamortized to reflect its reduced principal amount.

If the Issuer makes any such prepayment on the Mortgage Note, the amount prepaid will be paid to the Lender and passed through to the Trustee, as a prepayment on the GNMA Security, and applied to the redemption of Bonds, as described under "THE BONDS—Redemption."

## **THE PROJECT AND THE PRIVATE PARTICIPANTS**

*The following information has been provided by the Issuer. None of the Trustee, the Lender or the Underwriter have made any independent investigation regarding the information presented under this heading, nor have such parties verified the accuracy or completeness thereof, and none of the Trustee, the Lender or the Underwriter assumes any responsibility or liability therefor.*

### **The Project**

The Project will consist of improvements to the Healthcare Facilities including the construction of a new Critical Access Hospital and rural health clinic adjacent to the existing Hospital and Clinic on land currently owned by the District. The new hospital and clinic facility will include all inpatient and outpatient services currently provided by the District such as public and emergency entrances, admissions, emergency, surgery, pre/recovery, labor and deliver, rehab and therapy, imaging, laboratory, pharmacy and specialty clinics, 25 patient care beds, nursing station and associated patient care services. Administration, medical records, billing, purchasing and payroll will also be housed in the new hospital and clinic facility.

The Project is comprised of (1) the Hospital, (2) Coulee Family Medicine the Clinic, a primary care clinic, with the Clinic located in a separate building immediately adjacent to the Hospital site on Grand Coulee, Washington, and (3) a satellite medical clinic located 30 miles west of the Hospital in Coulee City, Washington. The Project also includes all other health care facilities hereafter acquired by the District or the Issuer. The existing Project was originally constructed in 1962 and no longer provides adequate nor efficient space for the District's health care services. The Issuer plans to construct a new Hospital and Clinic to better accommodate the growth of the District's operations. See "APPENDIX F – CERTAIN INFORMATION ABOUT THE DISTRICT AND THE PROJECT" attached hereto for additional information on the Project.

The Hospital was designated a CAH by the Centers for Medicare and Medicaid Services ("CMS") effective January 2002. As a CAH, the Hospital can be licensed for up to 25 beds that are designated as either acute care or swing beds. The Hospital must also provide 24-hour emergency services

and maintain a support and referral agreement with a larger tertiary care hospital. The CAH program provides for reimbursement at a rate of 101% of eligible costs attributable to certain Medicare patient services.

The proceeds of the Bonds, together with funds contributed by the District, will fund the Project.

### **Estimated Project Costs**

Total Project development costs are estimated at approximately \$24,698,529, described below:

<b>Estimated Project Development Costs:</b>	
Construction & Sitework	\$15,371,866
Equipment, Furniture, & Fixtures	4,001,550
Architect & Engineering	1,471,000
Consultants (Equipment, Feasibility, etc.)	135,000
Hospital Legal	120,000
Mortgagor's Other Fees	925,000
Title & Recording	30,000
Construction Interest	1,370,210
Contingency	1,273,903
<b>Total Estimated Project Development Costs</b>	<b><u>\$24,698,529</u></b>

### **Trustee**

U.S. Bank National Association will serve as Trustee under the Indenture. The Trustee is a national banking association organized and existing under the laws of the United States of America, having fiduciary powers.

### **THE LENDER**

*The following information has been provided by the Lender. None of the Issuer, the Trustee or the Underwriter have made any independent investigation regarding the information presented under this heading, nor have such parties verified the accuracy or completeness thereof, and none of the Issuer, the Trustee or the Underwriter assumes any responsibility or liability therefor.*

Red Mortgage Capital, Inc. (the "Lender"), an Ohio corporation, is a mortgage banking firm specializing in FHA-insured construction and permanent mortgage loans, Fannie Mae forward commitments and permanent mortgage loans, and both Fannie Mae and FHA bond credit enhancements for multifamily and seniors housing projects and health care facilities across the United States. The Lender also is approved by GNMA to issue modified pass-through securities.

The Lender is one of the most active FHA mortgagees and GNMA issuers for HUD insured project loans and one of the top Fannie Mae DUS<sup>TM</sup> lenders (by annual volume) in the country. As of June 30, 2009, the Lender serviced nearly 1,700 multifamily, seniors housing project and health care facilities loans totaling over \$12.7 billion, which includes over 350 FHA-insured mortgage loans totaling nearly \$1.5 billion and over 900 Fannie Mae mortgage loans totaling more than \$10.1 billion.

### **INVESTMENT CONSIDERATIONS AND CERTAIN BONDHOLDERS' RISKS**

The purchase of the Bonds involves certain investment risks that are discussed throughout this Official Statement. Further, certain risks are inherent in the successful operation of the Project.

Accordingly, each prospective purchaser of the Bonds should make an independent evaluation of all of the information presented in this Official Statement and the Appendices hereto to make an informed investment decision. Below are a number of “Risk Factors” that should be considered by prospective purchasers of the Bonds. This section is not intended to be a comprehensive listing of all risks associated with the operation of the Project or the payment of the principal of and interest on the Bonds.

### **Early Redemption and Loss of Premium**

Purchasers of Bonds, including those who purchase Bonds at a price in excess of their principal amount or who hold such a Bond trading at a price in excess of par, should consider the fact that the Bonds are subject to redemption at a redemption price equal to their principal amount plus accrued interest in the event such Bonds are redeemed prior to maturity. This could occur, for example, in the event the PLC is not delivered by the date required under the Indenture (as such date may be extended pursuant to the Indenture) or is delivered in a principal amount less than \$23,165,000 (for reasons other than receipt by the Lender of regularly scheduled principal amortization payments) or in the event that the Mortgage Note is prepaid as a result of a casualty or condemnation award payments affecting the Project or there is a default under the Leasehold Mortgage. See “THE BONDS—Redemption—Special Mandatory Redemption.”

### **Limited Security**

The Bonds are limited obligations of the Issuer payable solely from certain funds pledged to and held by the Trustee pursuant to the Indenture.

### **Issuance of GNMA Securities**

It is anticipated that the Trustee will acquire the PLC on or before the PLC Delivery Date, as such acquisition date may be extended pursuant to the terms of the Indenture. The purchase of the PLC is subject to the following conditions, among others: (a) the submission by the Lender to GNMA of certain documents required by GNMA in form and substance satisfactory to GNMA, (b) the Lender’s continued compliance, on the date of issuance of the PLC, with all of GNMA’s eligibility requirements, specifically including, but not limited to, certain net worth requirements, (c) the Lender’s continued ability to issue and deliver the PLC, as such ability may be affected by the Lender’s bankruptcy, insolvency or reorganization, and (d) final endorsement of the Mortgage Note for insurance by FHA (which, in turn, is dependent upon a number of factors such as lien free completion of construction and equipping of the Project, HUD approval of the Issuer’s Cost Certification and payment by the Issuer of amounts due in connection with the Project). In the event that the PLC is not issued as a result of a failure of any of the conditions listed above, the Bonds will be subject to early redemption in whole or in part as discussed under “Special Mandatory Redemption.”

Although the construction period is estimated to be approximately 19 months, the Issuer has agreed to escrow funds with the Lender in the amount deemed sufficient to extend the PLC Delivery Date if needed.

### **Secondary Markets and Prices**

The Underwriter will not be obligated to repurchase any of the Bonds, and no representation is made concerning the existence of any secondary market for the Bonds. No assurance can be given that any secondary market will develop following the completion of the offering of the Bonds, and no assurance can be given that the Bonds can be resold at their initial offering prices for any period of time.

## **Risks Related to Patient Services Revenue**

### ***General***

A substantial portion of the Project's net patient service revenues is derived from third-party payors that pay for the services provided to patients covered by third parties for services. These third-party payors include the federal Medicare program, state Medicaid program and private health plans and insurers, including health maintenance organizations ("HMOs"). Some of those programs make payments to the Project in amounts that may not reflect the Project's direct and indirect costs of providing services to patients.

The Project's financial performance has been and could be in the future adversely affected by the financial position or the insolvency or bankruptcy of or other delay in receipt of payments from third-party payors that provide coverage for services to their patients.

In addition, the ability of the Project to generate sufficient revenue to repay the Bonds is dependent upon (i) the Hospital's retention of its Critical Access Hospital ("CAH") designation and (ii) there being no federal or state legislation significantly modifying how CAHs are reimbursed under the Medicare program.

### ***Government Regulation of the Health Care Industry***

The health care industry is subject to federal, state and local laws, rules, regulations and policies, as well as private agency rules and regulations. The Medicare and Medicaid programs discussed under "Medicare Reimbursement" and "Medicaid Reimbursement" herein are among the federal and state agencies that have a substantial affect on the health care industry. As a result, the health care industry and the Project may be impacted by legislative and regulatory changes.

Health care expenditures as a percentage of the gross national product continue to rise. Continued federal and state efforts in the form of statutory and regulatory activity to reduce the rate of increase in reimbursement of health care costs, particularly costs paid under the Medicare and Medicaid programs, can be expected. Private insurance companies also adopt cost containment measures similar to those implemented by governmental agencies. It is unlikely that the Project would be able to offset declining federal and state reimbursement with other sources of reimbursement.

### ***Medicare***

Medicare is a Federal program administered by the Centers for Medicare and Medicaid Services ("CMS"), formerly the Health Care Financing Administration ("HCFA"), an agency of the United States Department of Health and Human Services ("HHS"). Medicare provides certain health care benefits to individuals who are age 65 or older, disabled, or qualify for the End Stage Renal Disease Program. In general, Medicare Part A covers inpatient hospital services, skilled nursing care, and some home health care, while Medicare Part B covers physician services, outpatient hospital services, diagnostic tests, and various health-related supplies. However, such coverage includes certain deductible and coinsurance obligations imposed on Medicare beneficiaries.

*Medicare and Medicaid Conditions of Participation.* Hospital facilities must comply with standards called "Conditions of Participation" in order to be eligible for Medicare and Medicaid reimbursement. CMS is responsible for ensuring that hospitals meet these regulatory Conditions of Participation. CMS may request that the state agency responsible for licensing hospitals, on behalf of CMS, conduct a "sample validation survey" of a hospital to determine whether it is complying with the

Medicare or Medicaid Conditions of Participation. Failure to comply with the Conditions of Participation could have a material adverse effect on the Project's financial condition.

The trend of recent federal Medicare legislation and regulations is to replace cost-based, provider-specific reimbursement with prospectively determined, regionally-adjusted national payment rates that are periodically adjusted to reflect inflation estimates. In recent years, the inflation adjustments have been below the general inflation rate for medical services and products. If this trend continues, the net effect on the revenues of the Project cannot be determined at this time, but could result in lower revenues that would negatively affect the Project. The Medicare Prescription Drug Improvement and Modernization Act of 2003 (the "2003 Act") was signed into law on December 8, 2003. It provides for increased payments to rural health providers and increased benefits to managed care plans. Over the ten year life of the 2003 Act, payments to hospitals are expected to increase up to \$13.7 billion. The 2003 Act includes a prescription drug benefit that began January 1, 2007. On March 23, 2004, the Social Security and Medicare Board of Trustees published a report indicating that the changes to Medicare made in the 2003 Act, if retained in their current form, are projected to cause deficiencies in the Medicare program and could contribute to the bankruptcy of Medicare as currently constituted by 2019. In its 2007 Annual Report, the Trustees of the Federal Hospital Insurance Trust Fund ("Medicare Trust Fund") again projected the Medicare Trust Fund will be exhausted by 2019, demonstrating the need for timely and effective reforms to address Medicare's financial challenges. Such projections could give rise to future legislation reducing benefits to providers in an effort to improve the financial position of Medicare.

In June 2005, the Medicare Payment Advisory Commission ("MedPAC") submitted a "Report to Congress: Issues in Modernized Medicare Program", which recommended further study of the effects of cost-based reimbursement for CAHs in the Medicare program. The implementation of any changes which decrease Medicare reimbursement to CAHs could affect the Project's ability to pay the principal of and interest on the Bonds on a timely basis, if at all.

### ***EMTALA***

In 1986 Congress enacted the Emergency Medical Treatment and Active Labor Act ("EMTALA"), in response to allegations of inappropriate hospital transfers of indigent and uninsured emergency patients. EMTALA imposes strict requirements on hospitals in the treatment of transfer patients with emergency medical conditions.

EMTALA requires hospitals to provide a medical screening examination to any individual who comes to the hospital's dedicated emergency department ("DED") for treatment, without regard to pay, to determine whether the individual suffers from an emergency medical condition within the meaning of the statute. A DED is licensed by the state in which it is located as an emergency room or department, or the DED is held out to the public as a place providing care for emergency medical conditions without requiring an appointment or during the immediately preceding calendar year, the DED provided treatment of emergency medical conditions without requiring an appointment for at least one-third of all of its out-patient visits. A participating hospital may not delay provision of a medical screening examination in order to inquire about method of payment or insurance status. If an emergency medical condition is present, the hospital must provide such additional medical examination and treatment as may be required to stabilize the emergency medical condition. If the hospital deems it is in the best interest of the individual to transfer the individual to another medical facility, the treating physician must execute a transfer certificate complying with the standards of EMTALA and must provide a medically appropriate transfer.

EMTALA imposes significant costs on hospitals, including the costs of treatment of individuals who may not be able to pay for such services, costs of development and implementation of protocols

concerning medical screening examinations and stabilization and appropriate transfers and, in some cases, costs associated with assuring on-call availability of special physicians.

If a hospital with fewer than 100 beds violates EMTALA, whether knowingly and willfully or negligently, it is subject to a civil money penalty of up to \$25,000 per violation. Failure to satisfy the requirements of EMTALA may also result in termination of the hospital's Medicare provider agreement. In addition, EMTALA creates a private cause of action for individuals who suffer personal harm as a result of an EMTALA violation, and for any hospital that suffers financial loss as a result of another hospital's violation of EMTALA. The statute of limitations for filing such a civil action is two years.

#### ***Audits, Exclusions, Fines and Enforcement Actions***

Health care providers that participate in the Medicare program are subject to audits by the Medicare fiscal intermediary and/or carrier. Based on an audit, the fiscal intermediary/carrier may conclude, among other things, that certain costs claimed by the provider are not allowable, that a service has been paid under an incorrect Diagnosis Related Group ("DRG") or should not have been paid as an inpatient, or that certain services were not medically necessary. As a consequence, certain payments may be retroactively disallowed. Under certain circumstances, claims for reimbursement by the provider may be determined to have been improper, and therefore, subject to the penalties of the False Claims Act or other federal statutes, subjecting the provider to civil and criminal sanctions. Such adjustments may be substantial. Medicare regulations also provide for withholding or offsetting Medicare payments in certain circumstances, and such withholdings or offsets could have a material adverse impact on the financial condition, results of operations or revenues of the Project.

Participating providers are subject to audits and retroactive audit adjustments with respect to the Medicare and Medicaid programs. Such adjustments could exceed reserves and could be substantial. Medicare and Medicaid regulations also provide for withholding payments in certain circumstances. The Hospital is not currently the subject of any Medicaid audits or retroactive audit adjustments. However, any withholds that may occur could have a material adverse impact on the future financial condition of the Project. Management of the Hospital is not aware of any material payment withholding by either Medicare or Medicaid.

Management of the Hospital is not aware of any situation in which reserves are inadequate or a material amount of Medicare payments is being withheld. The Hospital utilizes internal and external resources to review and audit compliance with the policies, procedures, laws and regulations applicable to the Medicare program. Whenever such reviews identify practice deviations, the management of the Hospital assesses the deviation and develops time frames and action plans to correct the deficiency. Such reviews and audits, which are currently in process as part of the Hospital's continuous improvement processes, have not identified deviations or deficiencies that may have a material adverse effect on the financial condition, results or operations or revenues of the Project.

#### ***Medicare Reimbursement***

*General.* Approximately 31.5% of the gross patient revenue of the Hospital was derived from the Medicare program for the fiscal year ended December 31, 2006 and 32.5% for the year ended December 31, 2005. The Medicare program, Medicaid program and commercial payors are consistently the most important payment sources of gross patient revenue for the Hospital. Any revision to the Medicare program or to the Hospital's classification under the Medicare program may significantly affect the Project's revenues.

Federal Medicare legislation provides several distinct approaches for reimbursement. The primary classifications are those paid under the Prospective Payment System (“PPS”) and those qualifying for Critical Access Hospital (“CAH”) status. Clinic reimbursement classifications include special considerations for Rural Health Clinics and Provider-Based Rural Health Clinics (“RHC”). Broadly stated, PPS hospitals are paid at prospective, regionally-adjusted national rates that are periodically adjusted to reflect inflation estimates. Critical Access Hospitals and Rural Health Clinics obtain cost-based reimbursement. **On January 1, 2001, the Hospital was designated as a CAH. Based on current regulations, the Hospital treats its clinics as Provider-Based Rural Health Clinics and is reimbursed on a cost basis. Provider-based regulations allow a provider to seek provider-based status. A reclassification of this status may adversely affect an entity’s reimbursement under the Medicare program.**

The laws and regulations governing Medicare reimbursement are extremely complex and subject to interpretation. In addition, there is no guarantee that the reimbursement methodologies described below for Medicare inpatient and outpatient services will continue in their present format, since those methodologies and the associated payment rates have been the frequent subject of Congressional action.

*Medicare Payments.* Acute care hospitals are generally paid for inpatient services provided to Medicare inpatients under the Prospective Payment System (“PPS”), **while CAHs are paid on the basis of allowable costs for inpatient and outpatient services and are not subject to the PPS system.** The Balanced Budget Act of 1997 (“BBA”) established special payment rules for rural hospitals designated as a CAH. The Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000 (“BIPA”) eliminated the cost-sharing requirement for Medicare beneficiaries receiving outpatient laboratory services from a CAH and increased payment rates for certain physician services, skilled nursing services, and ambulance services furnished in or by a CAH. In order to qualify as a CAH, a hospital must (i) be located in a state that has established a state flex program, (ii) be located in a rural area or be treated as rural, (iii) provide 24-hour emergency care services, (iv) provide no more than 25 inpatient beds, (v) have an average length of stay of 96 hours or less per patient for acute patients, and (vi) be either more than 35 miles from a hospital or another CAH or more than 15 miles in areas with mountainous terrain or only secondary roads or be certified by the state as of December 31, 2005 as being a necessary provider of health care services to residents in the area. On January 1, 2001, the Hospital was designated as a CAH.

Under the PPS system Medicare pays a predetermined rate for each covered hospitalization and separate PPS payments are made for inpatient operating costs and inpatient capital related costs. The Hospital, as a CAH, is reimbursed for inpatient and outpatient services based on actual cost. Allowable costs currently include salaries and benefits, drugs, supplies, depreciation and interest, utilities and rent leases. There are costs that are not allowable, including without limitation, non-Medicare bad debts and charity, physician recruitment, costs of physician offices that are not rural health clinics and a variety of other statutorily excluded costs.

Congress or regulators in the future may impose additional or different requirements for designations as a CAH and/or may alter the methodology for reimbursement of services offered by a CAH. Any such changes could have an adverse impact on the financial operations and revenues of the Project.

*Payment for Inpatient Services.* While PPS acute care hospitals are paid a specified amount towards their operating costs based on the DRG of each Medicare patient, which is based on national averages of costs for categories of diagnoses, procedures and other factors assigned to each Medicare patient, a CAH is reimbursed for its actual costs as set forth in an annual cost report including depreciation and interest. Reimbursement to a CAH during a year is made on an interim basis based on

the CAH's cost to charge ratio as set forth in its most recent filed cost report. At the end of each year, the annual cost report is submitted and any remaining balances, either for overpayments, or for additional reimbursement, are settled based on the annual cost report. Congress or regulators in the future may impose additional limits or cutbacks in such payments or modify the method of calculating such payments.

*Reimbursement of Hospital Capital Costs.* As noted above, hospitals are reimbursed for capital costs (including depreciation and interest) related to the provision of inpatient services to Medicare beneficiaries. There can be no assurance that future capital-related payments will be sufficient to provide adequate flexibility in meeting changing capital needs.

*Payment for Outpatient Services.* Outpatient services continue to expand dramatically, as government and private commercial payors seek to shift more patient services to the less costly outpatient setting. As noted above, outpatient services performed by a CAH are paid on the basis of actual cost, utilizing the same methodology as payment for inpatient services. Just as is the case with inpatient services, Congress or regulators in the future may impose additional limits or cutbacks in such payments or modify the method of calculating such payments.

*Physician Payment.* Medicare typically reimburses physicians 80% of the lower of the Medicare fee schedule amount or the physician's actual charge. The fee schedule for physician services is based on a federally determined resource-based relative value scale that calculates the weighted values of the physician's work, practice expenses, and the cost of malpractice and liability insurance associated with each reimbursable procedure performed by the physician. The federally determined relative values are adjusted for geographic locale and then are converted into the reimbursement amount payable for the particular procedure. Payment provided under the fee schedule covers a physician's professional services; supplies and services furnished incident to the physician's services; physical, occupational and speech therapy; diagnostic tests other than clinical lab tests (which have their own fee schedule); and x-ray, radium and radioactive isotope therapy services.

**However, Medicare reimbursement for physician services provided through rural health clinics ("RHCs"), such as those operated by the Hospital, is cost-based as defined and limited by Medicare.** The Hospital has elected the "optional" payment method ("Method II Billing") from Medicare, which permits the Hospital to bill the Medicare Fiscal Intermediary ("FI") for both facility services and professional services to its outpatients. The physician or other provider assigns his/her Part B billing rights and agrees to be included in the hospital's Method II Billing, and Medicare pays an additional percentage of 15% of the allowable amount, after applicable deductions, under the Medicare Physician Fee Schedule ("MPFS") for non-RHC professional services. Inpatient professional charges are not included in Method II Billing and are paid at a different rate.

Congress or regulators in the future may impose additional limits or cutbacks in such payments or modify the method of calculating such payments.

*Home Health Care.* CMS has developed a prospective payment system for home health services. Such payments are increased annually, but it is likely that the increases of such payments will not keep pace with the increases in the cost of providing home health services. Any such failure to adequately increase such payments will have an adverse affect on home health providers whose costs exceed the level of prospective reimbursement. The actual financial effect on the Hospital from such a system cannot be determined at this time.

### ***Medicaid Reimbursement***

Medicaid is both a federal and state administered program that is designed to pay providers for care given to the medically indigent and others who receive federal aid. Medicaid is funded by federal and state appropriations. Approximately 26.9% of the gross patient revenue of the Hospital was derived from the Medicaid program for the fiscal year ended December 31, 2006 and 25.1% for the year ended December 31, 2005. Any revision to the Medicaid program or to the Hospital's classification under the Medicaid program may significantly affect the Project's revenues.

Medicaid payment for inpatient and outpatient services is generally made on a cost basis as defined by the State. Cost reimbursement is made at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and review by the Washington State Department of Social and Health Services ("DSHS"). For Medicaid beneficiaries who have elected to use the State Healthy Options program described below, the Hospital is reimbursed for those services at a calculated percentage of charges based on the direct Medicaid interim rate with no subsequent settlement process.

Medicaid RHCs reimbursement is on a federally mandated prospectively established rate per visit which is based on historical cost. Non-RHC physician services are paid based on the Medicaid fee schedule. Payment for non-physician practitioner professional services are a percentage of the amount that would be paid under the MPFS.

***The Washington State Medicaid Program.*** In order to receive federal grants, a state's Medicaid program must cover persons receiving assistance from Temporary Assistance for Needy Families (previously known as Aid to Families with Dependent Children) or the federal Supplemental Social Security ("SSI") program and certain categories of children and pregnant women. The design and operation of the Medicaid program falls to each state, however, and there are significant variations in virtually all aspects of the Medicaid program across states. State-specific variations arise because the Medicaid statute allows for optional benefits and categories of beneficiaries, as well as waivers of certain statutory requirements to implement specific programs or demonstration projects. The Medicaid statute also allows each state some latitude in defining the methods and standards that the state uses to reimburse facilities for items and services that it provides to Medicaid beneficiaries.

CMS approved the request of the State for a waiver under Section 1115 of the Federal Social Security Act, which has allowed the State to implement a statewide Medicaid managed care delivery system as a demonstration project. The Medicaid health care delivery system, entitled "Healthy Options", provides payment for health care services through managed care provider networks. The Hospital contracts with managed care providers who participate in Healthy Options. Healthy Options reimbursement for RHC services is based on a rate negotiated with the Healthy Options insurer plus an enhanced capitated payment from the state which in total approximates the Medicaid prospective payment rate.

The Hospital participates in the State's Medicaid Program and accordingly provides inpatient and outpatient hospital services to eligible Medicaid beneficiaries. The State pays the Hospital on a cost-based reimbursement system for both inpatient and outpatient services, with the exception of rehabilitation and psychiatric services, which are paid on a fee for service basis.

The Hospital's Medicaid revenues could be materially affected by changes at the state or federal level, including reductions in Medicaid coverage (of persons or benefits), reductions in funding or payments, or termination or reduction in scope of the Healthy Options or Medicaid programs generally. Coverage of persons could be reduced by eliminating groups of currently eligible State residents or by changing the poverty level threshold required for eligibility. Either of these changes would increase the

number of uninsured persons treated by healthcare providers and increase the risk of unreimbursed expenses. In addition, reductions in provider reimbursement from Medicaid could have a significant negative impact on the Project's revenues. The State agencies that purchase health care services (the DSHS, the Department of Labor and Industries, and the State Health Care Authority, for example) implemented an outpatient prospective payment system ("OPPS") for payment of hospital-based outpatient services, which became effective on November 1, 2004. OPPS was modeled after the Medicare APC program. OPPS could have a significant negative impact on the Project's financial condition.

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

Certain private insurance companies contract with hospitals and other providers on an "exclusive" or a "preferred" provider basis and have introduced plans known as "preferred provider organization plans" ("PPOs"). Under such PPOs, there generally are financial incentives for enrollees to use those contracted providers. Under HMO plans, private payers may direct patients away from participating providers by limiting coverage for services provided by them. *The Hospital does utilize and allot PPO contracts a percentage-discount from gross charges. One HMO type plan is accepted by the Hospital. It is the State's Medicaid Healthy Options Plan as administered by the Community Health Plan of Washington.*

Often, payor contracts are enforceable for a stated term, regardless of hospital losses and may require hospitals to care for enrollees for a certain time period, regardless of whether the payer is able to pay the hospital. Hospitals from time to time have disputes with payers concerning payment and contract interpretation issues.

Failure to maintain contracts could have the effect of reducing the Hospital's market share and net patient services revenues. Conversely, participation may result in lower net income if participating hospitals are unable to adequately contain their costs. Thus, managed care poses one of the most significant business risks (and opportunities) that hospitals face.

### ***Federal and State Anti-Fraud and Abuse Laws***

*General.* Federal and state governments have enacted health care fraud and abuse laws to regulate both the provision of services to government program beneficiaries and the methods and requirements for submitting claims for services rendered to those beneficiaries. These laws penalize individuals and organizations for submitting claims for services (i) they did not provide; (ii) that were not medically necessary; (iii) provided by an improper person; (iv) that involved an illegal inducement to utilize or refrain from utilizing a service or product; or (v) billed in a manner that does not comply with applicable government requirements. The scope of certain federal and state fraud and abuse laws has been expanded to include non-governmental private health care plans.

Federal and state governments have a range of criminal, civil and administrative sanctions available to penalize and remediate health care fraud and abuse, including imposing civil money penalties, suspending payments and excluding the provider from participating in the federal and state health care programs. One or more government entities and/or private individuals can prosecute fraud and abuse cases, and courts and/or regulators can impose more than one of the available penalties for each violation.

Laws governing fraud and abuse apply to virtually all individuals and entities with which a hospital does business, including other hospitals, home health agencies, long-term care entities, infusion providers, pharmaceutical providers, insurers, HMOs, PPOs, third party administrators, physicians,

physician groups and physician practice management companies. Fraud and abuse prosecutions can have a catastrophic effect on any of these entities, which can result in a material adverse impact on the financial condition of other entities in the same health care delivery system.

*Balanced Budget Act of 1997.* The BBA contains several provisions which regulate the Hospital. The Hospital has taken operational steps to comply with and address the impact of the BBA. Conviction of health care-related crimes can result in either mandatory or permissive exclusion from participation in federal and certain state health care programs for various periods of time depending on the nature of such crimes. Under the BBA, those convicted of three health care-related crimes for which mandatory exclusion is the penalty will be permanently excluded from participation. Those convicted of two health care-related crimes for which mandatory exclusion is the penalty will be excluded for a minimum of ten years. The Secretary of the United States Department of Health and Human Services (“HHS”) will be able to deny entry into Medicare or Medicaid or deny renewal to any provider or supplier convicted of any felony that the Secretary deems to be “inconsistent with the best interests” of the program’s beneficiaries.

*False Claims Act.* The False Claims Act (“FCA”) makes it illegal to submit or present a false, fictitious or fraudulent claim to the federal government, and may include claims that are simply erroneous. FCA investigations and cases have become common in the health care field and may cover a range of activity from intentionally inflated billings, to highly technical billing infractions, to allegations of inadequate care. Violation or alleged violation of the FCA most often results in settlements that require multi-million dollar payments and compliance agreements. The FCA also permits individuals to initiate civil actions on behalf of the government in lawsuits called “qui tam” actions. Qui tam plaintiffs, or “whistleblowers”, can share in the damages recovered by the government or recover independently if the government does not participate. The FCA has become one of the government’s primary weapons against health care fraud. FCA violations or alleged violations could lead to settlements, fines, exclusion or reputation damage that could have a material adverse impact on a hospital.

*Federal Anti-Kickback Law.* The federal Medicare/Medicaid Ant-Fraud and Abuse Amendments to the Social Security Act (the “Anti-Kickback Laws”) make it a felony to knowingly and willfully offer, pay, solicit or receive remuneration, directly or indirectly, in order to induce business that is reimbursable under any federal health care program. Violation or alleged violation of the Anti-Kickback Law most often results in settlements that require multi-million dollar payments and compliance agreements. The Anti-Kickback Law can be prosecuted either criminally or civilly. Violation is a felony, subject to a fine of up to \$250,000 for each act (which may be each item or each bill sent to a federal program), imprisonment and/or exclusion from the Medicare and Medicaid programs. In addition, civil monetary penalties of \$10,000 per item or service in noncompliance (which may be each item or each bill sent to a federal program), or an “assessment” of three times the amount claimed may be imposed. Exclusion from federal programs or civil monetary penalties would have a material adverse impact on the operations and revenue of the Project.

Prohibited arrangements can involve hospitals, physicians, and other health care providers. Possible prohibited arrangements included joint ventures between providers, space and equipment rental, purchases of physician practices, recruiting programs and management and personal service contracts. However, the Anti-Kickback Laws provide “safe harbors” for specific arrangements. While the federal law provides these safe harbor provisions, the provisions are narrow and do not cover the wide variety of economic relationships which health care providers have traditionally considered to be legitimate and lawful business practices. The Office of the Inspector General does provide a procedural mechanism and an advisory opinion to guide hospitals in entering into economic arrangements.

Currently, the management of the Hospital believes that the Hospital is in material compliance with the Anti-Kickback provisions. However, due to the broad nature of the Anti-Kickback scheme, and narrow safe-harbor provisions, the Hospital can not provide any assurance that no violation of the Anti-Kickback law will be found and that any subsequent sanction would not materially affect the financial condition and operations of the Project.

*The Health Insurance Portability Act and Accountability Act of 1996.* The Health Insurance Portability and Accountability Act of 1996 (“HIPAA”) established criminal sanctions for health care fraud and applies to all health care benefit programs, whether public or private. HIPAA added two prohibited practices, the commission of which may lead to civil monetary penalties: (1) the practice or pattern of presenting a claim for an item or service on a reimbursement code that the person knows or should know will result in greater payment than appropriate (i.e., up coding) and (2) engaging in a practice of submitting claims for payment for medically unnecessary services. Violation of such prohibited practices could amount to civil monetary penalties of up to \$10,000 for each item or service involved. HIPAA also provides for punishment of a health care provider for knowingly and willfully embezzling, stealing, converting or intentionally misapplying any money, funds, securities, premiums, credits, property, or other assets of a health care benefit program. A health care provider convicted of health care fraud would be subject to mandatory exclusion from the Medicare program. HIPAA also addresses the confidentiality of individuals’ health information. Specifically, HIPAA establishes standards regarding: (1) electronic transactions and code sets; (2) privacy of patient information; (3) security of patient information; and (4) the enactment of national identifier requirements.

*Electronic Transactions and Code Set (“TCS”).* HIPAA requires that each provider who engages in HIPAA standard transaction (e.g., health care claims) over electronic data interchanges (“EDI”) to use standardized health care transactions, code sets and identifiers. These provisions have required providers to make significant changes in hardware and software to comply with the EDI requirements. The cost of such changes is significant, but it is expected that providers will recognize certain cost savings as a result. The original deadline for covered entities to comply with the TCS rules, under HIPAA, was October 16, 2002. However, Congress provided for an extension of this deadline until October 2003 for those covered entities that submitted an extension request by October 15, 2002. The Hospital believes that it is in compliance with the TCS requirements.

*Privacy Requirements.* Generally, the disclosure of certain broadly defined protected health information is prohibited unless expressly permitted under the provisions of the HIPAA statute and regulations or authorized by the patient. HIPAA’s confidentiality provisions extend not only to patient medical records, but also to a wide variety of health care clinical and financial settings where patient privacy restrictions often impose new communication, operational, accounting and billing restrictions. These provisions add costs and create potentially unanticipated sources of legal liability. Further, to ensure that the privacy requirements are met, a covered health care provider must adopt appropriate policies and practices, designate a privacy officer, train employees and establish a grievance procedure. The deadline for compliance with this Privacy Rule was April 14, 2003, and the Hospital believes that it is in compliance with this rule.

*Security Requirements and National Identifier Requirements.* The security regulation outlines the minimum administrative, technical, and physical safeguards required to prevent unauthorized access to protected health information. Moreover, HIPAA requires that health care providers have standard national numbers that identify them on standard transactions. The Employer Identification Number (“EIN”) was selected as the identifier for employers and was adopted effective July 30, 2002. The Hospital believes that it is compliance with these provisions.

Penalties for noncompliance with these provisions include civil monetary penalties of up to \$100 for any violation not to exceed \$25,000 in any calendar year for identical violations. Criminal penalties include up to \$50,000 in fines and/or one year imprisonment for wrongful disclosure of individually identifiable health information; \$100,000 and/or imprisonment of not more than five years for wrongful disclosure under false pretenses; and up to \$250,000 and/or 10 years imprisonment for wrongful disclosure with the intent to sell, transfer, or use individually identifiable health information for commercial advantage, personal gain, or malicious harm.

The Hospital has made a concerted effort to comply with all of the HIPAA provisions and continues to work with the fiscal intermediaries, electronic claim submission clearing houses, and the insurance carriers in order to ensure that all financial transaction data sets are compliant with the new regulations. The Hospital's information resources management team worked closely with its software vendors to make sure that all outgoing data sets were compliant with the new regulations. The Hospital expected that there would be some delay in claims submission and electronic processing of information as the claim submission clearing houses and insurance carriers updated the software necessary to receive and process the new transaction formats provided under HIPAA. The Hospital is currently submitting claims in a compliant format to all carriers that can process claims in that format. Management cannot predict if additional regulations, amendments or interpretations might increase the Hospital's costs or impair timely collections from covered entities.

*Federal Stark Anti-Self Referral Law.* The federal "Stark" statute prohibits the referral of Medicare patients for certain designated health services (including inpatient and outpatient hospital services, clinical laboratory services, and radiation and other imaging services) to entities with which the referring physician has a financial relationship. It also prohibits a hospital furnishing the designated services from billing Medicare, or any other payor or individual, for services performed pursuant to a prohibited referral. The government does not need to prove that the entity knew that the referral was prohibited to establish a Stark violation. If certain technical requirements are met, many ordinary business practices and economically desirable arrangements between hospitals and physicians arguably constitute "financial relationships" within the meaning of the Stark statute, thus triggering the prohibition on referrals and billing. Most providers of the designated health services with physician relationships have some exposure to liability under the Stark statute.

Upon determination that there is a Stark violation, a Medicare carrier or intermediary must deny payment of claims, and the physician and entity must refund any amounts collected from any individual. The government may also seek substantial civil monetary penalties, and in some cases, a hospital may be liable for fines up to three times the amount of any monetary penalty, and/or be excluded from the Medicare and Medicaid programs. Although Stark does not have an extensive enforcement history, potential repayments to CMS, settlements, fines or exclusion for a Stark violation or alleged violation could have a material adverse impact on the Project. Management believes that any ownership interest or compensation arrangement between the Hospital and physicians who refer patients to the Hospital for services currently fall within one or more of the statutory or regulatory exceptions. However, in light of the limited case law and regulatory activity interpreting and enforcing the law, there can be no assurance that no violation of this law will be found and, if found, that any sanction imposed would not have a material adverse effect on the operation or financial condition of the Project.

*Federal Civil Monetary Penalty Law.* The federal Civil Monetary Penalty Law ("CMPL") provides for administrative sanctions against health care providers for a broad range of billing and other abuses. A health care provider is liable under the CMPL if it knowingly presents, or causes to be presented, improper claims for reimbursement under Medicare, Medicaid or the Child Health Services Block Grant programs. A hospital that participates in a "gainsharing" arrangement that is found to constitute a payment to physicians to limit or reduce services to Medicare fee-for-service beneficiaries

also would be subject to CMPL penalties. The CMPL authorizes imposition of civil money penalty of up to \$10,000 for each item or service improperly claimed. Health care providers may be found liable under the CMPL even when they did not have actual knowledge of the impropriety of the claim. It is sufficient that the provider “should have known” that the claim was false and ignorance of the Medicare regulations is no defense.

*Federal Emergency Medical Treatment and Active Labor Act.* In response to concerns regarding inappropriate hospital transfers of emergency patients based on the patient’s inability to pay for the services provided, Congress enacted the Emergency Medical Treatment and Active Labor Act in 1986. This so-called “anti-dumping” law imposes certain requirements on hospitals prior to discharge of a patient or transferring a patient to another facility. Failure to comply with the law can result in exclusion from the Medicare and/or Medicaid programs or termination of the hospital’s Medicare provider agreement as well as civil penalties. Failure of the District to meet its responsibilities under the Emergency Medical Treatment and Active Labor Act could adversely affect the future financial condition or results of operations of the Project.

*Enforcement.* Enforcement activity against health care providers has increased and enforcement authorities have adopted aggressive approaches. In the current regulatory climate, it is anticipated that many health care providers will be subject to investigation, audit or inquiry regarding the health care fraud laws mentioned above. As with other health care providers, the District may be the subject of Office of the Inspector General, U.S. Attorney General and/or Justice Department investigations, audits or inquiries in the future. Because of the complexity of these laws, the instances in which an alleged violation may arise to trigger such investigations, audits or inquiries is increasing and could result in enforcement action against the Hospital.

Enforcement authorities are in a position to compel settlements by providers charged with kickback, referral, billing practice or false claims violations by imposing or threatening to withhold Medicare, Medicaid and/or similar payments and/or exclusion and/or criminal action. In addition, the cost of defending such investigations or litigation, the time and management attention consumed thereby and the facts of a particular case may dictate settlement. Therefore, regardless of the merits of a particular case or cases, the Hospital could experience materially adverse settlement and/or litigation costs. Prolonged and publicized investigations could be damaging to the reputation, business and credit of the Hospital, regardless of the outcome, and could have material adverse consequences on the financial condition of the Project. Certain acts or transactions may result in violation or alleged violation of a number of the federal health care fraud laws described above, and therefore penalties or settlement amounts often are compounded. Generally these risks are not covered by insurance.

*Washington Statutes.* In addition to the federal laws prohibiting kickbacks and other types of exchanges of remuneration for referrals of patients, Washington law also prohibits such conduct. Subject to certain exceptions, RCW 19.68.010 provides criminal and civil penalties for licensed facilities and individuals who make or receive payments for referrals of patients for health care services. Entities and individuals found to have violated this provision are subject to loss of licensure, fines and/or imprisonment. The statute contains several ambiguities, has been sparsely reviewed or interpreted, and the exact scope and extent of its prohibition are still subject to interpretation. Based on its internal processes, the Hospital believes that it is in compliance with RCW 19.68; however, there can be no assurance that enforcement authorities or courts of law would agree.

*Voluntary Corporate Compliance.* The Hospital has adopted and implemented a voluntary corporate compliance program, called the Voluntary Corporate Integrity Program (“Compliance Plan”) designed in light of the applicable compliance guidance offered by the Office of the Inspector General. The purpose of a Compliance Plan is to detect and deter violations of law. One of the major goals of such

a plan is to identify and address issues involving the submission of claims to governmental payers such as Medicare and Medicaid and whether those claims comply with statutes, regulations and other guidance provided by the programs. Integral components of the Compliance Plan include a code of conduct, adoption of written standards, education, policies and procedures, auditing and monitoring, remediation of identified issues, and encouraging employees to identify potential issues.

It is possible that the Compliance Plan may bring to the Hospital's attention issues with respect to prior practices and payments. Depending upon the nature of the issue and whether an overpayment has occurred, such a discovery may result in either voluntary or involuntary refunds to governmental payers. Enforcement authorities take into account the existence and efficacy of a provider's voluntary compliance efforts in assessing the application and severity of penalties for a violation of federal or state rules governing reimbursement to or business relationships among providers of medical services; however, the decision of whether and how much weight to attach to voluntary compliance efforts is solely within the enforcement authorities' discretion.

*Voluntary Disclosures and Refunds.* The Hospital strives to be a good corporate citizen, including full compliance with all laws and regulations. If the Hospital learns that it has submitted claims that do not comply with statutes, regulations or other guidance provided by governmental programs, then one of its options is the voluntary disclosure to the affected program of the issue and a voluntary repayment. As a result of its Compliance Plan, the Hospital may identify in the future instances where payments may have been received in error and may disclose such instances to the affected governmental programs and voluntarily submit a refund. There can be no assurance, however, that the affected governmental program will not seek to impose sanctions on the Hospital for practices that were voluntarily disclosed, and this could have a material adverse effect on the Project.

#### **Other Federal, State and Local Legislation**

*General.* The Hospital is subject to a wide variety of federal, state and local regulatory actions and legislative and policy changes that could have a significant impact on the Project. Federal, state and local legislative bodies have broad discretion in altering or eliminating programs that contribute significantly to the revenues of the Project, including the Medicare and Medicaid programs. In addition, such entities may enact legislation that imposes significant new burdens on the operations of the Project. There can be no assurance that such legislative bodies will not make legislative policy changes (or direct governmental agencies to promulgate regulatory changes) that have adverse effects upon the ability of the Project to generate revenues or upon the favorable utilization of their facilities.

*Certificate of Need.* Washington law requires that a hospital obtain a Certificate of Need from the Washington State Department of Health before undertaking certain projects, including constructing or developing a new health care facility, selling, purchasing or leasing part or all of any existing hospital, changing bed capacity in a manner which increases the total number of licensed beds or redistributes beds, and/or offering a new tertiary health service. No Certificate of Need is required for the Project to be funded with the proceeds of the Bonds. If the Certificate of Need requirement is amended or eliminated in the future, it could subject the Hospital to unexpected competition from other health care providers which might then be able to enter the Hospital's service area and offer some or all of the services provided by the Hospital.

*Business and Occupation Taxes.* Hospitals in the State are subject to a 1.5% business and occupation tax on gross receipts, which is used to fund a health plan for people otherwise uninsured. Any hospital owned by a municipal corporation is allowed to deduct revenues received from Medicare, Medicaid and other governmental programs in calculating the tax. The Hospital meets the definition and

is currently deducting such revenues. The amount of the tax and the continued ability to deduct governmental revenues is subject to change by the State Legislature.

*Licensing and Accreditation.* Health facilities, including those of the District, are subject to numerous legal, regulatory, professional and private licensing, certification and accreditation requirements. Management of the Hospital currently anticipates no difficulty in renewing or maintaining currently held licenses, certifications or accreditation, and does not anticipate a reduction in third-party payments that would materially adversely affect the operations or financial conditions of the Project due to licensing, certification or accreditation difficulties. However, no assurance can be given as to the effect on future operations of the Project of existing laws, regulations and standards for certification or accreditation or of any future changes in such laws, regulations and standards. Nevertheless, actions in any of these areas could result in a reduction in utilization or revenues or both, or the loss of the District's ability to operate all or a portion of its Health Care Facilities, and, consequently, could have a material adverse effect on the Project's financial condition.

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

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 Issuer is involved in managed care contracting, it may be exposed to additional liability based on these types of claims.

*Environmental Laws Affecting Health Care Facilities.* Hospitals and other health care facilities 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 or facilities and properties owned or operated by hospitals. Among the types of regulatory requirements faced by hospitals are: (a) air and water quality control requirements; (b) waste management requirements; (c) specific regulatory requirements applicable to asbestos, hospital, medical and infectious waste, polychlorinated biphenyls, and radioactive substances; (d) requirements for providing notice to employees and members of the public about hazardous materials handled by or located at the hospital; (e) requirements for worker safety and training employees in the proper handling and management of hazardous materials and waste; (f) and other requirements.

In its role as owner and operator of properties or facilities, the District may be subject to liability for investigating and remedying any hazardous substances that have come to be located on the property or any such substances that may have migrated off the property. Typical health care operations include, but are not limited to, in various combinations, the handling, use, storage, transportation, disposal and discharge of infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants or contaminants. For this reason, health care facility operations are particularly susceptible to the practical, financial, and legal risks associated with compliance with such laws and regulations. Such risks may (a) result in damage to individuals, property or the environment; (b) may interrupt operations or increase their costs, or both; (c) may result in legal liability, damages, injunctions or fines; and (d) result in investigations, administrative proceedings, penalties or other government agency actions. There can be

no assurance that the District will not encounter such risks in the future, such risks could have a material adverse effect on the Project's financial condition and its operations.

At the time of this offering, the management of the Hospital is not aware of any pending or threatened claim, investigation, or enforcement action regarding such environmental issues which, if determined adversely to the Hospital, would have a material adverse effect on the Project's operations or financial condition.

*Antitrust.* Enforcement of antitrust laws against health care providers is becoming more common, and antitrust liability may arise in a wide variety of circumstances, including medical staff privilege disputes, third party contracting, physician relations, joint venture, merger, virtual merger, formation of provider networks, diversification of hospitals into non-traditional hospital services and affiliation and acquisition activities. At various times, health care providers may be subject to an investigation by a governmental agency charged with the enforcement of antitrust laws, or may be subject to administrative or judicial action by a federal or state agency or a private party. The Department of Justice may bring criminal and civil actions to enforce the antitrust laws. Private litigants may bring actions for treble damages.

From time to time, the Hospital is or will be involved in a variety of activities that could receive scrutiny under antitrust laws, and it cannot be predicted when or to what extent liability may arise. With respect to payer contracting, the Hospital may, from time to time, be involved in joint contracting activity with other hospitals or providers. The precise degree to which this or similar joint contracting activities may expose the participants to antitrust risk from governmental, or private sources, is dependent on myriad factual matters that may change from time to time

Some court decisions have held hospitals liable for abusing their local market power by steering business to ancillary health care businesses in which they have an interest. Such activities may result in monetary liability for the participating hospitals under certain circumstances where a competitor suffers damage.

Furthermore, hospitals, including the Hospital, regularly have disputes regarding credentialing and peer review, and may be subject to liability in this area. In addition, hospitals occasionally indemnify medical staff members who are involved in such credentialing or peer review activities, and may also be liable with respect to such indemnity.

The ability to consummate mergers, acquisitions or affiliations may also be impaired by the antitrust laws, potentially limiting the ability of health care providers to fulfill their strategic plans. Liability in any of these or other antitrust areas may be substantial, depending on the facts and circumstances of each case.

*State Initiatives and Referenda.* Under the State constitution, the voters of the State have the ability to initiate legislation and to modify existing statutes through the powers of initiative and referendum. Initiatives and referenda are submitted to the voters upon receipt of a petition signed by at least eight percent (8%) (initiatives) and four percent (4%) (referenda) of the number of voters registered and voting for the office of Governor at the preceding regular gubernatorial election. Any law approved in this manner by a majority of the voters may not be amended or repealed by the legislature within a period of two years following enactment, except by a vote of two-thirds of all the members elected to each house of the legislature, but thereafter is subject to amendment or repeal by the legislature in the same manner as other laws. Initiative petitions adversely affecting the Hospital's financial condition and its operations (including limitations on revenues, tax collections and other matters) may be filed in the future. The Hospital cannot predict whether any such initiatives will qualify to be submitted to the voters

or, if submitted, will be approved. Likewise, the Hospital cannot predict what actions the Legislature might take, if any, regarding future initiatives approved by voters.

### **Other Risk Factors Generally Affecting Health Care Facilities**

*Hospital Pricing.* Recently, focus has increased on the provision of charity care by nonprofit health care institutions and their pricing policies and billing and collection practices involving the underinsured and uninsured. This increased focus has resulted in congressional hearings, governmental inquiries and private class action litigation against a number of nonprofit health care institutions generally alleging the overcharging of underinsured and uninsured patients. Inflation in hospital costs also may evoke action by legislatures, payors or consumers. A recent study reports that in 2006, family health care coverage in employer-sponsored plans cost twice what it did in 2001. It is possible that legislative action at the state or national level may be taken with regard to the pricing of health care services. Major purchasers of hospital services could also take action to restrain hospital charges or charge increases.

As a result of increased public scrutiny, it is also possible that the pricing strategies of hospitals may be perceived negatively by consumers, and hospitals may be forced to reduce fees for their services. Decreased utilization could result, and hospitals' revenues may be negatively impacted.

*Technology and Services.* Scientific and technological advances, new procedures, drugs and appliances, preventive medicine, occupational health and safety and outpatient health care delivery may reduce utilization and revenues of the Project in the future. Technological advances in recent years have accelerated hospitals' adoption of sophisticated, and costly, equipment and services for diagnosis and treatment. The increased cost of technology is not immediately reflected in the PPS rates established by the Medicare and Medicaid programs, nor under private health plan negotiated contract rates. The acquisition and operation of certain equipment or services may continue to be a significant factor in hospital utilization, but the ability of the Hospital 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.

*Employment and Labor Issues.* The Hospital is a major employer, its work force combining a complex mix of professional, quasi-professional, technical, clerical, housekeeping, maintenance, dietary and other types of workers in a single operation. As with all large employers, the Hospital bears a wide variety of risks in connection with its employees. These risks include strikes and other related work actions, contract disputes, difficulties in recruitment, discrimination claims, personal tort actions, work-related injuries, exposure to hazardous materials, interpersonal torts, risks related to its benefit plans, and other risks that may flow from the relationships between employer and employee or between physicians, patients and employees. Many of these risks are not covered by insurance, and certain of them cannot be anticipated or prevented in advance. The Hospital believes that its retirement plans are in material compliance with the Employee Retirement Income Security Act of 1974, as amended, Internal Revenue Code of 1986, as amended (the "Code") and other applicable laws. The Hospital is subject to all of the risks listed above, and such risks, alone or in combination, could have material adverse consequences to the financial condition or operations of the Project.

*Physician, Nursing and Staff Shortages.* In recent years, the health care industry has suffered from a scarcity of physician specialists and sub-specialists, nursing personnel, respiratory therapists, pharmacists and other trained health care technicians. A significant factor underlying this trend includes a decrease in the number of persons entering such professions. This is expected to intensify in the future, aggravating the general shortage and increasing the likelihood of hospital-specific shortages. Competition for employees, coupled with increased recruiting and retention costs will increase hospital

operating costs, possibly significantly, and growth may be constrained. This trend could have a material adverse impact on the Project.

*Competition and Possible Increased Competition.* Hospitals face increased competition from other hospitals, from skilled nursing facilities and from other forms of health care delivery that offer health care services. This includes the construction of new or the renovation of existing hospitals and skilled nursing facilities, private laboratory and radiological services, skilled and specialized nursing facilities, home care, intermediate nursing home care, preventive care and drug and alcohol abuse programs. For information regarding the service area of the Project, see “APPENDIX F – CERTAIN INFORMATION CONCERNING THE DISTRICT AND THE PROJECT” attached hereto. Competition from other hospitals in areas from which the Hospital draws a significant number of patients may adversely affect revenues.

*Professional Liability Claims and Insurance.* In recent years, the number of professional and general liability suits and the dollar amounts of damage recoveries have increased in health care nationwide, resulting in substantial increases in malpractice insurance premiums, higher deductibles and generally less coverage. Professional liability and other actions alleging wrongful conduct and seeking punitive damages are often filed against health care providers. Insurance does not provide coverage for judgments for punitive damages.

Litigation also arises from the corporate and business activities of hospitals, from a hospital’s status as an employer or as a result of medical staff or provider network peer review or the denial of medical staff or provider network privileges. As with professional liability, many of these risks are covered by insurance, but some are not. For example, some antitrust claims or business disputes are not covered by insurance or other sources and may, in whole or in part, be a liability of the Hospital if determined or settled adversely.

Many hospitals and health care providers are having difficulty renewing or obtaining all types of commercial insurance, including insurance against malpractice and general liability claims, at reasonable cost. The insurers are mandating lower amounts of coverage, requiring greater deductibles, and charging more in premium. Policies issued may not be renewed or renewable. The ability of, and the cost to, the Hospital to continue to insure or otherwise protect itself against various claims is unknown. See “APPENDIX F – CERTAIN INFORMATION CONCERNING THE DISTRICT AND THE PROJECT” attached hereto.

*Cost Increases.* Cost increases without corresponding increases in revenue could result from, among other factors: increases in the salaries, wages and fringe benefits of employees, increases in costs associated with advances in medical technology, or with inflation and future legislation which would prevent or limit the ability of the Project to increase its revenues.

*Natural Disasters.* The occurrences of natural disasters, including floods, volcanoes and earthquakes, may damage part or all of the Healthcare Facilities, interrupt utility service to part or all of the Healthcare Facilities or otherwise impair the operation of part or all of the Healthcare Facilities or the generation of revenues from part or all of the Healthcare Facilities beyond existing insurance coverage.

*Acts of Terrorism.* While the location of the Hospital is characterized by its remote setting, with the nearest major interstate over 80 miles away, the Grand Coulee Dam is recognized as a facility of significant national importance and provides an economic center for this area. The Grand Coulee Dam is the largest concrete dam in North America and the third largest energy producer in the world. As such, the area may be the target of possible acts of terrorism. Given the importance of the Grand Coulee Dam,

future restrictions or regulations by Federal government agencies, including the Department of Homeland Security, may adversely affect the operations and generation of revenues of the Project.

### **Risks Related to Hospital Management Discretion**

*Affiliation, Merger, Acquisition and Divestiture.* As part of its on-going planning process, the Hospital has considered and will continue to consider the potential acquisition of operations or properties which may become affiliated with or become part of the Project in the future, as well as the potential disposition of certain existing operations or properties. As a result, it is possible that the organizations and assets which make up the Hospital may change from time to time.

*Integrated Delivery Systems.* Many health care providers are exploring ways to further develop their integrated systems for the delivery of health care services within their geographic service areas. Integrated health care delivery systems involve the coordinated delivery of services by hospitals, physician groups, other health care professionals and payer organizations. This coordination may be achieved through formal corporate affiliations such as the merger of existing corporate entities or through contractual agreements to implement and coordinate services or some combination of both. Examples of such integrated delivery systems include management service organizations, which provide physician and physician groups with a combination of financial and contracting services, and hospital-based clinics or medical practice foundations which purchase and operate physician practices and provide administrative services to physicians. The development of these integrated delivery systems may require that assets be transferred out of the District or that new entities be brought into the District. Although any such transfer or entry would require compliance with the applicable provisions of State law and the Resolution, such action could, nevertheless, result in a reduction in the net income of the District. Further, such integrated delivery systems also, in some instances, depending on the structure and operation of such systems, may raise certain legal or regulatory risks, including questions relating to compliance with the antitrust laws, Medicare/Medicaid anti-self referral laws, and anti-kickback laws and federal or state tax exemption issues. No prediction can be made as to the potential impact of such risks on the Project.

*Management.* The continued operation of the Project and its facilities is heavily dependant upon the efforts of its management. As such, the Hospital maintains the practice of recruiting and retaining skilled individuals with exceptional experience/education for all management positions. However, succession planning is difficult for small rural public hospital districts, such as the District. While, the Hospital employs efforts to recruit and maintain exceptional management staff, no assurances can be given for future retention and recruitment of management.

### **Need to Achieve and Maintain Utilization Levels**

There can be no assurance that utilization will meet or exceed the levels needed for the feasibility of the Project. Utilization levels can be affected by a number of factors outside the Hospital's control, such as competition from other facilities or other forms of service delivery. It is estimated that approximately 33% of the Hospital's revenues are expected to be from Medicare generated reimbursement, but such revenues are dependent on Medicare reimbursement rates remaining at current levels. There can be no assurance that the Hospital will be able to meet such utilization projections or that Medicare reimbursement rates will remain at current levels.

### **Additional Risk Factors**

In the future, the following factors, among others, may adversely affect the operation and revenues of the Project, to an extent that cannot be determined at this time:

- (1) Adoption of legislation in the State that would establish a rate-setting agency with statutory control over hospitals in the State;
- (2) Although the facilities of the Hospital are not currently unionized, management knows of no union activity, employee strikes, or other adverse labor actions that may result in increased expenses and substantial reductions in revenue without corresponding decreases in costs;
- (3) The reduced need for hospitalization or other services arising from future medical and scientific advances;
- (4) A substantial shift of the Hospital leading admitting physicians toward the use of other hospitals and ambulatory surgical centers;
- (5) The inability to attract and retain adequate nursing and other skilled personnel;
- (6) Increased competition in the future from other hospitals or other types of health care providers, including health maintenance organizations or alternative delivery systems, that would offer comparable health care services to the population that the Hospital presently serves and that could result in decreased usage of inpatient hospital facilities and other facilities operated by the Hospital;
- (7) A decline in the population, a change in the age composition of the population, increased unemployment, an increase in the number of uninsured patients, or a decline in the economic condition of the service area that would increase the proportion of patients who are unable to fully pay for the cost of their care;
- (8) Efforts by insurers and governmental agencies to limit the costs of hospital services and to reduce the utilization of hospital facilities by such means as preventive medicine, improved occupational health and safety and outpatient care;
- (9) Cost and availability of medical malpractice insurance in the State;
- (10) Cost and availability of insurance, such as fire, automobile, and general comprehensive liability, that hospitals and other health care facilities of a similar size and type generally carry;
- (11) Unreimbursed increases in utility costs in the future due to an energy shortage or other factors;
- (12) Imposition of wage and price controls for the health care industry;
- (13) Developments or events affecting the federal or state exemption of the income of the Hospital from taxation or the adoption of federal or state legislation adversely affecting the Hospital or its revenue producing capability or adversely affecting the exemption of property owned by the Hospital from state and local property taxation or its ability to utilize tax-exempt financing;
- (14) A reduction in the amounts of grants and contributions that the Hospital receives from various sources, or the elimination of such grants and contributions;
- (15) The occurrence of natural disasters, including hurricanes, floods, tornadoes and earthquakes, which may damage the Hospital's Health Care Facilities, interrupt utility service to the facilities, or otherwise impair the operation of the Hospital's Health Care Facilities and the generation of revenue from some or all of its facilities;

(16) Any increase in the quantity or cost of indigent care provided which is mandated by law or required due to increased needs of the community in order to maintain the charitable status of the Hospital;

(17) Increases in cost of providing health care relating to illnesses or diseases, such as Acquired Immune Deficiency Syndrome or related illnesses, which are not matched by increases in revenue from Medicare, Blue Cross/Blue Shield, commercial insurers or other sources sufficient to cover such increases in cost;

(18) The outcome of litigation, government investigations, and liability and other claims asserted against the Hospital;

(19) The ability of the Hospital to satisfactorily and timely collect its patient accounts receivable, particularly in light of increasing numbers of underinsured and uninsured patients; or

(20) Acts of terrorism;

(a) Because September 11, 2001 redefined the meaning of disaster, hospitals are now forced into upgrading their existing readiness plans to meet the new needs of their communities. Hospitals, because of their emergency services and 24-hour a day operation, will be seen by the public as a vital resource for diagnosis, treatment, and follow up for both physical and psychological care in mass casualty situations. Hospitals must increase their preparedness to be accountable to the public to respond in the event of natural disasters, outbreak of disease, chemical or biological attack or other mass casualty. Mass casualty incidents would overwhelm the resources of most individual hospitals at this time and such incidents are likely to impose a sustained demand for health care services rather than the short, intense peak demand typical of smaller scale disasters. This adds a new dimension, and substantial costs, to readiness planning for hospitals. Hospitals will be required to address, for example: communication plans; surveillance and detection; lockdown ability; auxiliary power; extra security; increased fuel shortage capacity; and large volume water purification equipment. Further, hospitals must be properly stocked with antibiotics, antitoxins, vaccines, antidotes, ventilators, respirators, and other supplies and equipment needed to treat patients in a mass casualty event. Additional staff training will be required at all levels for disaster planning. This additional burden will be felt by all hospitals and particularly hospital emergency departments which are already facing national problems of dwindling capacity and limited resources. Emergency departments are currently experiencing an ongoing shortage of nursing staff and low reimbursement for emergency services. Since the creation of the Department of Homeland Security following September 11, Congress has authorized billions of dollars in funding to be used for bioterrorism efforts, and has waived the Medicare and Medicaid rules in emergency situations. Although efforts have been made to assist states with the costs of preparing for another terrorist attack or mass casualty situations, the costs of needed or mandated emergency preparedness and related measures may exceed the additional federal funding for such efforts. The long-term effects of the September 11th events and future bioterrorism-related activities or mass casualty situations cannot be determined at this time;

(b) In addition, the events of September 11, 2001 have dramatically affected the insurance industry. These events have resulted in substantial increases in premiums for various types of insurance (including, without limitation, property/casualty insurance and professional liability insurance), and may result in limitations on the availability of insurance depending upon the circumstances. In response, Congress enacted the Terrorism Risk Insurance Act of 2002, which is directed toward stabilizing the insurance industry after the effects of September 11,

2001. The law provides for federal compensation to insurers who suffer losses due to acts of terrorism and is scheduled to terminate in 2014, as extended. The long-term effects of September 11, 2001 on insurance availability and premiums cannot be determined.

## **SUMMARY OF CERTAIN PROVISIONS OF THE FHA REGULATORY AGREEMENT**

*The following is a brief summary of certain provisions of the FHA Regulatory Agreement. The summary does not purport to be complete or definitive and is qualified in its entirety by reference to the FHA Regulatory Agreement, copies of which are on file with the Issuer and the Trustee.*

The FHA Regulatory Agreement, of even date with the Mortgage Note, has been entered into between the Issuer and FHA in connection with the Initial Endorsement of the Mortgage Note. It sets forth certain of the Issuer's obligations in connection with the management and operation of the Issuer and the Project. The FHA Regulatory Agreement is incorporated by reference into the Leasehold Mortgage (in the form prescribed by FHA) executed by the Issuer and delivered to the Trustee, as FHA mortgagee, in connection with the Bonds.

The FHA Regulatory Agreement prohibits the use of the Project for any purpose other than the purposes for which it was intended. The FHA Regulatory Agreement also prohibits the conveyance, transfer or encumbrance of the property or any personal property of the Project. The FHA Regulatory Agreement also provides that the Issuer may use all rents and other receipts from the Project only for payment of the Issuer's obligations under the FHA Regulatory Agreement and under the Mortgage Note and Leasehold Mortgage and for expenses of the Issuer including reasonable operating expenses and necessary repairs.

The FHA Regulatory Agreement provides that the Issuer may not, without prior written approval of FHA, remodel, add to or demolish any part of the Project. The Issuer also is required to maintain the Project in good repair.

In the event of a default under the FHA Regulatory Agreement, the FHA Regulatory Agreement provides that FHA may notify the Trustee, as FHA mortgagee, of the default and request the Trustee, as FHA mortgagee, to declare a default under the Leasehold Mortgage and the Mortgage Note. Neither the Issuer nor the Trustee, as FHA mortgagee, is a party to the FHA Regulatory Agreement and, therefore, neither may declare the Issuer in default thereunder.

Upon satisfaction of the Mortgage Note in accordance with its terms and upon execution by the Issuer of all agreements and stipulations set forth in the Leasehold Mortgage, the Trustee, as FHA mortgagee, will execute a corresponding release and cancellation of such Leasehold Mortgage.

## **TAX MATTERS**

### **Federal Income Tax Status of Interest**

**BOND COUNSEL IS NOT RENDERING ANY OPINION WITH RESPECT TO THE TREATMENT OF INTEREST ON THE BONDS FOR PURPOSES OF FEDERAL INCOME TAXATION, AND SUCH INTEREST IS EXPECTED TO BE INCLUDED IN GROSS INCOME FOR PURPOSES OF FEDERAL INCOME TAXATION.**

A form of the opinion of Bond Counsel is attached hereto as Appendix E. Copies of such opinion will be available at the time of the initial delivery of the Bonds.

## **UNDERWRITING**

Red Capital Markets, Inc. (the “Underwriter”) has agreed to purchase the Bonds from the Issuer on a draw down basis at the prices set forth on the inside cover hereof (plus accrued interest) for which the Underwriter will receive a fee equal to \$173,738. The Bond Purchase Agreement provides that the Underwriter will purchase all of the Bonds on a draw down basis if they are issued, the obligation to make such purchase being subject to certain terms and conditions set forth in the Bond Purchase Agreement, the approval of certain legal matters by counsel, and certain other information. The Underwriter intends to offer the Bonds to the public initially at the offering price shown on the cover page hereof, which price may subsequently change without requirement of prior notice. The Underwriter reserves the right to join with other dealers and underwriters in offering the Bonds to the public. The Underwriter may offer and sell the Bonds to certain dealers at prices lower than the public offering prices.

## **RATING**

Standard and Poor’s Corporation, a Division of the McGraw-Hill Companies (the “Rating Agency”) has assigned the Bonds the rating set forth on the cover page hereof. The rating reflects only the view of the Rating Agency at the time the rating was issued and an explanation of the significance of such rating may be obtained from the Rating Agency. There is no assurance that any such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of such rating can be expected to have an adverse effect on the market price of the Bonds.

## **CERTAIN LEGAL MATTERS**

Certain legal matters relating to the authorization and validity of the Bonds will be subject to the approving opinion of Eichner & Norris PLLC, Washington, D.C., Bond Counsel. Certain legal matters will be passed upon for the Lender by its Counsel, Krooth & Altman LLP, Washington, D.C. and for the Issuer by its Counsel, Stamper Rubens, P.S., Spokane, Washington. Certain legal matters will be passed upon for the Underwriter by Eichner & Norris PLLC, Washington, D.C., counsel to the Underwriter.

Bond Counsel’s opinion will be limited to matters relating to authorization and validity of the Bonds. Bond Counsel has not been engaged to investigate the Project, the financial resources of the Issuer or any other source of payment of the Bonds, and its opinion will make no statement as to such matters or as the accuracy or completeness of this Official Statement or any other information that may have been relied on by anyone in making the decision to purchase the Bonds.

## **ABSENCE OF LITIGATION**

On the date of delivery of the Bonds, the Issuer will deliver a certificate to the effect that there are no legal proceedings pending (as to which the Issuer has received service of process) or, to the Issuer’s knowledge, threatened against the Issuer to restrain or enjoin the issuance, sale or delivery of the Bonds or the payment, collection or application of the proceeds thereof or of the revenues and other moneys and securities pledged or to be pledged under the Indenture or in any way contesting or affecting any authority for or the validity of the Bonds or the Indenture.

## **FINANCIAL STATEMENTS**

The audited financial statements for the fiscal years ended December 31, 2006, 2007 and 2008 and unaudited fiscal year-to-date financial information are included in Appendix G to this Official

Statement. The financial statements of the Issuer have been audited by the Washington State Auditor's Office.

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**MISCELLANEOUS**

Any statements herein involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

**COULEE MEDICAL FOUNDATION**

By: /s/ Tom R. Jensen  
Name: Tom R. Jensen  
Title: President

## APPENDIX A

### CERTAIN DEFINITIONS

In addition to the words and terms defined elsewhere in this Official Statement, the following words and terms as used herein will have the following meanings unless the context or use clearly indicates another or different meaning or intent.

*“Acquisition Fund”* means the trust fund by that name established pursuant to the Indenture.

*“Act of Bankruptcy”* means the filing of a petition in bankruptcy (or other commencement of a bankruptcy or similar proceeding) by or against any guarantor of the Issuer or such other Person, as applicable, under any applicable bankruptcy, insolvency or similar law as now or hereafter in effect.

*“Authorized Denomination”* means \$5,000 or any integral multiple of \$1,000 in excess thereof.

*“Authorized Issuer Representative”* means the President or Vice President of the Issuer, or such other person as shall be designated to the Trustee by a Certificate of the Issuer containing the specimen signature of such person, which certificate may designate an alternate or alternates.

*“Board”* means the board members of the Issuer or any governing body succeeding to the functions thereof.

*“Bond Counsel”* means Eichner & Norris PLLC, or any other firm of attorneys selected by the Issuer, of nationally recognized standing in matters pertaining to the validity of, and exclusion from gross income for federal income tax purposes of interest on, bonds issued by states and political subdivisions, and duly admitted to practice law before the highest court of any state of the United States of America.

*“Bond Fund”* means the trust fund by that name established pursuant to the Indenture.

*“Bondholder”* or *“holder”* or *“registered owner,”* when used with respect to any Bond, means the person or persons in whose names such Bond is registered.

*“Bond Obligation”* means, as of any date of calculation, the aggregate principal amount of all outstanding Bonds.

*“Bond Purchase Agreement”* means the Bond Purchase Agreement with respect to the Bonds between the Issuer and the Underwriter.

*“Bond Register”* and *“Bond Registrar”* have the respective meanings specified in the Indenture.

*“Bond Resolution”* means the resolution adopted by the Board of the Issuer on September 30, 2009, authorizing the issuance of the Bonds and the execution of the Indenture, the Financing Agreement and other documents in connection therewith.

*“Bonds”* means the \$23,165,000 Taxable Revenue Build America Bonds (Direct Pay) (GNMA Collateralized-Coulee Medical Center), Series 2009A, of which the Initial Draw Amount will be drawn on the Closing Date.

*“Bond Year”* means the initial period beginning on the date of issuance of the Bonds and ending on April 20, 2010, and each 12-month period thereafter beginning on April 21, 2011 and ending on April 20, 2036. The last Bond Year will end on the date of final payment of the Bonds.

“*Building Loan Agreement*” means the Building Loan Agreement dated the Closing Date between the Issuer and the Lender.

“*Business Day*” means a day, other than a Saturday or Sunday, on which (a) banks located in New York, New York, or in the city in which the Trust Office of the Trustee is located, are not required or authorized by law or executive order to close for business and (b) the New York Stock Exchange is not closed.

“*Certificate of the Issuer,*” “*Request of the Issuer,*” “*Requisition of the Issuer*” and “*Statement of the Issuer*” mean, respectively, a written certificate, request, requisition or statement signed in the name of the Issuer by an Authorized Issuer Representative. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

“*CLC*” means a construction loan certificate maturing on the CLC Maturity Date which is a GNMA Security which represents an amount advanced by the Lender (or, pursuant to the Indenture, the Trustee) to the Issuer for Project Costs and which bears interest at the Pass-Through Rate.

“*CLC Maturity Date*” means November 15, 2012 or such later date as may be permitted by the provisions of the Indenture.

“*Closing Date*” means the date of issuance of the Bonds and delivery of the Initial Draw Amount in exchange for the purchase price thereof.

“*Code*” means the Internal Revenue Code of 1986, as amended. Each reference to a section of the Code shall be deemed to include the United States Treasury Regulations in effect or proposed from time to time with respect thereto and applicable to the Project or the Bonds or the use of the proceeds thereof.

“*Commencement of Amortization*” means the date on which the Issuer will begin to repay principal of the Mortgage Loan, which shall be May 1, 2011.

“*Commitment*” means that certain Commitment for Insurance of Advances and any amendments thereto, dated June 30, 2009, from HUD relating to the Project.

“*Completion Date*” means the date of the completion of the construction and equipping of the Project, as that date shall be certified as provided in the Financing Agreement and which date is at least 60 days prior to the CLC Maturity Date, including any extensions of the CLC Maturity Date pursuant to the Indenture.

“*Continuing Disclosure Agreement*” means the Continuing Disclosure Agreement, dated the date of issuance of the Bonds, between the Issuer and the Trustee, as dissemination agent.

“*Costs of Issuance*” means, with respect to any Bonds, all expenses incurred in connection with the authorization, sale, issuance and delivery of the Bonds to the extent not paid from other sources, including, without limitation, underwriter’s spread, discount or fees (including any premium on the resale of the first delivery of the Bonds), counsel fees (including Bond Counsel, Underwriter’s counsel, Issuer’s counsel (as it relates to the Bonds) and Trustee’s counsel as well as any other specialized counsel fees incurred in connection with the issuance of the Bonds), rating agency fees, accountant fees related to issuance of the Bonds and printing costs (for the Bonds and preliminary and final offering materials) and

Trustee's acceptance and first-year annual administration fees, title insurance fees, and recording and filing fees.

*"Costs of Issuance Fund"* means the trust fund by that name established pursuant to the Indenture.

*"District"* means Douglas, Grant, Lincoln & Okanogan Counties Public Hospital District No. 6, a municipal corporation, organized as a public hospital district of the State of Washington pursuant to Title 70 Chapter 70.44 of Washington Revised Statutes, as amended.

*"District Resolution"* means Resolution No. 639 adopted by the Board of the District on September 30, 2009.

*"Draw Down Date"* means any date in which the Underwriter deposits, or causes to be deposited on their behalf, Bond proceeds in an amount equal to the par amount of additional Bonds drawn down hereunder plus accrued interest, to be deposited as set forth in the Indenture. The Underwriter shall provide the Trustee with written confirmation of the amounts deposited on each Draw Down Date, the amount to be drawn on the Bonds and the composition thereof. All Bonds purchased by the Underwriter on a Draw Down Date shall be purchased by the Underwriter at a price of par, plus accrued interest.

*"Event of Default"* means any of the events so specified or defined in the Indenture.

*"FHA"* means the Federal Housing Administration, an organizational unit within HUD, its successors and assigns.

*"FHA Loan Documents"* means, collectively, the Mortgage Note, the Leasehold Mortgage, the FHA Regulatory Agreement, the Building Loan Agreement, the Lease Documents and all other documents required in connection with the endorsement of the Mortgage Loan by FHA for Mortgage Insurance.

*"FHA Regulations"* means the regulations promulgated by FHA regarding insurance under Section 242 of the National Housing Act.

*"FHA Regulatory Agreement"* means the Regulatory Agreement for the Project to be dated not later than the Closing Date, by and between the Issuer and HUD, together with any and all Supplements thereto.

*"Final Advance"* means the final advance of the Mortgage Loan proceeds to the Issuer upon Final Endorsement.

*"Final Endorsement"* means the date on which the Mortgage Note is finally endorsed for mortgage insurance by FHA, following completion of the Project and compliance with the terms and conditions of the Commitment.

*"Financing Agreement"* means the Financing Agreement of even date herewith among the Issuer, the District, the Trustee and the Lender, together with any and all Supplements thereto.

*"Financing Documents"* means the Indenture, the Financing Agreement, the Bond Purchase Agreement, the Continuing Disclosure Agreement, the GNMA Guaranty Agreement, the GNMA Securities and the Lease Documents. In the event of any conflict between the Lease Documents and the other Financing Documents, the Lease Documents shall control.

“GNMA” means Government National Mortgage Association, its successors and assigns.

“GNMA Delivery Date” means any date the Lender delivers to the Trustee (i) a CLC in a principal amount equal to the deposit of Bond proceeds made in connection with a corresponding Draw Down Date or (ii) a PLC in a principal amount which exceeds the difference between 100% of the aggregate original principal amount of all CLCs previously delivered to the Trustee, which difference will equal the deposit of Bond proceeds made in connection with a corresponding Draw Down Date.

“GNMA Document or Documents” means any document, or, collectively, documents which have been or are required by GNMA to be executed by the Issuer, FHA, GNMA and/or the Lender in connection with the Project.

“GNMA Guaranty Agreement” means the Schedule of Subscribers and GNMA Guaranty/Contractual Agreement between GNMA and the Lender, together with all Supplements thereto.

“GNMA Security” or “GNMA Securities” means a fully modified pass-through security in the form of a CLC or a PLC issued by the Lender, registered in the name of the Trustee or its designee and guaranteed by GNMA as to timely payment of principal of and interest on a PLC and as to timely payment of interest only until maturity and timely payment of principal at maturity on a CLC, pursuant to Section 306(g) of the National Housing Act of 1934, as amended, and the regulations promulgated thereunder, backed by the Mortgage Loan made by the Lender to finance the Project in accordance with the Financing Agreement, the Lender Commitment and the FHA Loan Documents, which Mortgage Loan is insured by the Secretary of Housing and Urban Development by and through the FHA.

“Government Obligations” means bonds, notes and other evidences of indebtedness of the United States of America or of any agency or instrumentality thereof backed by the full faith and credit of the United States of America and guaranteed as to full and timely payment of principal and interest.

“HUD” means the United States Department of Housing and Urban Development, any authorized representative thereof or any successor thereto.

“Indenture” means the Trust Indenture, together with all Supplements thereto.

“Initial Advance” means the first advance under the Mortgage Loan by the Lender to the Issuer.

“Initial CLC” means the CLC delivered by the Lender to the Trustee with respect to the Initial Advance.

“Initial Draw Amount” means the initial amount of Bonds drawn down on the Closing Date equal to \$51,000.

“Interest Payment Date” means the 20th day of each calendar month, commencing December 20, 2009.

“Investment Agreement” means any Investment Agreement for the investment of moneys in the Acquisition Fund and the Bond Fund, provided that the Rating Agency confirms in writing that the proposed investment agreement shall not adversely affect the rating on the Bonds.

“Issuer” means the Coulee Medical Foundation, a Washington nonprofit corporation formed pursuant to Chapter 24.03 of the Revised Code of the State of Washington and a resolution of the District, and its successors and assigns.

“*Lease Documents*” means the Operating Lease and the Site Lease.

“*Leasehold Mortgage*” means the Leasehold Deed of Trust from the Issuer to the Lender securing the Mortgage Note, as may be amended.

“*Lender*” means Red Mortgage Capital, Inc., an Ohio corporation, its successors and assigns.

“*Lender Commitment*” means the commitment letter relating to the Mortgage Loan from the Lender to the Issuer.

“*MBS Submission Schedule*” means the Document Delivery Schedule for Ginnie Mae I Serial Note, Pools issued by GNMA from time to time.

“*Mortgage Insurance*” means the insurance against certain losses under the Mortgage Loan provided by the FHA, as evidenced by the endorsed Mortgage Note.

“*Mortgage Loan*” means the loan made to the Issuer by the Lender in connection with the issuance of the Bonds, in a principal amount equal to \$23,165,000, in order to provide financing for the Project.

“*Mortgage Note*” means the Leasehold Deed of Trust Note from the Issuer in favor of the Lender evidencing the Mortgage Loan.

“*National Housing Act*” means the National Housing Act of 1934, as amended.

“*Operating Lease*” means the Operating Lease by and between the Issuer, as lessor and the District, as lessee, dated as of October 1, 2009.

“*Outstanding*,” when used with respect to the Bonds, means all Bonds theretofore authenticated and delivered under the Indenture, except:

(a) Bonds theretofore cancelled by the Trustee or theretofore delivered to the Trustee for cancellation;

(b) Bonds for the payment or redemption of which moneys or obligations shall have been theretofore deposited with the Trustee in accordance with the Indenture; and

(c) Bonds in exchange for or in lieu of which other Bonds have been authenticated and delivered under the Indenture.

“*Pass-Through Rate*” means the rate of interest on the GNMA Securities which shall be 6.51%.

“*Person*” means any natural person, firm, association, corporation or public body.

“*PLC*” means the project loan certificate (which may bear a “PN” designation) which is the GNMA Security issued after Final Endorsement which shall bear interest at the Pass-Through Rate and which shall be in a principal amount equal to the full principal amount of the Mortgage Loan upon Final Endorsement (without regard to amortization payments received by the Lender and not passed through to the Trustee).

“*PLC Delivery Date*” means the earlier of (a) the date on which the PLC is delivered to the Trustee and (b) October 31, 2012, or such later date as may be permitted by the provisions of the

Indenture; provided, however, that the PLC Delivery Date may not be extended pursuant to the Indenture to a date beyond the CLC Maturity Date.

“*PLC Issue Date*” means the first day of the month in which the PLC is issued, but in no event later than October 1, 2012, unless extended pursuant to the provisions of the Indenture; provided, however, that the PLC Delivery Date may not be extended pursuant to the Indenture to a date beyond the CLC Maturity Date.

“*Project*” means the hospital facility, located on and including the land described in Exhibit A to the Financing Agreement.

“*Project Costs*” means any and all costs incurred by the Issuer with respect to the acquisition, construction and equipping of the Project, including, without limitation, costs for site preparation, the planning of hospital and related facilities and improvements, the acquisition of property, the removal or demolition of existing structures, the construction of hospital, related facilities and improvements, and all other work in connection therewith, including additional capital projects and/or equipment purchases approved by FHA and all costs of financing, including, without limitation, the cost of consultant, accounting and legal services, other expenses necessary or incident to determining the feasibility of the Project, contractors’ and supervisors’ fees and costs directly allocable to the Project and the financing thereof, interest on the Bonds prior to the Completion Date and all other costs approved by Bond Counsel.

“*Property*” means any and all rights, title and interests in and to any and all assets, whether real or personal, tangible or intangible and wherever situated.

“*Qualified Investments*” means any of the following which at the time of investment are legal investments under the laws of the State for the investment of the Issuer’s funds:

- (a) Government Obligations;
- (b) obligations of agencies of the United States government issued by the Federal Home Loan Bank;
- (c) the Investment Agreement;
- (d) interest-bearing time deposits, reverse repurchase agreements, rate guarantee agreements or other similar banking arrangements with a bank or trust company having capital and surplus aggregating at least \$50 million or with any government bond dealer reporting to, trading with and recognized as a primary dealer by the Federal Reserve Bank of New York having capital aggregating at least \$50 million or with any corporation which is subject to registration with the Board of Governors of the Federal Reserve System pursuant to the requirements of the Bank Holding Company Act of 1956 and whose unsecured or uncollateralized long-term debt obligations are assigned a rating by the Rating Agency of “AAA,” provided that each such interest-bearing deposit, repurchase agreement, guarantee agreement or other similar banking arrangement shall permit the moneys so placed to be available for use at the time provided with respect to the investment or reinvestment of such moneys; and
- (e) no-load, open-end money market mutual funds (including those of the Trustee and its affiliates) registered under the Investment Company Act of 1940, provided the portfolio of such fund is limited to Government Obligations and such fund has been assigned a rating by the Rating Agency of “AAA”.

Qualified Investments shall not include the following: (i) any investments with a final maturity or any agreements with a term greater than 365 days from the date of the investments (except (A) obligations that provide for the optional or mandatory tender, at par, by the holder thereof at least once within 365 days of the date of purchase, (B) any investments listed in subparagraph (b) above that are irrevocably deposited with the Trustee for payment of Bonds pursuant to the Indenture, and (C) agreements listed in subparagraphs (c) and (d) above); (ii) any obligation with a purchase price greater or less than the par value of such obligation (except for obligations described in subparagraph (b) above); (iii) mortgage-backed securities, real estate mortgage investment conduits or collateralized mortgage obligations; (iv) interest-only or principal-only stripped securities; (v) obligations bearing interest at inverse floating rates; (vi) investments which may be prepaid or called at a price less than its purchase price prior to stated maturity; or (vii) any investment the interest rate on which is variable and is established other than by reference to a single index plus a fixed spread, if any, and which interest rate moves proportionately with that index, and provided further that if any such investment described in subparagraphs (a) through (f) above is required to be rated, such rating requirements will not be satisfied if such rating is evidenced by the designation of an “r” highlighter affixed to its rating.

“*Rating Agency*” means Standard & Poor’s Rating Services, a division of The McGraw-Hill Companies, Inc. and its successors and assigns.

“*Rebate Amount*” means the amount of arbitrage computed annually for payment as of the last day of every Rebate Period and required to be rebated to the United States pursuant to Section 148 of the Code and Treasury Regulation Section 1.148-2 and any successor regulation as may be applicable thereto.

“*Rebate Analyst*” means an independent certified public accountant, financial analyst or bond counsel, or any firm of the foregoing, or financial institution, experienced in making the arbitrage and rebate calculations required pursuant to Section 148(f) of the Code, selected and retained by the Issuer pursuant to the Financing Agreement to make the computations and give the directions required under the Indenture. The initial Rebate Analyst is Eichner & Norris PLLC.

“*Rebate Fund*” means the Rebate Fund created pursuant to the Indenture.

“*Rebate Period*” means the period beginning on the date of issuance of the Bonds and ending on October 20, 2014 and each fifth anniversary thereof unless the Issuer and the Trustee are advised by the Rebate Analyst that another period is required by law; provided, however, that the last Rebate Period for the Bonds shall end on the Retirement Date.

“*Regular Record Date*” means, with respect to an Interest Payment Date, the close of business on the 15<sup>th</sup> of each month preceding such Interest Payment Date, whether or not a Business Day.

“*Reserved Rights of the Issuer*” means (a) the right of the Issuer to receive notices, reports or other information, make determinations and grant approvals hereunder and under the other Financing Documents; (b) all rights of the Issuer in connection with any amendment to or modification of the Financing Documents; and (c) all enforcement remedies with respect to the foregoing.

“*Responsible Officer*” of the Trustee shall mean and include any Vice President, Assistant Vice President, Trust Officer or other officer of the Trustee having regular responsibility for corporate trust matters related to the Indenture.

“*Retirement Date*” means the date on which the last Bond is retired.

“*Revenues*” means the revenues, receipts, interest, income, investment earnings and other moneys received or to be received by the Issuer or the Trustee under the Financing Documents (subject to the limitations contained in the Financing Documents and the FHA Loan Documents), including moneys received or to be received from the GNMA Securities and all investment earnings derived or to be derived on any moneys or investments held by the Trustee under the Indenture, but excluding (a) amounts paid as fees or reimbursement for expenses or for indemnification of the Trustee and (b) any Rebate Amount.

“*Seasoned Funds*” means (a) moneys deposited by the District with the Trustee, (b) any moneys received as a payment under the GNMA Security (including moneys representing the payment of premium on the Mortgage Note) (c) moneys with respect to which there has been delivered to the Trustee an opinion of nationally recognized bankruptcy counsel to the effect that payment of such moneys to the bondholders in payment of principal of, premium, if any, or interest on the Bonds will not constitute a preferential payment recoverable under Section 547 of the United States Bankruptcy Code and will not be subject to, or will promptly be released from, the automatic stay or transfer provisions provided for in Sections 362(a) and 550(a), respectively, of the United States Bankruptcy Code in the event of the bankruptcy of the Person providing such funds, or (d) moneys deposited on behalf of the Issuer or by a Person other than the Issuer with the Trustee and so designated by the Issuer, which moneys shall have been held by the Trustee for at least 366 days prior to the date such moneys are to be used to make payments on the Bonds, provided that no Act of Bankruptcy shall have occurred with respect to such Person during such 366-day period after such moneys were deposited with the Trustee (as evidenced by a certificate of such Person to the effect that no Act of Bankruptcy has occurred during such period).

“*Site Lease*” means the Site Lease (With Provisions For HUD Section 242 Insured Mortgage of Leasehold Interest in Land and Improvements) by and between the District, as lessor and the Issuer, as lessee, dated as of October 1, 2009.

“*Special Record Date*” (a) in the case of Defaulted Interest, has the meaning specified in the Indenture, and (b) in the case of each redemption, such record date as shall be specified by the Trustee in the notice of redemption required by the Indenture, provided that such record date shall be not less than 15 calendar days before the mailing of such notice of redemption. However, the Trustee may specify a record date that is less than 15 calendar days before the mailing of such notice of redemption if the circumstances do not permit the Trustee to specify a record date in accordance with clause (b) of the preceding sentence.

“*Supplements*” means all extensions, renewals, modifications, amendments, supplements and substitutions.

“*State*” means the State of Washington.

“*Trustee*” means U.S. Bank National Association, and its successors and assigns, as Trustee under the Indenture.

“*Trust Estate*” means the property rights, money, securities and other amounts pledged and assigned to the Trustee pursuant to the granting clauses of the Indenture.

“*Trust Office*” means the appropriate trust office of the Trustee located at the address set forth in the Indenture, or such other offices as may be specified in writing to the Issuer by the Trustee.

“*Underwriter*” means Red Capital Markets, Inc.

## APPENDIX B

### SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary, which does not purport to be comprehensive or definitive, of certain provisions of the Indenture, which is qualified in its entirety by reference to the Indenture.

#### Security for the Bonds

Under the Indenture, as security for payment of the principal of, premium, if any, and interest on the Bonds and for funds advanced by the Trustee pursuant thereto, the Issuer pledges and assigns to, and grants a security interest to the Trustee in, the following described property:

(a) All right, title and interest of the Issuer in and to all Revenues (as defined in the Indenture), derived or to be derived by the Issuer or the Trustee for the account of the Issuer under the terms of the Indenture and the Financing Agreement (other than the Reserved Rights of the Issuer as defined in the Indenture), together with all other Revenues received by the Trustee for the account of the Issuer arising out of or on account of the Trust Estate;

(b) All right, title and interest of the Issuer in and to the GNMA Securities, including all payments and proceeds with respect thereto and any interest, profits or other income derived from the investment thereof; and

(c) All funds, moneys and securities and any and all other rights and interests in property whether tangible or intangible from time to time by delivery or by writing of any kind conveyed, mortgaged, pledged, assigned or transferred as and for additional security under the Indenture for the Bonds by the Issuer or by anyone on its behalf or with its written consent to the Trustee, which is authorized under the Indenture to receive any and all such property at any and all times and to hold and apply the same subject to the terms of the Indenture.

#### Establishment of Funds for the Bonds

The following funds and accounts shall be established and maintained by the Trustee under the Indenture for the benefit of the Bonds:

- (a) Acquisition Fund, including therein a Negative Arbitrage Account;
- (b) Bond Fund, including therein a Seasoned Funds Account;
- (c) Reserved;
- (d) Costs of Issuance Fund; and
- (e) Rebate Fund.

The funds and accounts created under the Indenture shall be held in trust in the custody of the Trustee. The Issuer authorizes and directs the Trustee to withdraw moneys from said funds and accounts for the purposes specified in the Indenture, which authorization and direction the Trustee thereby accepts. All moneys required to be deposited with or paid to the Trustee under any provision of the Indenture shall be held by the Trustee in trust and shall (except for moneys on deposit in the Rebate Fund), while held by the Trustee, constitute a part of the Trust Estate and be subject to the lien thereof.

## Acquisition Fund

(a) The Trustee shall deposit into the Acquisition Fund the amounts required by the Indenture and any amounts paid to the Trustee for deposit into the Acquisition Fund in accordance with the Indenture and shall invest such proceeds in Qualified Investments. The Trustee shall request funds invested under Qualified Investments in accordance with the terms thereof such that funds will be timely available in advance of the date such funds are needed under the Indenture.

(b) Subsequent to the Closing Date, Seasoned Funds may deposited with the Trustee for deposit in the Negative Arbitrage Account as described in subsection (e) below. Moneys in the Negative Arbitrage Account of the Acquisition Fund shall be transferred to the Bond Fund on each Interest Payment Date, and on any date of redemption of Bonds pursuant to the provisions described in subsections (a), (c), (d), (e) or (f) under the caption “THE BONDS - Redemption - Special Mandatory Redemption” above as needed to pay interest on the Bonds when due. Subject to the requirements of the Financing Agreement, moneys in the Acquisition Fund shall be disbursed by the Trustee to acquire GNMA Securities from the Lender representing Mortgage Loan advances previously funded by the Lender as follows:

(i) On each date upon which the Trustee acquires from the Lender a CLC representing Mortgage Loan advances previously funded by the Lender, the Trustee shall transfer from the Acquisition Fund to the Lender an amount equal to 100% of the principal amount of such CLC (provided, however, that the Trustee shall make no disbursements with respect to Mortgage Loan advances (including the amount used to purchase the Initial CLC and the PLC) in excess of the aggregate Bonds drawn down to date, nor shall the Trustee permit any draw from the Acquisition Fund (excluding accrued interest thereon) unless immediately after such draw the amount on deposit in the Acquisition Fund (excluding amounts in the Negative Arbitrage Account) would be equal to the amount of the aggregate Bonds drawn down to date minus the sum of the aggregate principal amount of all CLCs delivered to the Trustee including the one being purchased. Accrued and unpaid interest on such CLC at the Pass-Through Rate shall be paid simultaneously by the Trustee to the Lender from amounts in the Bond Fund.

(ii) On the date on which the Trustee acquires the PLC from the Lender, the Trustee shall remit to the Lender as payment for the PLC, all CLCs therefore acquired by the Trustee plus, to the extent of available funds on deposit in the Acquisition Fund, an amount equal to the difference between 100% of the aggregate original principal amount of all CLCs theretofore acquired by the Trustee and the current balance on the PLC, plus accrued and unpaid interest thereon at the Pass-Through Rate, provided that any amount expended from the Acquisition Fund in connection with acquisition of the PLC will not, when added to the amounts previously expended pursuant to (i) and (ii) above, exceed the principal amount of Bonds drawn and currently Outstanding. Accrued and unpaid interest on the PLC shall be paid from the Bond Fund.

In the event the principal balance of the PLC as of the PLC Delivery Date is less than the aggregate principal amount of all CLCs theretofore acquired by the Trustee, the Trustee shall not exchange the CLCs held by it for the PLC unless and until the Lender causes to be paid to the Trustee for deposit to the Acquisition Fund, as partial prepayment on such CLCs (or pursuant to the Indenture), an amount equal to the difference between the then current outstanding principal balance of the PLC as of the PLC Delivery Date and the aggregate principal amount of the CLCs

therefore acquired by the Trustee, which amount shall be transferred to the Bond Fund to redeem Bonds in accordance with the Indenture.

(c) If a GNMA Delivery Date does not occur (and the corresponding CLC or PLC is not delivered to the Trustee) within 10 days of a corresponding Draw Down Date or the PLC is not delivered to the Trustee on or before the PLC Delivery Date (October 31, 2012) (or such later dates as may be established in paragraphs (d) or (e) below), the Trustee shall, on the Business Day immediately after (i) the 10th day following the applicable Draw Down Date or (ii) the PLC Delivery Date, as applicable (or such later dates as may be established in paragraphs (d) or (e) below), transfer to the Bond Fund amounts on deposit in the Acquisition Fund (including the Negative Arbitrage Account therein) for application to the mandatory redemption of Bonds in accordance with the Indenture.

(d) The PLC Delivery Date will be extended and the transfer and redemption described in paragraph (c) above will be delayed if the Trustee has received no later than 10 Business Days preceding the current PLC Delivery Date, a request signed by either the Issuer or the Lender (whether or not a conflicting request is received from such other party) for such delay. The length of the delay in terms of number of days shall be determined in writing by a firm of certified public accountants or financial consultants acceptable to the Rating Agency by application of the following steps: Step 1—multiply (w) the remaining balance in the Acquisition Fund (other than amounts in the Negative Arbitrage Account thereof) times (x) the Daily Negative Arbitrage Rate (as defined below), Step 2—divide (y) the amount remaining in the Negative Arbitrage Account by (z) the result of Step 1, Step 3—multiply the result of Step 2 by 90% and round down to the nearest whole number and subtract 20. Add this number of days to the then current PLC Delivery Date to arrive at a new PLC Delivery Date. Such new date shall not be extended past the date which is 20 days prior to the first scheduled mandatory redemption date in the Indenture. For purposes of this paragraph (d), the term “Daily Negative Arbitrage Rate” means the amount equal to 0.01806% (being the Bond weighted average coupon of 6.50% plus the fee stack of 0% divided by 360). The Trustee shall be provided with written evidence that the CLC Maturity Date shall be extended to at least 15 days after the date of the new PLC Delivery Date before any extension is made pursuant to the provisions described in this paragraph.

(e) GNMA Delivery Dates and the PLC Delivery Date (if the extension and delay described in paragraph (d) is not available) shall be extended and such corresponding transfer and redemption described in (c) above shall be delayed one or more times, provided that the Trustee shall have received no later than the Business Day next preceding the foregoing dates, respectively (or any dates to which such dates have been extended pursuant to the provisions of the Indenture), a request from either the Lender or the Issuer for such delay (whether or not a conflicting request is received from such other party) accompanied by (i) a cash flow projection demonstrating that the sum of (A) the amount in the Acquisition Fund and the Bond Fund, (B) the investment earnings to accrue on the amounts held in the Acquisition Fund and the Bond Fund during the period ending 30 days after the end of any period of delay requested, (C) any additional sums paid to or held by the Trustee by or on behalf of the Issuer or the Lender for deposit into the Negative Arbitrage Account of the Acquisition Fund or Bond Fund (which are Seasoned Funds) and (D) all scheduled payments on the CLCs held by the Trustee through the last day of such extension and all scheduled payments on the PLC assuming its issuance on the last day of such extension, will be at least equal to (1) the debt service on the Bonds drawn down and Outstanding as originally scheduled and will also be at least equal to (2) without regard to scheduled payments on the PLC, the debt service on the Bonds drawn down and Outstanding through the date which is 30 days after the end of any such extension period, plus, in each case,

originally scheduled and accrued unpaid Trustee fees, Issuer Fees and rebate calculation fees (assuming redemption of all Bonds on the date set forth in this clause (2)) and any other amounts which were shown to be available at such time for debt service on the Bonds in the original cash flows prepared in connection with the issuance of the Bonds; (ii) instructions satisfactory to the Trustee for the making of the investments contemplated by the cash flow projection; (iii) in the case of an extension of the PLC Delivery Date, written evidence or confirmation from the Lender that the CLC Maturity Date will be extended at least to the end of the period of such requested delay (subject to the requirements set forth in the next succeeding paragraph); and (iv) written notice from the Rating Agency that the rating then assigned to the Bonds will not be lowered or withdrawn as a result of such extensions. In connection with any extension, the Trustee shall not consent to the extension of the CLC Maturity Date unless the Trustee has received written evidence that the CLCs will then mature after the PLC is then required to be delivered. Upon the receipt of the documents and upon the arrangements listed in this subdivision, the Trustee shall permit the extension(s); provided, however, that if such documents have not been received and such arrangements have not been made by the Business Day next preceding the applicable GNMA Delivery Date or the PLC Delivery Date, as applicable (or any date to which such date has previously been extended), then the moneys remaining on deposit in the Acquisition Fund on such date shall be transferred to the Bond Fund on the Business Day next preceding the foregoing dates, as applicable, and applied to the redemption of Bonds on such dates (except as such dates may be extended pursuant to the provisions of the Indenture).

In connection with any extension of the CLC Maturity Date, the Trustee shall not consent to the extension of the maturity date of the CLCs held by it unless such maturity date is extended at least to the date which is the date on which the PLC would be issued pursuant to such extension. The Trustee's consent shall be conditional upon the Lender's consent to the extension of the maturity date of the CLCs. The Trustee shall provide the Lender with the Trustee's written consent to the extension upon its receipt of the items described in (e) above.

In the event Commencement of Amortization occurs prior to the PLC Delivery Date, under no circumstances shall the Trustee accept any prepayment on the CLCs representing principal payments on the Mortgage Note prior to the PLC Delivery Date unless required to do so by GNMA or FHA or permitted pursuant to the Indenture; such prepayments of principal on the CLCs shall be paid by the Lender to the Trustee only pursuant to the requirements of GNMA.

The Trustee shall notify the Rating Agency at least 30 days prior to the maturity of the respective CLCs of a proposed extension of such maturity date of the CLCs.

The Trustee shall disburse such remaining moneys on deposit in the Acquisition Fund for purchase of the PLC only upon delivery of the PLC in accordance with the Indenture or such other evidence of issuance of the PLC as GNMA provides under its book entry system of securities transactions. The Trustee shall, prior to the acquisition of the PLC, receive a certificate of the Lender specifying the amount of principal, if any, received by the Lender as regularly scheduled payments of principal on the Mortgage Loan prior to delivery of the PLC.

On the PLC Delivery Date, amounts remaining in the Acquisition Fund (other than the Negative Arbitrage Account therein) after purchase of the PLC shall be transferred to the Bond Fund. On the first business day after the first Interest Payment Date following the PLC Delivery Date, amounts on deposit in the Negative Arbitrage Account shall be transferred first to the Bond Fund in an amount which when added to the amount in the Bond Fund totals \$15,000, second, the Trustee shall transfer to the Lender an amount certified by the Lender on the PLC Delivery Date to represent actual out of pocket expenses incurred by the Lender in connection with the

extension of the PLC Delivery Date or funding of the Mortgage Loan and third, upon receipt of written confirmation from the Rating Agency that the proposed transfer shall not adversely affect the rating on the Bonds, the Trustee shall transfer any remaining balance to the Issuer. The Trustee shall transfer to the Lender all CLCs held by it in exchange for the PLC. Notwithstanding such transfer by the Trustee of the CLCs, all such CLCs shall remain registered in the name of the Trustee and continue to be enforceable by the Trustee until such time as the Trustee has received delivery of the PLC.

(f) The Trustee shall not be required to acquire a GNMA Security unless the GNMA Security pays interest at the Pass Through Rate and, in the case of the PLC, matures on April 15, 2036. All GNMA Securities shall be registered in the name of the Trustee or its designee.

(g) If the PLC is not delivered by the PLC Delivery Date, as such dates may be extended pursuant to the Indenture, the Trustee shall redeem all CLCs held by it upon their maturity and redeem Bonds as provided in the Indenture and shall also transfer the proceeds remaining in the Acquisition Fund to the Bond Fund pursuant to the Indenture to redeem Bonds in accordance therewith, as applicable unless the PLC Delivery Date is extended. In the event the Bonds are redeemed pursuant to the Indenture, the Trustee shall also transfer to the Bond Funds amounts on deposit in the Negative Arbitrage Account to the extent necessary to pay interest on the Bonds.

(h) The Trustee shall compare each GNMA Security or its book-entry form with the GNMA prospectus relating to the GNMA Securities and GNMA Guaranty Agreement provided by the Lender to assure delivery of correct GNMA Securities.

## **Bond Fund**

(a) The Trustee shall deposit, upon receipt, into the Bond Fund (i) the amounts required by the Indenture; (ii) all income, revenues, proceeds and other amounts received from or in connection with the GNMA Securities; (iii) all earnings and gains from the investment of moneys held in the Bond Fund (except for earnings and gains from the investment of moneys held in the Seasoned Funds Account which are to be retained therein) and the Acquisition Fund; and (iv) any other amounts received by the Trustee which are subject to the lien and pledge of the Indenture.

(b) The Trustee shall apply moneys on deposit in the Bond Fund to pay accrued interest upon its acquisition of the GNMA Securities.

(c) The Trustee shall apply all other amounts on deposit in the Bond Fund (including the Seasoned Funds Account) after application of (b) above on each Interest Payment Date (or any other date on which Bonds are to be redeemed) to first pay the principal of and premium, if any, and interest on the Bonds becoming due and payable in accordance with the Indenture.

(d) Reserved.

(e) The GNMA Securities shall be held at all times for the benefit of the Bond Fund. If the Trustee does not receive a payment on any of the GNMA Securities when due by the close of business on the sixteenth day of any month, the Trustee shall immediately notify and demand payment from the Lender. If the Lender shall not make such payment by the next Business Day, the Trustee shall immediately notify and demand payment from GNMA. Subject to the Indenture, the Trustee shall deliver all CLCs held by it to the Lender as agent of GNMA upon

their maturity (as such maturity may be extended) in return for payment of their principal amount or to the Lender as agent of GNMA for presentation in connection with delivery of the PLC.

(f) The Trustee shall deposit into the Seasoned Funds Account of the Bond Fund and in subaccounts thereof, which the Trustee is authorized to establish in the Seasoned Funds Account for each such payment for internal bookkeeping purposes, all amounts representing payments made to the Trustee by the Issuer for deposit therein as specified by the Issuer. Moneys on deposit in the Seasoned Funds Account which represent Seasoned Funds shall be applied only to pay the premium, if any, on the Bonds as the same shall become due and payable by redemption. Such moneys shall be paid to the Bondholders only if they constitute Seasoned Funds.

(g) The Trustee shall transfer to the Rebate Fund from the Bond Fund the amounts, if any, required pursuant to the Indenture.

(h) If any GNMA Securities are in book entry form, the GNMA Securities must be registered in the name of the Trustee at the Federal Reserve Bank at the time of purchase of the GNMA Securities by the Trustee and the Trustee shall have a first lien position perfected security interest in the GNMA Securities.

(i) The Trustee shall not transfer any moneys from the Bond Fund except in accordance with the provisions of the Indenture.

(j) Notwithstanding anything to the contrary in the Indenture, the Lender shall have the right to purchase CLCs from the Trustee on a date not more than 5 days prior to any scheduled mandatory redemption date or the CLC Maturity Date at a price equal to the applicable redemption price or the principal balance of the CLCs, plus accrued interest at the Pass-Through Rate, which amount shall be deposited by the Trustee in the Bond Fund to make such scheduled mandatory redemption or to otherwise redeem Bonds outstanding, as applicable on the first practical date thereafter.

## **Rebate Fund**

The Rebate Fund shall be used as a repository of the Rebate Amount, if any. Moneys in the Rebate Fund are not subject to the lien of the Indenture and are not a part of the Trust Estate. Such Rebate Fund shall be held in trust for the benefit of the United States of America and shall not be subject to any lien, security interest, right, claim or encumbrance of any other person, including the Issuer or the Bondholders. The Issuer in the Financing Agreement has covenanted to employ and pay the Rebate Analyst to determine on the last day of each Rebate Period, or within 20 days thereafter, the Rebate Amount. All calculations and determinations made by the Rebate Analyst shall be accompanied by the opinion of the Rebate Analyst that such calculations and determinations have been made in accordance with the requirements of Section 148 of the Code and the regulations promulgated thereunder.

The Trustee will make information that it has access to regarding the Bonds and investments under the Indenture available to the Rebate Analyst prior to the end of each Rebate Period (commencing with the date of delivery of the Bonds), will make deposits into and disbursements from the Rebate Fund in accordance with the directions received solely from the Rebate Analyst, will invest moneys in the Rebate Fund pursuant to directions of the Issuer and will deposit income from such investments immediately upon receipt thereof in the Rebate Fund.

If a deposit to the Rebate Fund is required as a result of the computations made as of the end of each Rebate Period by the Rebate Analyst, the Issuer will pay the Trustee such amounts as are necessary to make such deposit not more than 25 days after the end of such Rebate Period as provided in the Financing Agreement.

Within 60 days after the end of each Rebate Period, the Rebate Analyst shall deliver to the Issuer and the Trustee a certificate stating that all necessary actions have been taken as required by the Indenture, in order to ensure that all necessary actions have been taken, including, but not limited to, (a) the required annual arbitrage rebate calculations, (b) the transfer of funds to the Rebate Fund to reserve for the anticipated Rebate Amount, and (c) payment of the Rebate Amount, if any, in accordance with Section 148(f) of the Code.

The Trustee shall remit from the Rebate Fund to the United States Treasury, at the times designated by the Rebate Analyst but in no event later than 30 days after every Rebate Period, the amount specified by the Rebate Analyst. Within 30 days after any Retirement Date, the Trustee shall remit to the United States Treasury the entire aggregate amount of the Rebate Amount, as finally computed by the Rebate Analyst, not theretofore paid to the United States Treasury. If on any such payment date the amount on deposit in the Rebate Fund is less than the amount of the payment required to be made to the United States Treasury, the Trustee shall have the right to withdraw funds from the Bond Fund in the amount of such insufficiency. The Trustee shall retain reports of the Rebate Analyst and records of rebate payments required by the Indenture for a period ending six years after the date on which the last Bond is retired.

If, at any time when the Trustee is required to withdraw money from the Rebate Fund and to pay to the United States of America the amount so withdrawn as Rebate, the amount held by the Trustee to the credit of the Rebate Fund is insufficient to permit such withdrawal and payment, the Trustee shall deliver a demand for such deficiency to the Issuer. If, at any time when the Trustee is required to retain or pay the Rebate Analyst, there is an insufficient amount of money in the Rebate Fund to retain or pay for the fees and expenses of the Rebate Analyst, then the Trustee shall deliver to the Issuer a demand for payment of an amount sufficient to pay the Rebate Analyst.

### **Costs of Issuance Fund**

The Trustee shall deposit in the Costs of Issuance Fund the amount set forth in the Indenture and shall pay Costs of Issuance promptly upon the written direction of the Issuer, which Costs of Issuance shall not exceed the amounts set forth in a certificate of the Issuer. Any funds remaining in the Costs of Issuance Fund 180 days after the Closing Date, and not specifically committed to the payment of Costs of Issuance, shall be transferred to the Acquisition Fund.

### **Investment of Funds**

Any moneys held as part of any fund created by the Indenture shall be invested or reinvested from time to time by the Trustee upon receipt by the Trustee of the written direction of the Issuer in Qualified Investments having a maturity not exceeding the shorter of (a) the date on which such funds may be needed under the Indenture and (b) six months. In no event shall a maturity be longer than the longest maturity of the Bonds. If no investment direction is given to the Trustee by the Issuer, and, with regard to the Acquisition Fund and the Bond Fund, pending deposit in, or after withdrawal from, any Investment Agreement, funds shall be invested in investments described in subparagraph (e) of the definition of Qualified Investments. The investments so made shall be held by the Trustee and shall be deemed at all times to be a part of the fund in which such moneys were held, provided that for purposes of investment moneys held in any of the funds established under the Indenture may be commingled. The

Trustee shall sell and reduce to cash a sufficient amount of such investments whenever the cash balance in any fund shall be insufficient to cover a proper disbursement therefrom. For the purpose of determining the amount in any fund, Qualified Investments (other than an Investment Agreement) credited to such fund or account shall be valued at their cost (exclusive of accrued interest after the first payment of interest following acquisition) or market value, whichever is less. The Issuer shall invest at the highest yields prudently available consistent with the Indenture and in accordance with the applicable provisions of the Code.

The Trustee will furnish the Issuer periodic cash transaction statements which include detail for all investment transactions made by the Trustee under the Indenture.

Moneys credited to any fund or account under the Indenture which are uninvested pending disbursement or receipt of proper investment directions or as directed therein, may be deposited to and held in a non-interest-bearing demand deposit account established with the commercial banking department of the Trustee or any bank affiliated with the Trustee.

The Trustee may make any investments under the Indenture through its own bond or investment department or trust investment department, or those of its parent or any affiliate.

The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee under the Indenture.

In making any valuations of investments hereunder, the Trustee may utilize computerized securities pricing services that may be available to it, including those available through its regular accounting system and rely thereon.

The Trustee shall not be liable for any loss arising from investments made in accordance with the Indenture or for any loss resulting from the redemption or sale of any such investments as authorized by the Indenture.

All investment earnings shall be deposited as provided in the Indenture.

### **No Disposition of GNMA Securities**

The Trustee hereby agrees that any GNMA Securities delivered to the Trustee under the Indenture shall at all times be held by the Trustee for the sole benefit of the holders of the Bonds. The Trustee shall not sell or otherwise dispose of any GNMA Security after its acquisition without the prior written consent of the Issuer. There shall be no disposition of GNMA Securities for an amount less than an amount sufficient, together with other amounts then held under the Indenture and available for the payment of the principal of, premium, if any, and interest on the Bonds, to provide for the payment of the Bonds in accordance with the Indenture without the consent of the holders of 100% of the Bonds. This provision does not apply to the exchange of the CLCs for the PLC or delivery of the CLCs to the Lender upon their maturity.

### **Events of Default**

Each of the following shall be an "Event of Default" under the Indenture:

- (a) default in the due and punctual payment of any interest on any Bond;

(b) default in the due and punctual payment of the principal of or premium, if any, on any Bond whether at the stated maturity thereof, or on proceedings for redemption thereof, or on the maturity thereof by declaration;

(c) default in the performance or observance of any other of the covenants, agreements or conditions on the part of the Issuer in the Indenture or in the Bonds (subject to the Indenture).

The Issuer's failure to pay obligations owing to the Lender under the Mortgage Loan or to otherwise comply with the terms of the FHA Loan Documents shall not constitute an Event of Default under the Indenture.

The Trustee shall give written notice to the Rating Agency of the occurrence of any Event of Default described in subsection (a) or (b) above, within 15 days after a Responsible Officer of the Trustee has notice or knowledge thereof.

### **Acceleration**

If an Event of Default described in subsection (a) or (b) above has occurred and is continuing with respect to a Bond, the Trustee may, and upon the written request of the holders of a majority of the Bond Obligation the Trustee shall, by notice in writing delivered to the Issuer, declare the principal of all Bonds then outstanding and the interest accrued thereon immediately due and payable without premium, and such principal and interest shall thereupon become and be immediately due and payable.

If an Event of Default described in subsection (c) above has occurred and is continuing, the Trustee shall, upon the written request of the holders of 100% of the Bond Obligation and subject to the Indenture, by notice in writing delivered to the Issuer, declare the principal of all Bonds then outstanding and the interest accrued thereon immediately due and payable without premium, and such principal and interest shall thereupon become and be immediately due and payable.

Notwithstanding the occurrence of any Event of Default or acceleration of the principal and interest due on the Bonds under the Indenture, the Trustee shall continue to acquire GNMA Securities and fund advances in accordance with the Indenture, and funds in the Acquisition Fund and the Bond Fund shall remain available for that purpose.

The foregoing provisions of the Indenture, however, are subject to the condition that if at any time after the principal of the Bonds shall have been so declared due and payable, and before any judgment or decree for the payment of the money due shall have been obtained or entered as provided in the Indenture, there shall be paid or deposited with the Trustee a sum sufficient to pay all principal of the Bonds matured (or due upon mandatory redemption) prior to such declaration and all matured installments of interest (if any) upon all the Bonds, with interest at the rate borne by the Bonds on such overdue principal and premium, if any, and (to the extent legally enforceable) on such overdue installments of interest (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration), and the reasonable fees and expenses of the Trustee shall have been made good or cured or adequate provisions shall have been made therefor, then, and in every case, the holders of at least a majority of the Bond Obligation, by written notice to the Trustee and the Issuer, may direct the Trustee on behalf of the holders of all the Bonds to rescind and annul such declaration and its consequences, but no such rescission and annulment shall extend to or shall affect any subsequent default, nor shall it impair or exhaust any right or power consequent thereon. Nothing in the Indenture shall be construed to obligate the Issuer to make a payment or deposit referred to in the Indenture from any revenues other than the revenues derived from the Trust Estate.

Notwithstanding anything to the contrary in the Indenture, no acceleration of the Bonds shall result in an acceleration or prepayment of the Mortgage Loan and/or the GNMA Security.

### **Remedies**

Upon the occurrence of an Event of Default, the Trustee shall have the power to proceed with any right or remedy granted by the Constitution and laws of the State, as it may deem best, including, without limitation, any suit, action or special proceeding in equity or at law for the specific performance of any covenant or agreement contained in the Indenture or under the GNMA Securities or for the enforcement of any proper legal or equitable remedy as the Trustee shall deem most effectual to protect the rights aforesaid, insofar as such may be authorized by law, and specifically including the right to bring action on behalf of Bondholders against third parties.

No remedy by the terms of the Indenture conferred upon or reserved to the Trustee or to the Bondholder is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee or to the Bondholders under the Indenture or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient. No waiver of any default or Event of Default under the Indenture, whether by the Trustee or by the Bondholders, shall extend to or shall affect any subsequent default or Event of Default or shall impair any rights or remedies consequent thereto.

### **Rights of Bondholders**

If any Event of Default shall have occurred and, except as provided in the Indenture, if requested in writing so to do by the holders of not less than a majority of the Bond Obligation, and if indemnified as provided in the Indenture, the Trustee shall be obligated to exercise such one or more of the rights and powers conferred by the Indenture and to proceed to protect its rights and the rights of the Bondholders under applicable law, the GNMA Securities, the GNMA Guaranty Agreement, the Financing Agreement and the Indenture, as the Trustee, being advised by counsel, shall deem most expedient in the interest of the Bondholders. Anything in the Indenture to the contrary notwithstanding, but subject to the provisions of the Indenture, the holders of a majority of such Bond Obligation shall have the right at any time, by an instrument in writing executed and delivered to the Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture, or for the appointment of a receiver or any other proceedings under the Indenture, in accordance with the provisions of law, the Indenture and the GNMA Securities.

### **Supplemental Indentures Not Requiring Consent of Bondholders**

The Issuer and the Trustee may, without the consent of or notice to any of the Bondholders, enter into an indenture or indentures supplemental to the Indenture as shall not be inconsistent with the terms and provisions thereof or materially adverse to the interests of the holders of the Bonds, including, without limitation, for any one or more of the following purposes:

- (a) to cure any ambiguity or to cure or correct any defect or inconsistent provisions contained in the Indenture or to make such provisions in regard to matters or questions arising under the Indenture as may be necessary or desirable and not contrary to or inconsistent with the Indenture or adverse to the Bondholders;

(b) to change or modify any provision of the Indenture so as to harmonize to the maximum extent practicable the provisions thereof with existing rules, regulations and procedures of FHA;

(c) to add to the covenants and agreements of the Issuer in the Indenture other covenants and agreements, to surrender any right or power reserved or conferred upon the Issuer or amend or supplement any other provision thereof if the foregoing shall not, in the judgment of the Trustee, materially adversely affect the interests of the Bondholders, the Trustee being authorized to rely on an opinion of counsel (including counsel to the Issuer) with respect thereto;

(d) to confirm, as further assurance, any pledge of or lien on the Financing Agreement or the Revenues or of any other moneys, securities or funds subject to the lien of the Indenture;

(e) to modify any of the provisions of the Indenture relating to the use of a book-entry system for registration of the Bonds;

(f) to preserve the status of the Bonds "Build America Bonds" (Direct Payment) under Section 54AA(g) of the Code, as set forth in an opinion of Bond Counsel;

(g) to subject to the lien and pledge of the Indenture additional revenues, properties or collateral;

(h) to grant to or confer upon the Trustee for the benefit of the Bondholders any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Bondholders or the Trustee or any of them; or

(i) to modify, amend or supplement the Indenture or any indenture supplemental thereto in such manner as to permit the qualification thereof and under the Indenture of Trust Act of 1939 or any similar federal statute hereafter in effect or under any state securities laws.

### **Supplemental Indentures Requiring Consent of Bondholders**

With the consent of the holders of not less than two thirds of the Bond Obligation, the Issuer and the Trustee may, from time to time, enter into supplemental indentures for the purpose of modifying, altering, amending, adding to or rescinding any of the terms or provisions contained in the Indenture or in any supplemental indenture; provided, however, that nothing contained in this paragraph shall permit, or be construed as permitting, (a) an extension of the stated maturity of or a reduction in the principal amount of or reduction in the interest rate on, or an extension of time of payment of interest on, or reduction of any premium payable on the redemption of, any Bonds, without the consent of the registered owner of such Bonds; (b) the creation of any lien on all or any portion of the Trust Estate prior to or on a parity with the lien of the Indenture, without the consent of the holders of all of the Bonds; (c) a reduction in the amount of Bond Obligation, the holders of which are required to approve any such supplemental indenture, without the consent of the holders of all the Bonds at the time Outstanding which would be affected by the action to be taken; (d) a privilege or priority of any Bond over any other Bonds without the consent of the holders of all Bonds adversely affected thereby; or (e) an amendment to the Indenture relating to disposition of the GNMA Securities or relating to acceleration upon an Event of Default under the Indenture, without in each case the consent of the holders of all the Bonds then Outstanding.

If at any time the Issuer shall request the Trustee to enter into any such supplemental indenture for any of the purposes described in this section, the Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed execution of such supplemental indenture to be mailed, postage prepaid, to all Bondholders. Such notice shall briefly set forth the nature of the proposed supplemental indenture and shall state that copies thereof are on file at the Trust Office of the Trustee for inspection by all Bondholders. If, within 60 days following the mailing of such notice, the holders of the required portion of Bonds at the time of the execution of any such supplemental indenture shall have consented to and approved the execution thereof as provided in the Indenture, no holder of any Bond shall have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Issuer from executing the same or from taking any action pursuant to the provisions thereof. Upon the execution of any such supplemental indenture as is in the Indenture permitted and provided, the Indenture shall be and be deemed to be modified and amended in accordance therewith.

### **Amendment of Certain Documents**

(a) The Issuer and the Trustee may, with the consent of the Lender, make or consent to any amendment, change or modification of the Financing Agreement and the GNMA Securities, for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective or inconsistent provision contained therein, or in regard to matters or questions arising under said documents, as the Issuer and the Trustee may deem necessary or desirable and not inconsistent with said documents or the Indenture and which shall not adversely affect the interests of the holders of the Bonds.

(b) Except for the amendments, changes or modifications as provided in subsection (a) above, the Trustee shall not consent to or approve any other amendment, change or modification of any of the Financing Documents (other than the Indenture) without notice to and the written approval or consent of the Issuer, the Lender and the registered owners of not less than two-thirds of the Bond Obligation given and procured as provided in the Indenture. If, at any time, the Issuer shall request the consent to or approval of the Trustee to any such proposed amendment, change or modification of any of the Financing Documents (other than the Indenture), the Trustee shall, upon being satisfactorily indemnified by the Issuer with respect to expenses, cause notice of such proposed amendment, change or modification to be given in the same manner as provided in the Indenture with respect to supplemental indentures. Such notice shall briefly set forth the nature of such proposed amendment, change or modification and shall state that copies of the instrument embodying the same are on file at the principal corporate trust office of the Trustee for inspection by all Bondholders. If, within 60 days or such longer period as shall be prescribed by the Trustee following the giving of such notice, the holders of not less than two-thirds of the Bond Obligation at the time of the execution of such proposed amendment shall have consented to and approved the execution thereof as provided in the Indenture, subject to the provisions thereof, no holder of any Bond shall have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or shall have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee from agreeing to the execution thereof. Upon the execution of any such amendment as in the Indenture is permitted and provided, the Financing Documents shall be and be deemed to be modified and amended in accordance therewith.

(c) Anything in the Indenture to the contrary notwithstanding, the Issuer and the Trustee shall not consent to any amendment, change or modification of the GNMA Securities

which would reduce the Lender's obligations to make payments thereunder or GNMA's guarantee of such payments (other than as a result of a prepayment of the GNMA Securities permitted pursuant to the terms thereof) without the consent of the holders of 100% of the Bond Obligation.

(d) Notwithstanding anything to the contrary in the Indenture, no amendment to the Financing Documents or the FHA Loan Documents which adversely affects the rights of HUD or the Lender thereunder shall be effective without the consent of HUD or the Lender, as appropriate.

### **Amendment by Unanimous Consent**

Notwithstanding any other provision of the Indenture, the Issuer and the Trustee may consent to any Supplement to any Financing Document upon receipt of the consent of the Lender and the holders of all Bonds then Outstanding.

### **Satisfaction and Discharge of Indenture**

If the Issuer (a) shall pay or cause to be paid to the holders of the Bonds the principal, interest and premium, if any, to become due thereon at the times and in the manner stipulated therein and in the Indenture, and shall pay or cause to be paid all fees and expenses of the Trustee, and (b) shall keep, perform and observe all and singular the covenants and promises in the Bonds and in the Indenture expressed as to be kept, performed and observed by it or on its part, then these presents and the estate and rights hereby granted shall cease, determine and be void, and thereupon the Trustee shall cancel and discharge the lien of the Indenture and execute and deliver to the Issuer such instruments in writing as shall be requisite to satisfy the lien of the Indenture, shall convey to the Issuer the estate thereby conveyed and shall assign and deliver to the Issuer any interest in property at the time subject to the lien of the Indenture which may then be in its possession, except amounts held by the Trustee for the payment of principal of, premium, if any, and interest on the Bonds.

All Outstanding Bonds shall, prior to the maturity or redemption date thereof, be deemed to have been paid within the meaning and with the effect expressed in item (a) of the first paragraph of this section if the following conditions shall have been fulfilled: (i) there shall be on deposit with the Trustee either moneys which are Seasoned Funds or direct noncallable Government Obligations purchased with Seasoned Funds in an amount sufficient to pay when due the principal or redemption price, if applicable, and interest due and to become due on the Bonds on and prior to the redemption date or maturity date thereof, as the case may be; (ii) if any of the Bonds are to be redeemed on any date prior to their maturity, the Issuer shall have given to the Trustee, in form satisfactory to it, irrevocable instructions to mail, as provided in the Indenture, notice of redemption of such Bonds on such date; (iii) the Issuer shall have given the Trustee irrevocable instructions to mail, as soon as practicable, in the manner prescribed by the Indenture, a notice to the holders of such Bonds that the deposit required by this paragraph has been made with the Trustee and that the Bonds are deemed to have been paid in accordance with the Indenture and stating the redemption date upon which moneys are to be available for the payment of the principal or redemption price, if applicable, on said Bonds; and (iv) the Trustee shall have received the opinion required by the Indenture.

## The Trustee

The Trustee hereby accepts the trust imposed upon it by the Indenture and agrees to perform said trusts upon the following terms and conditions:

(a) The Trustee may execute any of the trusts or powers under the Indenture and perform any of its duties by or through attorneys, agents, receivers or employees and shall be entitled to advice of counsel concerning all matters of the trusts and the duties under the Indenture and may in all cases pay such reasonable compensation to all such attorneys, agents, receivers and employees as may be reasonably employed in connection with the trusts of the Indenture. The Trustee may act upon the opinion or advice of any attorney, who may be the attorney or attorneys for the Issuer, and the Trustee shall not be responsible for any loss or damage resulting from any action or inaction taken in good faith in reliance upon such opinion or advice.

(b) The Trustee shall not be responsible for any recital in the Indenture, or in the Bonds (except in respect to the authentication certificate of the Trustee endorsed on the Bonds), or for the validity of the execution by the Issuer of the Indenture or of any supplements thereto or instruments of further assurance, or for the sufficiency of the security for the Bonds issued under the Indenture or intended to be secured by the Indenture.

(c) The Trustee may become the owner or pledgee of the Bonds secured by the Indenture and otherwise deal with the Issuer with the same rights which it would have if not Trustee.

(d) To the extent permitted under the Indenture, the Trustee may rely and shall be protected in acting upon any notice, request, consent, certificate, order, affidavit, letter, telegram or other paper or document reasonably believed to be genuine and correct and to have been signed or sent by the proper person or persons, and the Trustee shall not be bound to make any investigation into the facts or matters stated in any such document so delivered and signed unless requested in writing so to do by the holders of a majority of the Bond Obligation.

(e) The permissive rights of the Trustee to do things enumerated in the Indenture shall not be construed as a duty unless so specified therein.

(f) At any and all reasonable times, the Trustee and its duly authorized agents, attorneys, experts, engineers, accountants and representatives shall have the right, but shall not be required, to inspect the Project fully, including all books, papers and records of the Issuer relating to the Project and the Bonds, and to take such memoranda from and in regard thereto as may be desired.

(g) Notwithstanding anything elsewhere in the Indenture contained, the Trustee shall have the right, but shall not be required, to reasonably demand, in respect of the authentication of any Bonds, the withdrawal of any moneys, the release of any interest in property or any action whatsoever within the purview of the Indenture, any showings, certificates, opinions, appraisals or other information, or official action or evidence thereof, in addition to those required in the Indenture.

(h) Before taking any action under the Indenture, other than any action involved in accelerating Bonds, calling Bonds for mandatory redemption, seeking payment from the Lender or GNMA and making payments of principal and interest on Bonds, the Trustee may require that an indemnity bond satisfactory to it be furnished for the reimbursement of all expenses to which it

may be put and to protect it against all liability, except liability which is adjudicated to have resulted from its gross negligence or willful misconduct by reason of any action so taken.

(i) All moneys received by the Trustee or any paying agent shall, until used or applied or invested as provided in the Indenture, be held in trust for the purposes for which they were received but need not be segregated from other funds except to the extent required by law or by the Indenture. Neither the Trustee nor any paying agent shall be under any liability for interest on any moneys received under the Indenture except such as may be agreed upon in writing with the Issuer.

(j) The Trustee undertakes to perform only such duties as are specifically set forth in the Indenture and shall not be answerable for other than its negligence or bad faith in the performance of those express duties. In case an Event of Default has occurred which has not been cured, the Trustee shall exercise the rights, duties and powers vested in it by the Indenture in good faith and with that degree of diligence, care and skill which a reasonable person would exercise under similar circumstances in like situations.

(k) The Trustee shall not be responsible for insuring the Project or for collecting any insurance moneys.

(l) The Trustee shall not be required to give any bond or surety with respect to the performance of its duties or the exercise of its powers under the Indenture.

(m) In the event the Trustee receives inconsistent or conflicting requests and indemnity from two or more groups of Bondholders, each representing less than a majority of the aggregate principal amount of Bonds then Outstanding, the Trustee, in its sole discretion, may determine what action, if any, shall be taken, including the right to interplead said parties in any court of applicable jurisdiction.

(n) No personal recourse may be taken, directly or indirectly, against any officer, director, employee or agent of the Trustee with respect to the obligations of the Trustee under the Indenture, the Financing Agreement or any certificate or other writing delivered in connection therewith.

(o) The Trustee's immunities and protections from liability and its right to indemnification in connection with the performance of its duties and functions under the Indenture and the Financing Agreement shall extend to the Trustee's officers, directors, employees and agents.

(p) The Trustee's immunities and protections from liability and its right to payment of compensation and indemnification in connection with performance of its duties and functions under the Indenture and the Financing Agreement shall survive the Trustee's resignation or removal and the final payment of the Bonds.

(q) The Trustee shall have no responsibility for any information in any offering memorandum or other disclosure material distributed with respect to the Bonds, and the Trustee shall have no responsibility for compliance with any state or federal securities laws in connection with the Bonds.

(r) In acting or omitting to act under the Financing Agreement, the Trustee shall be entitled to all of the rights, protections and immunities, and to its rights of indemnification, accorded to it under the Indenture.

(s) Whether or not expressly provided for in the Indenture, every provision of the Indenture relating to the conduct of or affecting the liability of the Trustee shall be subject to the provisions of the Indenture.

(t) The Trustee shall not in any event be responsible for ensuring that the rate of interest due and payable on the Bonds under the Indenture does not exceed the highest legal rate of interest permissible under federal or state law applicable thereto.

(u) The Trustee shall not be responsible for the application of any of the proceeds of the Bonds or any other moneys deposited with it and paid out, withdrawn or transferred under the Indenture if such application, payment, withdrawal or transfer shall be made in accordance with the provisions of the Indenture.

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## APPENDIX C

### SUMMARY OF CERTAIN PROVISIONS OF THE FINANCING AGREEMENT

The following is a summary, which does not purport to be complete, comprehensive or definitive, of certain provisions of the Financing Agreement, which is qualified in its entirety by reference to the Financing Agreement.

#### Financing Structure

(a) The Lender agrees, subject to the terms and conditions of the Financing Agreement and the Commitment, to make the Mortgage Loan to the Issuer in an amount equal to the aggregate principal amount of the Mortgage Loan. The Issuer agrees, subject to the terms and provisions of the Financing Agreement, to issue the Bonds and to make the proceeds thereof available to purchase the GNMA Securities. The Issuer agrees, subject to the terms and conditions of the Financing Agreement, to use the proceeds of the Mortgage Loan to acquire, construct and equip the Project.

(b) The Trustee is authorized and directed pursuant to the Financing Agreement and the Indenture to use moneys in the Acquisition Fund and, with respect to payment of accrued interest, in the Bond Fund (i) to advance to the Lender on behalf of the Issuer, prior to the delivery of the CLC representing such advance, the amount requisitioned by the Lender with respect to any disbursements under the Mortgage Loan except for the Initial Advance and the Final Advance and (ii) to make interim advances to purchase CLCs with respect to the Project, at the price specified in the Financing Agreement. Upon issuance of the PLC by the Lender, the Trustee, on behalf of the Issuer, has been authorized and directed under the Indenture to purchase the PLC from the Lender through exchanging the CLCs previously acquired by the Trustee and with funds remaining in the Acquisition Fund and with respect to the payment of accrued and unpaid interest on the PLC with funds in the Bond Fund in accordance with the Financing Agreement and the Indenture, at a price specified in the Financing Agreement. The Trustee agrees to acquire the CLCs and the PLC as set forth in the Financing Agreement and in the Indenture.

(c) Pursuant to the GNMA Mortgage-Backed Securities Guide, the Lender agrees to make all payments on the GNMA Securities in accordance with their terms, provided such agreement shall not be construed as the Lender's guaranty. In the event Commencement of Amortization occurs prior to the PLC Delivery Date, under no circumstances shall the Lender pass through to the Trustee principal payments on the Mortgage Note prior to the PLC Delivery Date unless required to do so by GNMA or FHA. Such principal payments shall be paid by the Lender only as a prepayment of the PLC.

(d) Nothing in the Financing Agreement shall be construed to impose a duty on the Trustee to purchase GNMA Securities in a principal amount in excess of \$23,165,000.

(e) The Issuer agrees to remit to the Lender any amounts which the Trustee is required to pay the Lender, but for which sufficient funds to make such payments are not available under the Indenture.

## **Delivery of the GNMA Securities**

(a) The Issuer and the Lender agree under the Financing Agreement to use their best efforts to deliver to the Trustee the CLCs in connection with the funding of each construction advance by the Trustee from the Acquisition Fund and to deliver the PLC in exchange for the CLCs as soon as practicable after final endorsement of the Mortgage Note. The Financing Agreement provides that the Issuer and the Lender expect to deliver the PLC to the Trustee on or before October 31, 2012. The Financing Agreement further states that neither the Issuer nor the Lender has actual knowledge of a material fact that causes it to believe that the PLC will not be delivered to the Trustee on or before such date.

(b) The Financing Agreement provides that the Lender immediately shall deliver to the Trustee any CLCs held by it with respect to the Bonds (i) if the PLC has not been delivered to the Trustee on or before October 31, 2012 (or such later date as permitted under the Indenture) or (ii) if it knows that, for any reason, the PLC will not be delivered to the Trustee, provided that the Trustee shall purchase such CLCs in accordance with the Financing Agreement.

## **Sufficiency of Funds**

The Issuer agrees that if the Issuer should pay any costs relating to the acquisition of the GNMA Securities other than from the proceeds of the Bonds, the Issuer shall not be entitled to any reimbursement therefor from the Lender, the Trustee or the Bondholders.

## **Operation of the Project**

The Financing Agreement provides that the Issuer shall operate or cause the Project to be operated as an eligible project under Section 242 of the National Housing Act.

## **Events of Default; Remedies**

Upon receipt by a Responsible Officer of the Trustee of notice of a violation by the Issuer of, or default by the Issuer under, any of the provisions of the Financing Agreement, the Trustee shall give written notice thereof to the Issuer by certified mail, postage prepaid, return-receipt requested. If a violation or default by the Issuer of any of the provisions of the Financing Agreement is not corrected to the reasonable satisfaction of the Trustee within 30 days after the date such notice is received, or if the violation or default (other than a payment default) cannot be corrected within such period, within such longer period as may be necessary, in the reasonable opinion of the Trustee, to correct such violation, provided that the Issuer has commenced and is diligently pursuing appropriate action to correct such violation and there will be no material adverse effect on the rights of the Trustee, the Lender or the Bondholders under the Financing Agreement, any of the FHA Loan Documents or the Indenture as a result of such extension, without further notice, the Trustee may declaim a default under the Financing Agreement effective on the date of such declaration of default, and, upon such default, the Issuer, the Lender or the Trustee may apply to any state or federal court having jurisdiction (a) for specific performance of the Financing Agreement or for an injunction against any violation of the Financing Agreement, since the injury to the Issuer, the Lender and the Trustee arising from a default under any of the terms of the Financing Agreement would be irreparable, and the amount of damage would be difficult to ascertain, or (b) for other relief in law or equity which may be appropriate. A default under the Financing Agreement shall not constitute an Event of Default under the Indenture, the FHA Loan Documents or the documents relating to the GNMA Securities. Notwithstanding the occurrence of any event of default under the Financing Agreement, the Trustee shall continue to purchase the GNMA

Securities from the Lender and to make disbursements pursuant to the Financing Agreement, and the funds on deposit in the Acquisition Fund and the Bond Fund shall remain available for such purpose.

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## APPENDIX D

### FORM OF THE CONTINUING DISCLOSURE AGREEMENT

The following is the form of the Continuing Disclosure Agreement which is expected to be entered into on the date of issuance of the Bonds.

This Continuing Disclosure Agreement (this “Disclosure Agreement”) dated as of October 1, 2009 is executed and delivered by the Coulee Medical Foundation (the “Issuer”) and U.S. Bank National Association, as dissemination agent (the “Dissemination Agent”), in connection with the issuance of \$23,165,000 in aggregate principal amount of its Taxable Revenue Build America Bonds (Direct Pay) (GNMA Collateralized – Coulee Medical Center) Series 2009A (the “Bonds”). The Bonds are being issued pursuant to a Trust Indenture dated as of October 1, 2009 (the “Indenture”) between the Issuer and U.S. Bank National Association (the “Trustee”). The proceeds of the Bonds are being loaned to the Issuer pursuant to a Financing Agreement dated as of October 1, 2009 among the Issuer, Douglas, Grant, Lincoln & Okanogan Counties Public Hospital District No. 6 (the “District”), the Trustee and Red Mortgage Capital, Inc. (the “Lender”) (the “Financing Agreement”). Pursuant to the Indenture and the Financing Agreement, the Dissemination Agent and the Issuer covenant and agree as follows:

**Section 1. Purpose of the Disclosure Agreement.** This Disclosure Agreement is being executed and delivered by the Issuer and the Dissemination Agent for the benefit of the Bondholders and in order to assist the Participating Underwriter in complying with the Rule (defined below). The Issuer and the Dissemination Agent acknowledge that the Issuer has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under this Agreement, and has no liability to any Person, including any holder of the Bonds or Beneficial Owner, with respect to any such reports, notices or disclosures.

**Section 2. Definitions.** In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“*Annual Report*” shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“*Beneficial Owner*” shall mean any Person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including Persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

“*Disclosure Representative*” shall mean the administrator of the Project or his or her designee, or such other Person as the Issuer shall designate in writing to the Dissemination Agent from time to time.

“*Dissemination Agent*” shall mean U.S. Bank National Association, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the Trustee a written acceptance of such designation.

“*Listed Events*” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

“*MSRB*” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934. All documents provided to the MSRB shall be in an electronic format and accompanied by identifying information, as prescribed by the MSRB. Initially, all

document submissions to the MSRB pursuant to this Continuing Disclosure Agreement shall use the MSRB's Electronic Municipal Market Access (EMMA) system at [www.emma.msrb.org](http://www.emma.msrb.org).

*"Participating Underwriter"* means Red Capital Markets, Inc. and its successors and assigns.

*"Rule"* means Rule 15c2 12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

**Section 3. Provision of Annual Reports.** (a) The Issuer will, or will cause the Dissemination Agent to, not later than 180 days following the end of the Issuer's fiscal year, commencing with the fiscal year ending in 2009, provide to the MSRB an Annual Report which is consistent with the requirements described below. No later than 15 Business Days prior to said date, the Issuer will provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package and may cross reference other information, provided that the audited financial statements for the prior calendar year of the Issuer may be submitted separately from the balance of the Annual Report.

(b) If by 15 Business Days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent will contact the Disclosure Representative to determine if the Issuer is in compliance with subsection (a).

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the MSRB by the date required in subsection (a), the Dissemination Agent will send a notice to the MSRB in substantially the form attached as Exhibit A to the Continuing Disclosure Agreement.

(d) The Dissemination Agent will file a report with the Issuer and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to the Disclosure Agreement, stating the date it was provided.

**Section 4. Content of Annual Reports.** The Issuer's Annual Report will contain or incorporate by reference the following:

(a) the audited financial statements of the Issuer for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated from time to time by the Financial Accounting Standards Board and as modified by HUD. If the Issuer's audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report will contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements will be filed in the same manner as the Annual Report when they become available; and

(b) census of the Project at the end of the Issuer's fiscal year with an explanation of any significant trends or changes.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues with respect to which the Issuer is an "obligated Person" (as defined by the Rule), which have been filed with the MSRB. The Issuer will clearly identify each such other document so incorporated by reference.

**Section 5. Reporting of Significant Events.** (a) The Issuer will give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (i) principal and interest payment delinquencies;
  - (ii) non payment related defaults;
  - (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
  - (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
  - (v) substitution of credit or liquidity providers or their failure to perform;
  - (vi) adverse tax opinions or events affecting the tax exempt status of the Bonds;
  - (vii) modifications to rights of Bondholders;
  - (viii) Bond calls (other than scheduled mandatory sinking fund redemptions);
  - (ix) defeasances;
  - (x) release, substitution or sale of property securing repayment of the Bonds;
- or
- (xi) Bond rating changes.

(b) The Trustee will, promptly after obtaining actual knowledge of the occurrence of any of the Listed Events (except events listed in clause (a)(v), (viii) or (ix)) contact the Disclosure Representative, inform such Person of the event and request that the Issuer promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f). For purposes of the Disclosure Agreement, “actual knowledge” of the occurrence of such Listed Events will mean actual knowledge by the officer or officers at the corporate trust office of the Trustee with regular responsibility for the administration of the Indenture.

(c) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event, because of a notice from the Trustee pursuant to subsection (b) or otherwise, the Issuer will as soon as possible determine if such event would be material under applicable federal securities laws, provided that any event under subsection (a)(vi) will always be deemed to be material.

(d) If the Issuer has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Issuer will promptly notify the Dissemination Agent in writing. Such notice will instruct the Dissemination Agent to report the occurrence pursuant to subsection (f).

(e) If in response to a request under subsection (b), the Issuer determines that the Listed Event would not be material under applicable federal securities laws, the Issuer will so notify the Dissemination Agent in writing, together with an opinion of counsel to the same effect, and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (f).

(f) If the Dissemination Agent has been instructed by the Issuer to report the occurrence of a Listed Event, the Dissemination Agent will file a notice of such occurrence to the MSRB with a copy to the Issuer. Notwithstanding the foregoing, (i) notice of the occurrence of a Listed Event described in subsection (a)(v), (viii), (ix) or (xi) will be given by the Dissemination Agent upon notice from the Trustee of such event(s) unless the Issuer gives the Dissemination Agent affirmative instructions not to disclose such occurrence and (ii) notice of Listed Events described in subsection (a)(viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the Holders of affected Bonds pursuant to the Indenture.

**Section 6. Amendment; Waiver.** Notwithstanding any other provision of the Disclosure Agreement, the Issuer and the Dissemination Agent may amend the Disclosure Agreement (and the Trustee will agree to any amendment so requested by the Issuer) and any provision of the Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions described under paragraph (a) under “Provision of Annual Reports,” “Contents of Annual Reports” or paragraph (a) under “Reporting of Significant Events,” it 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 an obligated Person with respect to the Bonds or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders or (ii) does not, in the opinion of the Trustee or nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Borrowers of the Bonds.

In the event of any amendment or waiver of a provision of the Disclosure Agreement, the Issuer will describe such amendment in the next Annual Report and will include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Issuer. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change will be given in the same manner as for a Listed Event under paragraph (f) under “Reporting of Significant Events” and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

The Issuer will provide a copy of any amendment to the Continuing Disclosure Agreement to the Issuer promptly following its execution.

**Section 7. Default.** In the event of a failure of the Issuer or the Dissemination Agent to comply with any provision of the Disclosure Agreement, the Dissemination Agent may (and, at the request of any Participating Underwriter or the Holders of at least 25% aggregate principal amount of Outstanding Bonds, will), or the Issuer or any Holder or Beneficial Borrower of the Bonds may, take such actions as may be necessary and appropriate, including seeking, or specific performance by court order, to cause the Issuer or the Dissemination Agent, as the case may be, to comply with its obligations under the

Disclosure Agreement. A default under the Disclosure Agreement will not be deemed an Event of Default under the Indenture or the Financing Agreement, and the sole remedy under the Disclosure Agreement in the event of any failure of the Issuer or the Dissemination Agent to comply with the Disclosure Agreement will be an action to compel performance.

**Section 8. Beneficiaries.** The Disclosure Agreement will inure solely to the benefit of the Issuer, the Trustee, the Dissemination Agent, the Participating Underwriter and Holders from time to time of the Bonds and will create no rights in any other Person or entity.

**Section 9. GNMA/FHA Documents and Regulations Control.** (a) To the extent that there is any conflict, inconsistency or ambiguity between or among this Continuing Disclosure Agreement and (i) any applicable FHA mortgage insurance, or other applicable FHA or GNMA statutory, regulatory, administrative requirements, (ii) any of the documents which have been or are required by FHA and/or the Lender to be executed by the Issuer, FHA and/or the Lender in connection with the subject transaction (each a “FHA Loan Document,” or collectively, the “FHA Loan Documents” as the context may require) or (iii) any of the documents which have been or are required by GNMA to be executed by the Issuer, FHA, GNMA and/or the Lender in connection with the subject transaction (each a “GNMA Document” or collectively, the “GNMA Documents” as the context may require), said FHA mortgage insurance and other applicable FHA and GNMA statutory, regulatory and administrative requirements and said FHA Loan Documents and GNMA Documents will be deemed to be controlling and any such ambiguity or inconsistency will be resolved in favor of, and pursuant to the FHA mortgage insurance, and other applicable FHA and GNMA statutory, regulatory and administrative requirements and the terms of the FHA Loan Documents and GNMA Documents, as applicable. For purposes hereof, the reference to FHA’s statutory, regulatory or administrative requirements shall be deemed to include, but shall not be limited to, any statutory, regulatory or administrative requirements pertaining to Section 242 of the National Housing Act, as may be applicable. The parties hereto agree to amend this instrument as may be necessary or required by FHA, GNMA or the Lender to conform this instrument to the above-cited requirements an FHA Loan Documents and GNMA Documents. In addition, it is understood and agreed that any default under this Agreement shall not constitute a default under the FHA Loan documents or the GNMA Documents; and further, that nothing herein contained shall be construed to limit or affect the Lender’s rights under the FHA Loan Documents or the GNMA Documents.”

(b) Notwithstanding anything contained to the contrary herein, the enforcement of this Continuing Disclosure Agreement shall not result in any claim against the Project, the proceeds of the Mortgage Loan, any reserve or deposit made with FHA or the Lender or another person or entity required by FHA or the Lender in connection with the Mortgage Loan or against the rents or other income from the Project except to the extent of “Residual Receipts” (as such term defined in the HUD Regulatory Agreement) available for distribution to the Issuer.

(c) If this Continuing Disclosure Agreement contains any provision requiring the Issuer or any other party to the transaction to take any action necessary to preserve the tax exemption of interest on the Bonds, or prohibiting the Issuer or any other party to the transaction from taking any action that might jeopardize such tax exemption, such provision is qualified to except any actions required (or prohibited) by FHA, GNMA or the Lender pursuant to (i) the National Housing Act, as amended, including, but not limited to, any applicable FHA mortgage insurance or other FHA or GNMA statutory, regulatory or administrative requirements therein contained or promulgated thereunder, (ii) Section 242 of the United National Housing Act and the administrative regulations and guidelines promulgated thereunder, or (iii) any of the FHA Loan Documents and the GNMA Documents, as applicable.

(d) Notwithstanding any provision contained in this section to the contrary, any transfer restrictions contained herein shall in no way be deemed to affect or otherwise impair the rights of FHA or

the Lender, as applicable, to approve or disapprove the proposed sale transfer of the Project as required by the HUD Regulatory Agreement. The decision of FHA or the Lender, as applicable, with respect to any such proposed sale or transfer of the Project will be binding and determinative on the parties hereto, notwithstanding the approval or disapproval by the Issuer of any such proposed sale or transfer.

(e) Notwithstanding any provision of this Continuing Disclosure Agreement to the contrary, the parties hereto acknowledge and agree that all of their respective rights and powers under this Agreement are subordinate and subject to the liens of the Leasehold Mortgage created by the Issuer in favor of the Lender under the FHA Loan Documents, together with any and all amounts from time to time secured thereby, and interest thereon, and to all of the terms and provisions of the Leasehold Mortgage, and any and all other FHA Loan Documents and GNMA Documents executed by the Developer, FHA, GNMA and/or the Lender, as required by FHA, GNMA or the Lender in connection with the Mortgage Loan.

(f) This Agreement shall not be construed to restrict or adversely affect the duties and obligations of the Lender under the Contract of Mortgage Insurance between the Lender and HUD with respect to the Mortgage Loan.

**Section 10. Additional Information.** Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

**Section 11. Duties, Immunities and Liabilities of Trustee and Dissemination Agent.** Article VII of the Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture and the Dissemination Agent shall be entitled to the same protections, limitations from liability and indemnities afforded the Trustee thereunder. The Dissemination Agent and the Trustee shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Issuer agrees to indemnify and save the Dissemination Agent, the Trustee, their officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their rights, obligations, powers and duties hereunder, including the costs and expenses (including reasonable attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's or Trustee's respective negligence or willful misconduct. The obligations of the Issuer under this Section shall survive the termination of this Disclosure Agreement, the resignation or removal of the Dissemination Agent or the Trustee and payment of the Bonds. The Dissemination Agent and the Trustee shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the Issuer, the Bondholders, or any other party. Neither the Trustee or the Dissemination Agent shall have any liability to the Bondholders or any other party for any monetary damages or financial liability of any kind whatsoever related to or arising from the breach of this Disclosure Agreement.

The Dissemination Agent agrees to disseminate the information provided to it hereunder in the form delivered by the Issuer. The Dissemination Agent is acting hereunder solely in an agency capacity and as such is merely a conduit for the Issuer, and shall have no liability or responsibility for the form, content, accuracy or completeness of any information furnished hereunder. Any such information may contain a legend to that effect.

The Dissemination Agent shall have no obligation to make disclosure concerning the Bonds, the Project or any other matter except as expressly set out herein, provided that no provision of this Disclosure Agreement shall limit the duties, trusts, rights, powers or obligations of the Trustee under the Indenture. The fact that the Trustee has or may have any banking, fiduciary or other relationship with the Issuer or any other party in connection with the Project or otherwise, apart from the relationship created by the Indenture and this Disclosure Agreement, shall not be construed to mean that the Trustee has knowledge or notice of any event or condition relating to the Bonds or the Project except in its respective capacities under such agreements.

No provision of this Disclosure Agreement shall require or be construed to require the Issuer or the Dissemination Agent to interpret or provide an opinion concerning any information disclosed hereunder.

The Issuer shall not disclose information: (1) deemed confidential or proprietary by the Issuer; (2) the disclosure of which is prohibited by applicable law; or (3) otherwise not subject to disclosure.

The Annual Report may contain such disclaimer language as the Issuer may deem appropriate. Any information disclosed hereunder by the Dissemination Agent may contain such disclaimer language as the Dissemination Agent may deem appropriate.

The Issuer hereby agrees to compensate the Dissemination Agent for the services provided and the expenses incurred pursuant to this Disclosure Agreement, in an amount to be agreed upon from time to time hereunder, and to reimburse the Dissemination Agent upon its request for all reasonable expenses, disbursements and advances incurred by the Dissemination Agent hereunder (including any reasonable compensation and expenses of counsel) except any such expense, disbursement or advance that may be attributable to its negligence or willful misconduct.

The Dissemination Agent may consult with counsel of its choice and the written advice of such counsel or any opinion of counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon, it being understood that for purposes of this provision, that such counsel may be counsel to the Issuer.

No provision of this Disclosure Agreement shall require the Dissemination Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights of powers.

**Section 12a. Notices.** Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows, and shall be effective only upon receipt:

To the Issuer:

Coulee Medical Foundation  
c/o Douglas, Grant, Lincoln & Okanogan Counties Public Hospital District No. 6  
d/b/a Coulee Medical Center  
411 Fortuyn Road  
Grand Coulee, WA 99133  
Telephone: (509) 633-1753  
Facsimile: (509) 633-0295

With a copy to:

Stamper Rubens, P.S.  
720 West Boone Avenue, Suite 200  
Spokane, WA 99201  
Attention: Randall Stamper, Esq.  
Telephone: (509) 326-4800  
Facsimile: (509) 326-4891

To the Trustee/Dissemination Agent:

U.S. Bank National Association  
1420 Fifth Avenue, Suite 700  
Mail Code: PD-WA-T7CT  
Seattle, WA 98101  
Telephone: (206) 344-4687  
Facsimile: (206) 344-4630

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices of communications should be sent, effective only upon receipt.

**Section 12b. Governing Law.** This Disclosure Agreement shall be governed by the laws of the State of Washington.

**Section 12c. Form of Submissions to Dissemination Agent.** All information provided to the Dissemination Agent hereunder shall be furnished by the Issuer to the Dissemination Agent by overnight or express courier or by United States mail, on 8 ½ inch by 11 inch paper in legible form, on single sided paper, unbound, printed or typed with black ink, and suitable for machine copying, or in such other form or format as may be subsequently agreed upon by the Issuer and the Dissemination Agent in order to accommodate filing requirements of the MSRB. Such filing shall be made to the following address, or to such other address as may be specified in writing to the Issuer by the Dissemination Agent from time to time:

U.S. Bank National Association  
1420 Fifth Avenue, Suite 700  
Mail Code: PD-WA-T7CT  
Seattle, WA 98101  
Attention: Corporate Trust Department - 15c2-12 Disclosure

Unless expressly approved in writing by the Dissemination Agent prior to any filing, information delivered to the Dissemination Agent by facsimile transmission or electronic mail shall not satisfy the obligation of the Issuer to deliver information under this Disclosure Agreement.

**Section 12d. Termination of this Disclosure Agreement.** The Issuer or the Dissemination Agent may terminate this Disclosure Agreement by giving written notice to the other party at least 30 days prior to such termination. The Dissemination Agent shall be fully discharged at the time any such termination is effective.

**Section 13. Counterparts.** This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Dated as of October 1, 2009

**COULEE MEDICAL FOUNDATION**

By: \_\_\_\_\_  
Name: Tom R. Jensen  
Title: President

[Signatures continued on next page]

[Trustee's signature page to Continuing Disclosure Agreement]

**U.S. BANK NATIONAL ASSOCIATION,**  
as Trustee and Dissemination Agent

By: \_\_\_\_\_  
Name: Thomas Zrust  
Title: Vice President

**EXHIBIT A**  
**NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD OF**  
**FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: Coulee Medical Foundation

Name of Bond Issue: \$23,165,000 Taxable Revenue Build America Bonds (Direct Pay) (GNMA Collateralized – Coulee Medical Center) Series 2009A

Date of Issuance: October 29, 2009

NOTICE IS HEREBY GIVEN that the above-captioned borrower (the “Issuer”) has not provided an Annual Report with respect to Coulee Medical Center in connection with the above-named bonds (the “Bonds”) as required by a Trust Indenture dated as of October 1, 2009 (the “Indenture”), between the Issuer and U.S. Bank National Association, as Trustee (the “Trustee”) and the Financing Agreement dated as of October 1, 2009 (the “Financing Agreement”), among the Issuer, Douglas, Grant, Lincoln & Okanogan Counties Public Hospital District No. 6 (the “District”), the Trustee, Red Mortgage Capital, Inc. (the “Lender”) and the Issuer. The undersigned has been informed by the Issuer that it anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

**U.S. BANK NATIONAL ASSOCIATION,**  
as Dissemination Agent on Behalf of Issuer

By: \_\_\_\_\_  
Name: Thomas Zrust  
Title: Vice President

cc: Issuer

## APPENDIX E

### FORM OF BOND COUNSEL OPINION

October 29, 2009

Coulee Medical Foundation  
Grand Coulee, Washington

U.S. Bank National Association  
Seattle, Washington

Re: \$23,165,000 Taxable Revenue Build America Bonds (Direct Pay) (GNMA Collateralized – Coulee Medical Center) Series 2009A

To the Addressees:

We have acted as Bond Counsel to the Coulee Medical Foundation (the “Issuer”) in connection with the issuance by the Issuer of \$23,165,000 in aggregate principal amount of its Taxable Revenue Build America Bonds (Direct Pay) (GNMA Collateralized – Coulee Medical Center) Series 2009A (the “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 Bonds are being issued pursuant to a resolution adopted by the Board of the Issuer on behalf of Douglas, Grant, Lincoln & Okanogan Counties Public Hospital District No. 6 (the “District”), and that certain Trust Indenture, dated as of October 1, 2009 (the “Indenture”), by and between the Issuer and U.S. Bank National Association, as trustee (the “Trustee”). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

Regarding questions of fact material to our opinion, we have relied on representations of the Issuer and the District, and in the certified proceedings and other certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

Based on the foregoing, we are of the opinion that, under existing law:

1. The Issuer is validly existing as a Washington nonprofit corporation formed pursuant to Chapter 24.03 of the Revised Code of the State of Washington and a resolution of the District with the power to enter into the Indenture, perform the agreements on its part contained therein, and issue the Bonds.

2. The Indenture has been duly authorized, executed and delivered by the Issuer, and is a valid and binding obligation of the Issuer enforceable against the Issuer in accordance with its terms. The Indenture creates a valid lien on the Trust Estate, to secure the payment of the principal of and interest on the Bonds, subject to the provisions of the Indenture permitting the application thereof for the purposes, and on the terms and conditions, set forth in the Indenture.

3. The Bonds have been duly authorized, executed and delivered by the Issuer, and are legal, valid and binding limited obligations of the Issuer, enforceable in accordance with their terms, payable solely from the Trust Estate.

Notwithstanding the foregoing, the rights of the owners of the Bonds and the enforceability of obligations under the Bonds and the Indenture are limited by bankruptcy, insolvency, 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 regarding the accuracy, adequacy or completeness of the Preliminary or final Official Statement prepared and circulated in connection with the offering and sale of the Bonds, or regarding the perfection or priority of the lien on the Trust Estate.

We bring to your attention that our firm is not admitted to practice in the State of Washington. However, we have reviewed such aspects of Washington law as we deemed necessary to render the foregoing opinions.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

Very truly yours,

EICHNER & NORRIS PLLC

By: \_\_\_\_\_

## **APPENDIX F**

### **CERTAIN INFORMATION ABOUT THE DISTRICT AND THE PROJECT**

#### **PROJECT INFORMATION**

##### **Introduction**

Douglas, Grant, Lincoln & Okanogan Counties Public Hospital District No. 6, Washington (Coulee Medical Center) (the “District”), a public hospital district organized and operating under the laws of the State of Washington, owns and operates Coulee Medical Center (the “Hospital”), a 25-bed Critical Access Hospital (“CAH”), and Coulee Family Medicine (the “Clinic”), a primary care clinic. Both facilities are located in Grand Coulee, Washington, approximately 85 miles northwest of Spokane, Washington, with the Clinic located in a separate facility adjacent to the Hospital site. Additionally, the District operates a satellite medical clinic located 30 miles west of the Hospital, in Coulee City, Washington. The Hospital, Clinic and satellite medical clinic, together with all other health care facilities hereafter acquired by the District are sometimes collectively referred to herein as the “Health Care Facilities.”

The District was established by a public vote in November 1990 with the primary purpose of providing healthcare services to the residents and visitors of the District, including the communities comprising Douglas, Grant, Lincoln and Okanogan counties. The Hospital facility was constructed in 1962 and no longer provides adequate nor efficient space for the District’s healthcare services.

##### **History and Overview**

The Hospital is a trauma level IV 25-bed CAH located in Grand Coulee, Washington. The Hospital was designated a CAH by the Centers for Medicare and Medicaid Services (“CMS”) effective January 1, 2001. As a CAH, the Hospital can be licensed for up to 25 beds that are designated as either acute care or swing beds. The Hospital must also provide 24-hour emergency services, be at or below an average patient stay of 96 hours and be certified with the State of Washington. The CAH program provides for reimbursement at a rate of 101% of eligible costs attributable to Medicare patient services. Additionally, Medicaid services in Washington State are cost-reimbursed for CAHs.

Built in 1934, the original area hospital was Mason City Hospital, a 75-bed facility which accommodated the health needs of workers and families who had come to the area for the construction of the nearby Grand Coulee Dam. With this hospital facility located on a different site from the current Hospital, the hospital directors voted in 1960 to relocate the Mason City Hospital and build a new facility in Grand Coulee. The new hospital was named Coulee Community Hospital to reflect the area of service. The Hospital is currently called Coulee Medical Center.

The Hospital was privately owned until the establishment of the District in 1990. Since formation of the District, hospital utilization has grown significantly and in the recent few years, the Hospital has performed well financially. The Hospital has strong community support and has grown to be an important part of the local community, currently employing 171 people.

While the region is characterized by its remote setting, with the nearest major interstate over 80 miles away, the Grand Coulee Dam is recognized as a facility of significant national importance and provides an economic center for this area. Built during the Great Depression era of the 1930s, the Grand Coulee Dam is the largest concrete dam in North America and the third largest energy producer in the world. The dam has brought permanent residents to the area for employment and also draws tourism into

the Hospital's service area. The District is a critical provider of healthcare to those residing and visiting this remote area, with the nearest other healthcare provider approximately 50 miles away.

As a public hospital district, the District is a municipal corporation and political subdivision of the State, and therefore its income is exempt from federal income tax. The District is permitted by law to levy property taxes in an amount per year up to 0.75% of the assessed property value of the District for general operating purposes without obtaining voter approval. Currently, the District levies 0.66% and generates a small portion of its operating revenue from property taxes, with tax revenues levied for operations equaling approximately 1.5% of total net operating revenue in fiscal year 2008.

## **Services and Programs**

The Hospital offers inpatient and outpatient general acute care, emergency, diagnostic, and long-term care services. Significant attention is given to serving long term patients as well as short term acute care; fifteen beds are reserved for long term "swing bed" patients and 10 beds reserved for acute care, with each of these beds eligible for cost-based reimbursement under the CAH program.

## **Medical Services**

The following summarizes the medical services offered by the Hospital:

- ***Medical/Surgical Hospitalization:*** The acute care unit provides post-operative nursing care as well as a wide variety of nursing care for medically acute patients.
- ***Emergency Department:*** The Emergency Department is staffed 24 hours per day by emergency services nurses and medical providers, who are available to treat major and minor illnesses or injuries. The emergency service is also supported by the 24-hour Radiology and Laboratory services. The emergency department is critical to the area population and can be very busy during the tourist season.
- ***Nutritional Services:*** The hospital provides services of a registered dietician on a weekly basis. The kitchen serves meals to the patients, families and employees on a daily basis.
- ***Laboratory:*** The hospital's computerized laboratory provides comprehensive testing based on medical providers' orders both in-house and for specialist in other facilities. The laboratory is available every day, 24 hours per day. Given the Hospital's location, the laboratory offers numerous testing services so results do not have to rely on outside labs.
- ***Radiology Services:*** Radiological services include diagnostic exams, CT scans, MRI services, Mammography, and Ultrasound procedures.
- ***Respiratory Therapy:*** A respiratory therapist is available four days per week. In the absence of the respiratory therapist, the nursing staff is available to perform EKGs, SVN's, and PFTs.
- ***Physical Therapy/Occupational Therapy:*** Physical Therapy and Occupational Therapy are offered through a contract service agreement to restore patient function and speed the recovery process.
- ***Social Services:*** The District's social service staff helps patients and their families manage emotional, financial, and social stress that accompanies illness and hospitalization. A DSHS

(Medicaid) representative is also available at the Clinic once per week to help low-income patients obtain financial assistance.

- **General Surgery:** Pre and post-operative care for inpatient and outpatient surgery are available. Pre and post-operative education are also provided to patients to help speed up recovery. Surgical procedures performed consist mainly of general and orthopedic cases.
- **Podiatry:** Podiatry services are provided at the Clinic every other week.
- **Pharmacy:** The Hospital offers an in-house full service pharmacy for inpatient and emergency department patients.
- **Orthopedics:** Orthopedic services are provided every other week at the Clinic.
- **Cardiology:** The Clinic offers a cardiologist twice per month. Echocardiograms are also offered every other Monday in the Clinic.

In addition to the above services offered at the Project, the Hospital's healthcare providers also offer on-site obstetrics care to Indian Health Services, a primary care clinic located approximately 20 miles north of the Hospital on the Colville Indian Reservation.

### **Education and Community Health Services**

In addition to the medical services offered, the Hospital is dedicated to community education and health promotion for the patients it serves and its employees. These services include:

- **Prenatal Classes:** The OB department offers free prenatal classes throughout the year for the community.
- **Lab Week:** The lab annually offers low-cost screening which includes a complete blood count, metabolic panel, thyroid, and prostate screening during National Hospital Month. Free blood pressure checks are offered at the time of the blood draw.
- **Mammography:** Annually the radiology department offers low-cost mammograms during Breast Cancer Awareness Month.
- **Nursing Assistant Training Program:** The Hospital offers a State-approved course that provides training for community members who wish to become licensed to care for hospitalized and long term care patients. This educational opportunity is also available and subsidized for employees of the hospital wishing to enter into the healthcare worker role.
- **Life Support Training:** The Hospital provides for or offers courses in Basic Life Support, Advanced Cardiac Life Support, First Aid, Neonatal Resuscitation, Pediatric Life Support, Advanced Trauma Life Support, Trauma and Pediatric Emergency Nursing, Electronic Fetal Monitoring and courses related to Labor and Delivery for all staff required to be certified in these areas.
- **Telehealth:** A partnership with Northwest Telehealth has allowed the Hospital to offer a wide variety of educational and patient care services via the visual support of Telehealth, including: monthly support groups meetings, physician consultations for urgent cases and patients who cannot travel, training classes, and pharmacy oversight.

- ***Nutritional Education:*** The Hospital employs a Registered Dietician who provides education regarding diet and nutrition on an outpatient basis as well as offering support to the medical staff in the care of their hospitalized patients.
- ***Influenza Clinic:*** The Hospital and Clinic sponsor low cost influenza vaccination for the community and offers free vaccinations to all its employees annually.
- ***Discharge Education:*** The Hospital utilizes diagnosis based discharge instruction software called EXIT Care for all discharges, which includes an educational component and return criteria, and allows for individualized instruction.

## **Information Systems**

As a member of Inland Northwest Health Service (INHS), a large regional organization centered in Spokane, Washington, the District utilizes Meditech financial systems. The INHS service maintains all operational support for these systems, saving cost for the District. Several telehealth systems are also coordinated and maintained by INHS, including interactive video education, telepharmacy, teleER, and real-time off-site radiology interpretation.

Additionally, the Hospital is in the early stages of implementing a long-term plan of adding an Electronic Medical Record system that will enhance the financial reporting and billing systems and ultimately lead to all clinical records being maintained electronically.

## **The Project**

The proceeds of the Bonds, together with other money of the District, will fund the Project, which includes construction and equipping of a replacement facility that will provide new space for both the Hospital and Clinic. Certificate of Need approval for the Project from the State of Washington has been received.

KDF Architecture (“KDF”) of Yakima, Washington has been retained to provide architectural design services. KDF is an experienced healthcare architecture firm that has been involved in numerous hospital projects throughout Washington and the Pacific Northwest and has specialized in addressing the needs of CAHs.

Graham Construction and Management, Inc. has been retained as the general contractor for the Project pursuant to a HUD approved lump sum construction contract. Graham Construction and Management, Inc. is part of the Graham Group Ltd (“Graham”). Originally formed in 1926 as a family business, Graham is now an employee-owned company with operating divisions focusing on the commercial, industrial, masonry and infrastructure markets. Graham and its family of companies offer general contracting, project management, design-build and construction services from offices across Canada and the Central and Pacific Northwestern United States. The Project is being managed by Graham’s office in Spokane, Washington.

The current Hospital and Clinic facility has numerous physical deficiencies and can no longer effectively provide acute care services. Deficiencies include an aged electrical and mechanical system, replacement of which would be problematic due to the lack of space above the ceilings.

An increasing portion of the services provided by the Hospital are preformed in an outpatient setting, a trend that is likely to continue. The existing Hospital facility was built to treat patients primary

in an inpatient setting. The replacement Hospital facility will allow outpatient health care services to be preformed more efficiently, will be more attractive to patients, physicians and visitors and will remedy the physical deficiencies.

The replacement Hospital and Clinic will be approximately 58,300 sq ft. and have 25 private rooms. The replacement facility will be a single story structure built on the existing 9.2-acre Hospital site. The existing Hospital facility will be demolished; however, the District anticipates maintaining the existing Clinic building to accommodate other needs.

All current services will remain in full operation for the duration of construction. The construction began in July, 2009 and is expected to be complete in approximately 19 months.

The Hospital will have a surgery area with one operating room, one outpatient room, one endoscopy room, two pre-op/Stage II recovery rooms and a PACU (Stage I recovery room). The emergency area will have three exam rooms, one isolation exam room and two trauma bays. The radiology area will have one general x-ray room, a CT scanner room, mammography room and an ultrasound ECHO room. The Hospital will also contain areas for a laboratory, pharmacy, physical and occupational therapy services, admissions, administrative, medical records, business office and other miscellaneous support area. The Hospital will have 21 exam rooms and two procedure rooms and will be utilized by employed primary care providers and visiting specialists.

The replacement Hospital is designed to address the primary deficiencies of the existing Hospital facility, providing additional and more efficient space that will support modern medical technologies, and a design that will support the outpatient nature of modern healthcare service. The facility is also intended to replace the outdated existing electrical, HVAC, and other mechanical systems for which the cost of on-going repair is projected to grow significantly without replacement.

The replacement facility is further intended to support the Hospital's strategic plans for improved recruitment and patient utilization. The facility is expected to assist in attracting healthcare professionals to the area with new, modern space that will provide an aesthetically and functionally superior space for medical staff to provide care compared to the aged existing facility. Additionally, the Hospital expects greater patient utilization due to improved patient confidence and the availability of modern services which are not currently available locally.

### **Employees and Medical Staff of the Hospital**

As of July 31, 2009, the District employed 171 individuals throughout the organization. Among these employees, medical staff consists of individuals designated under five major categories of membership:

**Active Status:** The active Medical Staff consists of physicians who meet the general qualifications of being located (both office and residence) within such proximity to the Hospital as will enable them to provide continuous care to patients. Active staff members regularly admit or care for inpatients in the Hospital and have satisfactorily completed their probationary requirements of the Provisional Staff for at least three months.

**Allied Health Professional (AHP):** An AHP is an individual other than a licensed physician who exercises independent judgment within the scope of his or her licensure or certification or other governing law or regulation, and who is qualified by academic and clinical training to function in an expanded medical support role and work under the supervision of a physician who has been accorded privileges to

provide such care in the Hospital. The following may be deemed as AHPs: dentists, clinical psychologists, physician assistants, nurse practitioners, certified nurse midwives, and nurse anesthetists.

***Courtesy Status:*** The Courtesy Medical Staff consists of physicians who have a residence or office outside the Grand Coulee community, demonstrate arrangements that are satisfactory to the Medical Staff for alternative patient medical coverage, and admit fewer than six inpatients per year.

***Consulting Status:*** The consulting Medical Staff consists of physicians who are in such proximity, either physically or electronically, to the hospital to provide continuous care to the patients within their area of competence. These physicians must possess specialized medical and/or surgical training, knowledge and skills not otherwise available at the Hospital and demonstrate active participation on the Active Medical Staff at another hospital.

***Affiliate Status:*** Affiliate status consists of providers who meet the basic requirements for Active Staff or Allied Health membership but who do not reside in the local community. Affiliate Medical Staff consist of providers who must demonstrate arrangements that are satisfactory to the Medical Staff for alternative medical coverage for patients for whom they are responsible.

Currently the District has three Active physicians, six AHP, eight Courtesy Staff, and five Affiliate staff. Currently all Active, AHP, and Affiliate Staff are employees of the District and all work at both the Hospital and Clinic. The District intends to recruit at least one additional provider within the next year.

### **Service Area**

Based on the Washington State market share database, the District's primary service area is defined as zip codes 99116, 99123, 99133, 99140 and 99155 which include the communities of Coulee Dam, Electric City, Grand Coulee, Keller and Nespalem. The secondary service area is defined as zip codes 99103, 99115, 99135, 99185 and 99124. These zip codes include the communities of Almira, Coulee City, Hartline, Wilbur and Elmer City.

The following table shows the 2000 Census and the projected population for the total service area from 2000 to 2013.

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<u>Zip Code</u>	<u>Town</u>	<b>2000 Census</b>	<b>2008 Estimate</b>	<b>2013 Projection</b>
<i>Primary Service Area</i>				
99116	Coulee Dam	3,548	3,451	3,407
99123	Electric City	1,133	1,233	1,272
99133	Grand Coulee	1,335	1,227	1,256
99140	Keller	452	421	427
99155	Nespelem	-	-	-
99124	Elmer City	-	-	-
	Total PSA	<u>6,468</u>	<u>6,332</u>	<u>6,362</u>
<i>Secondary Service Area</i>				
99103	Almira	603	604	592
99115	Coulee City	992	1,075	1,108
99135	Hartline	323	359	374
99185	Wilbur	1,411	1,399	1,409
	Total SSA	<u>3,329</u>	<u>3,437</u>	<u>3,483</u>
Total Service Area Population		<u>9,797</u>	<u>9,769</u>	<u>9,845</u>

Source: Claritas, 2008. Claritas combines data for zip codes 99155 (Nespelem) and 99124 (Elmer City) with zip code 99116 (Coulee Dam) for reporting purposes.

The total population in the primary service area is forecasted to increase by 0.47% between 2008 and 2013.

The total population in the secondary service area is forecasted to increase by 1.34% between 2008 and 2013.

In addition to the slight population increase within the total service area, the population is aging. The following table shows the population over the age of 65 in the primary and secondary service area:

[Remainder of page intentionally left blank]

<u>Zip Code</u>	<u>Town</u>	<u>2000 Census</u>		<u>2008 Estimate</u>		<u>2013 Projection</u>	
		65 and Over	Percent Over 65	65 and Over	Percent Over 65	65 and Over	Percent Over 65
<i>Primary Service Area</i>							
99116	Coulee Dam	452	12.74%	496	14.37%	542	15.91%
99123	Electric City	193	17.03%	218	17.68%	251	19.73%
99133	Grand Coulee	284	21.27%	278	22.66%	307	24.44%
99140	Keller	<u>55</u>	<u>12.17%</u>	<u>56</u>	<u>13.30%</u>	<u>56</u>	<u>13.11%</u>
	<b>Total</b>	<b>984</b>	15.21%	<b>1,048</b>	16.55%	<b>1,156</b>	18.17%
<i>Secondary Service Area</i>							
99103	Almira	88	14.59%	104	17.22%	117	19.76%
99115	Coulee City	209	21.07%	222	20.65%	240	21.66%
99135	Hartline	54	16.72%	67	18.66%	77	20.59%
99185	Wilbur	<u>298</u>	<u>21.12%</u>	<u>312</u>	<u>22.30%</u>	<u>337</u>	<u>23.92%</u>
	<b>Total</b>	<b>649</b>	19.50%	<b>705</b>	20.51%	<b>771</b>	22.14%
Total Service Area Population over 65		<u>1,633</u>	16.67%	<u>1,753</u>	17.94%	<u>1,927</u>	19.57%

As can be seen in the preceding table, the population of those age 65 and over in the total service area is forecasted to increase by 9.93% between 2008 and 2013.

### Competition

The Hospital is the only source of care for residents and visitors within approximately 50 miles. There are five acute care hospitals in the region that compete with the Hospital. The following table summarizes the competing hospitals in the area:

<b>Hospital</b>	<b>Number of Acute Beds</b>	<b>Distance (mi)</b>
Okanogan Douglas Hospital	25	52
Mid-Valley Hospital	25	54
Deaconess Medical Center	270	85
Sacred Heart Medical Center	569	85

### Financial Performance

Appendix G includes financial statements of the District for the three fiscal years ending December 31, 2006, 2007 and 2008 and fiscal year-to-date ending July 31, 2009. In accordance with its status as a public hospital district, the District's financial statements are audited by the Washington State Auditor's Office on an annual basis, with the audits typically completed 12 months following the end of the fiscal year being reviewed. To provide for a more timely review of its financial condition, the District engages Michael R. Bell & Company, PLLC, a well recognized CPA firm based in Spokane, Washington that specializes in CAHs, to provide compiled financial statements prepared in accordance with the Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

The State of Washington Department of Revenue audits have been completed for the fiscal years 2006, 2007 and 2008. The fiscal year-to-date financial information has been prepared by the District's management and has not been audited.

### Sources of Revenue

The District derives its net patient service revenue from the Federal Government under the Medicare Program, from the State of Washington under the Medicaid Program, from other commercial insurance carriers, including Blue Cross and Premera, from self-paying patients, and from other sources. The following table summarizes the percentages of historical gross patient service revenues of the District by payor for the indicated fiscal years and fiscal year-to-date July 31, 2009:

#### District Payor Mix Gross Patient Service Revenue

	<u>12 months ended</u> <u>12/31/2006</u>		<u>12 months ended</u> <u>12/31/2007</u>		<u>12 months ended</u> <u>12/31/2008</u>		<u>7 months ended</u> <u>7/31/2009</u>	
<b>Inpatient</b>								
Medicare	\$1,366,528	9.2%	\$1,444,106	8.3%	\$1,547,131	7.9%	\$1,231,231	8.4%
Medicaid	1,884,444	12.7%	1,869,115	10.7%	1,999,818	10.3%	1,368,038	9.4%
Third-Party Payors	1,044,554	7.0%	937,158	5.4%	985,422	5.1%	597,623	4.1%
Private Pay	157,718	<u>1.1%</u>	233,324	<u>1.3%</u>	360,711	<u>1.9%</u>	290,693	<u>2.0%</u>
<i>Total Inpatient</i>	<u>\$4,453,244</u>	30.0%	<u>\$4,483,703</u>	25.8%	<u>\$4,893,082</u>	25.1%	<u>\$3,487,585</u>	23.9%
<b>Outpatient</b>								
Medicare	\$3,302,530	22.3%	\$3,953,095	22.7%	\$4,584,659	23.5%	\$3,586,089	24.6%
Medicaid	2,113,265	14.2%	2,954,660	17.0%	3,253,888	16.7%	2,514,487	17.2%
Third-Party Payors	4,564,562	30.8%	5,549,652	31.9%	6,122,414	31.4%	4,517,358	31.0%
Private Pay	402,606	<u>2.7%</u>	468,883	<u>2.7%</u>	633,778	<u>3.3%</u>	489,440	<u>3.4%</u>
<i>Total Outpatient</i>	<u>\$10,382,963</u>	70.0%	<u>\$12,926,290</u>	74.2%	<u>\$14,594,739</u>	74.9%	<u>\$11,107,374</u>	76.1%
<b>Total</b>								
Medicare	\$4,669,058	31.5%	\$5,397,201	31.0%	\$6,131,790	31.5%	\$4,817,320	33.0%
Medicaid	3,997,709	26.9%	4,823,775	27.7%	5,253,706	27.0%	3,882,525	26.6%
Third-Party Payors	5,609,116	37.8%	6,486,810	37.3%	7,107,836	36.5%	5,114,981	35.0%
Private Pay	560,324	<u>3.8%</u>	702,207	<u>4.0%</u>	994,489	<u>5.1%</u>	780,133	<u>5.3%</u>
<i>Total</i>	<u>\$14,836,207</u>	100.0%	<u>\$17,409,993</u>	100.0%	<u>\$19,487,821</u>	100.0%	<u>\$14,594,959</u>	100.0%

The above payor mix indicates that 58.4% of patient revenues were attributable to Medicare and Medicaid patients in fiscal year 2008. As described previously, the Hospital's CAH designation provides cost-based reimbursement for both Medicare and Medicaid patient services. Eligible costs include the proportion of fixed costs attributable to serving patients covered by these programs, which will include the additional interest and depreciation expenses associated with the Project.

### Charity Care

The Hospital provides charity care to patients who are unable to pay for services. The charity care is included in net patient service revenues. The Hospital maintains records to identify and monitor the level of charity care it provides and subtracts the provision of uncollectible accounts from net patient service revenues.

## DISTRICT INFORMATION

### Governance

The District is overseen by a five-member publicly elected Board of the District (the “Board”) and an appointed management team.

### Board

The members of the Board are publicly elected for terms of six years, with staggered term expirations to provide continuity to the governance. One Board position is reserved for each county in the District, with one at-large position which can be filled by any representative voted by the electorate. The Board elects a President and Secretary to one-year terms annually.

#### Board of Commissioners

Commissioners	Occupation	Member Since	Term Ends
Rick King, President	Physical Therapist	03/24/98	12/31/11
Geary Oliver, Secretary	Technician, Q-West	01/27/99	12/31/11
Tom Edwards	Retired (Former Chief of Police)	09/27/95	12/31/13
Greg Behrens	Retired (Former Geology Department Director)	02/25/04	12/31/11
Kris Hare	Executive Assistant	01/01/08	12/31/13

**Rick King:** Rick King is the President of the Board of Commissioners. He graduated from Eastern Washington University with a Bachelor of Science in Physical Therapy and dual minors in Music and Psychology. Mr. King began his career as a Physical Therapist (PT) in 1988 working at Valley Sports Medicine in Spokane. In 1990 he accepted a position as a PT at Garfield Memorial Hospital in Pomeroy Washington where he opened their first outpatient clinic. In 1991, Mr. King, established his own practice in Grand Coulee. He has served on the District Board since 1998.

**Geary Oliver:** Geary Oliver has been a resident of the Grand Coulee Dam Area for thirty-one years. After completing the Electrical Workers’ Apprentice Program, Mr. Oliver joined the United States Bureau of Reclamation, Grand Coulee Dam Project, where he worked until 1982 when he became a Lineman for the City of Coulee Dam, Washington. In 1990 he accepted the position of Central Office Technician with Qwest. Mr. Oliver has served on the District Board since 1999.

**Thomas Edwards:** Thomas Edwards obtained his Bachelor of Science in Criminal Justice from Washington State University. Mr. Edwards served his country in the United States Coast Guard. After leaving the Coast Guard, as a Boatswain Mate 1<sup>st</sup> Class, he began his thirty-one year career in Law Enforcement. Mr. Edward’s career as a Law Enforcement Officer led him to a variety of assignments throughout Washington State. In 1977, Mr. Edwards accepted the position of Chief of Police for the Town of Coulee Dam, Washington and served in that capacity until his retirement in 1997. He has served on the District Board since 1995.

**Greg Behrens:** Greg Behrens attended college at Eastern Washington University and Western Washington University, receiving dual Bachelor’s degrees in Geology and Geography. Mr. Behrens obtained a Professional License in Engineering Geology and joined the Geology Department with the United States Bureau of Reclamation in 1978. He served as a Geologist/Geographic Information Systems Specialist, directing the Geology Department for the Grand Coulee Dam Area Project located in Coulee Dam, Washington. Mr. Behrens has served on the District Board since 2004.

**Kris Hare:** Kris was born and raised in Spokane and lived in the Grand Coulee area since 1974. She attended Washington State University and has worked at the Coulee Dam Federal Credit Union since 1995 as an Executive Assistant and Call Center Supervisor.

## District Management

The Board appoints the District Management, including the positions of Superintendent (Chief Executive Officer) and Auditor (Chief Financial Officer) as needed biennially. The Board delegates the day-to-day operations of the District to the Superintendent.

### District Management

Name	Position	Date Appointed	Years with District
Thomas Jensen	Superintendent/Chief Executive Officer	03/01/08	2
Debbie Bigelow	Chief Financial Officer	03/01/92	17
J. Scott Graham	Chief Operating Officer	03/01/09	1
Greg Hanoff	Chief Facilities Officer	11/01/05	4
Tim Campbell	Chief Nursing Officer	03/01/06	13

**Superintendent:** Thomas Jensen, Superintendent/CEO, received his masters degree in public administration from Eastern Washington University in Cheney, Washington. He has more than 10 years of executive healthcare management experience, providing outstanding leadership to facilities in the State of Washington. Mr. Jensen is a member of various healthcare boards and committees, including the Northeast Hospital Council. He is also an adjunct faculty member of Eastern Washington University. Mr. Jensen currently directs the executive management team at Coulee Medical Center.

**Chief Financial Officer:** Debbie Bigelow, Chief Financial Officer, received her Bachelor's degree in Education from the University of Washington in Seattle, Washington. Ms. Bigelow has built a twenty-five year career in business administration that extends through both the public and private sector. Debbie served over eight years in the high profile position of Manager of Branch Services in a multi-branched financial institution, after which she applied her financial acumen in the private sector as a federal income tax consultant. Ms. Bigelow joined the staff at Coulee Medical Center in 1991, and is a member of the executive management team.

**Chief Operating Officer:** Scott Graham Chief Operating Officer, joined the Coulee Medical Center administration in March 2009 and currently directs human resources, public relations and marketing. Scott graduated from the University of Utah in 1986 with a bachelor of science degree in psychology and in 1989 he received his masters degree in psychology from Eastern Washington University. Prior to joining the Coulee Medical Center team, Scott served most recently as chief operating officer at St. Luke's Rehabilitation Institute in Spokane, Washington and has been in executive management positions since 2000. He has also worked as a clinician for 15 years and is nationally certified in biofeedback and is a licensed mental health counselor.

**Chief Facilities Officer:** Greg Hanoff, Chief Facilities Officer, has a BS in Healthcare Management and is a Registered Respiratory Therapist. Mr. Hanoff has an extensive background as a respiratory therapist in all areas of the hospital setting. He also has over twenty-five years of front line EMS field intervention and management experience. He is a seasoned construction project manager and holds administrative responsibility for hospital ancillary services. Mr. Hanoff joined staff at Coulee Medical Center in 2005 and is a member of the executive management team.

**Chief Nursing Officer:** Tim Campbell, RN, Chief Nursing Officer holds an Associate degree in Nursing from Yakima Valley Community College. Mr. Campbell has served as Clinic Nurse, Clinic

Nurse Manager, and is currently the Chief Nursing Officer overseeing all patient care activities. He has experience in long term care, ER, OB and acute care. Mr. Campbell joined staff at Coulee Medical Center in 1995 and is a member of the executive management team.

### **Strategic Business Plan**

In 2006, the District completed a comprehensive Strategic Business Plan using the services of Quorum Health Resources. This “Replacement Facility Focused Planning Effort” identified key issues, objectives, and goals as guided by market demand/limitations and available resources. This planning process strongly supported our community’s desire for additional providers and new facilities. Additionally, an independent report of financial feasibility, including the Project, was completed by the national CPA firm, Eide Bailly, in 2008. The feasibility study confirmed the District’s financial capacity to undertake the Project.

### **Accreditations & Memberships**

The District is licensed by the State of Washington Department of Health to operate a 25-bed Critical Access Hospital, a Rural Health Clinic in Grand Coulee and a Rural Health Clinic in Coulee City. The hospital and clinics are certified as hospital-based participating providers for Medicare and Medicaid and as such enjoy a significant advantage of cost-based reimbursement. Significant memberships include the Washington State Hospital Association, Washington Rural Health Association, the Rural Quality Health Network and Inland Northwest Health Services, a coalition providing a broad array of informational systems, telehealth and technical support throughout the region.

### **Insurance**

The District is covered up to \$1 million per claim and \$5 million aggregate for primary medical, general liability, employee benefit liability, and directors and officers liability, and up to \$1 million per claim and \$1 million aggregate for excess coverage for each. The District additionally maintains employment practices liability, property, and automobile insurance coverage.

### **Retirement Plans**

The District maintains a qualified defined contribution retirement plans under Sections 401(a), 403(b) and 457 of the Internal Revenue Code. The plans include employer contributions, employer matching contributions and voluntary employee contributions.

### **Litigation**

There is currently no known litigation involving the District.

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**APPENDIX G**

**AUDITED AND UNAUDITED FINANCIAL STATEMENTS**

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