Exhibit A
REGULATORY AGREEMENT

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
FEDERAL HOUSING ADMINISTRATION

SECTION 242 NONPROFIT HOSPITALS

DATED: DECEMBER 14, 2012

REC. FEE: $90.00

Mortgagor: Morehead Memorial Hospital
a North Carolina NonProfit Corporation

Grantee: Secretary of Housing and Urban Development

Prepared By & Return to: ✓
Roderick Owens, Esq.
Krooth & Altman LLP
1850 M Street, Suite 400
Washington, D.C. 20036-5803
FHA FORM NO. 2466-GP  
(rev. 12/71)

REGULATORY AGREEMENT

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
FEDERAL HOUSING ADMINISTRATION

SECTION 242 NONPROFIT HOSPITALS

Project No.: 053-13010

Mortgagee: BERKADIA COMMERCIAL MORTGAGE LLC

Amount of Deed of Trust Note: $40,566,294 Date: as of December 14, 2012

Deed of Trust Recorded: State: North Carolina County: Rockingham Date: Concurrently herewith

This Agreement entered into as of the 14th day of December, 2012, between MOREHEAD MEMORIAL HOSPITAL, a North Carolina nonprofit corporation, whose address is 117 East Kings Highway, Eden, North Carolina 27288, hereinafter called Mortgagor, and the undersigned Secretary of Housing and Urban Development (hereinafter referred to as Secretary).

In consideration of the endorsement for insurance by the Secretary of the above described Note or in consideration of the consent of the Secretary to the transfer of the mortgaged property, and in order to comply with the requirements of the National Housing Act and the Regulations adopted by the Secretary pursuant thereto, the Mortgagor agrees for itself, its successors and assigns, and any owner of the mortgaged property, that in connection with the mortgaged property and the project operated thereon and so long as the Contract of Mortgage Insurance continues in effect, and during such further period of time as the Secretary and his successors shall be the holder or reinsurer of the Mortgage:

1. It shall promptly make all payments due under the Note and Mortgage, and shall hold the Secretary harmless under his Contract of Mortgage Insurance.

2. (a) It will establish or continue to maintain a reserve fund for replacements by the allocation to such reserve fund in a separate account with the Mortgagor or in a safe and responsible depository designated by the Mortgagor, concurrently with the beginning of payments toward amortization of the principal of the Mortgage-insured or held by the Secretary of an amount equal to _____ per month unless a different date or amount is approved in writing by the Secretary. Such fund, whether in the form of a cash deposit or invested in obligations of, or fully guaranteed as to principal by, the United States of America shall at all times be under the control of the

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* This section is not applicable to §242 nonprofit hospitals and should be deleted.
Mortgagee. Disbursements from such fund, whether for the purpose of effecting replacement of structural elements, and mechanical equipment of the project or for any other purpose, may be made only after receiving the consent in writing of the Secretary. In the event of a default in the terms of the Mortgage, pursuant to which the loan has been accelerated, the Secretary may apply or authorize the application of the balance in such fund to the amount due on the mortgage debt as accelerated.

(b) Where Mortgagor is acquiring a project already subject to an insured mortgage, the reserve fund for replacements to be established will be equal to the amount due to be in such fund under existing agreements or charter provisions at the time Mortgagor acquires such project, and payment hereunder shall begin with the first payment due on the mortgage after acquisition, unless some other method of establishing and maintaining the fund is approved in writing by the Secretary.

(3) The real property covered by the Mortgage and this agreement is described in Exhibit "A" attached hereto.

(4) It shall not without the prior written approval of the Secretary:

(a) Transfer, dispose of or encumber any of the mortgaged property. Any such transfer shall be only to a person or persons or corporation satisfactory to and approved by the Secretary, who shall, by legal and valid instrument in writing, be recorded or filed in the same recording office in which conveyances of the property covered by the Mortgage are required to be filed or recorded, duly assume all obligations under this agreement and under the insured Note and Mortgage;

(b) Assign, transfer, dispose of, or encumber any personal property of the project, including revenues from any source rents, and shall not disburse or pay out any funds except for usual operating expenses and necessary repairs;

(c) Remodel, reconstruct, or demolish any part of the mortgaged property or subtract from any real or personal property of the project;

(d) Pay any compensation or make any distribution of income or other assets to any of its officers, directors or stockholders;

(e) Enter into any contract or contracts for supervisory or managerial services;

(f) Use, or permit the use of, the mortgaged property for any purpose other than the operation of a (nonprofit group practice facility) nonprofit hospital.

* Delete inapplicable phrase.

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(5) ** The Mortgagor agrees to deposit in a residual receipts fund any residual receipts realized from the operation of the mortgaged property. No distribution from such fund shall be made without the prior written approval of the Secretary. No distribution from such fund, which the party receiving such distribution is not entitled to retain hereunder, shall be held in trust separate and apart from any other funds.

(6) It shall maintain the mortgaged premises, accommodations, and the grounds and equipment appurtenant thereto, in good and substantial repair and condition. PROVIDED THAT, in the event all or any of the buildings covered by the Mortgagor shall be destroyed or damaged by fire or other casualty, the money derived from any insurance on the property shall be applied in accordance with the terms of the insured Mortgagor.

(7) Mortgagor shall not file any petition in bankruptcy, or for a receiver, or in insolvency, or for reorganization or composition, or make any assignment for the benefit of creditors or to a trustee for creditors; or permit an adjudication in bankruptcy, the taking possession of the mortgaged property or any part thereof by a receiver, or the seizure and sale of the mortgaged property or any part thereof under judicial process or pursuant to any power of sale and fail to have such adverse actions set aside within 45 days.

(8) It shall immediately satisfy or release any mechanic’s lien, attachment, judgment, lien, or any other lien which attaches to the mortgaged property or any personal property used in the operation of the project, except as permitted under the Security Agreement of even date between Mortgagor and Mortgagee, and shall dismiss or have dismissed or vacated any receivership or petition in bankruptcy or assignment for benefit of creditors, creditors bill or insolvency proceedings involving the project or the mortgaged property.

(9) (a) If the Mortgagor has any business or activity other than the project and operation of the mortgaged property, it shall maintain all income and other funds of the project segregated from any other funds of the Mortgagor and segregated from any funds of any other corporation or person. Income and other funds of the project shall be expended only for the purposes of the project and in connection with the mortgaged property.

(b) Mortgagor shall provide for the management of the project in a manner satisfactory to the Secretary. Any management contract entered into by the Mortgagor involving the project shall contain a provision that it shall be subject to termination without penalty and with or without cause, upon written request by the Secretary addressed to the Mortgagor and the management agent. Upon receipt of such request the Mortgagor shall immediately terminate the contract within a period of not more than thirty (30) days and shall make arrangements satisfactory to the Secretary for continuing proper management of the project.

** This section is not applicable to §242 nonprofit hospitals and should be deleted.

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(c) It shall make no payment for services, supplies, or materials unless such services are actually rendered for the project or such supplies or materials are delivered to the project and are reasonably necessary for its operation. Payments for such services, supplies, or materials shall not exceed the amount ordinarily paid for such services, supplies, or materials in the area where the services are rendered or the supplies or materials furnished.

(d) The mortgaged property, equipment, building plans, office apparatus, devices, books, contracts, records, documents, and other papers relating thereto shall be subject to examination and inspection at any reasonable time by the Secretary or his duly authorized agents; the Mortgagor shall keep copies of all written contracts or other instruments which affect the mortgaged property, all or any of which may be subject to inspection and examination by the Secretary or his duly authorized agents.

(e) The books and accounts of the operations of the mortgaged property and of the project shall be kept in accordance with the requirements of the Secretary.

(f) Within 60 days following the end of each fiscal year the Secretary shall be furnished with a complete annual financial report based upon an examination of the books and records of Mortgagor prepared in accordance with the requirements of the Secretary, certified to and by an officer of the Mortgagor and, when required by the Secretary, prepared and certified by a Certified Public Accountant, or other person acceptable to the Secretary.

(g) At the request of the Secretary, his agents, employees, or attorneys, the Mortgagor shall give specific answers to questions upon which information is desired from time to time relative to the income, assets, liabilities, contracts, operation, and condition of the property and the status of the insured Mortgage and any other information with respect to the Mortgagor or the mortgaged property and of the project which may be requested.

(h) All receipts of the project shall be deposited in the name of the project in a bank, whose deposits are insured by F.D.I.C. Such funds shall be withdrawn only in accordance with the provisions of this agreement for expenses of the project. Funds of the project shall be immediately deposited in the project bank account and failing to do so in violation of this Agreement such funds shall be deemed to be held in trust. Property of the project received in violation of this Agreement shall be immediately delivered to the project and failing to do so, such property shall be deemed to be held in trust.

(i) Mortgagor or its lessee shall at all times, if required by the laws of the jurisdiction, maintain in full force and effect a license to operate the project from the state and/or other licensing authority. Mortgagor shall not lease all or part of the project except on terms approved by the Secretary.

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1 Except as may otherwise be required by the Secretary, all
2 the United States or an agency or instrumentality thereof.

Regulatory Agreement
Morehead Memorial Hospital
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(10) The Mortgagor shall make its project and services, if any, available to eligible occupants at charges approved in writing by the Secretary. Such charges shall be subject to annual review by the Secretary. If the Secretary determines in his review that some adjustment (either upward or downward) of charges is required, the Mortgagor shall immediately comply with such requirements.

(11) (a) The Mortgagor shall be required to suitably equip the project for group practice operations. Mortgagor agrees to perform all obligations of any chattel mortgage, conditional sale, lease or lease-purchase agreement, or other type of financing arrangement designed to acquire equipment for the project. Any plan for the acquisition of equipment (other than outright purchase) must be approved in writing by the mortgagor and the Secretary and shall contain provision extending to the mortgagor, its successors or assigns, the option to assume such financing (or leasing) obligation of the Mortgagor upon default; further, such financing (or leasing) arrangement shall require the vendor-lessee to furnish written notice of default to the mortgagor and the Secretary before exercising any of its rights or remedies.

(b) The Mortgagor shall execute and record a chattel mortgage in favor of the mortgagor covering the Mortgagor's interest in all equipment used for the group operation except for such equipment as the Secretary may exempt from such coverage. Said chattel mortgage shall provide that a default in the terms of the Note and Mortgage upon the mortgagor shall also constitute a default thereunder.

(12) Mortgagor will comply with the provisions of any Federal, State or local law prohibiting discrimination in housing on the grounds of race, color, creed, or national origin, including Title VI of the Civil Rights Act of 1964 (P.L. 88-352, 42 U.S.C. 2000d-1), Title VIII of the Civil Rights Act of 1968 (P.L. 90-284, 42 U.S.C. 3601), and Executive Order 11063 (27 F.R. 11527), and all requirements imposed by or pursuant to the regulations of the Department of Housing and Urban Development (24 CFR) issued pursuant to Title VI, Title VIII, or Executive Order 11063.

(13) Upon a violation of any of the above provisions of this Agreement by Mortgagor, the Secretary may give written notice, thereof, to Mortgagor, by registered or certified mail, addressed to the address stated in this Agreement, or such other addresses as may subsequently, upon appropriate written notice thereof to the Secretary, be designated by the Mortgagor as its legal business address. If such violation is not corrected to the satisfaction of the Secretary within 30 days after the date of such notice is mailed or within such further time as the Secretary determines is necessary to correct the violation, without further notice the Secretary may declare a default under this Agreement effective on the date of such declaration and upon such default the Secretary may:

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3 This section is not applicable to §242 nonprofit hospitals and should be deleted.
4 This section is not applicable to §242 nonprofit hospitals and should be deleted.
(1) (a) If the Secretary holds the Note – declare the whole of said indebtedness immediately due and payable and then proceed with the foreclosure of the Mortgage.

(b) If said Note is not held by the Secretary – notify the holder of the Note of such default and request holder to declare a default under the Note and Mortgage, and the holder after receiving such notice and request, but not otherwise, at its option, may declare the whole indebtedness due, and thereupon proceed with foreclosure of the Mortgage, or assign the Note and Mortgage to the Secretary as provided in the Regulations;

(2) Collect all rents and charges in connection with the operation of the project and use such collections to pay the Mortgagor's obligations under this Agreement and under the Note and Mortgage, and the necessary expenses of preserving the property and operating the project.

(3) Take possession of the project, bring any action necessary to enforce any rights of the Mortgagor growing out of the project operation, and operate the project in accordance with the terms of this Agreement until such time as the Secretary in his discretion determines that the Mortgagor is again in a position to operate the project in accordance with the terms of this Agreement and in compliance with the requirements of the Note and Mortgage.

(4) Apply to any court, State or Federal, for specific performance of this Agreement, for any injunction against any violation of the Agreement, for the appointment of a receiver to take over and operate the property in accordance with the terms of the Agreement, or for such other relief as may be appropriate, since the injury to the Secretary arising from a default under any of the terms of this agreement would be irreparable and the amount of damage would be difficult to ascertain.

(14) As security for the payment due under this Agreement to the Reserve Fund for Replacements, and ** To secure the Secretary because of his liability under the endorsement of the Note for insurance, and as security for the obligations under this Agreement, the Mortgagor respectively assigns, pledges and mortgages to the Secretary its rights to the income and charges of whatever sort which it may receive or be entitled to receive from the operation of the mortgaged property, subject, however, to any assignment of rents or project income in the Mortgage referred to herein. Until a default is declared under this Agreement, however, permission is granted to Mortgagor to collect and retain under the provisions of this Agreement such profits, income, and charges, but upon default this permission is terminated.

(15) As used in this Agreement the term:

** Delete this portion of the first sentence of this section where project is §242 nonprofit hospital.
(a) "Mortgage" includes "Deed of Trust", "Chattel Mortgage", and any other security for the Note identified herein, and endorsed for insurance or held by the Secretary;

(b) "Mortgagee" refers to the holder of the mortgage identified herein, its successors and assigns;

(c) "Mortgaged Property" includes all property, real, personal, or mixed, covered by the mortgage or mortgages securing the note endorsed for insurance or held by the Secretary;

(d) "Project" includes the mortgaged property and all its other assets of whatsoever nature or wheresoever situate, used in or owned by the business conducted on said property;

(e) "Distribution" means any withdrawal or taking of cash or other assets of the project other than for mortgage payments or for payment of reasonable expenses incident to its construction operation and maintenance;

(f) "Default" means a default declared by the Secretary when a violation of this Agreement is not corrected to his satisfaction within the time allowed by this Agreement or such further time as may be allowed by the Secretary after written notice;

(g) "Residual Receipts" means any cash remaining after:

(1) the payment of:

   (i) All sums due or currently required to be paid under the terms of any mortgage or note insured or held by the Secretary of Housing and Urban Development;

   (ii) All amounts required to be deposited in the reserve fund for replacements;

   (iii) All obligations of the project other than the mortgage insured or held by the Secretary unless funds for payment are set aside or deferment of payment has been approved by the Secretary; and

(2) The segregation of:

   (i) An amount equal to the aggregate of all special funds required to be maintained by the project;

   (ii) All tenant security deposits held;

Regulatory Agreement
Morehead Memorial Hospital
Project No. 053-13010
(h) "Group practice facility" means an establishment designed for operation primarily by a medical or dental group which provides preventive, diagnostic, and treatment service to ambulatory patients under professional supervision of persons licensed to practice dentistry, medicine, or optometry;

(i) "Hospital" means a facility --

(1) Which provides community service for inpatient medical care of the sick or injured, including obstetrical care;

(2) Where not more than 50 percent of the total patient days during any year are customarily assignable to the categories of chronic convalescent and rest, drug and alcoholic, epileptic, mentally deficient, mental, nervous and mental, and tuberculosis; and

(3) Which is owned and operated by one or more nonprofit corporations or associations no part of the net earnings of which inures, or may lawfully inure to the benefit of any private shareholder or individual.

(16) The Secretary shall not be liable for any of his acts hereunder except for flagrant misfeasance.

(17) This instrument shall bind, and the benefits shall inure to, the respective parties hereto, their legal representatives, executors, administrators, successors in office or interest, and assigns, and all owners of the mortgaged property, so long as the contract of mortgage insurance continues in effect, and during such further time as the Secretary shall be the owner or reinsurer of the Mortgage.

(18) The invalidity of any clause, part or provision of this Agreement shall not affect the validity of the remaining portions thereof.

(19) Mortgagor warrants that it has not, and will not, execute any other agreement with provisions contradictory of, or in opposition to, the provisions hereof, and that, in any event, the requirements of this Agreement are paramount and controlling as to the rights and obligations set forth and supersede any other requirements in conflict therewith.

SEE RIDER I ATTACHED HERETO AND MADE A PART HEREOF FOR CONTINUATION OF PARAGRAPHS.

[DOCUMENT EXECUTION OCCURS ON THE FOLLOWING PAGES]

Regulatory Agreement
Morehead Memorial Hospital
Project No. 053-13010
IN WITNESS WHEREOF, the parties hereto have set their hands as of the date written above.

MORTGAGOR:

MOREHEAD MEMORIAL HOSPITAL
a North Carolina nonprofit corporation

By:  
W. Carl Martin
President and Chief Executive Officer

STATE OF NORTH CAROLINA

COUNTY OF ROCKINGHAM

On this 6th day of December, 2012, personally came before me SHERON D. HOPPER, a Notary Public of the County of Rockingham, State of North Carolina, W. Carl Martin, who, being by me duly sworn, says that he is the President and Chief Executive Officer of MOREHEAD MEMORIAL HOSPITAL, a North Carolina nonprofit corporation, and that the seal affixed to the foregoing instrument is the corporate seal of said corporation and that said instrument was signed and sealed by him for and on behalf of said corporation by its authority duly given. And said W. Carl Martin, as President and Chief Executive Officer, acknowledged said instrument to be the act and deed of said corporation.

SHERON D. HOPPER
Notary Public

Commission expires: 4-18-15

Regulatory Agreement
Morehead Memorial Hospital
Project No. 053-13010
SECRETARY:

SECRETARY OF HOUSING AND URBAN DEVELOPMENT
Acting by and through the
FEDERAL HOUSING COMMISSIONER

By:  

Authorized Agent

ACKNOWLEDGMENT

DISTRICT OF COLUMBIA ) ss:

) Before me, Cindy A. Shears, a Notary Public in and for the said State, on this 11th day of December, 2012, personally appeared Paul R. Grandine, who is well known to me to be the Authorized Agent, and the person who executed the foregoing instrument by virtue of the authority vested in him/her by Section 7(d) of the Department of Housing and Urban Development Act, 42 U.S.C.A. §3535(d), as amended, and Section 242(c) of the National Housing Act, 12 U.S.C.A. §1715z7(c), as amended, and I having first made known to him/her the contents thereof, he/she did acknowledge the signing thereof to be his/her free and voluntary act and done on behalf of Shaun Donovan, Secretary of Housing and Urban Development, for the uses, purposes and considerations therein set forth.

Witness my hand and official seal the 11th day of December, 2012.

Cindy A. Shears  
Notary Public

Prepared by:

Roderick D. Owens, Esq.
Krooth & Altman LLP
1850 M Street, N.W., Suite 400
Washington, D.C. 20036

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Regulatory Agreement
Morehead Memorial Hospital
Project No. 053-13010
RIDER I TO REGULATORY AGREEMENT

MOREHEAD MEMORIAL HOSPITAL
EDEN, ROCKINGHAM COUNTY, STATE
FHA PROJECT NO. 053-13010

(Note: As used herein the term “HUD” shall mean the
U.S. Department of Housing and Urban Development.)

The following provisions are added at the end of the Regulatory Agreement to which this
Rider I is attached (together, the “Regulatory Agreement”). Capitalized terms shall have the
definition given those terms in Section 43 or elsewhere in this Rider I. Any capitalized terms not
otherwise defined in Section 43 or elsewhere in this Rider I shall have such meaning given said
term in the Regulatory Agreement to which this Rider I is attached.

20. **Current and Future Property**

   a. All current or future properties (which includes both personal property and real
      property) and revenues of Mortgagor, including accounts receivable and health
      care insurance receivables, derived from any sources shall be considered part of
      the Mortgaged Property and subject to all provisions of the Regulatory
      Agreement, except:

      i. Donations specifically restricted by donors; and/or
      ii. Any other items of real or personal property approved by HUD to be
          specifically excluded from the HUD-Insured Mortgage and Security
          Agreement securing the HUD-Insured Note.

   b. **After Acquired Property**

      i. All property acquired by Mortgagor after the date of the HUD-Insured
         Mortgage shall be considered After Acquired Property and part of the
         Mortgaged Property, subject to all provisions of the HUD Regulatory
         Agreement, except:

         a. Property may be temporarily exempt from this section for the
            purposes of securing Additional Debt (as described in Section 28
            (Additional Indebtedness and Leasing of these Covenants) if
            approved by HUD prior to acquisition of said property or if HUD
            approval for such Additional Debt is not required pursuant to
            Section 28. If property is temporarily exempted from this section
            for the purposes of securing Additional Debt, the property shall
            become part of the Mortgaged Property once the debt secured by it
            has been satisfied; or

Regulatory Agreement Rider I, Page 1
b. If Property is acquired and held by an Affiliate who is excluded from the HUD-Insured Mortgage.

ii. Real Estate that is After Acquired Property shall be considered subject to all provisions of the HUD Regulatory Agreement.

iii. For After Acquired Property, the Mortgagor shall:

1. Within a Reasonable Time Period prior to the purchase or acquisition of such After Acquired Property, provide a written notice to HUD and the Mortgagee; and

2. Promptly execute, record, and deliver a HUD-Insured Mortgage, or other documents or instruments as HUD or the Mortgagee shall require encumber said property as additional security for the HUD-Insured Note.

21. **Mortgage Reserve Fund**

Mortgagor agrees to establish at time of Initial Endorsement and maintain throughout the term of the HUD-Insured Note, a MRF in accordance with the terms and conditions of the MRF Agreement. No withdrawal that would result in a fund balance lower than that appearing in the schedule attached to the MRF Agreement shall be made without the prior written approval of HUD. Mortgagor shall possess a copy of the most up-to-date schedule for payments due to the MRF at all times, and shall provide a copy of this schedule to HUD upon request.

22. **Affiliate Transactions**

a. Notwithstanding Section 9(c) of the Regulatory Agreement, transactions with Excluded-Affiliates that are not arms-length shall be considered a Distribution of Assets and subject to the provisions in Section 23 (Corporate Distribution of Assets) of these Covenants.

i. All transactions with Excluded-Affiliates that are arms-length will be allowed and will not require approval.

ii. A transaction is determined to be arms-length if, in the case of the sale or exchange of property or rendering of any service by the Mortgagor to any Excluded-Affiliate to any Affiliate, the property or service is provided at a cost no less than the lower of:

1. The market value, or
2. The fully allocated cost to Mortgagor.
iii. In the case of the purchase of any property or service by the Mortgagor from an Excluded-Affiliate - the actual cost to the Mortgagor is equal to or less than the amount ordinarily paid for such property or service in the area where the services are rendered or the property is furnished/acquired.

iv. Payment for any service provided by Mortgagor to an Excluded-Affiliate must be received within ninety (90) days. If timely payments are not received, then Mortgagor must cease providing services to that Excluded-Affiliate until the Excluded-Affiliate brings current the account for those services that are ninety (90) days past due, unless such payment is permitted pursuant to Section 23 (Corporate Distribution of Assets) of these Covenants.

23. **Corporate Distribution of Assets**

   a. Notwithstanding Sections 4 and 9(a) of the Regulatory Agreement, Mortgagor may distribute assets to other organizations affiliated with Mortgagor (including related business activities as described in Section 9(a) of the Regulatory Agreement), its Parent, and/or stockholders with prior HUD approval.

   b. Mortgagor may distribute assets without prior HUD approval to Excluded-Affiliates and/or stockholders if the following conditions are met:

      i. Final Endorsement of the HUD-Insured Note has occurred;

      ii. For the preceding 12 months, Mortgagor has made the required monthly payments for the HUD-Insured Mortgage on or before the due date of the payment, including any grace period;

      iii. The MRF is fully funded as of the date of the distribution in conformity with the MRF schedule;

      iv. All taxes and employee payroll contributions (including penalties and interest if applicable) have been deposited as required; and

      v. The Mortgagor meets the following guidelines in both the Most Recent Audited Financial Statements and immediately after the date of distribution:

         1. DSCR greater than or equal to 1.50;
         2. Days in Accounts Receivable less than or equal to 80 days;
         3. Average Payment Period less than or equal to 80 days;
         4. Current Ratio is greater than or equal to 1.50;
5. Enhanced Days of Cash on Hand greater than or equal to 21 days; and
6. The Equity less any assets excluded from Mortgaged Property is greater than 0.00.

c. A distribution of assets may not be more than fifty percent (50%) of Net Income, unless Mortgagor has an Equity Financing Ratio equal to or greater than twenty percent (20%), as reflected in both the Most Recent Audited Financial Statements and immediately after the distribution.

d. Prior to any distributions, Mortgagor must furnish to HUD a certification signed by the Chairperson of the Board, the Chief Executive Officer, and Chief Financial Officer, stating:

i. The distribution is permitted under the standard requirements of these Covenants;

ii. The calculations confirming the permitted distribution; and

iii. The actual amount of the distribution.

e. This covenant does not permit a Surplus Cash Note without the prior written permission of HUD.

24. **New Corporations, Subsidiaries, and Affiliations**

a. Mortgagor shall not establish, develop, organize, become the sole member of, or acquire an interest in any corporation, subsidiary, or affiliate organization without the prior written approval of HUD.

b. Mortgagor shall not change its Articles of Incorporation without the prior written approval of HUD.

25. **Mergers**

Mortgagor shall obtain HUD written approval for all mergers, reorganizations, and/or consolidations.

26. **Financial Reports.**

Section 9(f) of the Regulatory Agreement is hereby deleted in its entirety and replaced with the following new Section 9(f):

9(f)(1) Mortgagor shall file with HUD:
(i) Annual audited financial statements and corresponding management letters from a certified public accountant or other person acceptable to HUD, in accordance with Sections 9(f)(2) through 9(f)(5) below;

(ii) Quarterly, or more frequently if requested by HUD, interim financial statements within forty (40) days of close of the reporting period. Statements must be in a form and substance acceptable to HUD and include FTE’s and utilization statistics;

(iii) Board-certified annual financial results within 120 days following the close of Mortgagor’s fiscal year if the annual audited financial statement has not yet been filed with HUD, or anytime at HUD’s request;

(iv) Annual budget within thirty (30) days of the start of Mortgagor’s fiscal year. Budget must include: a balance sheet, income and expense statement, statement of cash flows, FTEs, and utilization statistics.

(v) Response to the Management Letter, within one hundred twenty (120) days following the date of the Management Letter;

(vi) Upon request, Mortgagor shall provide to HUD a copy of the Medicare Cost Report and/or IRS Form 990 most recently submitted to the Centers for Medicare and Medicaid Services (an agency of the Department of Health and Human Services) or its successor, along with related financial documents;

(vii) During the construction period until the Mortgage has gone to Final Endorsement (or in the case of start-up hospitals, three years following commencement of amortization if longer), Mortgagor shall provide to HUD on a monthly basis board approved unaudited balance sheets, statement of operations, budget progress reports, FTEs, and statistics on the utilization of the services of Mortgagor within forty (40) days from the end of the month; and

(viii) All other financial and utilization reports HUD may require.

9(f)(2) States, local governments, and not-for-profit organizations shall conduct audits in accordance with the Consolidated Audit Guide for Audits of HUD Programs (Handbook 2000.04) and OMB Circular A-133 (Audits of States, Local Governments and non-profit Organizations) in effect at the time of the Audit.

9(f)(3) For-profit organizations shall conduct audits in accordance with the Consolidated Audit Guide for Audits of HUD Programs (Handbook 2000.04) in effect at the time of the Audit.

9(f)(4) The annual audited financial statements shall identify any change in accounting
policies and its effect on the balance sheet and on the income statement.

9(f)(5) If the financial statements include any assets or liabilities which are excluded from the Mortgage or Security Agreement, then:

(i) The audited financial statements shall contain separate schedules (including the Balance Sheet, Income and Expense Statement, Statement of Cash Flows) for only the Mortgagor and the assets or liabilities included in the Mortgage or Security Agreement,

(ii) The audited financial statements shall contain clarifications to the footnotes in the financial statements had the footnotes been prepared for only the Mortgagor and included only the assets or liabilities included in the Mortgage or Security Agreement,

(iii) All schedules and clarifications are subject to Audit procedures and must be reconciled to the consolidated financial statements, and

(iv) If substantial assets are held outside the Mortgage or Security Agreement, materiality levels for the separate schedule shall be based on the Mortgagor and the assets or liabilities included in the Mortgage or Security Agreement alone or the consolidated financial statements, whichever provides the highest degree of assurance.

9(f)(6) All books and records of management agents, lessees, operators, managers, and affiliates shall be maintained in accordance with GAAP and shall be available for inspection by HUD after reasonable prior notice during normal business hours at the Hospital or other mutually agreeable location.

9(f)(7) Every contract executed on behalf of Mortgagor with any of the aforesaid parties shall include a provision that the books and records of such entities shall be properly maintained and open to inspection during normal business hours by HUD at the Hospital or other mutually agreeable location.

27. **Business Plan/Consultant's Report**

a. The Board shall review the financial statements of Mortgagor at least twice a year, including a review of the audited financial statements within thirty (30) days receipt from the independent audit firm. Within 15 work days from the date of each review, the Board must provide HUD with a written report ("Report") describing measures being taken to improve Mortgagor's financial operations if any of the conditions listed below exist:
i. Loss from operations equal to or greater than one (1.0) percent of the Total Operating Revenues;
ii. Net Income is less than 0.0; or
iii. Failure to fully fund the MRF in accordance with the MRF Schedule.

b. At HUD's discretion:

i. HUD may require Mortgagor to develop a business plan ("Business Plan") acceptable to HUD addressing the condition(s) above and/or any other issue which might put Mortgagor's financial operations at risk.

1. If the Business Plan is required, the Board agrees to provide HUD a detailed implementation plan ("Implementation Plan") to resolve the issues identified in the Business Plan.
2. The Business Plan and Implementation Plan shall be delivered within sixty (60) days from the date of the request.

ii. HUD may require that Mortgagor to engage an independent consultant to develop the Business Plan. If HUD requires the Mortgagor to engage an independent consultant, the consultant shall review the management and governance of Mortgagor as a part of his engagement and report their findings in the Business Plan.

28. Additional Indebtedness and Leasing

Notwithstanding Section 4(a) of the Regulatory Agreement, Mortgagor may incur additional indebtedness pursuant to the following:

(a) Long Term Debt

i. Additional debt with a term over one year in length ("Long Term Debt"), may be incurred with the prior approval of HUD.

ii. Long Term Debt may be incurred without prior approval of HUD if the Mortgagor can demonstrate, and the chief financial officer of Mortgagor certifies to HUD that:

1. The debt is for acquisition of real estate or capital assets or for improvements to the Mortgaged Property, either by leases, loans, or installment purchase contracts;
2. Mortgagor has maintained a Historical Pro Forma DSCR of 1.50 or greater for the two (2) most recent fiscal years;

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1 Except for those leases prohibited by §24 C.F.R. 242.72.
3. Mortgagor is maintaining a DSCR of 1.50 or greater for the current fiscal year;
4. The new debt will not cause the DSCR to go below 1.50; and
5. The combined debt service payments for all debt held by Mortgagor in the current year, outside of the HUD-Insured Mortgage, is not projected to exceed 10 percent of the average Adjusted Operating Revenue for the three most recent fiscal years;

iii. The new Long Term Debt may be secured only by:

1. Assets that are not pledged as collateral for the HUD-Insured Mortgage, or
2. Assets being acquired with the new debt, which HUD has allowed to be temporarily exempt from becoming part of the collateral for the HUD-Insured Mortgage.

iv. For assets acquired through financing permitted by this covenant that are secured by a financing agreement, Mortgagor shall ensure:

1. A Financing Successor Clause is part of the financing agreement; and
2. Mortgagor files a UCC-1 financing statements or continuation statements, as appropriate, immediately after the lender of the Long Term Debt has filed its first priority financing statement. The filed statement should ensure at the conclusion of the finance period the assets shall then be in a first lien security position under the HUD-Insured Mortgage and Security Agreement.

v. For equipment that is to be leased under this covenant, Mortgagor shall ensure:

1. A Personality Lease Successor Clause is part of the leasing agreement;
2. Mortgagor files a UCC-1 financing statements or amendment statements, as appropriate. The financing statement should ensure at the conclusion of the lease period the previously leased assets shall then be in a first lien security position under the HUD-Insured Mortgage and the Security Agreement.

(b) Short Term Debt

i. Additional debt with a term under one year in length ("Short Term Debt") may be incurred with the prior approval of HUD.
ii. Short Term Debt may be incurred without prior approval of HUD if the Mortgagor can demonstrate, and the Chief Financial Officer of Mortgagor certifies to HUD that:

1. Total Short Term Debt for the current fiscal year will not exceed five percent (5%) of the average Adjusted Operating Revenue for the three most recent fiscal years;
2. The combined debt service payments for all Long Term Debt and Short Term Debt in the current year is not projected to exceed 10 percent of the average Adjusted Operating Revenue for the three most recent fiscal years;

iii. Short Term Debt in the form of a line of credit ("Short Term LOC") is permitted, pursuant to the following:

1. The Short Term LOC may not have a limit exceeding fifteen (15) days of Adjusted Operating Expenses, as reflected on the Most Recent Audited Financial Statements; and
2. The Short Term LOC may only be secured by patient accounts receivable. The total amount of the patients account receivable cannot be greater than 150 percent of the Short Term LOC.

iv. All Short Term Debt must be "paid down" to zero for at least 20 consecutive days during each fiscal year. An amount not to exceed two percent (2%) of the average Adjusted Operating Revenue for the three most recent fiscal years may be excepted from the 20 day pay down requirement, if:

1. The excepted amount is from the working line of credit;
2. The excepted amount remains outstanding to offset a temporary delay in receipt of funds from third party payers; and
3. The chief financial officer of Mortgagor certifies this to be true.

(c) Limitation on Total Debt Service Payments

The combined debt service payments for all Long Term Debt and Short Term Debt in the current fiscal year shall not exceed 10 percent of the average Adjusted Operating Revenue for the three most recent fiscal years.

(d) Reporting Requirements

If any additional indebtedness is undertaken the type, the amount, the annual principal and the annual interest payments for both the new and existing indebtedness shall be provided to HUD prior to incurring the additional indebtedness.
29. **Successor Clause**

   a. For new leases entered into by Mortgagor not covered by Section 28 (Additional Indebtedness and Leasing) of these Covenants, Mortgagor shall insert a Personality Successor Clause into said lease. If the Personality Lease Successor Clause cannot be obtained, Mortgagor shall not enter into the new or renewal lease without the prior approval of HUD.

   b. For all existing indebtedness which is secured by property that is not part of the HUD collateral, Mortgagor shall insert a Financing Successor Clause into the financing agreement when the financing agreements are eligible for renewal. If the Mortgagor is unable to include the Financing Successor Clause in the renewed financing agreement, then Mortgagor shall not enter into the new agreement without the prior approval of HUD;

   c. For all existing personality leases Mortgagor shall insert a Personality Lease Successor Clause into the lease when the leases are eligible for renewal. If the mortgagor is unable to include the Personality Lease Successor Clause in the renewed lease, then Mortgagor shall not enter into the new agreement without the prior approval of HUD.

   d. For existing property leases having an expiration of more than 1 year from the date of the Regulatory Agreement, Mortgagor shall insert a Realty Lease Successor Clause when the leases are eligible for renewal. If the Mortgagor is unable to include the Realty Lease Successor Clause in the lease, then Mortgagor shall not enter into the new agreement without the prior approval of HUD.

30. **Annual Verification of Compliance with Loan Covenants/Conditions**

   (a) Annually, Mortgagor shall have its independent auditor provide an unqualified opinion that in connection with the annual audit, nothing came to the auditor’s attention to cause the auditor to believe that Mortgagor is not in compliance with the applicable covenants of the Regulatory Agreement, or, if the auditor is unable to provide an unqualified opinion, the auditor shall provide a listing of any items of noncompliance along with an explanation. The opinion or explanation can be accomplished either:

   (1) If not required to be included in the audit itself, through a letter directly from the auditor to HUD sent when the audited financial statements are finalized; or

   (2) Through a separate report referred to in the Independent Auditor’s Report attached to the audited financial statements.

   (b) The letter or report shall include a statement listing:
(1) the amount required in the MRF as of the balance sheet date;
(2) the actual balance of the MRF as of the balance sheet date; and
(3) a calculation for DSCR, Current Ratio, Average Payment Period, and Equity
Financing Ratio, as such terms are defined at the end of this Rider.

31. **Office Space**

Notwithstanding Sections 4 and 9(i) of the Regulatory Agreement, Mortgagor may in the
ordinary course of business lease office space to tenants provided that said lease contains
a provision that permits HUD, any mortgagee-in-possession, or any successor
organization, at such party’s option, to succeed to the interest of the Mortgagor.

32. **Verification of Equipment**

Upon completion of the Project, and in conjunction with final cost certification, an
authorized representative of Mortgagor (or the auditing firm performing the cost
certification) shall submit a letter to HUD, stating that all equipment included in the final
equipment list is on Mortgagor’s premises and located within buildings included in the
HUD-Insured Mortgage.

33. **Loan Guarantee**

Mortgagor shall not be involved in any debt other than the HUD-Insured Mortgage, as a
cosigner, obligee, guarantor, etc., of any organization without the approval of HUD or as
otherwise permitted by Section 28 (Additional Indebtedness and Leasing) of these
Covenants.

34. **Indemnification of Board Members, Directors and Officers Liability Insurance and
Related Matters**

a. Mortgagor may indemnify the Board members to the extent permitted or required
by State law. This may be reflected in Mortgagor’s Certificate or Articles of
Incorporation and/or Bylaws. If Mortgagor elects to indemnify the Board
members, the primary vehicle for indemnification shall be insurance.

b. Whether or not Mortgagor elects to corporately indemnify the Board members,
Mortgagor shall secure directors and officers insurance (“D&O Insurance”) and
maintain such insurance at all times. Such D&O Insurance shall be of a type and
amount customary in the healthcare industry and determined by an independent
insurance consultant to be adequate to protect the interests of Mortgagor,
Mortgagee, and HUD.
c. Mortgagor shall provide evidence that D&O Insurance is in place at Initial Endorsement and Final Endorsement. Evidence of insurance will also be required in conjunction with closing of significant loan modifications.

d. Mortgagor shall maintain at all times liability, boiler, vehicle, medical malpractice and all other insurances of a type and amount customary in the health care industry and determined by an independent insurance consultant to be adequate to protect the interests of Mortgagor, Mortgagee, and HUD.

e. Mortgagor shall annually report and certify all its insurance. This report and certification must be submitted to HUD in conjunction with the filing of Mortgagor's annual audited financial statements. Mortgagee, and its servicer, if applicable, is responsible for monitoring.

f. If an incident occurs where an insurance company refuses to provide legal defense or coverage under Mortgagor's D&O Insurance policy, Mortgagor shall immediately notify Mortgagee and HUD. If requested by HUD, Mortgagor shall also notify the State Insurance Commissioner of the D&O Insurance carrier's refusal to provide legal defense or coverage. In any case where an insurance company refuses to provide legal defense or coverage under Mortgagor's D&O Insurance policy, the Board must vigorously pursue its rights under the insurance contract and remedies at law.

35. **Amendment of Section 13 of the Regulatory Agreement**

Amend Section (13)(2) to replace “and charges” with “receivables, charges, income, and other revenues.”

36. **Swaps**

Mortgagor shall not enter into an interest rate swap related to the loan secured by the HUD-Insured Mortgage, or any financial instrument that is directly or indirectly related to said loan without prior written permission from HUD.

37. **Compensation for Certain Key Officers**

Section 4(d) of the Regulatory Agreement is amended to insert at the end thereof the following: “; except to the extent of compensation paid that represents the normal and customary value of services rendered in his or her capacity as an employee of Mortgagor;”
38. **Cross Defaults**

Mortgagor warrants that there are no cross default provisions in any agreement undertaken by or with an Affiliate of Mortgagor that would cause a default on any other document executed in connection with the HUD-Insured Mortgage if the Affiliate were to default on its obligations.

39. **Amendments**

The parties agree that the Regulatory Agreement and the Rider 1 attached thereto may be modified from time to time by written agreement executed by both parties hereto.

40. **Comparison of Financial Forecast to Actual Results for the Forecast Periods**

No later than 120 days following the end of the Mortgagor's fiscal year, the Mortgagor shall provide HUD with an analysis of its performance (financial and utilization) in comparison with the Mortgagor's budget and the Financial Feasibility Study projections submitted with the Section 242 mortgage insurance application and titled "Morehead Memorial Hospital" (dated 10/19/12). Any deviations from the budget and the Financial Feasibility Study shall be explained in an accompanying statement from the management and Board of the Mortgagor.

41. **Deposit Control Account Agreement**

Mortgagor agrees to establish and maintain a DACA in accordance with the terms and conditions agreed to at Initial Endorsement. Mortgagor shall update and modify the DACA to ensure any new Deposit Accounts held by Mortgagor be made subject to the DACA as legally permissible by State and Federal law.

42. **Financial Ratios and Guidelines**

All ratios, financial guidelines, and other financial criteria defined in the Loan Documents, including this Rider to the Regulatory Agreement, ("Ratios") are subject to adjustment in the event of a change by the American Institute of Certified Public Accountants of financial statement presentation guidelines or any other guidelines which may affect the Ratios. Any adjustment to the Ratios shall be at HUD's discretion and may be reasonably adjusted in accordance with industry standards.

43. **Definitions**

For the purpose of determining compliance with these covenants, the DSCR, Current Ratio, Average Payment Period, Total Operating Revenue, and other ratios/measures referred to in this Regulatory Agreement shall be based on information contained in the
latest audited annual financial statements and calculated in the annual compliance letter or report from Mortgagor's independent auditor unless specifically stated otherwise.

All financial thresholds, ratios, and account balances in the Regulatory Agreement and/or any subsequent agreements are to be calculated or determined after excluding assets, liabilities, net assets, revenues, and expenses that are not encumbered by the HUD-Insured Mortgage or the Security Agreement, unless specifically stated otherwise.

The following definitions shall be used:

**Adjusted Operating Expenses** is defined as: total operating expenses less depreciation and bad debt expense.

**Adjusted Operating Revenue** is defined as: net patient revenue less bad debt expense plus other income from operations. Income from investments, unrestricted contributions, interest income, gains from the sale of assets, non-operating revenues, and extraordinary gains are excluded from operating revenues.

**After Acquired Property** is defined as: Property purchased or acquired by the Mortgagee after Initial Endorsement of the HUD-Insured Note.

**Affiliates** is defined as: affiliates according to generally accepted accounting principles ("GAAP") and includes, but is not limited to the following organization(s): [If none so state].

**Audit** is defined as: the audit referred to in Section 26 (Financial Reports) of these Covenants, which section replaces Section 9(f) of the Regulatory Agreement.

**Average Payment Period** is defined as: Total Current Liabilities divided by ((Total Operating Expenses minus Depreciation Expense minus Bad Debt Expense) divided by the total number of days in the measurement period [usually 365]).

**Board** is defined as: the [Governing Board] [Board of Directors] [Board of Trustees] of the Mortgagor.

**Cost Savings** is defined as: excess monies identified during the final cost certification process in connection with the HUD-Insured Note that are a result of the actual cost of a specified item being less than the projected cost expected at time of Initial Endorsement. The ratio used for allocating the proportionate savings and applied to reducing the principal on the insured loan shall be based on Section C of the HUD Form-2264 (or its successor) by dividing the amount of the mortgage loan proceeds (plus any grants, gifts or approved loans) into the FHA total estimated project cost.

**Covenants** is defined as: This document entered into between the Mortgagor, Mortgagee, and HUD in connection with the HUD-Insured Note and the Regulatory Agreement.
Current Ratio is defined as: Current Assets divided by Current Liabilities.

DACA is defined as: a Deposit Control Account Agreement, executed by Mortgagor to perfect Mortgagee’s security interest in all Deposit Accounts held by Mortgagor.

Deposit Accounts is defined as: a demand, time, savings, passbook or like account maintained with a bank, savings and loan association, credit union or like organization, other than an account evidenced by a certificate of deposit.

DSCR (total Debt Service Coverage on all Long Term Debt) is defined as: Net Income plus Interest Expense plus Depreciation Expense plus Amortization Expense all divided by Interest Expense plus Current Portion Long Term Debt (including current portion of leases) from the previous year’s audited financial statement.

Enhanced Days Cash on Hand is defined as:

\[
\text{Cash plus Current Investments plus Qualified Liquid Investments} \\
\text{(Total Operating Expense minus Depreciation Expense minus Bad Debt Expense) divided by 365}^{1} \text{ Days}
\]

Equity is defined as: equity for a for-profit entity, total net assets for a not-for-profit entity, and total net assets for governmental entities.

Equity Financing Ratio is defined as:

\[
\frac{\text{Equity minus any assets excluded from the Mortgaged Property}}{\text{Total assets less any assets excluded from the Mortgaged Property}}
\]

Final Endorsement is defined as: HUD’s Final Endorsement of the HUD-Insured Note.

Financing Successor Clause is defined as a clause that states, (in substance), upon a default under the HUD-Insured Mortgage, HUD, any mortgagee in possession, or successor organization has the right to assume the obligations of Mortgagor and use the financed assets for Hospital-related activities and such party agrees to be bound by all of the terms and conditions of the financing agreement.

Historical Pro Forma DSCR is defined as: Net Income plus Interest Expense plus Depreciation Expense plus Amortization Expense all divided by Interest Expense (existing and proposed) plus Current Portion Long Term Debt (including current portion of leases and current portion of the proposed additional debt) from Mortgagor’s previous year’s audited financial statement.

HUD-Insured Mortgage is defined as: the mortgage encumbering the HUD-Insured Note.

HUD-Insured Note is defined as: the note or credit instrument(s) evidencing the loan(s)
identified as FHA Project No. 053-13010 insured by HUD pursuant to 24 CFR 242, Mortgage Insurance for Hospitals.

**Initial Endorsement** is defined as: HUD’s Initial Endorsement of the HUD-Insured Note.

**Loan Documents** is defined as: the HUD-Insured Mortgage, the HUD-Insured Note, Security Agreement, HUD Regulatory Agreement, Mortgage Reserve Fund Agreement, the Building Loan Agreement, and other instruments relating to the transaction.

**Mortgaged Property** is defined as: that property of Mortgagor, both real and personal, encumbered by the HUD-Insured Mortgage and the Security Agreement.

**Mortgagor** is defined as: both the borrower and its successors and Affiliates under the HUD-Insured Mortgage to the extent that its assets, liabilities, net assets, revenues, and expenses are encumbered by the Mortgage and the Security Agreement, including without limitation leased equipment for the benefit of the Hospital and restricted assets.

**Most Recent Audited Financial Statements** is defined as: the audited financial statement required under the Regulatory Agreement in Section 26 above, which Section replaces Section 9(f) of the Regulatory Agreement, for the year prior to the current fiscal year.

**MRF** is defined as: the Mortgage Reserve Fund, a trust account entered into by the Mortgagor pursuant to the MRF Agreement.

**MRF Agreement** is defined as: the Mortgage Reserve Fund Agreement entered into between Mortgagor, Mortgagor, and HUD and associated with FHA Project No. 053-13010.

**Net Income** is defined as: net income for for-profit entities; excess of revenues over expenses for not-for-profit entities; and excess of revenues over expenses before capital grants, contributions, and additions to permanent endowment for governmental entities.

**Parent** is defined as: an organization or entity that controls or has a controlling interest in the Mortgagor or is a sole member of the Mortgagor.

**Personalty Lease Successor Clause** is defined as: a clause that states, (in substance), upon a default under the HUD-Insured Mortgage, HUD or any mortgagee in possession of the organization shall have the right to assume the obligations of Mortgagor and use the leased asset for Hospital-related activities and such party agrees to be bound by all of the terms and conditions of the leasing agreement.

**Qualified Liquid Investments** is defined as: marketable securities, CD's, and bond investments that are undesignated and available for general operational use of the hospital within six months or less if so desired. Investments designated by the board for future
use or for general capital improvements and that are not part of the Equipment Replacement Reserve Fund (or similar fund) nor excluded by any of the other categories listed in this definition may be classified as Qualified Liquid Investments and shall not be excluded because of the designation by the board. Qualified liquid investments do not include:

a. Any accounts, investments, etc. that are part of a self-insurance fund;

b. Proceeds of any borrowings, including, but not limited to:

   i. Any internal affiliate loans regardless of the maturity date,
   ii. Proceeds of any outstanding accounts receivable financing,
   iii. Proceeds from lines of credit,
   iv. Funds supporting a letter of credit, loan guarantee, or similar instrument;

c. Investments in any related entity or entity controlled by a related entity;

d. Pledges receivable;

e. Permanently restricted net assets;

f. Reserve funds related to an issuance of bonds;

g. Amounts shown as an unfunded or underfunded reserve(s);

h. Mortgage Reserve Fund(s) or other loan reserve funds; or

i. Any items that cannot be clearly identified as meeting the criteria of this definition in the financial statements of the organization.

Realty Lease Successor Clause is defined as: a clause that states (in substance), that upon a default under the HUD-Insured Mortgage, HUD, any mortgagee-in-possession, or any successor organization would have a right to occupy the leased premises for Hospital-related activities and such party agrees to be bound by all of the terms and conditions of the lease.

Reasonable Time Period is defined as: the lesser of 30 business days prior or immediately upon confirmation that the Mortgagor will purchase or acquire property.

Regulatory Agreement is defined as: the HUD Regulatory Agreement entered into between the Mortgagor and HUD in connection with the HUD-Insured Note.

Security Agreement is defined as: the Security Agreement securing the personal property of the Mortgagor attached to FHA Project No. 053-13010 insured by HUD pursuant to 24 CFR 242, Mortgage Insurance for Hospitals.

Surplus Cash Note is defined as: a note that requires or permits principal repayments only when there is cash available after satisfying certain conditions.

Total Operating Revenue is defined as: Net Patient Service Revenue plus Other Operating Revenue (income from investments, unrestricted contributions, interest income, gains from the sale of assets, non-operating revenues, and extraordinary gains

Regulatory Agreement Rider I, Page 17
EXHIBIT "A"

Legal Description

Tract 1:

Commencing at an iron rebar set, the northwest corner of the property of Morehead Memorial Hospital as described in Deed Book 1184 Page 1118, thence running along the proposed eastern right of way line of Pierce Street (60 feet) the following three calls: 1) South 01°22'21" West, 1.23 feet to an iron rebar set; 2) a curve to the left a chord bearing and distance of South 08°30'46" East, 49.38 feet (Radius=145.00', Arc Length=49.62'); 3) South 18°19'13" East, 35.93 feet to an iron rebar set; said iron rebar set being the point of BEGINNING of the "Lease Area" herein described, iron rebar set also having NC Grid-NAD 83 coordinates of Northing 999,325.31 US Survey Foot, Easting 1,783,504.77 US Survey Foot (Combined Grid Factor=1,00008436), thence from said point of beginning running along a new line through the property of Morehead Memorial Hospital as described in Deed Book 1184 Page 1118 the following four calls: 1) South 55°55'59" East, 604.50 feet to an iron rebar set; 2) South 66°38'07" West, 232.07 feet to an iron rebar set; 3) South 23°21'58" East, 196.14 feet to an iron rebar set; and 4) South 66-38-02 West, 108.48 feet to a iron rebar set in the proposed eastern right of way line of Pierce Street; thence running along the proposed eastern right of way line of Pierce Street the following three calls: 1) North 28°22'56" West, 117.41 feet to an iron rebar set; 2) a curve to the right a chord bearing and distance of North 27°30'54" West, 52.06 feet (Radius=1720.00 feet, Arc Length=52.06 feet) to an iron rebar set; 3) a curve to the right a chord bearing and distance of North 22°29'02" West, 249.78 feet (Radius=1720.00 feet, Arc Length=250.00 feet) to an iron rebar set; and 4) North 18°19'13" West, 288.07 feet to the point of Beginning, containing 2.66 acres, more or less, as shown on survey prepared by Clinton B. Osborne, N.C. Professional Land Surveyor L-3834 of Allied Associates, P.A., and C.E. Robertson, N.C. Professional Land Surveyor L-1421 of C.E. Robertson & Associates, dated June 15, 2004 and revised May 5, 2005, Job No. PA040507.
EXHIBIT "A"
LEGAL DESCRIPTION (continued)

Tract 2:

Beginning at an existing North Carolina concrete right-of-way monument in the intersection of eastern right-of-way of Van Buren Street, North Carolina Highway 14, and northern right-of-way of Kings Highway, said intersection point being the northern most point of the northeast intersection of the two roads, said point also being located North 10°59'40" West, 25.75' from the City of Eden survey control marker "CC-7" having North Carolina Grid Northing of 999,642.11' and Easting of 1,782,294.55'; thence with the eastern right-of-way of Van Buren Street North 14°03'20" West, 499.51' to an existing iron rod; thence along the southern line of Lots 1, Section 26 of Map Book 8, page 54 North 76°40'18" East, 99.91' to an existing iron pin; thence along the southern line of Lots 2, Section 26 of Map Book 8, page 54 North 76°40'18" East, 99.91' to an existing iron pin; thence with the southern line of Lot 3, Section 26 of Map Book 8, page 54 North 76°40'18" East, 25.33' to a new iron pin; thence with a new line South 14°30'40" East, 91.00' to a new nail; thence with a new line South 75°58'28" West, 27.79' to a new iron pin; thence with a new line South 13°26'05" East, 122.43' to a new iron pin; thence with a new line North 75°53'48" East, 572.08' to a new iron pin; thence with a new line South 13°19'42" East, 27.00' to a new iron pin; thence with a new line North 76°40'18" East, 137.00' to a new iron pin; thence with a new line South 13°19'42" East, 5.00' to a new iron pin; thence with a new line North 76°40'18" East, 105.00' to a new iron pin; thence with a new line North 13°19'42" West, 238.00' to a new iron pin; thence along the southern line of Lots 11, Section 26 of Map Book 8, page 54 North 76°40'18" East, 66.02' to an existing iron pin; thence along the southern line of Lots 12, Section 26 of Map Book 8, page 54 North 76°40'18" East, 100.33' to an existing iron pin; thence along the southern line of Lots 13, Section 26 of Map Book 8, page 54 North 76°40'18" East, 102.20' to a new iron pin; thence with the western right-of-way of Pierce Street South 01°17'00" West, 883.43' to an existing iron pin; thence with the northern right-of-way of Kings Highway the following sixteen calls: 1) South 65°58'45" West, 36.84' to a new iron pin; 2) South 66°46'25" West, 49.00' to a new iron pin; 3) South 67°30'25" West, 49.00' to a new iron pin; 4) South 68°13'25" West, 49.00' to a new iron pin; 5) South 69°04'25" West, 49.00' to a new iron pin; 6) South 69°45'25" West, 49.10' to a new iron pin; 7) South 70°14'25" West, 49.00' to a new iron pin; 8) South 71°17'25" West, 49.00' to a new iron pin; 9) South 72°00'25" West, 49.00' to a new iron pin; 10) South 72°42'25" West, 49.00' to a new iron pin; 11) South 73°25'25" West, 48.90' to a new iron pin; 12) South 74°19'25" West, 49.00' to a new iron pin; 13) South 75°06'25" West, 49.00' to a new iron pin; 14) South 75°36'25" West, 49.00' to a new iron pin; 15) South 76°13'25" West, 48.85' to a new iron pin; 16) South 76°18'25" West, 12.56' to an existing North Carolina concrete right-of-way monument, said point being the southern most point of the northeastern intersection of Van Buren Street and Kings Highway; thence with the right-of-way of the northeastern intersection of Van Buren Street and Kings Highway North 57°46'15" West, 510.36' to the point and place of beginning; and containing 17.60 acres more or less, as shown on survey prepared by Clinton B. Osborne, M.C. Professional Land Surveyor L-3814 of Allied Associates, P.A., and C.E. Robertson, M.C. Professional Land Surveyor L-1421 of C.E. Robertson & Associates, dated June 15, 2004 and revised May 5, 2005, Job No. PA040506.