NEW ISSUE-- Book-Entry Only **RATINGS: (See "RATINGS" herein)**

Subject to compliance by the Authority and the Members of the Obligated Group with certain covenants, in the opinion of Chapman and Cutler LLP, under present law, interest on the Series 2008D Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations, but such interest is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. Interest on the Series 2008D Bonds is not exempt from present Illinois income taxes. ***See the heading "TAX EXEMPTION" herein for a more complete discussion.***

Advocate Health Care

$180,000,000
Illinois Finance Authority
Revenue Bonds, Series 2008D
(Advocate Health Care Network)

Dated: Date of Delivery **Due: November 1, as set forth below**

The Illinois Finance Authority (the "Authority") is issuing its $180,000,000 Revenue Bonds, Series 2008D (Advocate Health Care Network) (the "Series 2008D Bonds"), pursuant to a Trust Indenture dated as of November 1, 2008 (the "Bond Indenture") between the Authority and The Bank of New York Mellon Trust Company, N.A., as bond trustee (the "Bond Trustee"). The proceeds of the Series 2008D Bonds will be loaned to Advocate Health and Hospitals Corporation (the "Borrower") pursuant to a Loan Agreement dated as of November 1, 2008 (the "Loan Agreement"), between the Authority and the Borrower. The proceeds of the Series 2008D Bonds will be used, together with other available funds, to (i) pay the costs related to the acquisition by Advocate Condell Medical Center ("ACMC") of substantially all the assets of Condell Medical Center and the costs related to the construction and equipping of a new patient tower (the "Project") and (ii) pay certain costs of issuing the Series 2008D Bonds.

The Series 2008D Bonds will be payable solely from and secured by a pledge of payments to be made under the Loan Agreement, certain funds established under the Bond Indenture and the Direct Note Obligation, Series 2008D (the "Series 2008D Obligation") issued by the Borrower under a Master Trust Indenture (Amended and Restated) dated as of December 1, 1996 (the "Master Trust Indenture"), as heretofore supplemented and amended, among Advocate Health Care Network ("Advocate Network Corporation"), the Borrower, and Advocate North Side Health Network ("North Side") and U.S. Bank National Association, as master trustee (the "Master Trustee"), and as further supplemented and amended by a Thirteenth Supplemental Master Trust Indenture dated as of November 1, 2008 (the "Thirteenth Supplemental Indenture" and, together with the Master Trust Indenture, the "Master Indenture") among Advocate Network Corporation, the Borrower, North Side and ACMC (individually, a "Member" and collectively, the "Obligated Group") and the Master Trustee.

THE SERIES 2008D BONDS AND THE INTEREST THEREON DO NOT CONSTITUTE AN INDEBTEDNESS OR AN OBLIGATION, GENERAL OR MORAL, OR A PLEDGE OF THE FULL FAITH OR A LOAN OF CREDIT OF THE AUTHORITY, THE STATE OF ILLINOIS, OR ANY POLITICAL SUBDIVISION THEREOF, WITHIN THE PURVIEW OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION OR PROVISION. THE AUTHORITY IS OBLIGATED TO PAY THE PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON THE SERIES 2008D BONDS AND OTHER COSTS INCIDENTAL THERETO ONLY FROM THE SOURCES SPECIFIED IN THE BOND INDENTURE. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWERS, IF ANY, OF THE AUTHORITY OR THE STATE OF ILLINOIS OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON THE SERIES 2008D BONDS OR OTHER COSTS INCIDENTAL THERETO, EXCEPT AS OTHERWISE PROVIDED IN THE BOND INDENTURE. NO OWNER OF ANY SERIES 2008D BOND SHALL HAVE THE RIGHT TO COMPEL THE TAXING POWER, IF ANY, OF THE AUTHORITY, THE STATE OF ILLINOIS OR ANY POLITICAL SUBDIVISION THEREOF TO PAY THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2008D BONDS. THE AUTHORITY DOES NOT HAVE THE POWER TO LEVY TAXES FOR ANY PURPOSES WHATSOEVER.

The Series 2008D Bonds will be issued in fully registered form in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), under the Book-Entry Only System (as defined herein) maintained by DTC. So long as Cede & Co. is the registered owner of the Series 2008D Bonds, principal of, premium, if any, and interest on the Series 2008D Bonds will be payable by the Bond Trustee to DTC, which will in turn remit such payments to its participants for subsequent disbursement to Beneficial Owners of the Series 2008D Bonds, as more fully described herein.

An investment in the Series 2008D Bonds involves a certain degree of risk related to the nature of the business of the Obligated Group, the regulatory environment and the provisions of the principal documents. A prospective Series 2008D Bondholder is advised to read "SECURITY FOR THE SERIES 2008D BONDS" and "BONDHOLDERS' RISKS" herein for a description of the security for the Series 2008D Bonds and for a discussion of certain risk factors which should be considered in connection with an investment in the Series 2008D Bonds.

Interest on the Series 2008D Bonds is payable on May 1 and November 1, commencing May 1, 2009.

The Series 2008D Bonds are subject to mandatory sinking fund, extraordinary optional and optional redemption prior to maturity as more fully described herein. See "THE SERIES 2008D BONDS – Redemption of the Series 2008D Bonds" herein.

MATURITIES, AMOUNTS, INTEREST RATES, PRICES, YIELDS AND CUSIPS
$34,295,000 Serial Bonds

Maturity (November 1)	Principal Amount	Price	Interest Rate	Yield	CUSIP
2009	$4,745,000	102.266%	4.000%	1.500%	45200F RQ4
2010	3,870,000	101.953	5.000	3.930	45200F RR2
2011	3,980,000	99.453	4.000	4.200	45200F RS0
2012	4,085,000	99.002	4.250	4.530	45200F RT8
2013	4,185,000	98.911	4.500	4.750	45200F RU5
2014	4,355,000	100.351	5.000	4.930	45200F RV3
2015	4,505,000	99.189	5.000	5.140	45200F RW1
2016	4,570,000	99.483	5.250	5.330	45200F RX9

$9,695,000 5.500% Term Bonds Due November 1, 2018 Price 98.867% to Yield 5.650% CUSIP 45200F RY7
$26,585,000 6.125% Term Bonds Due November 1, 2023 Price 98.033% to Yield 6.330% CUSIP 45200F RZ4
$28,100,000 6.250% Term Bonds Due November 1, 2028 Price 96.897% to Yield 6.530% CUSIP 45200F SA8
$81,325,000 6.500% Term Bonds Due November 1, 2038 Price 96.797% to Yield 6.750% CUSIP 45200F SB6

This cover page contains certain information for ease of reference only. It does not constitute a summary of the Series 2008D Bonds or the security therefor. Potential investors must read this entire Official Statement, including the Appendices, to obtain information essential to making an informed investment decision.

The Series 2008D Bonds are being offered when, as and if issued and received by the Underwriters, subject to prior sale, withdrawal or modification of the offer without notice and to the approval of legality of the Series 2008D Bonds by Chapman and Cutler LLP, Chicago, Illinois, Bond Counsel. Certain legal matters will be passed upon for the Authority by its counsel, Schiff Hardin LLP, Chicago, Illinois; for the Members of the Obligated Group by their special counsel, Foley & Lardner LLP, Chicago, Illinois, and by the Senior Vice President and General Counsel of Advocate Network Corporation; and for the Underwriters by their counsel, Sonnenschein Nath & Rosenthal LLP, Chicago, Illinois. It is expected that the Series 2008D Bonds will be available for delivery through the facilities of DTC on or about December 1, 2008.

CITI

Loop Capital Markets, LLC **Cabrera Capital Markets, LLC**

The date of this Official Statement is November 7, 2008

The Series 2008D Bonds are exempt from registration under both the Securities Act of 1933, as amended, and the securities laws of Illinois. No dealer, broker, salesperson or other person has been authorized by the Authority, Advocate Network Corporation, the Borrower, any other Member of the Obligated Group or Citigroup Global Markets Inc., Loop Capital Markets, LLC and Cabrera Capital Markets, LLC (collectively, the "Underwriters") to give any information or to make any representations other than as contained herein, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the Series 2008D Bonds offered hereby, nor shall there be any sale of the Series 2008D Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

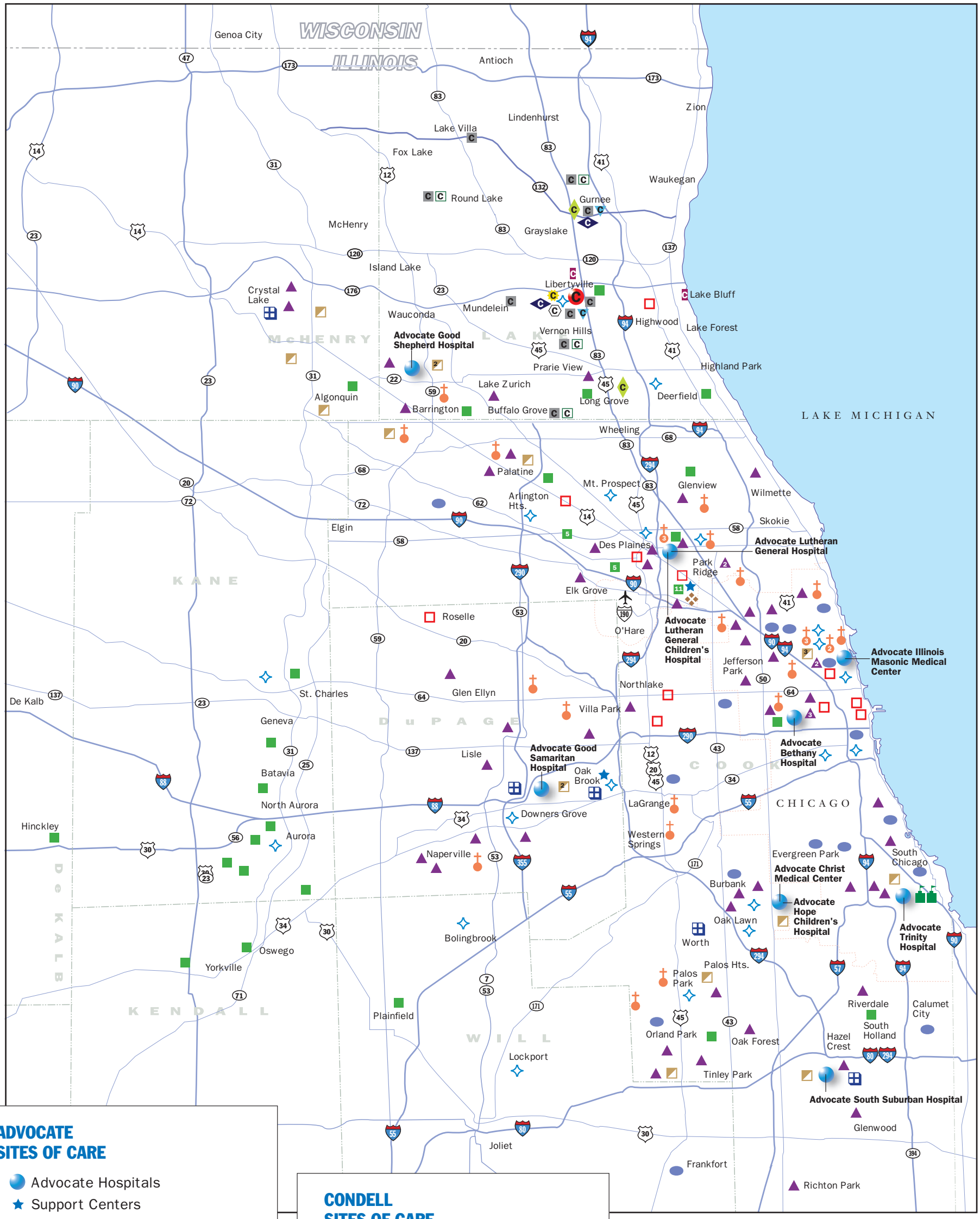
The information set forth herein relating to the Authority under the headings "INTRODUCTION – The Authority," "THE AUTHORITY" and "LITIGATION – The Authority" has been obtained from the Authority. All other information contained in this Official Statement has been furnished by Advocate Network Corporation, the Borrower, the other Member of the Obligated Group, DTC and other sources that are believed to be reliable and is not to be construed as a representation of the Authority or the Underwriters. The Authority has not reviewed or approved any information in this Official Statement except information relating to the Authority under the headings "INTRODUCTION – The Authority," "THE AUTHORITY" and "LITIGATION – The Authority." The information set forth herein is subject to change without notice after the date of this Official Statement and no sale made hereunder shall, under any circumstances, create any implication that there has been no change in the information or opinions stated herein or in the affairs of the Authority, Advocate Network Corporation, the Borrower, North Side, ACMC, the Restricted Affiliates or DTC since the date of this Official Statement.

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2008D BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE SERIES 2008D BONDS AND THE SERIES 2008D OBLIGATION HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED. IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF ADVOCATE NETWORK CORPORATION, ACMC, THE BORROWER, NORTH SIDE, THE RESTRICTED AFFILIATES, THE FINANCING PLAN AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The CUSIP numbers are included in this Official Statement for the convenience of the Owners and potential Owners of the Series 2008D Bonds. No assurance can be given that the CUSIP number for a particular Series of Series 2008D Bonds will remain the same after the date of issuance and delivery of the Series 2008D Bonds.



ADVOCATE SITES OF CARE

- Advocate Hospitals
- Support Centers
- Medical Groups*
- Advocate Charitable Foundation
- Advocate Health Centers
- Home Health Care
- Outpatient Centers*
- Mental Health Counseling
- Physician Office Buildings*
- Church-related Programs
- Schools
- Other Sites of Care*

* A numeral within these symbols indicates the number of sites of care at or near the same location.

CONDELL SITES OF CARE

- Condell Hospital
- Day Center
- Medical Office Building*
- Imaging Center
- Radiation Oncology Center
- Acute Care Center**
- Centre Club
- Health Institute (MCHI)
- Home Health

* Laboratory, X-ray and rehabilitation services at some locations
** Laboratory and X-ray available

Forward-Looking Statements

This Official Statement contains disclosures which contain "forward-looking statements." Forward-looking statements include all statements that do not relate solely to historical or current fact, and can be identified by use of words like "may," "believe," "will," "expect," "project," "estimate," "anticipate," "plan," or "continue." These forward-looking statements are based on the current plans and expectations of the Obligated Group and are subject to a number of known and unknown uncertainties and risks inherent in the operation of health care facilities, many of which are beyond the Obligated Group's control, that could significantly affect current plans and expectations and the Obligated Group's future financial position and results of operations. These factors include, but are not limited to, (i) the highly competitive nature of the health care business, (ii) the efforts of insurers, health care providers and others to contain health care costs, (iii) possible changes in the Medicare and Medicaid programs that may impact reimbursements to health care providers and insurers, (iv) changes in federal, state or local regulations affecting the health care industry, (v) the possible enactment of federal or state health care reform, (vi) the ability to attract and retain qualified management and other personnel, including affiliated physicians, nurses and medical support personnel, (vii) liabilities and other claims asserted against the Obligated Group, (viii) changes in accounting standards and practices, (ix) changes in general economic conditions, (x) future divestitures or acquisitions which may result in additional charges, (xi) changes in revenue mix and the ability to enter into and renew managed care provider arrangements on acceptable terms, (xii) the availability and terms of capital to fund future expansion plans of the Obligated Group and to provide for ongoing capital expenditure needs, (xiii) changes in business strategy or development plans, (xiv) delays in receiving payments, as has recently been the case in Illinois as a result of state budget constraints, (xv) the ability to implement shared services and other initiatives and realize decreases in administrative, supply and infrastructure costs, (xvi) the outcome of pending and any future litigation, (xvii) the Obligated Group's continuing efforts to monitor, maintain and comply with appropriate laws, regulations, policies and procedures relating to the Obligated Group's status as tax-exempt organizations as well as their ability to comply with the requirement of Medicare and Medicaid programs, (xviii) the ability to achieve expected levels of patient volumes and control the costs of providing services, (xix) results of reviews of the Borrower's, ACMC's, and North Side's cost reports, and (xx) the Obligated Group's ability to comply with legislation and/or regulations such as the Health Insurance Portability and Accountability Act of 1996, as amended. As a consequence, current plans, anticipated actions and future financial position and results of operations may differ from those expressed in any forward-looking statements made by or on behalf of the Obligated Group. Investors are cautioned not to unduly rely on such forward-looking statements when evaluating the information presented in this Official Statement, including ***APPENDIX A***.

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OFFICIAL STATEMENT

relating to

$180,000,000
Illinois Finance Authority
Revenue Bonds, Series 2008D
(Advocate Health Care Network)

INTRODUCTION

The description and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document for the complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each document. See ***APPENDIX D*** *and* ***APPENDIX E*** *hereto for definitions of certain words and terms used herein.*

Purpose of this Official Statement

The purpose of this Official Statement, including the cover page and the appendices, is to set forth certain information in connection with the offering by the Illinois Finance Authority (the "Authority") of its $180,000,000 Revenue Bonds, Series 2008D (Advocate Health Care Network) (the "Series 2008D Bonds").

The Authority

The Authority is a body politic and corporate of the State of Illinois. The Authority was created under the Illinois Finance Authority Act, as amended. For further information concerning the Authority, its powers, financing program and bonds, see the information under the caption "THE AUTHORITY".

The System

Advocate Health Care Network ("Advocate Network Corporation") is the sole member of Advocate Health and Hospitals Corporation (the "Borrower"), and the Borrower is the sole member of Advocate North Side Health Network ("North Side") and Advocate Condell Medical Center ("ACMC"). Advocate Network Corporation and the Borrower are also the sole members of various not-for-profit corporations or the shareholders of various business corporations, the primary activities of which are the delivery of health care services or the provision of goods and services ancillary thereto. Such controlled corporations, along with Advocate Network Corporation, ACMC, the Borrower and North Side, constitute the Advocate Health Care System (the "System"). As the parent of the System, Advocate Network Corporation currently has no material operations or activities of its own, apart from its ability to control the Borrower, ACMC, North Side and its Restricted Affiliates, as described below.

The System provides a continuum of care through its acute care hospitals with approximately 3,100 licensed beds, primary and specialty physician services, outpatient centers, physician office buildings, home health and hospice care throughout the metropolitan Chicago area. ACMC expects to purchase substantially all of the assets of Condell Medical Center ("Condell") on December 1, 2008. A map of the various sites of care of the System is included on the inside cover page of this Official Statement. A description of the System and certain information as to its constituent parts, including the acquisition of substantially all the assets of Condell, is contained in ***APPENDIX A*** hereto.

The Obligated Group

Advocate Network Corporation, the Borrower, and North Side are each Members of the Obligated Group (as defined below). Simultaneously with the issuance of the Series 2008D Bonds, ACMC will become a Member of the Obligated Group. As described below and in ***APPENDIX E*** hereto, there can be no assurance that the entities described herein as Members of the Obligated Group will remain Members of the Obligated Group.

Purpose of the Series 2008D Bonds

The Series 2008D Bonds will be issued under and secured by a Trust Indenture dated as of November 1, 2008 (the "Bond Indenture") by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as bond trustee (the "Bond Trustee"). The proceeds of the Series 2008D Bonds will be used, together with other available funds, to (i) finance or refinance the costs of purchasing substantially all the assets of Condell and the costs of constructing and equipping a new patient tower for ACMC (the "Project"); and (ii) pay certain costs incurred in connection with the issuance of the Series 2008D Bonds. See "PLAN OF FINANCE." The primary assets being acquired by ACMC from Condell include Condell Medical Center ("Condell Medical Center"), a 283 licensed bed acute care hospital located in Libertyville, Illinois.

Security

Source of Payment; the Master Indenture. Except as described in this Official Statement, the Series 2008D Bonds will be payable solely from and secured by a pledge of payments to be made under the Loan Agreement dated as of November 1, 2008 (the "Loan Agreement") between the Authority and the Borrower and the Direct Note Obligation, Series 2008D (the "Series 2008D Obligation") issued by the Borrower under a Master Trust Indenture (Amended and Restated) dated as of December 1, 1996 (the "Master Trust Indenture"), as heretofore supplemented and amended, among Advocate Network Corporation, the Borrower, and North Side and U.S. Bank National Association, as master trustee (the "Master Trustee"), and as further supplemented and amended by a Thirteenth Supplemental Master Trust Indenture dated as of November 1, 2008 (the "Thirteenth Supplemental Indenture" and, together with the Master Trust Indenture, the "Master Indenture") among Advocate Network Corporation, the Borrower, North Side and ACMC (individually a "Member," and collectively, the "Obligated Group") and the Master Trustee. The sources of payment of, and security for, the Series 2008D Bonds are more fully described in this Official Statement. See "SECURITY FOR THE SERIES 2008D BONDS" herein. The Members of the Obligated Group and any future Members of the Obligated Group are jointly and severally liable on any Obligations issued under the Master Indenture.

Certain of Advocate Network Corporation's affiliates are restricted affiliates (the "Restricted Affiliates") under the Master Indenture as described herein under the heading "THE SYSTEM AND THE OBLIGATED GROUP." The Restricted Affiliates, each Member of the Obligated Group, each other Affiliate of Advocate Network Corporation and certain other entities who are contractually under the control of Advocate Network Corporation are collectively referred to as "System Affiliates."

Other entities may become Members of the Obligated Group in accordance with the procedures set forth in the Master Indenture; however, there is no intention of adding additional Members of the Obligated Group in the foreseeable future. The Master Indenture does not contain any tests for the addition or withdrawal of Members of the Obligated Group. There can be no assurance that the entities described herein as Members of the Obligated Group will remain Members of the Obligated Group. Upon its issuance, the Series 2008D Obligation will be the general, unsecured joint and several obligation of the Obligated Group. No other System Affiliate, including any Restricted Affiliate, will be directly obligated to pay any of the Obligations (as defined below), including the Series 2008D Obligation.

However, in the Master Indenture, each Controlling Member has covenanted and agreed that it will cause each of its Restricted Affiliates and use reasonable efforts to cause each of its other System Affiliates (subject to contractual and organizational limitations), to pay, loan or otherwise transfer to the Obligated Group (i) such amounts as are necessary to pay debt service on the outstanding Obligations or portions thereof, the proceeds of which were loaned or otherwise made available or benefited such Restricted Affiliate or System Affiliate and (ii) such other amounts as are necessary to enable the Obligated Group to pay the debt service on the Obligations. The Master Indenture applies directly only to current Members of the Obligated Group and any future Member of the Obligated Group. However, the Master Indenture requires that each Controlling Member cause each of its Restricted Affiliates to charge fees and rates for its services sufficient to enable the Obligated Group to be able to pay amounts due on outstanding Obligations and to comply with certain other covenants in the Master Indenture, which include requirements for maintenance of corporate existence of such Restricted Affiliates. The Master Indenture provides that after an entity is designated as a Restricted Affiliate, Advocate Network Corporation may at any time declare that such entity is no longer a Restricted Affiliate. Accordingly, there can be no assurance that the entities described herein as Restricted Affiliates will continue to be such or that other Restricted Affiliates will be so designated.

Further, the Master Indenture imposes restrictions on Liens on property of all System Affiliates, including Restricted Affiliates. The Master Indenture does not contain any limitations or tests for the incurrence of additional indebtedness or the sale, lease or other disposition of any property. For a more detailed description of the Master Indenture, see "SECURITY FOR THE SERIES 2008D BONDS" herein and "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE" in ***APPENDIX C*** hereto.

In addition to the foregoing, the Authority will pledge and assign to the Bond Trustee the payments to be received pursuant to the Loan Agreement, except its rights to indemnification and payment of fees and expenses (the "Reserved Rights"), the Series 2008D Obligation and all moneys and investments from time to time on deposit in the funds and accounts under the Bond Indenture.

See ***APPENDIX A*** hereto for a more detailed description of Advocate Network Corporation, ACMC, the Borrower, North Side, each Restricted Affiliate, the other System Affiliates and certain other entities, their history, organization and financial performance. ***APPENDIX B*** hereto includes certain audited consolidated financial statements of Advocate Network Corporation and subsidiaries. ***APPENDIX C*** includes certain unaudited consolidated financial information of Advocate Network Corporation and subsidiaries. Certain corporations and other entities, which are System Affiliates of Advocate, are not Restricted Affiliates under the Master Indenture (the "Excluded Affiliates"). See ***APPENDIX A***, "EXCLUDED AFFILIATES" for a description of the Excluded Affiliates, and "CONDELL MEDICAL CENTER" for additional information on the acquisition of substantially all the assets of Condell Medical Center. The audited consolidated financial statements include the Excluded Affiliates.

Other Indebtedness. Immediately following the issuance of the Series 2008D Bonds, $936,130,000 in principal amount of Indebtedness will be outstanding and secured by Obligations issued under the Master Indenture. See ***APPENDIX A*** hereto under the caption "FINANCIAL INFORMATION - Existing Master Indenture Indebtedness of the System." Additional Obligations may be issued in the future under the Master Indenture on a parity with the Series 2008D Obligation. All notes outstanding or issued in the future under the Master Indenture are herein called the "Obligations." Obligations outstanding immediately prior to the issuance of the Series 2008D Bonds are referred to as "Prior Obligations." The Members of the Obligated Group and any future Members of the Obligated Group are jointly and severally liable on any Obligations issued under the Master Indenture. In addition to the indebtedness described above, the System has debt outstanding as described in ***APPENDIX A*** hereto under the caption "FINANCIAL INFORMATION - Other Indebtedness of the System."

Bondholders' Risks

There are risks associated with the purchase of the Series 2008D Bonds. See the information under the caption "BONDHOLDERS' RISKS" herein for a discussion of some of those risks.

Additional Information

This Official Statement speaks only as of its date, and the information herein is subject to change, completion or amendment without notice. Brief descriptions of the Authority, the System, the Series 2008D Bonds and certain other documents relating to the Series 2008D Bonds are included in this Official Statement. Such information and descriptions do not purport to be comprehensive or definitive. All references herein to specified documents are qualified in their entirety by reference to each such document, copies of which are available from the Underwriters during the initial offering period and thereafter from the Bond Trustee, and all references to the Series 2008D Bonds are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto included in the aforesaid documents. See ***APPENDIX E*** – "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE AND THE LOAN AGREEMENT" hereto.

The foregoing Introduction contains only a brief summary of certain information contained in this Official Statement. It is not intended to be complete and is qualified by the more detailed information contained elsewhere in this Official Statement.

THE SYSTEM AND THE OBLIGATED GROUP

The System was created initially in 1995 as a result of the consolidation of two health care systems as more fully described in ***APPENDIX A*** hereto. Advocate Network Corporation is the parent corporation of the System and as such controls a number of affiliated entities, including the Borrower, ACMC and North Side. Certain of Advocate Network Corporation's other affiliates are "Restricted Affiliates" as of the date of issuance of the Series 2008D Bonds. These Members of the Obligated Group and Restricted Affiliates are described in ***APPENDIX A*** hereto. There can be no assurance that the entities described herein as Members of the Obligated Group will remain Members of the Obligated Group. Further, the Master Indenture provides that after an entity is designated as a Restricted Affiliate, Advocate Network Corporation may at any time declare that such entity is no longer a Restricted Affiliate. Accordingly, there can be no assurance that the entities described herein as Restricted Affiliates will continue to be such or that other Restricted Affiliates will be so designated. The System provides a continuum of care through its seven short-term acute care hospitals and a specialty long-term acute care hospital with approximately 3,100 licensed beds throughout the Chicago metropolitan area.

For a more detailed description of Advocate Network Corporation, the Borrower, ACMC, North Side and the Restricted Affiliates, see ***APPENDIX A*** hereto.

PLAN OF FINANCE

The Borrower will use the proceeds of the Series 2008D Bonds, together with other available funds, to (i) pay the costs of the Project and (ii) pay certain costs of issuing the Series 2008D Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" herein.

The Project

A substantial portion of the proceeds to be received by the Authority from the issuance and sale of the Series 2008D Bonds, and to be loaned to the Borrower pursuant to the Loan Agreement, will be used to finance or refinance the costs of purchasing substantially all the assets of Condell and the costs of constructing and equipping a new patient tower for ACMC. ACMC and the Borrower will enter into a Use Agreement dated as of November 1, 2008 related to the use of the facilities acquired with Series 2008D Bond proceeds. As a condition of such purchase, Condell will use its own funds to pay or defease all of its outstanding indebtedness related to bonds previously issued by the Authority, or its predecessor, for the benefit of Condell. The acquisition is expected to occur on or about December 1, 2008. See ***APPENDIX A*** for additional information related to the acquisition of Condell Medical Center.

THE SERIES 2008D BONDS

Reference is made to the Bond Indenture and to the summary of certain provisions of the Bond Indenture included in ***APPENDIX E*** for a more complete description of the Series 2008D Bonds. The discussion herein is qualified by such reference.

The Series 2008D Bonds, when issued, will be registered in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository for the Series 2008D Bonds. Individual purchases of interests in the Series 2008D Bonds will be made in book-entry form only, in authorized denominations. Purchasers will not receive certificates representing their interests in the Series 2008D Bonds. So Long as Cede & Co. is the registered owner, the Bond Trustee will pay the principal of, premium, if any, and interest on the Series 2008D Bonds to DTC, which is expected to remit such payments to the actual owners of the Series 2008D Bonds (the "Beneficial Owners"). Accordingly, Beneficial Owners must rely upon (i) the procedures of DTC and, if such Beneficial Owner is not a Participant (as defined below), the Participant who will act on behalf of such Beneficial Owner to receive notices and payments of principal of, premium, if any, and interest on the Series 2008D Bonds, and to exercise voting rights and (ii) the records of DTC and, if such Beneficial Owner is not a Participant, such Beneficial Owner's Participant, to evidence its beneficial ownership of the Series 2008D Bonds. So long as DTC acts as a security depository for the Series 2008D Bonds, all references to "owner of the Series 2008D Bonds" or "Bondholder" are deemed to be to Cede & Co., as nominee of DTC, and not to participants of DTC or Beneficial Owners. For a description of the method of payment of the principal of, premium, if any, and interest on the Series 2008D Bonds and matters pertaining to transfers and exchanges of Series 2008D Bonds while in the book-entry only system, see the information herein under "BOOK-ENTRY ONLY SYSTEM."

General

The Series 2008D Bonds are issuable as fully registered bonds in denominations of $5,000 and any integral multiple thereof. Interest on the Series 2008 Bonds will be payable semiannually on May 1 and November 1 of each year, commencing May 1, 2009. The Series 2008D Bonds will bear interest at the respective rates per annum and mature in the amounts and on the dates set forth on the cover page hereof. Interest on the Series 2008D Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Series 2008D Bonds, as initially issued, will be dated their date of delivery. Except as described in the next sentence, Series 2008D Bonds delivered in exchange for previously delivered Series 2008D Bonds will be dated as of the most recent preceding interest payment date to which interest has been paid thereon, or, if no interest has been paid thereon, as of the date of initial issuance. Series 2008D Bonds so delivered on an interest payment date to which interest has been paid will be dated as of such date.

Redemption

General. The Series 2008D Bonds are subject to optional and extraordinary optional redemption, and mandatory sinking fund redemption, as described below. The optional redemption provisions of the Bond Indenture summarized below (but not the extraordinary optional redemption provisions summarized below) will remain available to the Authority upon the direction of the Borrower and satisfaction of the conditions set forth in the Bond Indenture. See ***APPENDIX E*** – "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE AND THE LOAN AGREEMENT - Summary of Certain Provision of the Bond Indenture – Redemption After Defeasance."

Optional Redemption. The outstanding Series 2008D Bonds maturing on or after November 1, 2019, are subject to redemption prior to maturity on and after November 1, 2018, at the option of the Authority, upon the direction of the Borrower, out of amounts prepaid on the Series 2008 Obligation and deposited in the Optional Redemption Fund, in whole or in part at any time, and if in part by maturities designated by the Borrower and by lot within a maturity in such manner as may be determined by the Bond Trustee to be fair and equitable, at a redemption price equal to 100% of the principal amount of the Series 2008D Bonds then being redeemed plus accrued interest to the date of redemption.

Extraordinary Optional Redemption. The Series 2008D Bonds shall be redeemed prior to maturity in whole or in part in an Authorized Denomination by the Authority at any time, at the written direction of the Borrower, at a redemption price equal to 100% of the principal amount thereof plus accrued interest thereon to the redemption date, without premium, in the event of damage to or destruction of the Facilities (as defined in the Master Indenture) or any part thereof of any Member of the Obligated Group or any Restricted Affiliate or condemnation or sale consummated under threat of condemnation of the Facilities or any part thereof of any Member of the Obligated Group or any Restricted Affiliate, where the net proceeds of insurance, condemnation or sale received in connection therewith and applied to make prepayments on the Series 2008D Obligation exceed $1,000,000, but only to the extent of the funds provided pursuant to the Master Indenture if the Borrower shall exercise its option to prepay the Series 2008D Obligation in an amount sufficient to redeem all or a portion of the Series 2008D Bonds then outstanding.

Mandatory Sinking Fund Redemption. The Series 2008D Bonds maturing on November 1, 2018, are subject to mandatory sinking fund redemption, in part by lot and upon notice as provided in the Bond Indenture, at a redemption price equal to the principal amount of Series 2008D Bonds being redeemed, and to payment at maturity on November 1 of the years and in the amounts set forth below:

November 1 of the Year	Principal Amount
2017	$4,750,000
2018*	4,945,000

* Final Maturity

The Series 2008D Bonds maturing on November 1, 2023, are subject to mandatory sinking fund redemption, in part by lot and upon notice as provided in the Bond Indenture, at a redemption price equal to the principal amount of Series 2008D Bonds being redeemed, and to payment at maturity on November 1 of the years and in the amounts set forth below:

November 1 of the Year	Principal Amount
2019	$5,090,000
2020	5,440,000
2021	5,570,000
2022	5,810,000
2023*	4,675,000

* Final Maturity

The Series 2008D Bonds maturing on November 1, 2028, are subject to mandatory sinking fund redemption, in part by lot and upon notice as provided in the Bond Indenture, at a redemption price equal to the principal amount of Series 2008D Bonds being redeemed, and to payment at maturity on November 1 of the years and in the amounts set forth below:

November 1 of the Year	Principal Amount
2024	$4,960,000
2025	5,270,000
2026	5,600,000
2027	5,950,000
2028*	6,320,000

* Final Maturity

The Series 2008D Bonds maturing on November 1, 2038, are subject to mandatory sinking fund redemption, in part by lot and upon notice as provided in the Bond Indenture, at a redemption price equal to the principal amount of Series 2008D Bonds being redeemed, and to payment at maturity on November 1 of the years and in the amounts set forth below:

November 1 of the Year	Principal Amount
2029	$6,705,000
2030	7,145,000
2031	6,685,000
2032	7,140,000
2033	7,605,000
2034	8,095,000
2035	8,610,000
2036	9,160,000
2037	9,765,000
2038*	10,415,000

* Final Maturity

In lieu of redeeming Series 2008D Bonds pursuant to the provisions of the Bond Indenture described above under the subcaptions "Optional Redemption" and "Extraordinary Optional Redemption," the Bond Trustee may, at the request of the Borrower, use such funds otherwise available under the Bond Indenture for redemption of Series 2008D Bonds to purchase Series 2008D Bonds in the open market at a price not exceeding the redemption price then applicable under the Bond Indenture. In the case of any such optional redemption or purchase and cancellation of Series 2008D Bonds, the Authority shall receive credit against its required Bond Sinking Fund deposits with respect to the Series 2008D Bonds of such maturity in such order as the Borrower shall designate, and if the Borrower does not so designate, then in the inverse order thereof.

Notice of Redemption

Notice of the call for any redemption of the Series 2008D Bonds pursuant to the provisions of the Bond Indenture summarized above will be given by first class mail, postage prepaid, not less than 30 nor more than 60 days prior to the redemption date to the registered owners of the Series 2008D Bonds to be redeemed at the address shown on the Bond Register; provided, however, that failure to give such notice by mailing or a defect in the notice or the mailing as to any Series 2008D Bond will not affect the validity of any proceedings for redemption as to any other Series 2008D Bond for which notice was adequately given. Interest will not accrue after the redemption date on any Series 2008D Bond called for redemption if notice has been given and if sufficient moneys have been deposited with the Bond Trustee to pay such Series 2008D Bond in full at the applicable redemption date.

Prior to the date that the redemption notice is first given, funds shall be deposited with the Bond Trustee to pay such Bonds on the related redemption date, including any premium thereon, if any, and accrued interest thereon to such redemption date, or such notice shall state that any redemption is conditional upon such funds being deposited with the Bond Trustee on or prior to such redemption date, and that failure so to deposit such funds shall not constitute an event of default under the Bond Indenture. The Bond Trustee shall immediately notify the applicable registered owners of the Series 2008D Bonds of the failure to satisfy such condition and of the resulting cancellation of any such redemption.

Registration and Transfers

If the book-entry only system is discontinued, the following provisions shall apply. The Series 2008D Bonds would be transferable by the registered owner thereof or such owner's attorney duly authorized in writing, upon presentation thereof accompanied by a written instrument or instruments of transfer or authorization for exchange, in form and with guaranty of signature satisfactory to the Bond Trustee, duly executed by the registered owner or by such owner's duly authorized attorney, at the designated corporate trust office of the Bond Trustee. Any Series 2008D Bond may be exchanged at the designated corporate trust office of the Bond Trustee for a like aggregate principal amount of the Series 2008D Bonds of the same maturity of other authorized denominations. The Bond Trustee and the Authority may charge a fee covering taxes, fees or other governmental charges required to be paid in connection with any exchange or transfer of any Series 2008D Bond, except in the case of the issuance of a Series 2008D Bond for the unredeemed portion of a Series 2008D Bond surrendered for redemption. Neither the Authority nor the Bond Trustee will be required to register the transfer or exchange of any Series 2008D Bond (i) after notice calling such Series 2008D Bond or portion thereof for redemption has been mailed or (ii) during the 15-day period next preceding the mailing of a notice of redemption of the Series 2008D Bonds of the same maturity. For a description of the transfer procedures while DTC acts as securities depository for the Series 2008D Bonds, see "BOOK-ENTRY ONLY SYSTEM" below.

SECURITY FOR THE SERIES 2008D BONDS

The Series 2008D Bonds are limited obligations of the Authority payable solely from the revenues and other moneys received pursuant to the Loan Agreement and secured by (i) the Series 2008D Obligation issued to the Authority which is assigned by the Authority to the Bond Trustee; (ii) a pledge of the revenues and other moneys received and to be received under the Loan Agreement except for Unassigned Rights; and (iii) the money and securities held by the Bond Trustee in certain of the funds and accounts under the Bond Indenture. The covenants and agreements in the Bond Indenture are for the equal and ratable benefit of all present and future owners of the Series 2008D Bonds, without preference, priority or distinction of any Series 2008D Bonds over any other Series 2008D Bonds.

The Obligations and Absence of Collateral Security Therefor

Pursuant to the Master Indenture, the Borrower will issue to the Authority the Series 2008D Obligation to secure the Borrower's obligation to make loan repayments under the Loan Agreement. The Authority will assign all its right, title and interest in the Series 2008D Obligation to the Bond Trustee. The Series 2008D Obligation and any other Obligations issued under the Master Indenture are and will be general, unsecured joint and several obligations of the Members of the Obligated Group and any future Members of the Obligated Group and, except as permitted by the Master Indenture as to any future Obligations, are not secured by any pledge of, mortgage on or security interest in assets of Advocate Network Corporation, ACMC, the Borrower, North Side or any future Member of the Obligated Group, any Restricted Affiliate or any System Affiliate. No other System Affiliate or Restricted Affiliate, as such, is or will be obligated to pay any of the Obligations.

The Master Indenture

Upon the issuance of the Series 2008D Bonds, Advocate Network Corporation, ACMC, the Borrower and North Side will be the only Members of the Obligated Group. See ***APPENDIX A*** hereto for a description of Advocate Network Corporation, ACMC, the Borrower, North Side and the Restricted Affiliates. The Series 2008D Obligation, and the Prior Obligations are and will be secured on a parity with each other and with any additional Obligations that may hereafter be issued under and in accordance with the terms of the Master Indenture, provided that any such additional Obligations may be secured by collateral in addition to that generally provided for all Obligations, to the extent permitted by the Master Indenture. Upon issuance of the Series 2008D Bonds, there will be an aggregate of $936,130,000 in principal amount of Obligations outstanding under the Master Indenture. See, however, the audited consolidated financial statements of the System in ***APPENDIX B*** hereto and ***APPENDIX A*** hereto under the caption "FINANCIAL INFORMATION - Other Indebtedness of the System" for a description of other indebtedness of the System. ***APPENDIX C*** contains certain information with respect to indebtedness incurred by the Obligated Group since the end of its fiscal year ended December 31, 2007.

Payments on the Obligations will be the joint and several obligations of each Member of the Obligated Group and any future Members of the Obligated Group. Notwithstanding uncertainties as to the enforceability of the covenant of each Member of the Obligated Group in the Master Indenture to be jointly and severally liable for each Obligation and limitations on the ability of each Restricted Affiliate to make transfers to the Obligated Group as required to enable the Obligated Group to make payments on the Obligations (as described herein under "BONDHOLDERS' RISKS - Matters Relating to Enforceability of the Master Indenture"), and the fact that certain System Affiliates are not obligated to make any such payments, the accounts of the Members of the Obligated Group and of the other System Affiliates will be combined in determining whether various covenants and tests contained in the Master Indenture are met.

The Master Indenture does not restrict the System's ability to acquire, transfer or dispose of Property, including cash, marketable securities or receivables, to anyone, including related or affiliated persons or persons who control the System directly or indirectly, or release control of System Affiliates or the ability of the Obligated Group Members to withdraw from the Obligated Group even if such actions could cause the System to fail to maintain the System's Historical Debt Service Coverage Ratio at 1.10 to 1.00 or cause the Obligated Group to fail to make its debt service payments on Obligations issued under the Master Indenture. See "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Sale, Lease, or Other Disposition of Property" in ***APPENDIX D*** hereto.

The Master Indenture does not contain any limitations on the amount of additional indebtedness that may be incurred by the Obligated Group or the Restricted Affiliates nor does the Master Indenture require the Obligated Group or the Restricted Affiliates to demonstrate compliance with any earnings, capitalization or other tests as a precondition to the incurrence of additional indebtedness or the sale, lease or other disposition of property.

Certain Covenants of the Obligated Group, the Restricted Affiliates and Other System Affiliates

Under the Master Indenture, the Obligations are the general, unsecured joint and several obligations of the Obligated Group and any future Member of the Obligated Group. No other System Affiliate or Restricted Affiliate, as such, will be directly obligated to pay any Obligations, including the Series 2008D Obligation, or to advance any funds therefore. However, under the Master Indenture, each Controlling Member has covenanted and agreed to cause each of its Restricted Affiliates, and to use reasonable efforts (subject to contractual and organizational limitations) to cause each of its other System Affiliates, to pay, loan or otherwise transfer to the Obligated Group (i) such amounts as are necessary to pay debt service on the outstanding Obligations (including the Series 2008D Obligation) or portions thereof the proceeds of which were loaned or otherwise made available to or benefited such Restricted Affiliates or System Affiliates and (ii) such other amounts as are necessary to enable the Obligated Group to pay the debt service on the Obligations (including the Series 2008D Obligation). The Master Indenture applies directly only to current Members of the Obligated Group and any future Member of the Obligated Group. However, the Master Indenture requires that each Controlling Member cause each of its Restricted Affiliates to charge fees and rates for its services sufficient to enable the Obligated Group to be able to pay amounts due on outstanding Obligations (including the Series 2008D Obligation) and to comply with certain other covenants in the Master Indenture, which include requirements for maintenance of corporate existence of such Restricted Affiliates. Further, the Master Indenture imposes restrictions on Liens on property of all System Affiliates, including Restricted Affiliates. The Master Indenture does not contain any limitations or tests for the incurrence of additional indebtedness or the sale, lease or other disposition of any property. Further, the Master Indenture does not contain any tests for the addition or withdrawal of Members of the Obligated Group. Accordingly, there can be no assurance that the entities described herein as Members of the Obligated Group will remain Members of the Obligated Group. For a more detailed description of the Master Indenture, see "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE" in ***APPENDIX D*** hereto.

To be a Restricted Affiliate, a corporation or other entity must be designated as a Restricted Affiliate by a resolution of the Board of Directors of the Obligated Group Agent (presently Advocate Network Corporation), and the Obligated Group Agent or any Member designated by the Obligated Group Agent as the Controlling Member must either (i) control such Restricted Affiliate in the manner described below or (ii) have entered into an agreement (a "Commitment Agreement") with such Restricted Affiliate that, in the judgment of the Obligated Group Agent, is sufficient to assure the Obligated Group Agent or the Controlling Member that such Restricted Affiliate will be required to make the payments necessary for the Obligated Group to pay the principal of and interest on the Obligations and to comply with the other provisions of the Master Indenture applicable to such Restricted Affiliate. Under the Master Indenture, "control" means the power to direct the management and policies of such

Person, directly or indirectly, whether through the ownership of voting securities, by contract, partnership interests, membership, reserved powers or the power to appoint members, trustees or directors or otherwise. Under the Master Indenture, each Controlling Member covenants to cause each of its Restricted Affiliates to comply with certain covenants and restrictions contained in the Master Indenture. All of the current Restricted Affiliates are controlled by Advocate Network Corporation through the Articles of Incorporation and bylaws of the Restricted Affiliates. No Commitment Agreements exist with respect to Restricted Affiliates. In the future, Advocate Network Corporation may elect to permit other entities to become Restricted Affiliates by means of execution of Commitment Agreements.

The Master Indenture provides that after an entity is designated as a Restricted Affiliate, Advocate Network Corporation may at any time declare that such entity is no longer a Restricted Affiliate. Accordingly, there can be no assurance that the entities described herein as Restricted Affiliates will continue to be such or that other Restricted Affiliates will be so designated.

With certain exceptions, the ability to control Restricted Affiliates, as described above, permits the Controlling Member to require compliance by the controlled Restricted Affiliates with the covenants and restrictions contained in the Master Indenture, by replacement of the members of the governing body of such Restricted Affiliate, if necessary. A Controlling Member's ability to control the operations of those Restricted Affiliates that may execute Commitment Agreements will be more limited. Should any of these non-controlled Restricted Affiliates refuse to comply with the covenants and requirements of the Master Indenture, the Controlling Member's remedies may be limited to litigation to specifically enforce the provisions of the Commitment Agreements. Non-controlled Restricted Affiliates may have certain defenses to such litigation. The execution of a Commitment Agreement will not give the Controlling Member the power or authority to replace the governing body or management of any such non-controlled Restricted Affiliates.

Notwithstanding the provisions of the Master Indenture, no Member of the Obligated Group shall be obligated to make any payment on behalf of another Member nor be required to cause a Restricted Affiliate or System Affiliate to make any payment, loan or transfer that conflicts with, is not permitted by or is subject to recovery for the benefit of other creditors of such Member of the Obligated Group, Restricted Affiliate or System Affiliate under any applicable fraudulent transfer, fraudulent conveyance, bankruptcy, insolvency, moratorium or other similar laws affecting the enforcement of creditors' rights and no Member of the Obligated Group, Restricted Affiliate or System Affiliate shall be required or permitted to make any transfer or take or suffer or permit to be taken any other action that would cause or result in such Member of the Obligated Group, Restricted Affiliate or System Affiliate being in violation of any law, including without limitation the not-for-profit corporation laws of the State of Illinois.

For a description of the effect of the Federal Bankruptcy Code and other laws affecting creditors' rights on the ability of Advocate Network Corporation to enforce the Master Indenture with respect to all Restricted Affiliates, including particularly the non-controlled Restricted Affiliates, see "BONDHOLDERS' RISKS - Matters Relating to Enforceability of the Master Indenture" herein.

For a more detailed description of the Master Indenture including the provisions thereof relating to the Restricted Affiliates, see "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE" in ***APPENDIX D*** hereto.

Loan Agreement

The Loan Agreement imposes certain restrictions on the actions of the Borrower for the benefit of the Authority and the owners of the Series 2008D Bonds. The Loan Agreement provides that the Borrower shall make designated payments to the Bond Trustee for deposit into the Interest Fund and the Bond Sinking Fund created by the Bond Indenture in amounts sufficient to pay when due the principal of,

premium, if any, and interest on the Series 2008D Bonds. The Obligated Group's obligation to make payments on the Series 2008D Obligation will be satisfied to the extent that payments are made by the Borrower under the Loan Agreement, and the Borrower will receive similar credit under the Loan Agreement for payments made by the Obligated Group on the Series 2008D Obligation.

Amendments of Bond Indenture and Loan Agreement

The Bond Indenture permits the modification or amendment of the Bond Indenture and the Loan Agreement in certain circumstances with the consent of the holders of a majority of the principal amount of the Series 2008D Bonds. Such amendments could be substantial and result in the modification, waiver or removal of any existing covenant or restriction contained in the Bond Indenture. Such amendments could adversely affect the security of the Bondholders. In addition, the Bond Indenture permits the modification or amendment of the Bond Indenture and the Loan Agreement in certain circumstances without the consent of the holders of the Series 2008D Bonds. See ***APPENDIX E***, "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE AND THE LOAN AGREEMENT - Summary of Certain Provisions of the Bond Indenture--Amendment of Bond Indenture;"--"Amendment of Loan Agreement."

Limited Obligation of Authority

The Series 2008D Bonds, any premium thereon and the interest thereon do not constitute indebtedness or an obligation, general or moral, or a pledge of the full faith or a loan of credit of the Authority, the State of Illinois or any political subdivision thereof, within the purview of any constitutional or statutory limitation or provision. The Authority is obligated to pay the principal of, premium if any, and interest on the Series 2008D Bonds and other costs incidental thereto only from the sources specified in the Bond Indenture. Neither the full faith and credit nor the taxing powers, if any, of the Authority, the State of Illinois or any political subdivision thereof is pledged to the payment of the principal of, premium, if any, and interest on the Series 2008D Bonds. No owner of any Series 2008D Bond shall have the right to compel the taxing power of the Authority, the State of Illinois or any political subdivision thereof to pay the principal of, premium if any, or interest on the Series 2008D Bonds. The Authority does not have the power to levy taxes for any purpose whatsoever.

BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company, New York, New York, will act as securities depository for the Series 2008D Bonds. The Series 2008D Bonds will be issued 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 Series 2008D Bond certificate will be issued for each maturity of the Series 2008D Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository is a limited purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity 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 ("SEC"). More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Series 2008D Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2008D Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2008D Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2008D 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 Series 2008D Bonds, except in the event that use of the book-entry system for the Series 2008D Bonds is discontinued.

To facilitate subsequent transfers, all Series 2008D 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 Series 2008D 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 Series 2008D Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2008D 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 Series 2008D Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2008D Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond Indenture, Loan Agreement or Master Indenture. For example, Beneficial Owners of Series 2008D Bonds may wish to ascertain that the nominee holding the Series 2008D 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 Series 2008D Bonds 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 Series 2008D Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to an 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 Series 2008D Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal, interest, and redemption prices, respectively, on the Series 2008D Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Bond Trustee or the Authority, on a payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Bond Trustee, the Master Trustee, the Borrower, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest and redemption prices to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Borrower or the Bond Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2008D Bonds at any time by giving reasonable notice to the Borrower, Authority or the Bond Trustee. Under such circumstances, in the event that a successor depository is not obtained, Series 2008D Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2008D Bond certificates will be printed and delivered.

THE INFORMATION PROVIDED ABOVE HAS BEEN PROVIDED BY DTC. NO REPRESENTATION IS MADE BY THE AUTHORITY, THE BOND TRUSTEE, THE BORROWER, THE OTHER MEMBERS OF THE OBLIGATED GROUP, OR THE UNDERWRITERS AS TO THE ACCURACY OR ADEQUACY OF SUCH INFORMATION PROVIDED BY DTC NOR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF.

For so long as the Series 2008D Bonds are registered in the name of DTC or its nominee, Cede & Co., the Authority, the Master Trustee and the Bond Trustee will recognize only DTC or its nominee, Cede & Co., as the registered owner of the Series 2008D Bonds for all purposes, including payments, notices and voting.

Under the Bond Indenture, payments made by the Bond Trustee to DTC or its nominee will satisfy the Authority's obligations under the Bond Indenture and the Borrower's obligations under the Loan Agreement, to the extent of the payments so made.

NEITHER THE AUTHORITY, THE UNDERWRITERS, THE BORROWER, ADVOCATE NETWORK CORPORATION, NORTH SIDE, ACMC, THE MASTER TRUSTEE NOR THE BOND TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION WITH RESPECT TO (I) THE ACCURACY OF THE RECORDS OF DTC, ITS NOMINEE OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT WITH RESPECT TO ANY BENEFICIAL OWNERSHIP INTEREST IN ANY SERIES 2008D BOND, (II) THE DELIVERY TO ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OR ANY OTHER PERSON, OTHER THAN AN OWNER, AS SHOWN IN THE BOND REGISTER, OF ANY NOTICE WITH RESPECT TO ANY SERIES 2008D BOND

INCLUDING, WITHOUT LIMITATION, ANY NOTICE OF REDEMPTION, TENDER, PURCHASE OR ANY EVENT WHICH WOULD OR COULD GIVE RISE TO A TENDER OR PURCHASE RIGHT OR OPTION WITH RESPECT TO ANY SERIES 2008D BOND, (III) THE PAYMENT OF ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OR ANY OTHER PERSON, OTHER THAN AN OWNER, AS SHOWN IN THE BOND REGISTER, OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON, OR THE PURCHASE PRICE OF, ANY SERIES 2008D BOND OR (IV) ANY CONSENT GIVEN BY DTC AS REGISTERED OWNER.

Prior to any discontinuation of the book-entry only system described above, the Bond Trustee and the Authority may treat DTC as, and deem DTC to be, the absolute owner of the Series 2008D Bonds for all purposes whatsoever, including, without limitation, (i) the payment of principal of, premium, if any, and interest on the Series 2008D Bonds, (ii) giving notices of redemption and other matters with respect to the Series 2008D Bonds, (iii) registering transfers with respect to the Series 2008D Bonds and (iv) the selection of Series 2008D Bonds for redemption.

THE AUTHORITY

Description of the Authority

The Authority is a body politic and corporate of the State of Illinois. The Authority was created under the Illinois Finance Authority Act (the "Act"), which consolidated seven of the State's previously existing financing authorities (the "Predecessor Authorities"), including the Illinois Health Facilities Authority. All bonds, notes or other evidences of indebtedness of the Predecessor Authorities were assumed by the Authority effective January 1, 2004. Under the Act, the Authority may not have outstanding at any one time bonds for any of its corporate purposes in an aggregate principal amount exceeding $28,150,000,000, excluding bonds issued to refund the bonds of the Authority or bonds of the Predecessor Authorities. Pursuant to the Act, the Authority is governed by a 15-member board appointed by the Governor of the State of Illinois with the advice and consent of the State Senate. Presently, eleven members have been duly appointed, and there are four vacancies. The members receive no compensation for the performance of their duties but are entitled to reimbursement for all necessary expenses incurred in connection with the performance of such duties.

The offices of the Authority are located at Two Prudential Plaza, 180 North Stetson, Suite 2555, Chicago, Illinois 60601 and its telephone number is (312) 651-1300.

Bonds of the Authority

The Authority may from time to time issue bonds as provided in the Act for the purposes set forth in the Act. Any bonds issued by the Authority (and any interest thereon) shall not be or become an indebtedness or obligation, general or moral, of the State of Illinois or any political subdivision thereof nor be or become a pledge of the full faith and credit of the State of Illinois or any political subdivision thereof, other than the Authority. The Series 2008D Bonds of the Authority as described herein are special, limited obligations of the Authority payable solely from the specific sources and revenues of the Authority specified in the resolutions and the Bond Indenture authorizing the issuance of the Series 2008D Bonds. No Owner of any Series 2008D Bond shall have the right to compel any taxing power of the State of Illinois or any political subdivision thereof to pay the principal of, premium, if any or interest on the Series 2008D Bonds, and the Authority has no taxing power.

The Authority makes no warranty or representation, whether express or implied, with respect to any of the Facilities or the location, operation, design, workmanship, merchantability, fitness, suitability or use for a particular purpose, condition or durability thereof or title thereto. Further, the Authority has

not prepared any material for inclusion in this Official Statement, except that material under the headings "INTRODUCTION – The Authority," "THE AUTHORITY" and "LITIGATION – The Authority." The distribution of this Official Statement has been duly approved and authorized by the Authority. Such approval and authorization does not, however, constitute a representation or approval by the Authority of the accuracy or sufficiency of any information contained herein except to the extent of the material under the headings referenced in this paragraph.

Authority Advisors

D.A. Davidson & Co. and Scott Balice Strategies, LLC serve as co-senior financial advisors to the Authority. Additionally, certain legal matters with respect to the Series 2008D Bonds will be passed upon for the Authority by its special counsel, Schiff Hardin LLP, Chicago, Illinois.

ILLINOIS HEALTH FACILITIES PLANNING ACT

The Borrower is subject to the Illinois Health Facilities Planning Act, as amended (the "Planning Act"). The Planning Act has among its purposes the establishment of procedures designed to reverse the trend of increasing costs of health care resulting from unnecessary construction or modification of health care facilities, for the orderly and economical development of health care facilities in the State, the avoidance of unnecessary duplication of such facilities and the promotion of planning for development of such facilities. Pursuant to the Planning Act and the accompanying regulations, no health care facility (which, as defined in the Planning Act, includes hospitals, nursing homes and certain other facilities) may initiate a project which (i) requires a capital expenditure in excess of the capital expenditure minimum, or (ii) substantially changes the scope or functional operation of a health care facility, or (iii) results in the establishment or discontinuance of a health care facility, or (iv) increases or decreases the number of beds or redistributes the bed capacity among various categories of service or physical facilities by more than ten beds or by more than 10% of the total bed capacity, whichever is less, over a two-year period, or (v) establishes or discontinues a regulated category of service, or (vi) involves the change of ownership of a health care facility, without first obtaining a certificate of need permit, or an exemption, from the Illinois Health Facilities Planning Board (the "IHFPB"), the issuance of which is governed by the provisions of the Planning Act. The Illinois Department of Public Health, with the prior approval of the IHFPB, prescribes rules, regulations, standards and criteria required to carry out the provisions and purposes of the Planning Act.

In 2000, the State legislature amended the Planning Act and established certain capital expenditure minimum thresholds for capital expenditures, for major medical equipment acquisition, and for the construction or modification of a health and fitness center, to be adjusted annually for inflation. Effective June 8, 2008, these thresholds were $8,850,717, $7,457,665 and $4,231,660, respectively. Projects exceeding these thresholds require a certificate of need issued by the IHFPB.

The Planning Act also provides:

- Non-clinical capital expenditures are excluded from review. A non-clinical service area is an area for the benefit of the patients, visitors, staff, or employees of a health care facility and not directly related to the provision of patient services. Such services include parking garages, computer systems, roof replacement, and heating systems.

- No one is able to construct, establish, or modify an institution, place, building, or room used for the performance of outpatient surgery that is leased, owned or operated by or on behalf of an out-of-state facility without first obtaining a permit.

- Capital expenditures for assisted living facilities, which are established by or on behalf of health care facilities, are excluded from review.

A sunset provision to repeal the Planning Act was scheduled to become effective August 31, 2008, but the Illinois General Assembly passed House Bill 5017 extending the sunset to July 1, 2009. The Governor of Illinois signed House Bill 5017 into law (Public Act 095-0771).

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds to be received from the sale of the Series 2008D Bonds are expected to be applied as shown below:

Estimated Sources of Funds:	
Aggregate Principal Amount of the Series 2008D Bonds	$180,000,000
(Less) Net Original Issue Discount	(4,079,441)
Total Sources	$175,920,559
Estimated Uses of Funds:	
Costs of Project	$173,245,659
Costs of Issuance [(1)]	2,674,900
Total Uses	$175,920,559

(1) Includes Underwriters' discount, financial advisor fee, legal fees, accounting fees, rating agency fees, printing costs and other miscellaneous expenses relating to the issuance of the Series 2008D Bonds.

DEBT SERVICE SCHEDULE

The following table sets forth for each year ending December 31, the amounts required in each year for the payment of principal at maturity or by mandatory redemption for the Series 2008D Bonds, together with the other outstanding long-term debt of the Obligated Group.

Year Ending	Series 2008D Bonds		Debt Service on Other	Total
December 31	Principal	Interest	Long-Term Debt[1]	Debt Service
2009	$ 4,745,000	$ 9,892,019	$ 38,010,415	$ 52,647,434
2010	3,870,000	10,601,494	38,173,029	52,644,522
2011	3,980,000	10,407,994	38,257,954	52,645,947
2012	4,085,000	10,248,794	38,309,407	52,643,201
2013	4,185,000	10,075,181	38,386,067	52,646,248
2014	4,355,000	9,886,856	38,405,542	52,647,398
2015	4,505,000	9,669,106	38,470,965	52,645,071
2016	4,570,000	9,443,856	38,629,096	52,642,952
2017	4,750,000	9,203,931	38,693,247	52,647,178
2018	4,945,000	8,942,681	38,757,595	52,645,276
2019	5,090,000	8,670,706	38,882,939	52,643,645
2020	5,440,000	8,358,944	38,844,377	52,643,320
2021	5,570,000	8,025,744	39,047,608	52,643,352
2022	5,810,000	7,684,581	39,150,713	52,645,294
2023	4,675,000	7,328,719	40,641,385	52,645,104
2024	4,960,000	7,042,375	40,643,155	52,645,530
2025	5,270,000	6,732,375	40,640,805	52,643,180
2026	5,600,000	6,403,000	40,644,240	52,647,240
2027	5,950,000	6,053,000	40,642,497	52,645,497
2028	6,320,000	5,681,125	40,643,787	52,644,912
2029	6,705,000	5,286,125	40,656,217	52,647,342
2030	7,145,000	4,850,300	40,651,283	52,646,583
2031	6,685,000	4,385,875	41,572,068	52,642,943
2032	7,140,000	3,951,350	41,556,561	52,647,911
2033	7,605,000	3,487,250	41,553,269	52,645,519
2034	8,095,000	2,992,925	41,557,233	52,645,158
2035	8,610,000	2,466,750	41,567,053	52,643,803
2036	9,160,000	1,907,100	41,578,156	52,645,256
2037	9,765,000	1,311,700	41,569,779	52,646,479
2038	10,415,000	676,975	41,554,269	52,646,244
Total	$180,000,000	$201,668,832	$1,197,690,710	$1,579,359,541

[1] Includes *de minimis* rounding adjustments. Assumes an average annual interest rate of approximately 1.90% per annum for the Series 2008A Bonds based on the interest rates for the respective initial Long Term Interest Rate Periods, 3.20% for the Series 2008B Bonds based on an interest rate swap and 3.605% for the Series 2008C Bonds, based on an interest rate swap. No assurance can be given that such interest rates will be achieved or maintained as long as the Series 2008D Bonds are outstanding. The table also assumes interest rates of 1.82% per annum and 2.35% per annum for the Series 2003A Bonds and Series 2003C Bonds, respectively, based on the current interest rates therefor. Such rates reset annually. No assurance can be given that such rates will be maintained. Actual rates will differ from the assumed rate. For a description of other long-term debt of the System included in this table which will remain outstanding on the date of issuance of the Series 2008D Bonds, see ***APPENDIX A*** hereto in the table under the heading "FINANCIAL INFORMATION - Existing Master Indenture Indebtedness of the System." Does not include Indebtedness described in ***APPENDIX A*** under the heading, "FINANCIAL INFORMATION - Other Indebtedness of the System" and does not include certain guaranties outstanding as Obligations under the Master Indenture and certain bank lines of credit secured by Obligations under the Master Indenture, each as described in ***APPENDIX A*** under the heading "FINANCIAL INFORMATION - Existing Master Indenture Indebtedness of the System". Includes *de minimis* rounding adjustments.

BONDHOLDERS' RISKS

General

As described herein under the caption, "SECURITY FOR THE SERIES 2008D BONDS," the principal of, premium, if any, and interest on the Series 2008D Bonds are payable solely from amounts payable by the Borrower under the Loan Agreement and by the Obligated Group on the Series 2008D Obligation. No representation or assurance is given or can be made that revenues will be realized by the Borrower, the Obligated Group or the Restricted Affiliates in amounts sufficient to pay debt service on the Series 2008D Bonds when due and other payments necessary to meet the obligations of the Borrower, the Obligated Group or the Restricted Affiliates. The risk factors discussed below as well as those factors discussed under "SECURITY FOR THE SERIES 2008D BONDS" (including the lack of certain covenants) should be considered in evaluating the ability of the Borrower, ACMC, Advocate Network Corporation, North Side and any Restricted Affiliates, to make payments in amounts sufficient to provide for the payment of the principal of, premium, if any, and interest on the Series 2008D Bonds.

The receipt of future revenues by the System will be subject to, among other factors, federal and state policies affecting the health care industries (including changes in reimbursement rates and policies), increased competition from other health care providers, the capability of the management of the System and future economic and other conditions that are impossible to predict. The extent of the ability of the System to generate future revenues has a direct effect upon the payment of, principal of, premium, if any, and interest on the Series 2008D Bonds. Neither the Underwriters nor the Authority has made any independent investigation of the extent to which any such factors may have an adverse affect on the revenues of the System.

The Master Indenture does not contain any tests for the addition or withdrawal of Members of the Obligated Group. Accordingly, there can be no assurance that the entities described herein as Members of the Obligated Group will remain Members of the Obligated Group. Further, the Master Indenture provides that after an entity is designated as a Restricted Affiliate, Advocate Network Corporation may at any time declare that such entity is no longer a Restricted Affiliate. Accordingly, there can be no assurance that the entities described herein as Restricted Affiliates will continue to be such or that other Restricted Affiliates will be so designated.

This discussion of risk factors is not, and is not intended to be, exhaustive.

Nonprofit Healthcare Environment

The Borrower, ACMC, North Side and Advocate Network Corporation are each Illinois not-for-profit corporations, exempt from federal income taxation as organizations described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). As nonprofit tax-exempt organizations, the Borrower, ACMC, North Side and Advocate Network Corporation are subject to federal, state and local laws, regulations, rulings and court decisions relating to their organizations and operations, including their operation for charitable purposes. At the same time, the Borrower, ACMC, and North Side each conduct large-scale complex business transactions and are major employers in their geographic areas. There can often be a tension between the rules designed to regulate a wide range of charitable organizations and the day-to-day operations of a complex healthcare organization.

Recently, an increasing number of the operations or practices of healthcare providers have been challenged or questioned to determine if they are consistent with the regulatory requirements for nonprofit tax-exempt organizations. These challenges are broader than concerns about compliance with federal and state statutes and regulations, such as Medicare and Medicaid compliance, and instead in many cases are examinations of core business practices of the healthcare organizations. Areas which have come under

examination have included pricing practices, billing and collection practices, charitable care, community benefit, executive compensation, exemption of property from real property taxation, and others. These challenges and questions have come from a variety of sources, including state attorneys general, the Internal Revenue Service (the "IRS"), local and state tax authorities, labor unions, Congress, state legislatures, and patients, and in a variety of forums, including hearings, audits and litigation. These challenges or examinations include the following, among others:

Congressional Hearings. A number of House and Senate Committees, including the House Committee on Energy and Commerce, the House Committee on Ways and Means and the Senate Finance Committee, have conducted hearings and/or investigations into issues related to nonprofit tax-exempt healthcare organizations. These hearings and investigations have included a nationwide investigation of hospital billing and collection practices, charity care and community benefit and prices charged to uninsured patients and possible reforms to the nonprofit sector. These hearings and investigations may result in new legislation. The effect on the nonprofit health care sector or the Borrower or any Restricted Affiliate of any such legislation, if enacted, cannot be determined at this time.

Internal Revenue Service Examination of Compensation Practices. In August 2004, the IRS initiated an enforcement effort to identify and halt abuses by tax-exempt organizations that pay excessive compensation and benefits to their officers and other insiders. Nearly 2,000 charities and foundations were contacted by the IRS regarding their compensation practices and procedures. Certain Affiliates of the Borrower received the survey request for information, which they completed and submitted. Management of the Obligated Group believes that its compensation practices and procedures are consistent with IRS guidelines and regulations.

IRS Interim Report on Tax-Exempt Hospitals and Community Benefit. In May 2006, the IRS initiated its Hospital Compliance Project to study tax-exempt hospitals and community benefit as well as to determine how these hospitals establish and report executive compensation. The IRS sent compliance questionnaires to hundreds of tax-exempt hospitals across the country, including the Corporation. The IRS released its Interim Report in July 2007. The Interim Report is a summary of the responses received and information relating primarily to community benefit. A final report from the IRS is expected in late 2008 or early 2009.

Litigation Relating to Billing and Collection Practices. Lawsuits have been filed in both federal and state courts alleging, among other things, that the defendant hospitals have failed to fulfill their obligations to provide charity care to uninsured patients and have overcharged uninsured patients. See ***APPENDIX A***, "BILLING PRACTICES FOR UNINSURED AND UNDER-INSURED PATIENTS" for a discussion of such litigation involving the Obligated Group.

Challenges to Real Property Tax Exemptions. Recently, the real property tax exemptions afforded to certain nonprofit healthcare providers by state and local taxing authorities in Illinois have been challenged on the grounds that the healthcare providers were not engaged in sufficient charitable activities. These challenges have been based on a variety of grounds, including allegations of aggressive billing and collection practices and excessive financial margins. While the Members of the Obligated Group are not aware of any current challenge to the tax exemption afforded to any of their material properties, there can be no assurance that these types of challenges will not occur in the future. See ***APPENDIX A,*** "LAWS, REGULATIONS AND RELATED LITIGATION - Tax-Exempt Status" for additional information on recent developments in Illinois related to the property tax exemption for hospitals.

Form 990 and Instructions. On June 14, 2007, the IRS released for comment a Discussion Draft of a redesigned Form 990. The Form 990 is the annual information return filed by tax-exempt organizations, including nonprofit exempt healthcare organizations. The IRS released the final 2008

Form 990 on December 20, 2007. The new Form 990 applies to tax years beginning on or after January 1, 2008.

As a result of this new Form 990, healthcare organizations will have significantly increased compliance and reporting obligations, particularly relating to community benefit, collection and billing practices and charity care. These specific reporting obligations generally are set forth in a new schedule to the return (Schedule H) and apply for tax years beginning on or after January 1, 2009.

Nonprofit healthcare organizations also will become subject to additional reporting for tax-exempt bonds, the most significant of which will be required for tax years beginning on or after January 1, 2009. These reporting and recordkeeping requirements go beyond what many hospitals have done historically and will require substantial additional efforts on the part of hospitals with outstanding tax-exempt bonds. A new schedule to the Form 990 return (Schedule K) is intended to address what the IRS believes is significant noncompliance with recordkeeping and record retention requirements. These concerns were reinforced, in the IRS's view, by the results of a bond questionnaire distributed to select hospitals in September 2007, the results of which were released in April 2008. Schedule K also focuses on the investment of bond proceeds that could violate the arbitrage rebate requirements and the private use of bond-financed facilities.

Current State Legislative Initiatives. In addition to the increased scrutiny that tax-exempt hospitals have faced in the past few years through federal and state charity care litigation, congressional hearings and IRS examinations, the office of the Illinois Attorney General (the "Attorney General") has also directed its attention toward state legislative and regulatory initiatives relating to tax-exempt hospitals. Under current Illinois law, tax-exempt hospitals are required annually to submit audited financial statements and detailed community benefits reports to the Attorney General. The Attorney General has also issued subpoenas to a number of Illinois hospitals requesting additional information on charity care policies, billing practices and other matters. Several pieces of significant legislation were introduced in Illinois' 2006 legislative session to provide the Attorney General with increased oversight and responsibility over tax-exempt hospitals' charity care policies, property tax exemption, billing and collection procedures, labor relations and access to capital markets. These initiatives are indicative of a greater scrutiny of the billing, collection and other business practices of tax-exempt hospitals, and may indicate an increasingly more difficult operating environment for healthcare organizations, including the Members of the Obligated Group. While the Fair Patient Billing Act (Public Act 094-0885), relating to Illinois hospitals' billing and collection procedures, was signed into law by the Governor on June 20, 2006, the Attorney General withdrew the bill focused on charity care policies and property tax exemption from consideration in the 2006 legislative session, and has not introduced any such legislation in the current legislative session. The Attorney General has expressed her intent to discuss these issues further with Illinois hospitals, industry organizations and consumer groups, including the possibility of incorporating charity care requirements into the certificate of need process. There can be no assurance what future legislative initiatives may contain or what the final form of any legislation passed may be. It is unclear whether the challenges, examinations and/or legislation would have a material adverse effect on the Obligated Group.

The foregoing are some examples of the challenges and examinations facing nonprofit healthcare organizations. They are indicative of a greater scrutiny of the billing, collection and other business practices of these organizations, and may indicate an increasingly more difficult operating environment for healthcare organizations, including the Obligated Group. The challenges and examinations, and any resulting legislation, regulations, judgments, or penalties, could have a material adverse effect on the Obligated Group.

Utilization of Derivatives Markets

The System utilizes the derivatives markets (including swaps, options, futures, forwards and other derivative financial instruments) to manage its exposure to interest rate fluctuations. The Obligated Group has entered into various swap agreements with respect to other outstanding Indebtedness. Swap agreements are subject to periodic "mark-to-market" valuations and may, at any time, have a negative value (which could be substantial) to the Obligated Group. Changes in the market value of such swap agreements could negatively or positively impact the Obligated Group's operating results and financial condition, and such impact could be material. Any of the Obligated Group's swap agreements may be subject to early termination upon the occurrence of certain specified events. If either the Obligated Group or the counterparty terminates such an agreement when the agreement has a negative value to the Obligated Group, the Obligated Group could be obligated to make a termination payment to the counterparty in the amount of such negative value, and such payment could be substantial and potentially materially adverse to the Obligated Group's financial condition. In the event of an early termination of a swap agreement, there can be no assurance that (i) the Obligated Group will receive any termination payment payable to it by the respective swap provider, (ii) the Obligated Group will not be obligated to or will have sufficient monies to make a termination payment payable by it to the applicable swap provider, and (iii) the Obligated Group will be able to obtain a replacement swap agreement with comparable terms. See the audited consolidated financial statements of Advocate Network Corporation and subsidiaries included in ***APPENDIX B*** hereto, including Note 5, for additional information on derivative financial instruments.

There is no guarantee that any floating amount payable by a swap provider under any swap agreement will match the amount payable by the Obligated Group to the owners of the Indebtedness to which such swap agreement relates at all times or at any time. To the extent of a mismatch, the Obligated Group is exposed to "basis risk" in that the floating amount it receives from the swap provider pursuant to each swap agreement will not equal the variable amount it is required to pay on the Indebtedness to which such swap agreement relates.

In connection with the issuance of certain Related Bonds, the Obligated Group entered into floating to fixed interest rate swaps with an affiliate of Citigroup Global Markets Inc. (the "Swap Provider") pursuant to an ISDA Master Agreement (together with any amendments, schedules, credit support annexes and confirmations thereunder, the "Swap Agreement").

Pursuant to the Swap Agreement, the Swap Provider pays to the Obligated Group floating amounts based on the sum of a percentage of the one-month London Interbank Offered Rate (LIBOR) plus a spread, and the Obligated Group pays to the Swap Provider fixed amounts based on a fixed rate, in each case on a same day net payment basis with reference to an aggregate notional amount of $470,750,000. The notional amount of the Swap Agreement will amortize based on the amortization of the Related Bonds. The obligation of the Obligated Group to make regularly scheduled and any termination payments to the Swap Provider pursuant to the Swap Agreement is secured by an Obligation, issued pursuant to the Master Indenture on a parity with all other Obligations issued under the Master Indenture. Under certain circumstances, the Obligated Group may also be required to post collateral to secure the Swap Agreement.

Unless sooner terminated in accordance with its terms, the Swap Agreement shall terminate not later than November 1, 2022 with respect to one series of Related Bonds and November 1, 2038 with respect to another series of Related Bonds. Under certain circumstances, the Swap Agreement is subject to termination prior to the scheduled termination date.

The payment obligations of the Obligated Group under the Swap Agreement will not alter or affect the obligation of the Obligated Group to pay or make payments with respect to the principal of,

redemption price of and interest on the Related Bonds. The Swap Provider has no obligation to make any payments with respect to the principal of, redemption price of, or interest on the Related Bonds. Neither the holders of the Related Bonds nor any other person shall have any rights under the Swap Agreement or against the Swap Provider.

Payment for Health Care Services

Third-Party Payment Programs. Most of the net patient service revenues of the Borrower and the other System Affiliates are derived from third-party payors that reimburse or pay for the services and items provided to patients covered by such third parties for such services, including the federal Medicare program, state Medicaid program and private health plans and insurers, health maintenance organizations ("HMOs"), preferred provider organizations ("PPOs") and other managed care payors. Many of these third-party payors make payments to the Borrower and the other System Affiliates at rates other than the direct charges of the Borrower and the other System Affiliates, which rates may be determined on a basis other than the actual costs incurred in providing services and items to patients. Accordingly, there can be no assurance that payments made under these programs will be adequate to cover the Borrower's and the other System Affiliates' actual costs of furnishing health care services and items. In addition, the financial performance of the System could be adversely affected by the insolvency of, or other delay in receipt of payments from, third-party payors, which provide coverage for services to their patients.

Medicare and Medicaid Programs. Medicare and Medicaid are the commonly used names for health care reimbursement or payment programs governed by certain provisions of the federal Social Security Act. Medicare is an exclusively federal program and Medicaid is a combined federal and state program. Medicare provides certain health care benefits to beneficiaries who are 65 years of age or older, disabled or qualify for the End Stage Renal Disease Program. Medicare Part A covers inpatient services and certain other services, and Medicare Part B covers outpatient services, medical supplies and durable medical equipment. Medicaid is designed to pay providers for care given to the medically indigent and others who receive federal aid. Medicaid is funded by federal and state appropriations and is administered by state agencies. The Centers for Medicare & Medicaid Services ("CMS") administers the Medicare program and works with the states regarding the Medicaid program, as well as other health care programs.

Health care providers have been and continue to be affected significantly by changes made in the last several years in federal and state health care laws and regulations, particularly those pertaining to Medicare and Medicaid. The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "MMA"), among other things described below, generally increased reimbursement levels. The Deficit Reduction Act of 2005 (the "DRA"), contained, among other things, a number of provisions to slow the pace of spending growth in the Medicare and Medicaid programs while increasing health care providers' focus on quality and efficient delivery of health care services. Diverse and complex statutory and regulatory mechanisms, the effect of which is to limit the amount of money paid to health care providers under both the Medicare and Medicaid programs, have been enacted and approved in recent years, some of which are being implemented and some of which will be or may be implemented in the future. Management of the System is unable to predict what effect, if any, current and future legislative initiatives related to Medicare and Medicaid may have on operations of the System.

Medicare. Approximately 27% and 26% of the net patient service revenues of the System were derived from the Medicare program for the fiscal year ended December 31, 2007 and the nine-month period ended September 30, 2008. As a consequence, any adverse development or change in Medicare reimbursement could have a material adverse effect on the financial condition and results of operations of the System.

Medicare Part A pays acute care hospitals for most inpatient services under a payment system known as the "Prospective Payment System" or "PPS." Separate PPS payments are made for inpatient operating costs and inpatient capital-related costs.

Inpatient Operating Costs. Acute care hospitals such as those owned by the Borrower and other System Affiliates are paid a specified amount toward their operating costs based on the Diagnosis Related Group ("DRG") to which each Medicare service is assigned, which is determined by the diagnosis and procedure and other factors for each particular inpatient stay. The amount paid for each DRG is established prospectively by CMS, an agency of the United States Department of Health and Human Services ("HHS"), based on the estimated intensity of hospital resources necessary to furnish care for each principal diagnosis and is not related directly to a hospital's actual costs. For certain Medicare beneficiaries who have unusually costly hospital stays ("outliers"), CMS will provide additional payments above those specified for the DRG. Outlier payments cease to be available upon the exhaustion of such patient's Medicare benefits or a determination that acute care is no longer necessary, whichever occurs first. There is no assurance that any of these payments will cover the actual costs incurred by a hospital. In addition, recent revisions to the outlier regulations, implemented in order to curb outlier payment abuse, may adversely affect hospitals' ability to receive such subsidies. In addition to outlier payments, DRG payments are adjusted for area wage differentials. These change on a yearly basis.

DRG payments are adjusted each federal fiscal year (which begins October 1) based on the hospital "market basket" index, or the cost of providing health care services. For nearly every year since 1983, Congress has modified the increases and given substantially less than the increase in the "market basket" index. CMS has also implemented a documentation and coding adjustment to account for changes in payments under the new MS-DRG system that are not related to changes in case mix. The documentation and coding adjustments for federal fiscal years 2008 and 2009 are reductions to the base payment rate of 0.6% and 0.9% respectively. CMS has been given the authority to retrospectively determine if the documentation and coding adjustments for these years were adequate to account for changes in payments not related to changes in case mix. This may result in additional adjustments for federal fiscal years 2010, 2011 and 2012. Changes in the payments received for all services, including specialty services, could have an adverse effect on the System.

Under the MMA, hospitals will continue to receive the full increase in the "market basket" index in federal fiscal years 2005-2009 so long as they participate in CMS's Hospital Quality Initiative. Pursuant to the DRA, for federal fiscal year 2007 and thereafter, there will be a 2% reduction from the market basket update (3.4% in federal fiscal year 2007, 3.3% in federal fiscal year 2008 and 3.0% in federal fiscal year 2009) for non-participating hospitals. The System's hospitals participate in the Hospital Quality Initiative. CMS has added new quality measures that hospitals must report during calendar year 2008 in order to qualify for the full market basket update in federal fiscal year 2009. There is no assurance that future increases in the DRG payments will keep pace with the increases in the cost of providing hospital services.

The Secretary of HHS is required to review annually the DRG categories to take into account any new procedures, reclassify DRGs, and recalibrate the DRG relative weights that reflect the relative hospital resources used by hospitals with respect to discharges classified within a given DRG category. During federal fiscal years 2007 and 2008, CMS created new DRGs and revised or deleted others in order to better recognize the severity of illness for each patient. There is no assurance that the Borrower and other System Affiliates will be paid amounts that will adequately reflect changes in the cost of providing health care or in the cost of health care technology being made available to patients. CMS may only adjust DRG weights on a budget-neutral basis.

Capital Costs. Hospitals are reimbursed on a fully prospective basis for capital costs (including depreciation and interest) related to the provision of inpatient services to Medicare beneficiaries. Thus,

capital costs are reimbursed exclusively on the basis of a standard federal rate (based on average national costs), subject to certain adjustments (such as for disproportionate share, indirect medical education and outlier cases) specific to the hospital. Hospitals are reimbursed at 100% of the standard federal rate for all capital costs. This applies to the standard federal rate before the application of the adjustment factors for outliers, exceptions, and budget neutrality.

There can be no assurance that the prospective payments for capital costs will be sufficient to cover the actual capital-related costs of the Borrower and other System Affiliates allocable to Medicare patient stays or to provide adequate flexibility in meeting the future capital needs of the Borrower and the other System Affiliates.

Disproportionate Share Adjustments. Under PPS, hospitals that serve a disproportionate share of low-income patients may receive an additional disproportionate share hospital adjustment ("DSH"). A hospital may be classified as a DSH hospital based upon any of several circumstances related to the number of beds, the hospital's location, and its disproportionate patient percentage. The DSH adjustment is calculated under one of several methods, depending upon the basis for the hospital's classification as a DSH hospital. For the year ended December 31, 2007, the System received DSH payments totaling approximately $25.8 million for five of the System's hospitals. There is no assurance that any of the System's hospitals will receive DSH payments in the future.

Costs of Outpatient Services. Hospital outpatient services, including hospital operating and capital costs, are reimbursed on a PPS basis. Several Part B services are specifically excluded from this rule, including certain physician and non-physician practitioner services, ambulance, clinical diagnostic laboratory services and nonimplantable orthotics and prosthetics, physical and occupational therapy, and speech language pathology services.

Under the hospital outpatient PPS ("OPPS"), predetermined amounts are paid for designated services furnished to Medicare beneficiaries. CMS classifies outpatient services and procedures that are comparable clinically and in terms of resource use into ambulatory payment classification ("APC") groups. Using hospital outpatient claims data from the most recent available hospital cost reports, CMS determines the median costs for the services and procedures in each APC group. Subsequently, a payment rate is established for each APC. Depending on the services provided, a hospital may be paid for more than one APC for a patient visit.

OPPS rates are adjusted annually based on the hospital inpatient market basket percentage increase. The APC adjustment is the full market basket increase of 3.3% for calendar year 2008, and CMS has proposed a 3.0% increase for calendar year 2009. There can be no assurance that the hospital OPPS rate, which bases payment on APC groups rather than on individual services, will be sufficient to cover the actual costs of the Borrower and other System Affiliates allocable to Medicare patient care. Hospitals that fail to report certain required quality data will have their market basket percentage increase reduced by two percentage points.

In addition to the APC rate, there is a predetermined beneficiary coinsurance amount for each APC group. There can be no assurance that the beneficiary will pay this amount.

Medicare Audits. The Borrower and other System Affiliates receive payments for various services provided to Medicare patients based upon charges or other reimbursement methodologies that are then reconciled annually based upon the preparation and submission of annual cost reports. Estimates for the annual cost reports are reflected as amounts due to/from third-party payors and represent several years of open cost reports due to time delays in the fiscal intermediary's audits and the basic complexity of billing and reimbursement regulations. These estimates are adjusted periodically based upon correspondence received from the fiscal intermediary. Medicare regulations also provide for withholding

Medicare payment in certain circumstances if it is determined that an overpayment of Medicare funds has been made. In addition, under certain circumstances, payments may be determined to have been made as a consequence of improper claims subject to the federal False Claims Act (the "Federal False Claims Act") or other federal statutes, subjecting the Borrower and other System Affiliates to civil or criminal sanctions. See "LAWS, REGULATIONS AND RELATED LITIGATION" in ***APPENDIX A*** hereto. Advocate Network Corporation is not aware of any situation whereby a material Medicare payment is being withheld from the Borrower, ACMC, North Side, or the other System Affiliates.

The Borrower and other System Affiliates, like other hospital systems throughout the country, are subject from time to time to audits and other investigations relating to various aspects of their operations. Medicare participating hospitals are subject to audits and retroactive audit adjustments with respect to reimbursement claimed under the Medicare program. Medicare regulations also provide for withholding Medicare payment in certain circumstances. Although the Advocate Network Corporation does not anticipate or have reason to believe that a substantial withholding or audit adjustment will be made with respect to any System Affiliate, there can be no assurance that, if such withholdings or audit adjustments were to be assessed, they would not have a material adverse effect on the financial position of the System. The management of the Advocate Network Corporation does not believe that any other type of audit or investigation would result in a liability that would have a material adverse effect on the business, operations, or financial condition of System.

Medicare requires that extensive financial information be reported on a periodic basis and in a specific format or content. These requirements are numerous, technical and complex and may not be fully understood or implemented by billing or reporting personnel. With respect to certain types of required information, the Federal False Claims Act and the Social Security Act may be violated by submission of inaccurate and/or incomplete information to the government even without any intent to defraud. New billing systems, new medical procedures and procedures for which there are no clear guidance from CMS may all result in potential liability. The penalties for violations may include an obligation to refund money to the Medicare program, to pay criminal or civil fines and, for serious or repeated violations, exclusion from participation in the Medicare program. The System Affiliates have in place internal compliance and training programs designed to minimize the risks of non-compliance with such requirements.

Physician Payments. Certain physician services are reimbursed on the basis of a national fee schedule called the "resource based-relative value scale" ("RB-RVS"). The RB-RVS fee schedule establishes payment amounts for all physician services, including services of provider-based physicians, and is subject to annual updates. In the RB-RVS system, payments for physician services are determined by the resource costs needed to provide them. The cost of providing each service is divided into three components: physician work, practice expense and professional liability insurance, each of which is resource-based. These factors are translated into relative value units ("RVU") and payments are calculated by multiplying the combined RVUs of a service by a conversion factor (a monetary amount that is determined by CMS). Payments are also adjusted for geographical differences in resource costs. The Sustainable Growth Rate ("SGR"), which is a limit on the growth of Medicare payments for physician services, is linked to changes in the U.S. Gross Domestic Product over a ten-year period. SGR targets are compared to actual expenditures in order to determine subsequent physician fee schedule updates. Although the underlying conversion factor used to calculate payment amounts to physicians under the RB-RVS fee schedule decreased by 4.4% from 2005 to 2006, the DRA restored payments to physicians at 2005 levels, which restoration is effective as of January 1, 2006. For 2007, the final rule issued by CMS provided for a 5.0% reduction to such underlying conversion factor, but such reduction was eliminated by Congress pursuant to the Tax Relief and Health Care Act of 2006, instead freezing payments at their current levels. President Bush signed into law in December 2007 the Medicare, Medicaid, and SCHIP Extension Act of 2007 (the "MMSEA") that, among other things, provided a

temporary 0.5% increase to the underlying conversion factor through June 30, 2008, eliminating an estimated 10.1% reduction that was to have become effective January 1, 2008. The temporary 0.5% increase terminated, and the 10.1% reduction became effective July 1, 2008. Congress subsequently passed, over a presidential veto, the Medicare Improvements for Patients and Providers Act of 2008 that, among other things, eliminates the 10.1% reduction, restores the 0.5% increase for calendar year 2008 and provides a 1.1% increase for calendar year 2009.

Home Health Care. CMS pays home health agencies for 60-day episodes of care based on PPS and reimburses agencies at higher rates for beneficiaries with greater needs. The system uses national payment rates that vary with the level of care required by each beneficiary, adjusted to reflect area wage differences. Additional payments may be made to the 60-day case-mix adjusted episode payments for beneficiaries who incur unusually large costs. Total national outlier payments for home health services annually will be no more than five percent of estimated total payments under home health PPS. CMS provided for a 3.3% market basket update for calendar year 2007 and 3.0% for calendar year 2008. As required by the DRA, agencies that do not submit data to CMS relating to ten quality indicators will, beginning in calendar year 2008, have their market basket update percentage reduced by two percent.

Approximately 1.3% and 1.3% of the net patient service revenues of the System for its fiscal year ended December 31, 2007 and for the nine-month period ended September 30, 2008, respectively were derived from home health care services.

Provider-Based Standards. CMS made significant changes to the provider-based regulation included in the final OPPS rulemaking for federal fiscal year 2003. Generally, CMS eliminated a few requirements for on-site provider-based facilities and clarified some of the provisions of the prior provider-based rules. CMS clarified that prior approval of provider-based status by CMS is not required for an entity to bill as provider-based. Rather, a provider may provide an optional attestation of its status as a provider-based entity. Although such attestation is not required to bill as a provider-based entity, it may provide some overpayment protection in the event that CMS subsequently makes a determination that an entity is not provider-based, assuming accurate representation by the provider to CMS. Any reclassification by CMS may adversely affect the entity's reimbursement under the Medicare program. Based on current regulations, the Borrower and the System Affiliates believe all of their respective current facilities that bill for services as provider-based entities qualify as "provider-based" entities under the current regulations.

Medicare Advantage. Medicare beneficiaries may obtain Medicare coverage through a managed care Medicare Advantage plan (formerly known as a "Medicare+Choice" plan). A Medicare Advantage plan may be offered by a coordinated care plan (such as an HMO or PPO), a provider sponsored organization ("PSO") (a network operated by health care providers rather than an insurance company), a private fee-for-service plan, or a combination of a medical savings account ("MSA"), and contributions to a Medicare Advantage plan. Each Medicare Advantage plan, except an MSA plan, is required to provide benefits approved by the Secretary of HHS. A Medicare Advantage plan will receive a monthly capitated payment from HHS for each Medicare beneficiary who has elected coverage under the plan. Health care providers such as the Borrower and other System Affiliates must contract with Medicare Advantage plans to treat Medicare Advantage enrollees at agreed upon rates or may form a PSO to contract directly with HHS as a Medicare Advantage plan. Covered inpatient and emergency services rendered to a Medicare Advantage beneficiary by a hospital that is an out-of-plan provider (i.e., that has not entered into a contract with a Medicare Advantage plan) will be paid at Medicare fee-for-service payment rates as payment in full.

The MMA made several substantive changes to Medicare+Choice in addition to renaming the program. These changes are designed to improve Medicare+Choice by providing increased payments to providers and by offering more health plan choices, including expanded rural coverage through the

inclusion of regional plans, beginning in 2006. Increased payments to Medicare Advantage providers were effective as of March 2004. There can be no assurance, however, that rates negotiated for the treatment of Medicare Advantage enrollees will be sufficient to cover the cost of providing services to such patients of the Borrower, AHHC, North Side and other System Affiliates.

Medicaid. Approximately 10% and 9% of the net patient service revenues of the System were derived from the Medicaid program for the fiscal year ended December 31, 2007 and the nine-month period ended September 30, 2008. Significant changes have been and may continue to be made in the Medicaid program which could have a material adverse impact on the financial condition of the System.

Medicaid (Title XIX of the federal Social Security Act) is a health insurance program for certain low-income and needy individuals that is jointly funded by the federal government and the states. Pursuant to broad federal guidelines, each state establishes its own eligibility standards; determines the type, amount, duration, and scope of services; sets the payment rates for services; and administers its own programs. In Illinois, Medicaid is administered by the Illinois Department of Healthcare and Family Services.

Under the Medicaid program, the federal government supplements funds provided by the various states for medical assistance to the medically indigent. Payment for medical and health services is made to providers in amounts determined in accordance with procedures and standards established by state law under federal guidelines. Fiscal considerations of both federal and state governments in establishing their budgets will directly affect the funds available to the providers for payment of services rendered to Medicaid beneficiaries. For example, the DRA included Medicaid cuts of approximately $4.8 billion over a five-year period.

The following paragraphs discuss Medicaid reimbursement in Illinois.

Illinois Medicaid. Fiscal considerations of both the federal and state governments in establishing their budgets will directly affect the funds available to the providers for payment of services rendered to Medicaid beneficiaries. Historically, federal payments and the amount appropriated by the Illinois General Assembly for payment of Medicaid claims have not been sufficient to reimburse hospitals for their actual costs in providing services to Medicaid patients. In certain prior years, the State of Illinois ceased making payments and hospitals were paid on a delayed basis through either emergency appropriations or additional appropriations made during the ensuing fiscal year. Failure of the State of Illinois to pay Medicaid claims on a timely basis may have an adverse effect on the cash flow and financial condition of the System.

The Illinois General Assembly passed a law providing for a hospital assessment program (the "2008 Hospital Assessment Program") intended to qualify for federal matching funds under the Illinois Medicaid program, with a sunset provision effective July 1, 2013. The Governor of Illinois signed the 2008 Hospital Assessment Program into law on August 19, 2008 (Public Act 095-0859). If CMS approves the 2008 Hospital Assessment Program, it would replace a similar hospital assessment program signed into law on July 17, 2005 by the Governor of Illinois (the "2005 Hospital Assessment Program") and approved by HHS on November 21, 2006 that expired on July 1, 2008. The 2005 Hospital Assessment Program built upon 2004 legislation that established a one-year hospital assessment program, which sunset on July 1, 2005. Under the hospital assessment programs, each hospital is assessed an amount based on that hospital's adjusted gross hospital revenue. Such assessments are to be used to provide additional reimbursement from the federal government for Medicaid inpatient and outpatient services. There is no assurance that CMS will approve the 2008 Hospital Assessment Program. The impact on the Obligated Group due to the implementation of the 2005 Hospital Assessment Program is an estimated net benefit of approximately $71.7 million for the fiscal years 2006-2008. Financial information in ***APPENDIX B*** for the fiscal year ended December 31, 2007 includes the receipt of

approximately $24.0 million as net benefit from the State pursuant to the 2005 Hospital Assessment Program. The Obligated Group subsequently received a net benefit of $11.9 million for its 2008 fiscal year.

Inpatient Hospital Services. Payment is made under a PPS, rather than a cost reimbursement system, using Medicare DRG rates and is modified by the State. Hospitals are reimbursed at the federal and regional blended rate per discharge for the Medicare program. This rate includes hospital-specific add-ons recognizing sole community hospitals, rural referral centers, Medicare dependent hospitals and rural hospitals deemed urban. Additional add-ons are made for outlier cases, indirect and direct medical education, capital costs, CRNA costs, and disproportionate share adjustments. Payment will not exceed Medicare upper limits. Psychiatric, rehabilitation, long-term stay, and sole community hospitals are reimbursed based on an allowable operating cost *per diem* plus other costs reimbursed on a *per diem* basis plus disproportionate share adjustments, outlier adjustments, applicable trauma center adjustments, and uncompensated care adjustments. Separate reimbursement rules exist for out-of-state hospitals and children's hospitals.

Outpatient Hospital Services. Outpatient reimbursement is on a fee-for-service basis based on the Ambulatory Project Group System. Services provided under the Hospital Ambulatory Care Program are paid the lesser of charges, or, for Group I procedures, the alternate reimbursement rate, and, for Group II or III procedures, one of two separate rate maximums depending on the hospital's classification. Group IV procedures are reimbursed the lesser of charges or one of six rate maximums depending on the hospital's classification. An outpatient indigent volume adjustment is made to qualifying hospitals.

Managed Care Programs. The Medicaid managed care program is a voluntary program that operates predominantly in Cook County. In Cook County, the Illinois Department of Public Heath contracts with HMOs and Managed Care Community Networks ("MCCNs") to provide health services to managed care enrollees. Two HMOs and one MCCN provide services for Medicaid clients. Expansion of the "Voluntary Enrollment Period" program will depend on legislative initiatives.

On July 1, 2006, Illinois implemented a statewide Primary Care Case Management ("PCCM") Program for certain Illinois Medicaid program participants. People who are enrolled in the PCCM program have a primary care provider, who provides continuity of care by coordinating and managing participants' care. This allows participants to receive primary and preventive health care services at a physician's office or a clinic rather than at an emergency room or through hospitalization. This program has little or no impact on the Obligated Group.

Commercial Insurance and Other Third-Party Plans

Many commercial insurance plans, including group plans, reimburse their customers or make direct payments to the System for charges at rates established by agreement. Generally, these plans pay per diem rates plus ancillary service charges, which are subject to various limitations and deductibles depending on the plan. To the extent allowed by law, patients carrying such coverage are responsible to the hospital for any deficiency between the commercial insurance proceeds and total billed charges.

Managed Care and Integrated Delivery Systems. Many hospitals and health systems, including the System, are pursuing strategies with physicians in order to offer an integrated package of health care services, including physician hospital services, to patients, health care insurers, and managed care providers. These integration strategies take many forms, several of which are discussed below. Further, many of these integration strategies are capital intensive and may create certain business and legal liabilities for the System. See ***APPENDIX A*** hereto under the caption "EXCLUDED AFFILIATES - Physician Organizations."

The start-up capitalization for such developments, as well as operational deficits, may be funded by a System Affiliate. Depending on the size and organizational characteristics of a particular development, these capital requirements may be substantial. In some cases, the System Affiliates may be asked to provide a financial guarantee for the debt of a related entity that is carrying out an integrated delivery strategy. In certain of these structures, the System Affiliates may have an ongoing financial commitment to support operating deficits, which may be substantial on an annual or aggregate basis.

The Borrower and other System Affiliates have entered into contractual arrangements with PPOs, HMOs, and other similar managed care organizations ("MCOs"), pursuant to which they agree to provide or arrange to provide certain health care services for these organizations' eligible enrollees. Revenues received under such contracts are expected to be sufficient to cover the variable cost of the services provided. There can, however, be no assurance that revenues received under such contracts will be sufficient to cover all costs of services provided. Failure of the revenues received under such contracts to cover all costs of services provided may have a material adverse effect on the operations or financial condition of the System. See ***APPENDIX A*** – "FINANCIAL INFORMATION – Managed Care and Capitation Revenue" hereto.

Medicare law states that MCO and provider contracts may include a physician incentive plan only if (1) no specific payment is made directly or indirectly under the plan to a physician or physician group as an inducement to reduce or limit medically necessary services furnished to an individual enrollee; and (2) the stop-loss protection, enrollee survey and disclosure requirements of this section are met. If an MCO and provider enter into an agreement that does not meet these requirements, the IRS may apply intermediate sanctions or HHS, through the Office of Inspector General ("OIG"), may apply civil money penalties.

MCOs in general reimburse participating providers on the basis of capitation for services rendered to enrollees. A capitated payment does not fluctuate with the frequency of patient visits. Rather, an MCO typically negotiates with the provider a flat fee per patient regardless of the extent of covered medical services required by that patient. Therefore, there is a risk that the provider may need to furnish the enrollee with additional services whose cost will not be covered by the capitated rate paid by the MCO. See "Capitated Payments" below for more information.

State Laws. States are increasingly regulating the delivery of health care services in response to the federal government's failure to adopt comprehensive health care reform measures. Much of this increased regulation has centered around the managed care industry. State legislatures have cited their right and obligation to regulate and oversee health care insurance and have enacted sweeping measures that aim to protect consumers and, in some cases, providers. For example, a number of states have enacted laws mandating a minimum of 48-hour hospital stays for women after delivery; laws prohibiting "gag clauses" (contract provisions that prohibit providers from discussing various issues with their patients); laws defining "emergencies," which provide that a health care plan may not deny coverage for an emergency room visit if a layperson would perceive the situation as an emergency; and laws requiring direct access to obstetrician-gynecologists without the requirement of a referral from a primary care physician.

Due to this increased state oversight, the System could be subject to a variety of state health care laws and regulations, affecting both managed care organizations and health care providers. In addition, the System could be subject to state laws and regulations prohibiting, restricting, or otherwise governing PPOs, third-party administrators, physician-hospital organizations, independent practice associations or other intermediaries; fee-splitting; the "corporate practice of medicine"; selective contracting ("any willing provider" laws and "freedom of choice" laws); coinsurance and deductible amounts; insurance agency and brokerage; quality assurance, utilization review, and credentialing activities; provider and patient grievances; mandated benefits; rate increases; and many other areas.

Dependence Upon Third-Party Payors. The System's ability to develop and expand its services and, therefore, its profitability is dependent upon the System's ability to enter into contracts with third-party payors at competitive rates. There can be no assurance that the System will be able to attract and maintain third-party payors in the future, and where it does, no assurance that it will be able to contract with such payors on advantageous terms. The inability of the System to contract with a sufficient number of such payors on advantageous terms would have a material adverse effect on the System's operations and financial results. Further, while the System expects to employ a system to control health care service utilization and increase quality, the System cannot predict changes in utilization patterns or on health care providers.

Physician Contracting and Relations. The System has contracted with physician organizations ("POs") (e.g., independent physician associations, physician-hospital organizations, etc.) to arrange for the provision of physician and ancillary services. Because POs are separate legal entities with their own goals, obligations to shareholders, financial status and personnel, there are risks involved in contracting with the POs. In addition, as of December 31, 2007, the System employed 436 full-time equivalent physicians, including hospitalists, pathologists, radiologists, anesthesiologists, emergency room physicians, and other hospital-based physicians. See ***APPENDIX A*** for more information regarding the System's PO relationships and the System's employed physicians.

The success of the System will be partially dependent upon its ability to attract physicians to join the POs and to attract POs to participate in its network, and upon the physicians', including the employed physicians', abilities to perform their obligations and deliver high-quality patient care in a cost-effective manner. There can be no assurance that the System will be able to attract and retain the requisite number of physicians, or that such physicians will deliver high-quality health care services. Without impaneling a sufficient number of providers and requisite specialties, the System could fail to be competitive, could fail to keep or attract payor contracts, or could be prohibited from operating until its panel provided adequate access to patients. Such occurrences could have a material adverse effect on the business or operations of the System.

Regulation of the Health Care Industry

General. The health care industry is highly dependent on a number of factors that may limit the ability of the Borrower to meet its obligations under the Loan Agreement and the Obligated Group, any future Member of the Obligated Group and the Restricted Affiliates to meet their respective obligations under the Master Indenture and the Series 2008D Obligation. Among other things, participants in the health care industry (such as the System) are subject to significant regulatory requirements of federal, state and local governmental agencies and independent professional organizations and accrediting bodies, technological advances and changes in treatment modes, various competitive factors and changes in third-party reimbursement programs. Discussed below are certain of these factors that could have a significant effect on the future operations and financial condition of the System.

Balanced Budget Act of 1997. As described below, the BBA contains a number of provisions that may affect the System in addition to those previously referenced. The System has taken operational steps to 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 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.

Health Insurance Portability and Accountability Act. The Health Insurance Portability and Accountability Act of 1996 ("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., upcoding, 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. Management of the System does not expect that the prohibited practices provisions of HIPAA will affect the System in a material respect.

HIPAA also includes administrative simplification provisions intended to facilitate the processing of health care payments by encouraging the electronic exchange of information and the use of standardized formats for health care information. Congress recognized, however, that standardization of information formats and greater use of electronic technology presents additional privacy and security risks due to the increased likelihood that databases of personally identifiable health care information will be created and the ease with which vast amounts of such data can be transmitted. Therefore, HIPAA requires the establishment of distinct privacy and security protections for individually identifiable health information.

HHS promulgated privacy regulations under HIPAA that protect patient medical records and other personal health information maintained by health care providers, hospitals, health plans, health insurers, and health care clearinghouses. Compliance with the privacy regulations was required as of April 14, 2003. Management of the System believes that its operations and information systems comply with the HIPAA privacy regulations in all material respects.

Security regulations have also been promulgated under HIPAA. These security regulations were issued in final form on February 20, 2003, with a compliance date of April 21, 2005 (the "Security Regulations"). Additionally, HHS promulgated regulations to standardize the electronic transfer of information pursuant to certain enumerated transactions (the "Code Set Transactions"), with a compliance deadline of October 16, 2003. Management of the System believes that all of its health care facilities are in substantial compliance with the Security Regulations and the Code Set Transactions.

Violations of HIPAA could result in civil penalties of up to $25,000 per type of violation in each calendar year and criminal penalties of up to $250,000 per violation.

Federal "Fraud and Abuse" Laws and Regulations. The Federal Medicare/Medicaid Anti-Fraud and Abuse Amendments to the Social Security Act (the "Anti-Kickback Law") make it a felony offense to knowingly and willfully offer, pay, solicit, or receive remuneration in order to induce business for which reimbursement is provided under the Medicare or Medicaid programs. In addition to criminal penalties, including fines of up to $25,000 and five years' imprisonment, violations of the Anti-Kickback Law can lead to civil monetary penalties ("CMP") and exclusion from Medicare, Medicaid and certain other state and federal health care programs. The scope of prohibited payments in the Anti-Kickback Law is broad and includes economic arrangements involving hospitals, physicians and other health care providers, including joint ventures, space and equipment rentals, purchases of physician practices and management and personal services contracts. HHS has published regulations which describe certain "safe harbor" arrangements that will not be deemed to constitute violations of the Anti-Kickback Law. The safe harbors described in the regulations are narrow and do not cover a wide range of economic relationships which many hospitals, physicians and other health care providers consider to be legitimate business arrangements not prohibited by the statute. Because the regulations describe safe harbors and do not purport to describe comprehensively all lawful or unlawful economic arrangements or other

relationships between health care providers and referral sources, hospitals and other health care providers having these arrangements or relationships may be required to alter them in order to ensure compliance with the Anti-Kickback Law.

The BBA provides for CMP in the case of violations of the Anti-Kickback Law in which a person contracts with an excluded provider for the provision of health care items or services where the person knows or should know that the provider has been excluded from participation in a federal health care program. Violations will result in damages three times the remuneration involved as well as a penalty of $50,000 per violation.

Management of the System has and is taking steps it believes are reasonable to ensure that its contracts with physicians and other referral sources are in material compliance with the Anti-Kickback Law. However, in light of the narrowness of the safe harbor regulations and the scarcity of case law interpreting the Anti-Kickback Law, there can be no assurances that the System will not be found to have violated the Anti-Kickback Law, and if so, whether any sanction imposed would have a material adverse effect on the operations of the System.

The Federal False Claims Act. The Federal False Claims Act provides that an individual may bring a civil action for a violation of the Act on behalf of the government alleging that the defendant has defrauded the federal government. These actions are referred to as *qui tam actions* or whistleblower suits. If the federal government intervenes and proceeds with an action brought by an individual, then he/she could receive as much as 25% of any money recovered. Even if the federal government does not intervene and proceed with an action, the employee could still proceed and receive a portion of any money recovered.

The government may use the Federal False Claims Act to prosecute Medicare and other government program fraud in areas such as coding errors, billing for services not provided and submitting false cost reports. When a defendant is determined by a court of law liable under the Federal False Claims Act, the defendant may be required to pay three times the actual damages sustained by the government, plus civil penalties of between $5,500 and $11,000 for each separate false claim. Liability under the Federal False Claims Act often arises when an entity "knowingly" submits a false claim for reimbursement to the federal government. "Knowingly" is defined to include reckless disregard.

Restrictions on Referrals. Current federal law (known as the "Stark" law provisions) prohibits providers of "designated health services" from billing Medicare or Medicaid when the patient is referred by a physician, or an immediate family member, with a financial relationship with the provider, with limited exceptions. "Designated health services" include the following: clinical laboratory services; physical therapy services; occupational therapy services; radiology services, including magnetic resonance imaging, computerized axial tomography scans, and ultrasound services; radiation therapy services and supplies; durable medical equipment and services; parenteral and enteral nutrients, equipment and supplies; prosthetics, orthotics, and prosthetic devices and supplies; home health services; outpatient prescription drugs; and inpatient and outpatient hospital services. The sanctions under the Stark law include denial and refund of payments, civil monetary penalties of up to $15,000 per prohibited service provided and exclusions from the Medicare and Medicaid programs. The statute also provides for a penalty of up to $100,000 for a circumvention scheme.

Like the Anti-Kickback Law, and as highlighted below, there are exceptions to the self-referral prohibitions for many of the customary financial arrangement between physicians and providers, including employment contracts, leases and recruitment agreements. Unlike the safe harbors under the Anti-Kickback Law with which compliance is voluntary, an arrangement must comply with every requirement of a Stark law exception or the arrangement is in violation of the Stark law.

On January 4, 2002, Phase I of a final regulation interpreting Stark law provisions as they relate to designated health services became effective. Phase I covers the general prohibition on certain referrals, the general exemption to both the ownership and compensation arrangement prohibition, and related definitions.

On March 26, 2004, CMS published the Phase II Interim Final Stark II regulations, with an effective date of July 26, 2004. The Phase II regulations cover those parts of the Stark law that were not covered by Phase I, namely the ownership and investment exceptions to the general prohibition, the compensation arrangement exceptions to the general prohibition and the Stark law's reporting provisions. Phase II also includes additional regulatory exceptions, definitions and CMS's response to public comments regarding the Phase I regulations.

On September 5, 2007, CMS published the Phase III Final Stark II regulations, with an effective date of December 4, 2007. The Phase III regulations finalize and respond to public comments regarding the Phase II regulations, as well as providing revisions to the definitions of compensation arrangements and other regulatory modifications.

CMS continues to revise, supplement and update the Stark law. On July 31, 2008, CMS published final changes to the regulations that further restrict the types of arrangements that facilities and physicians may enter, including additional restrictions on certain leases, percentage compensation arrangements, and agreements under which a hospital purchases services under arrangements.

Management of the System believes that the System is currently in material compliance with the Stark law provisions. However, in light of the scarcity of case law interpreting the Stark law provisions and the breadth and complexity of these provisions, there can be no assurances that the System will not be found to have violated the Stark law provisions, and if so, whether any sanction imposed would have a material adverse effect on the operations of the System or the financial condition of the System.

Illinois Insurance Claims Fraud Prevention Act. The Illinois Insurance Claims Fraud Prevention Act prohibits remuneration (in cash or kind) for patient referrals where ultimately an insurance company will pay claims. The penalty for violations of this Act include a civil penalty of $5,000 to $10,000 per violation, plus an assessment of not more than three times the amount of each claim for compensation under a contract of insurance.

Illinois Hospital Report Card Act. The Illinois Hospital Report Card Act, which mandates public access to certain information regarding hospital staffing and patient outcomes, requires the provision of certain hospital data reports to the Illinois Department of Public Health, and provides whistleblower protection for hospital employees who make good faith disclosures under the act. In addition, hospitals must share with consumers, upon request, nurse staff schedules, nurse assignment rosters, methods to determine and adjust nurse staff schedules, and staff training information. Additional nursing and nosocomial infection data must also be reported to Illinois Department of Public Health, for subsequent public release following review by an Illinois Department of Public Health advisory committee. The reporting and public disclosure requirements mandated by the Illinois Hospital Report Card Act have not had an adverse impact on operations of the System.

Compliance/Investigations. Medicare requires that extensive financial information be reported on a periodic basis and in a specific format or content. These requirements are numerous, technical and complex and may not be fully understood or implemented by billing or reporting personnel. With respect to certain types of required information, the Federal False Claims Act and the Social Security Act may be violated by mere recklessness in the submission of information to the government even without any intent to defraud. New billing systems, new medical procedures and procedures for which there are no clear guidance from CMS may all result in liability. The penalties for violation include criminal or civil

liability and may include, for serious or repeated violations, exclusion from participation in the Medicare program.

The OIG conducts national investigations of Medicare billings for certain services. The focus of these investigations varies annually according to the OIG Workplan. While the Obligated Group makes every effort to be in compliance with Medicare billing requirements, there can be no assurance that the Obligated Group will not be subject to an investigation.

Both federal and state government agencies have increased their investigative and enforcement initiatives. Such initiatives relate to a wide-range of health care operations including billing practices, arrangements between providers and physicians, outliers and cost reports.

Patient Transfers. In response to concerns regarding inappropriate hospital transfers of emergency patients based on the patient's inability to pay for the services provided, Congress has enacted the Emergency Medical Treatment and Active Labor Act ("EMTALA"). Among other things, EMTALA imposes certain requirements that must be met before transferring a patient to another facility or refusing to accept a patient, including conducting a medical screening examination of all patients that present on hospital property and request examination and treatment for an emergency medical condition, or have a request made on his or her behalf. While failure to comply with EMTALA can result in exclusion from the Medicare and/or Medicaid programs as well as imposition of civil and criminal penalties, noncompliance with the requirements of EMTALA, specifically the treatment of uninsured patients, could also affect the financial condition of the System.

Accreditation. The System and its operations are subject to regulation and certification by various federal, state and local government agencies and by certain nongovernmental agencies such as The Joint Commission. No assurance can be given as to the effect on future operations of the System of existing laws, regulations and standards for certification or accreditation or of any future changes in such laws, regulations and standards.

Environmental Laws and Regulations. Health care providers 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, facilities and properties owned or operated by hospitals. Among the type of regulatory requirements faced by hospitals are (a) air and water quality control requirements, (b) waste management requirements, (c) specific regulatory requirements regarding asbestos, 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 training employees in the proper handling and management of hazardous materials and wastes, and (f) other requirements.

In its role as the owner and operator of properties or facilities, the Borrower and other System Affiliates, including Restricted Affiliates, may be subject to liability for investigating and remedying any hazardous substances that may have migrated off its property. Typical hospital operations include, but are not limited to, in various combinations, the handling, use, storage, transportation, disposal and discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants or contaminants. As such, hospital operations are particularly susceptible to the practical, financial and legal risks associated with compliance with such laws and regulations. Such risks may (a) result in damage to individuals, property or the environment, (b) interrupt operations and increase their cost, (c) result in legal liability, damages, injunctions or fines and (d) result in investigations, administrative proceedings, penalties or other governmental agency actions. There is no assurance that the Obligated Group will not encounter such risks in the future, and such risks may result in material adverse consequences to the operations or financial condition of the System.

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

Corporate Compliance Program

Advocate Network Corporation has developed and implemented a compliance program for itself and its affiliates that includes a compliance plan to assist all employees in understanding and adhering to the legal and ethical standards that govern the provision of patient care (the "Compliance Plan"). The Compliance Plan has been designed to (i) comply with the standards set forth in the Federal Sentencing Guidelines for Organizational Defendants and (ii) help assure that the System acts in accordance with its mission, values and known legal duties. Amendments to the Federal Sentencing Guidelines, effective November 1, 2004, recommend an effective compliance and ethics program with knowledgeable and reasonable oversight by the governing authority of an organization. See ***APPENDIX A*** – "CORPORATE COMPLIANCE" hereto for additional information on the System's Compliance Plan.

Antitrust

Enforcement of the 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, and joint venture, merger, affiliation and acquisition activities. In some respects, the application of federal and state antitrust laws to health care is still evolving, and enforcement activity by federal and state agencies appears to be increasing. At various times, health care providers may be subject to an investigation by a governmental agency charged with the enforcement of antitrust laws, or may be subject to administrative or judicial action by a federal or state agency or a private party. Violators of the antitrust laws could be subject to criminal and civil enforcement by federal and state agencies, as well as by private litigants. See "LAWS, REGULATIONS AND RELATED LITIGATION" in ***APPENDIX A*** hereto.

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 of liability may be substantial, depending on the facts and circumstances of each case.

Issues Related to the Health Care Market of the System

Affiliation, Merger, Acquisition and Divestiture. Significant numbers of affiliations, mergers, acquisitions and divestitures have occurred in the health care industry recently. As part of its ongoing planning process, the System considers potential affiliations and acquisition of operations or properties that may become affiliated with or become part of the System in the future. As a result, it is possible that the organizations and assets that currently comprise the Obligated Group and the other System Affiliates may change from time to time. Advocate Network Corporation may change Restricted Affiliates from time to time in its sole discretion as provided by the Master Indenture. See ***APPENDIX C*** - "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Merger, Consolidation, Sale or Conveyance" hereto. See ***APPENDIX A*** - "Information Concerning the System Position in the Market" for more information related to recent developments in connection with a potential acquisition by the System.

Purchase Risk. The proceeds from the sale of the Series 2008D Bonds will be used to finance or refinance the cost of purchasing substantially all the assets of Condell and to finance the cost of constructing and equipping a new patient tower. Certain costs and, concomitantly, risks are associated with affiliations, mergers and acquisitions, including the purchase of Condell assets. Anticipated efficiencies or economies of scale may not materialize, unanticipated liabilities may arise and the costs of

integrating a new facility may be significantly more than originally estimated. Moreover, expanding an integrated health care delivery network will require significant capital for capital improvements and redevelopment of support systems. During the initial integration period for Condell, the System will incur significant integration costs. Advocate Network Corporation, however, believes that the costs and liabilities associated with this purchase will not in the long-term have a material adverse effect on the System, but there can be no assurance no material adverse effect will occur. See ***APPENDIX A*** **-** HISTORY, BACKGROUND AND ORGANIZATION - Acquisition of Condell Medical Center for more information about the purchase.

Possible Increased Competition. The System could face increased competition in the future from other hospitals, from skilled nursing facilities and from other forms of health care delivery that offer health care services to the populations which the System currently serves. This could include the construction of new or the renovation of existing hospitals and skilled nursing facilities, HMO facilities, ambulatory surgery centers, freestanding emergency 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.

In addition, competition could result from forms of health care delivery that are able to offer lower priced services to the population served by the System. These services could be substituted for some of the revenue-generating services currently offered by the System. The services that could serve as substitutes for hospital services include skilled and specialized nursing facilities, diagnostics, home care, intermediate nursing home care, preventive care, and drug and alcohol abuse programs. Competition may also come from specialty hospitals or organizations, particularly those facilities providing specialized services in areas with high visibility and strong margins, such as cardiac services and surgical services, and having specialty physicians as investors.

As part of the MMA, Congress enacted a moratorium on the investment by referring physicians in certain types of specialty hospitals. The moratorium expressly applied to hospitals engaged in the care and treatment of patients with cardiac or orthopedic conditions, patients receiving surgical procedures and patients receiving any other specialized type of services that CMS may designate. The moratorium officially expired on June 8, 2005. CMS, however, suspended processing specialty hospital applications and agreements following the official expiration of the moratorium, which suspension was extended for two months by the DRA. During the processing suspension CMS was directed, pursuant to the DRA, to prepare a report containing, among other things, a strategic and implementing plan relating to investment in specialty hospitals that addresses issues such as the provision of charity care, proportionality of investment returns and patient disclosure. On August 8, 2006, CMS issued its final report and ended its processing suspension, outlining its strategic and implementing plan. The plan (i) calls for Medicare reimbursement reforms in order to better align payments with the costs of care; (ii) requires greater transparency in financial relationships between physicians and hospitals; (iii) promotes alignment of physician and hospital financial incentives; and (iv) clarifies emergency care obligations, including that of hospitals without emergency departments, but that have specialized capabilities, to accept transfers of emergency patients needing those capabilities.

Risks Related to Tax-Exempt Status

Tax Exemption for Nonprofit Hospitals. Loss of tax-exempt status by Advocate Network Corporation, the Borrower, ACMC, North Side, a Restricted Affiliate or System Affiliate could result in loss of tax exemption of the Series 2008D Bonds and of other tax-exempt debt issued for the benefit of the System, and defaults in covenants regarding the Series 2008D Bonds and other related tax-exempt debt would likely be triggered. Such an event would have material adverse consequences on the financial condition of the System. Management of Advocate Network Corporation is not aware of any transactions or activities currently ongoing that are likely to result in the revocation of the tax-exempt status of

Advocate Network Corporation or the Borrower, ACMC, North Side, any Restricted Affiliate or any System Affiliate.

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

The IRS has taken the position that hospitals which are in violation of the Anti-Kickback Law may also be subject to revocation of their tax-exempt status. See the information herein under the caption, "BONDHOLDERS' RISKS – Regulation of the Health Care Industry -- Federal "Fraud and Abuse" Laws and Regulations." As a result, tax-exempt hospitals, such as those of the Borrower and its Affiliates, which have, and will continue to have, extensive transactions with physicians are subject to an increased degree of scrutiny and perhaps enforcement by the IRS.

The Taxpayers Bill of Rights 2, referred to for purposes of this Official Statement as the Intermediate Sanctions Law, allows the IRS to impose "intermediate sanctions" against certain individuals in circumstances involving the violation by tax-exempt organizations of the prohibition against private inurement. Prior to the enactment of the Intermediate Sanctions Law, the only sanction available to the IRS was revocation of an organization's tax-exempt status. Intermediate sanctions may be imposed in situations in which a "disqualified person" (such as an "insider") (i) engages in a transaction with a tax-exempt organization on other than a fair market value basis, (ii) receives unreasonable compensation from a tax-exempt organization or (iii) receives payment in an arrangement that violates the prohibition against private inurement. These transactions are referred to as "excess benefit transactions." A disqualified person who benefits from an excess benefit transaction will be subject to an excise tax equal to 25% of the amount of the excess benefit. Organizational managers who participate in the excess benefit transaction knowing it to be improper are subject to an excise tax equal to 10% of the amount of the excess benefit, subject to a maximum penalty of $10,000. A second penalty, in the amount of 200% of the excess benefit, may be imposed on the disqualified person (but not upon the organizational manager) if the excess benefit is not corrected within a specified period of time.

In certain cases, the IRS has imposed substantial monetary penalties and future charity care or public benefit obligations on tax-exempt hospitals in lieu of revoking their tax-exempt status, as well as requiring that certain transactions be altered, terminated or avoided in the future and/or requiring governance or management changes. These penalties and obligations are typically imposed on the tax-exempt hospital pursuant to a "closing agreement" with respect to the hospital's alleged violation of Section 501(c)(3) exemption requirements. Given the uncertainty regarding how tax-exemption requirements may be applied by the IRS, members of the System are, and will be, at risk for incurring monetary and other liabilities imposed by the IRS through this "closing agreement" or similar process. Like certain of the other business and legal risks described herein which apply to large multi-hospital systems, these liabilities are probable from time to time and could be substantial, in some cases involving millions of dollars, and in extreme cases could be materially adverse.

Bills have been introduced in Congress that would require a tax-exempt hospital to provide a certain amount of charity care and care to Medicare and Medicaid patients in order to maintain its tax-exempt status and avoid the imposition of an excise tax. Other legislation would have conditioned a hospital's tax-exempt status on the delivery of adequate levels of charity care. Congress has not enacted such bills. However, there can be no assurance that similar legislative proposals or judicial actions will not be adopted in the future.

In recent years, the IRS and state, county and local taxing authorities have been undertaking audits and reviews of the operations of tax-exempt hospitals with respect to their exempt activities and the generation of unrelated business taxable income. Advocate Network Corporation, North Side and the Borrower participate in activities that may generate unrelated business taxable income. Management of Advocate Network Corporation, ACMC, North Side and the Borrower believe they have properly accounted for and reported unrelated business taxable income; nevertheless, an investigation or audit could lead to a challenge which could result in taxes, interest and penalties with respect to unreported unrelated business taxable income and in some cases could ultimately affect the tax-exempt status of Advocate Network Corporation and the Borrower as well as the exclusion from gross income for federal income tax purposes of the interest payable on the Series 2008D Bonds and other tax-exempt debt of Advocate Network Corporation, ACMC, North Side and the Borrower. In addition, legislation, if any, which may be adopted at the federal, state and local levels with respect to unrelated business income cannot be predicted. Any legislation could have the effect of subjecting a portion of the income of Advocate Network Corporation, North Side or the Borrower to federal or state income taxes.

In 1990, the Employee Plans and Exempt Organizations Division of the IRS expanded the Coordinated Examination Program, or CEP, of the IRS to tax-exempt health care organizations. CEP audits are conducted by teams of revenue agents. The CEP audit teams consider a wide range of possible issues, including the community benefit standard, private inurement and private benefit, partnerships and joint ventures, retirement plans and employee benefits, employment taxes, tax-exempt bond financing, political contributions and unrelated business income.

Not for profit health care organizations are subject to audits by the IRS. Management believes that it has properly complied with the tax laws. Nevertheless, because of the complexity of the tax laws and the presence of issues about which reasonable persons can differ, a CEP audit could result in additional taxes, interest and penalties. A CEP audit could ultimately affect the tax-exempt status of Advocate Network Corporation, North Side and the Borrower as well as the exclusion from gross income for federal income tax purposes of the interest payable with respect to the Series 2008D Bonds and other tax-exempt debt of the System.

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

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

Charity Care

Hospitals are permitted to acquire tax-exempt status under the Code because the provision of health care historically has been treated as a "charitable" enterprise. This treatment arose before most Americans had health insurance, when charitable donations were required to fund the health care provided to the sick and disabled. Some commentators and others have taken the position that, with the onset of employer health insurance and governmental reimbursement programs, there is no longer any justification for special tax treatment for the health care industry, and the availability for tax-exempt status should be eliminated. Management of the System cannot predict the likelihood of such a dramatic change in the law. Federal and state tax authorities are beginning to demand that tax-exempt hospitals justify their tax-exempt status by documenting their charitable care and other community benefits.

As further described above under the caption "BONDHOLDERS' RISKS – Nonprofit Healthcare Environment – Litigation Relating to Billing and Collection Practices," charity care issues also serve as the basis of certain claims against major hospital systems throughout the United States on behalf of uninsured patients. See ***APPENDIX A*** for a discussion of such litigation involving the Obligated Group.

Schedule H to the new Form 990 asks whether the organization has a charity care policy and asks for a description of that policy. This new schedule also requires an organization to report the community benefits that it provides, including the costs of providing charity care and other benefits. The reporting of this information on the new Form 990 will make the information more readily available and perhaps lead to additional IRS compliance efforts.

Bond Audits

IRS officials have indicated that more resources will be invested in audits of tax-exempt bonds in the charitable organization sector. The Series 2008D Bonds may be, from time to time, subject to audits by the IRS. Advocate Network Corporation, ACMC, North Side and the Borrower believe that the Series 2008D Bonds properly comply with the tax laws applicable to tax-exempt bonds. In addition, Bond Counsel will render an opinion with respect to the tax-exempt status of the Series 2008D Bonds, as described under the caption, "TAX EXEMPTION." No ruling with respect to the tax-exempt status of the Series 2008D Bonds has been or will be sought from the IRS, however, and opinions of counsel are not binding on the IRS or the courts and are not guarantees. There can be no assurance that an audit of the Series 2008D Bonds will not adversely affect the Series 2008D Bonds.

Tax Exempt Status of the Series 2008 Bonds

The tax exempt status of the Series 2008D Bonds is based on the continued compliance by the Authority, the Borrower and any other users of property financed or refinanced with proceeds of the Series 2008D Bonds with certain covenants relating generally to restrictions on the use of the facilities financed or refinanced with the proceeds of the Series 2008D Bonds, arbitrage limitations, rebate of certain excess investment earnings to the federal government and status of users of the properties financed or refinanced with the proceeds of the Series 2008D Bonds as organizations described in Section 501(c)(3) of the Code (See "Tax Exemption for Nonprofit Hospitals" above). Failure to comply with such covenants could cause interest on all the Series 2008D Bonds to become subject to federal income taxation retroactive to the date of issuance of the Series 2008D Bonds. In the event that the Series 2008D Bonds become subject to federal income taxation retroactive to the date of issuance, the Series 2008D Bonds are not subject to redemption solely as a consequence thereof.

Termination of Managed Care Contracts

Certain HMO and PPO contracts with the System accounted for approximately 50% of the net patient service revenue of the System for the year ended December 31, 2007. Some of these contracts can be terminated by the third-party payor at any time without the necessity of showing cause upon as little as 90 days' prior written notice. Termination of such contracts could have an adverse effect on the financial performance of the System. See "FINANCIAL INFORMATION - Managed Care and Capitation Revenue" in ***APPENDIX A*** hereto.

Capitated Payments

Under the traditional fee-for-service method of health care delivery, hospitals, physicians and other providers are reimbursed on a per-service basis and thus have a financial incentive to provide more services, which, in turn, generate more revenue. Under a capitated payment arrangement, in contrast, providers are reimbursed on a "per member, per month" basis; the provider bears some or all of the risk if the cost of services provided exceeds the amount of the capitation payments. This creates an incentive to control utilization of services.

Capitated contracts may cover hospital and professional services separately, or together as "full-risk" contracts. In either case, the provider assumes financial responsibility for the provision of covered health care services to enrollees under such contracts. The financial risk of such arrangements for a hospital is increased by a variety of factors, including, but not limited to, the following: utilization of facilities and services by enrollees above expected levels; increases in the hospital's cost of providing health care services; increases in the cost of emergency care provided by out-of-area providers; increases in the cost of tertiary care provided by providers other than the hospital; and the size or demographic makeup of the enrollee pool. Insufficient information regarding historical costs, utilization or other factors or inability to manage care jointly with other providers (including physicians) may adversely affect a network's ability to manage the risks of a capitated payment arrangement. The System received 12% of its total revenue from capitated contracts for the year ended December 31, 2007.

Labor Relations

Not-for-profit health care providers and their employees are under the jurisdiction of the National Labor Relations Board. At the present time, less than 1% of the System's employees are members of unions or receive union wages and benefits. Unionization of employees or a shortage of qualified professional personnel could cause an increase in payroll costs beyond those projected. The Members of the System cannot control the prevailing wage rates in their respective service areas and any increase in such rates will directly affect the costs of their operations. See ***APPENDIX A*** –"EMPLOYEES" hereto, for additional information regarding union campaigns at the System.

Incurrence of Additional Indebtedness

The Master Indenture does not contain any limitations on the amount of additional indebtedness that may be incurred by Advocate Network Corporation, the Borrower, North Side, ACMC, any future Members of the Obligated Group, or the other System Affiliates, including the Restricted Affiliates, nor does the Master Indenture require Advocate Network Corporation, the Borrower, North Side, ACMC, any future Members of the Obligated Group, or the other System Affiliates, including the Restricted Affiliates, to demonstrate compliance with any earnings, capitalization or other tests as a condition to the incurrence of additional indebtedness. See "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE" in ***APPENDIX C*** hereto.

Certain Matters Relating to Security for the Series 2008D Bonds

See "SECURITY FOR THE SERIES 2008D BONDS" for a discussion of certain factors including the absence of certain covenants in the Master Indenture. The Facilities of the System are not pledged as security for the Series 2008D Bonds. Such Facilities are not comprised of general purpose buildings and generally would not be suitable for industrial or commercial use. Consequently, it could be difficult to find a buyer or lessee for such Facilities and, upon any default which results in the acceleration of the Series 2008D Bonds, the Master Trustee may not realize an amount sufficient to pay in full the Obligations, including those in respect of the outstanding Series 2008D Bonds, from the sale or lease of such Facilities if it were necessary to proceed against such Facilities, whether pursuant to a judgment, if any, against the Obligated Group or otherwise.

Certain amendments to the Bond Indenture may be made with the consent of the holders of not less than a majority in aggregate principal amount of the Series 2008D Bonds. Certain amendments to the Master Indenture may be made with the consent of the holders of not less than 51% of the principal amount of Obligations Outstanding under the Master Indenture which are affected by the amendment. Such amendments may adversely affect the security of the Bondholders. With respect to amendments to the Master Indenture, the holders of the requisite percentage of outstanding Obligations may be composed wholly or partially of the holders of Obligations other than the Series 2008D Obligation.

Matters Relating to Enforceability of the Master Indenture

Advocate Network Corporation, ACMC (as of the issuance of the Series 2008D Bonds), the Borrower and North Side are currently the only Members of the Obligated Group. The ability of Restricted Affiliates and System Affiliates to make transfers to the Obligated Group with respect to the Series 2008D Obligation will be limited to the same extent as the obligations of debtors typically are affected by bankruptcy, insolvency and the application of general principles of creditors' rights and as additionally described below.

The accounts of Advocate Network Corporation, the Borrower, ACMC, North Side, the Restricted Affiliates, System Affiliates and any future Members of the Obligated Group will be combined for financial reporting purposes and will be used in determining whether the test relating to debt service coverage contained in the Master Indenture is met, notwithstanding the uncertainties as to the enforceability of certain obligations of the Members of the Obligated Group and the Restricted Affiliates contained in the Master Indenture which bear on the availability of the assets and revenues of the Members and Restricted Affiliates for payment of debt service on Obligations, including the Series 2008D Obligation pledged under the Bond Indenture as security for the Series 2008D Bonds. The joint and several obligations described herein of Members of the Obligated Group to make payments of debt service on Obligations issued under the Master Indenture (including transfers in connection with voluntary dissolution or liquidation) and the obligation of Advocate Network Corporation to cause the Restricted Affiliates or use reasonable efforts to cause System Affiliates (subject to contractual and organizational limitations) to make transfers to Advocate Network Corporation to enable the Obligated Group to make payments of debt service on the Obligations may not be enforceable to the extent (1) enforceability may be limited by applicable bankruptcy, moratorium, reorganization or similar laws affecting the enforcement of creditors' rights and by general equitable principles and (2) such payments (i) are requested to make payments on any Obligations which are issued for a purpose which is not consistent with the charitable purposes of the Member, the Restricted Affiliate or System Affiliate from which such payments are requested or which are issued for the benefit of any entity other than a tax-exempt organization; (ii) are requested to be made from any moneys or assets which are donor restricted or which are subject to a direct or express trust which does not permit the use of such moneys or assets for such a payment; (iii) would result in the cessation or discontinuation of any material portion of the health care or related services previously provided by the Member, Restricted Affiliate or System Affiliate from

which such payment is requested; or (iv) are requested to be made pursuant to any loan violating applicable usury laws.

A Member, Restricted Affiliate or System Affiliate may not be required to make any payment or to transfer funds to provide for the payment of any Obligation, or portion thereof, the proceeds of which were not loaned or otherwise disbursed to such Member, Restricted Affiliate or System Affiliate to the extent that such payment or transfer would render the Member, Restricted Affiliate or System Affiliate insolvent or which would conflict with, not be permitted by or which is subject to recovery for the benefit of other creditors of such Member, Restricted Affiliate or System Affiliate under applicable fraudulent conveyance, bankruptcy or moratorium laws. There is no clear precedent in the law as to whether such payments or transfers from a Member, Restricted Affiliate or System Affiliate in order to pay debt service on the Obligations may be voided by a trustee in bankruptcy in the event of bankruptcy of the Member, Restricted Affiliate or System Affiliate, or by third-party creditors in an action brought pursuant to state fraudulent transfer or fraudulent conveyance statutes. Under the United States Bankruptcy Code, a trustee in bankruptcy and, under state fraudulent transfer or fraudulent conveyance statutes and common law, a creditor of a related guarantor, may avoid any obligation incurred by a related guarantor if, among other basis therefor, (1) the guarantor has not received fair consideration or reasonably equivalent value in exchange for the guaranty and (2) the guaranty renders the guarantor insolvent, as defined in the United States Bankruptcy Code or applicable state fraudulent transfer or fraudulent conveyance statutes, or the guarantor is undercapitalized.

Application by courts of the tests of "insolvency," "reasonably equivalent value" and "fair consideration" has resulted in a conflicting body of case law. It is possible that, in an action to force a Member of the Obligated Group, Restricted Affiliate or System Affiliate to pay debt service on an Obligation for which it was not the direct beneficiary, a court might not enforce such a payment in the event it is determined that the Member of the Obligated Group, Restricted Affiliate or System Affiliate is analogous to a guarantor of the debt of the Member, Restricted Affiliate or System Affiliate who directly benefited from the borrowing and that sufficient consideration for the Member's, Restricted Affiliate's or System Affiliate's guaranty was not received and that the incurrence of such obligation has rendered or will render the Member, Restricted Affiliate or System Affiliate insolvent or the Member, Restricted Affiliate or System Affiliate is or will thereby become undercapitalized.

There exist, in addition to the foregoing, common law authority and authority under applicable state statutes pursuant to which the courts may terminate the existence of a nonprofit corporation or undertake supervision of its affairs on various grounds, including a finding that such corporation has insufficient assets to carry out its stated charitable purposes or has taken some action which renders it unable to carry out such purposes. Such court action may arise on the court's own motion pursuant to a petition of the Attorney General or such other persons who have interests different from those of the general public, pursuant to the common law and statutory power to enforce charitable trusts and to see to the application of their funds to their intended charitable uses.

Potential Effects of Bankruptcy

If Advocate Network Corporation, ACMC, the Borrower, North Side, a Restricted Affiliate, System Affiliate or any future Member of the Obligated Group were to file a petition for relief (or if a petition were filed against Advocate Network Corporation, the Borrower, ACMC, North Side, a Restricted Affiliate or System Affiliate or such Member of the Obligated Group) under the Federal Bankruptcy Code, the filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against Advocate Network Corporation, ACMC, the Borrower, such Restricted Affiliate or System Affiliate or such Member of the Obligated Group, and its property. If the bankruptcy court so ordered, Advocate Network Corporation's, ACMC's, the Borrower's, North Side's, such Restricted Affiliate's, such System Affiliate's or such Member's property, including its accounts

receivable and proceeds thereof, could be used for the benefit of Advocate Network Corporation, ACMC, the Borrower, North Side, such Restricted Affiliate, such System Affiliate or such Member of the Obligated Group despite the claims of its creditors. Amounts received by Bondholders with respect to the payment of principal of, and interest on the Series 2008D Bonds during an applicable preference period could be required to be disgorged by the Bondholders to a bankruptcy trustee.

In a bankruptcy proceeding, Advocate Network Corporation, the Borrower, ACMC, North Side, such Restricted Affiliate, such System Affiliate or such Member of the Obligated Group could file a plan for the adjustment of its debts which modifies the rights of creditors generally, or the rights of any class of creditors, secured or unsecured. The plan, when confirmed by the court, would bind all creditors who had notice or knowledge of the plan and discharge all claims against the debtor provided for in the plan. No plan may be confirmed unless, among other conditions, the plan is in the best interests of creditors, is feasible and has been accepted by each class of claims impaired thereunder. Each class of claims has accepted the plan if at least two-thirds in dollar amount and more than one-half in number of the allowed claims of the class that are voted with respect to the plan are cast in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

The bankruptcy of a System Affiliate (other than the Borrower, ACMC, North Side, Advocate Network Corporation and any other Member of the Obligated Group) will not trigger an event of default under the Master Indenture, the Loan Agreement or the Bond Indenture. See ***APPENDIX D*** – "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Defaults and Remedies" and ***APPENDIX E*** "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE AND THE LOAN AGREEMENT - Summary of Certain Provisions of the Bond Indenture -- Events of Default and Remedies."

If a System Affiliate or Restricted Affiliate has not entered into a Commitment Agreement and has no other contractual obligation to make payment to the Obligated Group or the Master Trustee in respect of the Series 2008D Obligation, neither Advocate Network Corporation, the Borrower, ACMC, North Side nor the Master Trustee would be able to file a claim in a bankruptcy proceeding in respect of such System Affiliate or Restricted Affiliate for payment of any amounts in respect of the Series 2008D Obligation.

Other Risk Factors Affecting the System

In the future, the following factors, among others, may adversely affect the operations of the System, to an extent that cannot be determined at this time:

(1) Employee strikes and other adverse labor actions that could result in a substantial reduction in revenues without corresponding decreases in costs, and shortage of skilled professionals, such as nurses and technicians.

(2) Reduced need for hospitalization, skilled or intermediate nursing care, elderly housing or other services arising from increased utilization management by third-party payors or from future medical and scientific advances.

(3) Reduced demand for the services provided by the System that might result from decreases in population in its service area.

(4) Increased unemployment or other adverse economic conditions in the service area of the System that would increase the proportion of patients who are unable to pay fully for the cost of their care.

(5) Any increase in the quantity 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 System.

(6) Regulatory actions that might limit the ability of the System to undertake capital improvements to its facilities or to develop new institutional health services.

(7) Decrease in availability or receipt of grants, or in receipt of contributions or bequests.

(8) Inflation or other adverse economic conditions.

(9) Inability of the System to meet or continue to comply with legal, regulatory, professional and private licensing and accreditation requirements, all or some of which may be subject to renewal based on inspection or other criteria.

(10) The attempted imposition of or the increase in taxes related to the property and operations of not-for-profit organizations.

(11) The occurrence of natural disasters, including floods and earthquakes, which may damage the facilities of the System, interrupt utility service to the facilities, or otherwise impair the operation and generation of revenues from said facilities.

(12) Laws requiring particular staffing levels at hospitals.

Nursing Shortage

The healthcare industry, including the Obligated Group and other System Affiliates, has experienced a shortage of nursing and other technical staff, which has resulted in increased costs and lost revenues due to the need to hire agency nursing personnel at higher rates and increased compensation levels. The Obligated Group and other System Affiliates currently incur periodic agency nursing costs at their facilities. While agency costs are currently incurred, if the shortage continues, it could adversely affect the System's operations or financial condition.

Cost and Availability of Insurance

In the past few years, the insurance market for casualty and professional liability insurance has tightened significantly with respect to both cost and availability of coverage, resulting in escalating fees and premiums and in some cases a lack of adequate coverage. See ***APPENDIX A*** – "FINANCIAL INFORMATION - General and Professional Liability Insurance" hereto for additional information regarding insurance coverage of the System.

Risks Related to Variable Rate Indebtedness

Indebtedness outstanding under the Master Indenture in the principal amount of $218,455,000 is subject to variable interest rate exposure, which amount does not include Related Bonds which are subject to interest rate swap arrangements. Such interest rates vary from time to time and may be converted to fixed interest rates. This protection against rising interest rates is limited, however, because the Obligated Group would be required to continue to pay interest at the applicable variable rate until it is permitted to either convert the obligation to a fixed rate pursuant to the terms of the applicable transaction documents or terminate any related swap agreement.

Bond Ratings

There is no assurance that the ratings assigned to the Series 2008D Bonds at the time of issuance will not be lowered or withdrawn at any time, the effect of which could adversely affect the market price for, and marketability of, the Series 2008D Bonds. See "RATINGS" herein.

Market for Series 2008D Bonds

The Underwriters have advised the Authority that they intend to make a market in the Series 2008D Bonds; however, the Underwriters are not obligated to make such markets, and no assurance can be given that secondary markets therefor will develop. Consequently, investors may not be able to resell the Series 2008D Bonds purchased should they need or wish to do so for emergency or other purposes.

LITIGATION

The Authority

There is not now pending (as to which the Authority has received service of process) or to the actual knowledge of the Authority, threatened against the Authority any litigation restraining or enjoining the issuance or delivery of the Series 2008D Bonds or questioning or affecting the validity of the Series 2008D Bonds or the proceedings or authority under which the Series 2008D Bonds are to be issued. Neither the creation, organization or existence of the Authority nor the title of any of the present members or other officials of the Authority to their respective offices is being contested. There is no litigation pending (as to which the Authority has received service of process) or to the actual knowledge of the Authority, threatened against the Authority which in any manner questions the right of the Authority to enter into the Bond Indenture, the Loan Agreement or the Bond Purchase Agreement or to secure the Series 2008D Bonds in the manner provided in the Bond Indenture, the Authority resolution, and the relevant statutes under which the Series 2008D Bonds are issued.

The System

Advocate Network Corporation has advised that there is no litigation or proceedings pending or threatened against it, the Borrower, ACMC, North Side or any other System Affiliate except litigation or proceedings in which the estimated probable ultimate recoveries and the costs and expenses of defense, in the opinion of management of Advocate Network Corporation, (i) will be entirely within applicable commercial insurance policy limits (subject to applicable deductibles) or are not in excess of the total available reserves held under applicable self-insurance programs, or (ii) will not have a material adverse effect on the operation or financial condition of the System. No litigation or proceedings are pending or, to the knowledge of Advocate Network Corporation, ACMC, the Borrower, North Side or any other System Affiliate, threatened against any of them which in any manner question the right of Advocate Network Corporation or any Restricted Affiliate to enter into the transactions described herein.

CONTINUING DISCLOSURE

General

Advocate Network Corporation has covenanted for the benefit of the Series 2008D Bondholders and the Beneficial Owners (as hereinafter defined under this caption), pursuant to a Master Continuing Disclosure Agreement dated as of December 1, 1996 (the "Disclosure Agreement") executed and delivered by Advocate Network Corporation, to provide or cause to be provided (i) each year, certain financial information and operating data relating to the System (the "Annual Report") by not later than the

date 120 days after the last day of the fiscal year of Advocate Network Corporation; provided, however, that if the audited consolidated financial statements are not available by such date, unaudited consolidated financial statements will be included in the Annual Report and audited consolidated financial statements will be provided when and if available; (ii) timely notices of the occurrence of certain enumerated events, if material; and (iii) quarterly unaudited condensed consolidated financial information including a condensed consolidated income statement, condensed consolidated balance sheet and condensed consolidated statement of cash flows within 60 days after the conclusion of each of the first three fiscal quarters in each year. Currently the fiscal year of the System commences on January 1. "Beneficial Owners" means, under this caption only, any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any bonds (including persons holding bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any bonds for federal income tax purposes.

The Annual Report will be filed by or on behalf of the System with each Nationally Recognized Municipal Securities Information Repository and with any Illinois state information depository, in each case as designated from time to time by the SEC. There is currently no Illinois state information depository. The notices of material events will be filed with the Municipal Securities Rulemaking Board or each Nationally Recognized Municipal Securities Information Repository, and with any Illinois state information depository, in each case as designated from time to time by the SEC. These covenants have been made in order to assist the Underwriters and registered brokers, dealers and municipal securities dealers in complying with the requirements of Rule 15c2-12 of the Securities Exchange Act of 1934, as amended (the "Rule").

Advocate Network Corporation has agreed to provide directly to the holders of the Series 2008D Bonds electronic or written copies of the Annual Report and quarterly unaudited consolidated financial statements, upon their written request.

Notice of Certain Events, If Material

Advocate Network Corporation covenants to provide, or cause to be provided, notice of the occurrence of any of the following events with respect to the Series 2008D Bonds, if material, in a timely manner and in accordance with the Rule:

(1) Principal and interest payment delinquencies;

(2) Nonpayment-related defaults;

(3) Unscheduled draws on debt service reserves reflecting financial difficulties;

(4) Unscheduled draws on credit enhancements reflecting financial difficulties;

(5) Substitution of credit or liquidity providers, or their failure to perform;

(6) Adverse tax opinions or events adversely affecting the tax-exempt status of the Series 2008D Bonds;

(7) Modifications to rights of the security holders;

(8) Bond calls;

(9) Defeasances;

(10) Release, substitution, or sale of property securing repayment of the securities; and

(11) Rating changes.

Annual Report

The Annual Report will contain or incorporate by reference at least the following items:

(a) The audited consolidated financial statements of the System with unaudited consolidating financial information for the fiscal year ending immediately preceding the due date of the Annual Report; provided, however, that if such audited consolidated financial statements are not available by the deadline for filing the Annual Report, they shall be provided when and if available, and unaudited consolidated financial statements shall be included in the Annual Report. The consolidated financial statements shall be audited and prepared pursuant to accounting and reporting policies conforming in all material respects to generally accepted accounting principles.

(b) An update of the material financial information and material operating data of the same general nature as that contained in the tables entitled "Condensed Consolidated Summary of Revenues and Expenses," "Historical and Pro Forma Capitalization," "Coverage of Debt Service Requirements" and "Utilization Statistics" and under the captions "FINANCIAL INFORMATION - Sources of Net Patient Service Revenues," "MEDICAL STAFFS" and "EMPLOYEES" in ***APPENDIX A*** hereto.

Advocate Network Corporation may modify from time to time the specific types of information provided to the extent necessary to conform to changes in legal requirements, provided that any such modification will be done in a manner consistent with the Rule and will not materially impair the interests of the Bondholders.

Any or all of the items listed above may be included by specific reference to other documents which previously have been provided to each of the repositories described above or filed with the SEC. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. Advocate Network Corporation shall clearly identify each such other document as included by reference.

Failure to Comply

In the event of a failure of Advocate Network Corporation to comply with any provision of the Disclosure Agreement, any Series 2008D Bondholder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause Advocate Network Corporation to comply with the obligations under the Disclosure Agreement. A failure to comply with the Disclosure Agreement shall not be deemed an Event of Default under the Bond Indenture, the Loan Agreement or the Master Indenture. The sole remedy under the Disclosure Agreement in the event of any failure of Advocate Network Corporation to comply with the Disclosure Agreement shall be an action to compel performance, and no person or entity shall be entitled to recover monetary damage thereunder under any circumstances.

Since the execution of the Disclosure Agreement, there have been no instances of Advocate Network Corporation's failure to comply with the Rule.

Amendment of the Disclosure Agreement

The provisions of the Disclosure Agreement, including but not limited to the provisions relating to the accounting principles pursuant to which the consolidated financial statements are prepared, may be amended as deemed appropriate by an authorized officer of Advocate Network Corporation; but any such amendment must be adopted procedurally and substantively in a manner consistent with the Rule, including any interpretation thereof made from time to time by the SEC. Such interpretations currently include the requirements that (a) the amendment 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 any Obligated Issuer or the type of activities conducted thereby, (b) the undertaking, as amended, would have complied with the requirements of the Rule at the time of the primary offering of the Series 2008D Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, and (c) the amendment does not materially impair the interests of Series 2008D Bondholders, as determined by parties unaffiliated with Advocate Network Corporation or one of its Affiliates (such as independent legal counsel). The foregoing interpretations may be changed in the future.

APPROVAL OF LEGALITY

Certain legal matters incident to the authorization, issuance and sale of the Series 2008D Bonds are subject to the approving legal opinion of Chapman and Cutler LLP, Chicago, Illinois, as Bond Counsel ("Bond Counsel"), who has been retained by, and acts as, Bond Counsel to the Authority. Bond Counsel has not been retained or consulted on disclosure matters and has not undertaken to review or verify the accuracy, completeness or sufficiency of this Official Statement or other offering material relating to the Series 2008D Bonds and assumes no responsibility for the statements or information contained in or incorporated by reference in this Official Statement, except that in its capacity as Bond Counsel, Chapman and Cutler LLP has, at the request of the Underwriters, reviewed the information and summaries contained in this Official Statement under the captions "THE SERIES 2008D BONDS" (excluding any information relating to DTC or the Securities Depository), "SECURITY FOR THE SERIES 2008D BONDS (but only such information contained under the subcaptions "Loan Agreement," "Amendments of Bond Indenture and Loan Agreement" and "Limited Obligation of Authority") and "TAX EXEMPTION" and in ***APPENDIX E*** solely to determine whether such information and summaries conform to the Series 2008D Bonds, the Bond Indenture and the Loan Agreement (apart from any information contained therein relating to DTC and its book-entry only system). This review was undertaken solely at the request and for the benefit of the Underwriters and did not include any obligation to establish or confirm factual matters set forth herein. Bond Counsel's approving opinion, the proposed form of which is attached to this Official Statement as ***APPENDIX F***, will be available at the time of delivery of the Series 2008D Bonds. Certain legal matters will be passed upon for the Authority by its counsel, Schiff Hardin LLP, Chicago, Illinois; for the Members of the Obligated Group by their special counsel, Foley & Lardner LLP, Chicago, Illinois, and by the Senior Vice President and General Counsel of Advocate Network Corporation; and for the Underwriters by their counsel, Sonnenschein Nath & Rosenthal LLP, Chicago, Illinois.

TAX EXEMPTION

General

Federal tax law contains a number of requirements and restrictions which apply to the Series 2008D Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the proper use of bond proceeds and the facilities financed therewith, and certain other matters. The Authority, the Borrower, ACMC and Advocate Network Corporation have

covenanted to comply with all requirements that must be satisfied in order for the interest on the Series 2008D Bonds to be excludable from gross income for federal income tax purposes. Failure to comply with certain of such covenants could cause interest on the Series 2008D Bonds to become includable in gross income for federal income tax purposes retroactively to the date of issuance of the Series 2008D Bonds.

Subject to compliance by the Authority, the Borrower, ACMC and Advocate Network Corporation with the above-referenced covenants, under present law, in the opinion of Bond Counsel, interest on the Series 2008D Bonds is excludable from the gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations. Interest on the Series 2008D Bonds is taken into account, however, in computing an adjustment used in determining the federal alternative minimum tax for certain corporations.

In rendering its opinion, Bond Counsel will rely upon certifications of the Authority, the Borrower, ACMC and Advocate Network Corporation with respect to certain material facts within the knowledge of the Authority and the Obligated Group and will rely on an opinion of Foley & Lardner LLP, special counsel to the Obligated Group, that the members of the Obligated Group are 501(c)(3) organizations and certain other matters. Bond Counsel's opinion represents its legal judgment based upon its review of the law and the facts that it deems relevant to render such opinion and is not a guarantee of a result.

The Code includes provisions for an alternative minimum tax ("AMT") for corporations in addition to the corporate regular tax in certain cases. The AMT, if any, depends upon the corporation's alternative minimum taxable income ("AMTI"), which is the corporation's taxable income with certain adjustments. One of the adjustment items used in computing AMTI of a corporation (with certain exceptions) is an amount equal to 75% of the excess of such corporation's "adjusted current earnings" over an amount equal to its AMTI (before such adjustment item and the alternative tax net operating loss deduction). "Adjusted current earnings" would include all tax-exempt interest, including interest on the Series 2008D Bonds.

Ownership of the Series 2008D Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, corporations subject to the branch profits tax, financial institutions, certain insurance companies, certain S corporations, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Series 2008D Bonds should consult their tax advisors as to applicability of any such collateral consequences.

The issue price (the "Issue Price") for each maturity of the Series 2008D Bonds is the price at which a substantial amount of such maturity of the Series 2008D Bonds is first sold to the public. The Issue Price of a maturity of the Series 2008D Bonds may be different from the price set forth, or the price corresponding to the yield set forth, on the cover page hereof.

There are or may be pending in the Congress of the United States legislative proposals, including some that carry retroactive effective dates, that, if enacted, could alter or amend the federal tax matters referred to above or adversely affect the market value of the Series 2008D Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to bonds issued prior to enactment. Prospective purchasers of the Series 2008D Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. Bond Counsel expresses no opinion regarding any pending or proposed federal tax legislation.

The IRS has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the IRS, interest on such tax-exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. It cannot be predicted whether or not the IRS will commence an audit of the Series 2008D Bonds. If an audit is commenced, under current procedures the IRS may treat the Authority as a taxpayer and the Bondholders may have no right to participate in such procedure. The commencement of an audit could adversely affect the market value and liquidity of the Series 2008D Bonds until the audit is concluded, regardless of the ultimate outcome.

Payments of interest on, and proceeds of the sale, redemption, or maturity of, tax-exempt obligations, including the Series 2008D Bonds, are in certain cases required to be reported to the IRS. Additionally, backup withholding may apply to any such payments to any Bondholder who fails to provide an accurate Form W-9 Request for Taxpayer Identification Number and Certification, or a substantially identical form, or to any Bondholder who is notified by the IRS of a failure to report any interest or dividends required to be shown on federal income tax returns. The reporting and backup withholding requirements do not affect the excludability of such interest from gross income for federal tax purposes.

Original Issue Discount

If the Issue Price of a maturity of the Series 2008D Bonds is less than the principal amount payable at maturity, the difference between the Issue Price of each such maturity of the Series 2008D Bonds (the "OID Bonds") and the principal amount payable at maturity is original issue discount.

For an investor who purchases an OID Bond in the initial public offering at the Issue Price for such maturity and who holds such OID Bond to its stated maturity, subject to the condition that the Authority, the Borrower, ACMC and Advocate Network Corporation comply with the covenants discussed above, (a) the full amount of original issue discount with respect to such OID Bond constitutes interest which is excludable from the gross income of the owner thereof for federal income tax purposes; (b) such owner will not realize taxable capital gain or market discount upon payment of such OID Bond at its stated maturity; (c) such original issue discount is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Code, but is taken into account in computing an adjustment used in determining the alternative minimum tax for certain corporations under the Code, as described above; and (d) the accretion of original issue discount in each year may result in an alternative minimum tax liability for corporations or certain other collateral federal income tax consequences in each year even though a corresponding cash payment may not be received until a later year. Based upon the stated position of the Illinois Department of Revenue under Illinois income tax law, accreted original issue discount on such OID Bonds is subject to taxation as it accretes, even though there may not be a corresponding cash payment until a later year. Owners of OID Bonds should consult their own tax advisors with respect to the state and local tax consequences of original issue discount on such OID Bonds.

Owners of Series 2008D Bonds who dispose of Series 2008D Bonds prior to the stated maturity (whether by sale, redemption or otherwise), purchase Series 2008D Bonds in the public offering, but at a price different from the Issue Price or purchase Series 2008D Bonds subsequent to the initial public offering should consult their own tax advisors.

If a Series 2008D Bond is purchased at any time for a price that is less than the Series 2008D Bond's stated redemption price at maturity (the "Revised Issue Price"), the purchaser will be treated as having purchased a Series 2008D Bond with market discount subject to the market discount rules of the Code (unless a statutory de minimis rule applies). Accrued market discount is treated as taxable ordinary income and is recognized when a Series 2008D Bond is disposed of (to the extent such accrued discount does not exceed gain realized) or, at the purchaser's election, as it accrues. Such treatment would apply

to any purchaser who purchases an OID Bond for a price that is less than its Revised Issue Price. The applicability of the market discount rules may adversely affect the liquidity or secondary market price of such Series 2008D Bond. Purchasers should consult their own tax advisors regarding the potential implications of market discount with respect to the Series 2008D Bonds.

Bond Premium

An investor may purchase a Series 2008D Bond at a price in excess of its stated principal amount. Such excess is characterized for federal income tax purposes as "bond premium" and must be amortized by an investor on a constant yield basis over the remaining term of the Series 2008D Bond in a manner that takes into account potential call dates and call prices. An investor cannot deduct amortized bond premium relating to a tax-exempt bond. The amortized bond premium is treated as a reduction in the tax-exempt interest received. As bond premium is amortized, it reduces the investor's basis in the Series 2008D Bond. Investors who purchase a Series 2008D Bond at a premium should consult their own tax advisors regarding the amortization of bond premium and its effect on the Series 2008D Bond's basis for purposes of computing gain or loss in connection with the sale, exchange, redemption, or early retirement of the Series 2008D Bond.

State of Illinois Tax Matters

Interest on the Series 2008D Bonds is not exempt from present Illinois income taxes. Ownership of a Series 2008D Bond may result in other state and local tax consequences to certain taxpayers. Bond Counsel expresses no opinion regarding any such collateral consequences arising with respect to the Series 2008D Bonds. Prospective purchasers of the Series 2008D Bonds should consult their tax advisors regarding the applicability of any such state and local taxes.

RATINGS

Standard & Poor's Ratings Services, Moody's Investors Service, Inc. and Fitch Ratings have assigned the Series 2008D Bonds long-term ratings of AA, Aa3 and AA, respectively, based upon the senior long-term unenhanced debt of the Obligated Group. Such ratings reflect only the view of the rating organization providing the same, and an explanation of the significance of such ratings may be obtained only from the rating agency furnishing the same. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating agency if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2008D Bonds.

INDEPENDENT AUDITORS

The consolidated financial statements of Advocate Network Corporation and subsidiaries as of December 31, 2007 and 2006 and for the years then ended, included in ***APPENDIX B*** hereto, have been audited by Ernst & Young LLP, independent auditors, as stated in their report appearing therein.

FINANCIAL STATEMENTS

The unaudited interim consolidated financial statements of Advocate Network Corporation and its subsidiaries as of September 30, 2008 and 2007 and for the nine-month periods then ended are included in ***APPENDIX C*** hereto.

The financial statements included in ***APPENDIX B*** are not necessarily indicative of the financial results to be achieved for future periods. The financial statements included in ***APPENDIX C*** are not necessarily indicative of full year performance.

The audited consolidated financial statements of Advocate Network Corporation and its subsidiaries included in *APPENDIX B* and *APPENDIX C* hereto include the Excluded Affiliates, as described in Appendix A. The Excluded Affiliates that appear in ***APPENDIX B*** and ***APPENDIX C*** hereto represent less than 2%, 3% and 3% of the consolidated total assets and less than 15% of consolidated total operating revenues as of and for the years ended December 31, 2007 and 2006, and as of and for the nine-month period ended September 30, 2008, respectively.

RELATIONSHIP OF CERTAIN PARTIES

Foley & Lardner LLP, special counsel to the Obligated Group, and Chapman and Cutler LLP, bond counsel, also represent Citigroup Global Markets Inc. from time to time in other financings unrelated to the Series 2008D Bonds.

UNDERWRITING

The Series 2008D Bonds are being purchased by the Underwriters pursuant to a Bond Purchase Agreement dated November 7, 2008, among the Authority, ACMC, the Borrower, Advocate Network Corporation, North Side and Citigroup Global Markets Inc., as representative of the Underwriters (the "Bond Purchase Agreement"). The Series 2008D Bonds are being purchased at an aggregate price of $174,248,358.80, which represents the par amount of the Series 2008D Bonds, less an Underwriters' discount of $1,672,200.00 and net original issue discount of $4,079,441.20. The Bond Purchase Agreement provides that the Underwriters will purchase all of the Series 2008D Bonds if any are purchased.

The Underwriters intend to offer the Series 2008D Bonds to the public initially at the prices set forth on the cover page of this Official Statement, which may subsequently change without any requirement of prior notice. The Underwriters reserve the right to join with dealers and other underwriters in offering the Series 2008D Bonds to the public. The Underwriters may offer and sell the Series 2008D Bonds to certain dealers at prices lower than the public offering prices. In connection with this offering, the Underwriters may overallot or effect transactions that stabilize or maintain the market price of the Series 2008D Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The obligation of the Underwriters to accept delivery of the Series 2008D Bonds will be subject to various conditions of the Bond Purchase Agreement.

FINANCIAL ADVISOR

Kaufman, Hall & Associates, Inc. ("KHA"), Skokie, Illinois, has been engaged by Advocate Network Corporation to provide various financial advisory services. KHA is a national consulting firm which acts as capital advisor to healthcare organizations, particularly in the areas of short and long term debt financings, joint ventures and overall capital planning.

MISCELLANEOUS

The references herein to any applicable law, the Master Indenture, the Series 2008D Obligation, the Bond Indenture, the Disclosure Agreement, and the Loan Agreement are brief summaries of certain provisions thereof. Such summaries do not purport to be complete, and for full and complete statements of the provisions thereof reference is made to any applicable law, the Master Indenture, the Series 2008D Obligation, the Disclosure Agreement, the Bond Indenture and the Loan Agreement. Copies of such documents are available from the Underwriters and, following the delivery of the Series 2008D Bonds, will be on file at the office of the Bond Trustee. All estimates and other statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

It is anticipated that CUSIP identification numbers will be printed on the Series 2008D Bonds, but neither the failure to print such numbers on any Series 2008D Bond nor any error in the printing of such numbers shall constitute cause for a failure or refusal by the purchaser thereof to accept delivery of and pay for any Series 2008D Bonds.

The attached Appendices are integral parts of this Official Statement and must be read together with all of the foregoing statements.

Advocate Network Corporation, ACMC, the Borrower, North Side and the other System Affiliates have reviewed the information contained herein which relates to them, their Property and operations and have approved all such information for use within this Official Statement.

The delivery of this Official Statement has been duly authorized by the Authority. The execution and delivery of this Official Statement has been approved on behalf of the Obligated Group by Advocate Network Corporation, as Obligated Group Agent.

Approved:

ADVOCATE HEALTH CARE NETWORK

By: /s/ James H. Skogsbergh
President

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APPENDIX A

INFORMATION CONCERNING
ADVOCATE HEALTH CARE NETWORK
and its affiliates and subsidiaries

The information provided in this Appendix A was provided by Advocate Health Care Network and is subject to the forward looking statement disclaimer included in the forepart of this Official Statement.

TABLE OF CONTENTS

INTRODUCTION

Advocate Health Care Network, an Illinois not for profit corporation ("**Advocate**"), is based in Oak Brook, Illinois. Its affiliates include Advocate Health and Hospitals Corporation (**"Hospitals Corporation"**) and various subsidiaries (the **"System"** or the **"Advocate System")**, as described in greater detail herein. Advocate is the largest health care provider in Illinois and was ranked number twelve in the nation among highly-integrated health care systems based on such factors as utilization, financial stability, physician networks and integration, contracting capabilities, outpatient utilization, technology integration and clinical performance, among others, according to an annual survey conducted by Verispan (February 2008), as reported in *Modern Healthcare*. Advocate has ranked in the top ten of the survey for eight out of the last ten years. Also in April 2008, Advocate was named among the state's "Best Places to Work in Illinois." The "Best Places to Work in Illinois" distinction was awarded based on an analysis of Advocate associate surveys and interviews regarding the System's policies, practices and demographics. The statewide analysis was co-sponsored by The Business Ledger, the Illinois Chapter of the Society of Human Resource Managers and The Illinois State Chamber of Commerce.

As hospitals are embracing technology as a key tool for health care quality improvements, in 2007 Advocate for the first time was included by *Information Week 500* as one of the top one hundred organizations for business technology innovation. The *Information Week 500* study is a compilation of the most innovative users of technology across multiple industries. This study considers business-technology strategies, investments, and administrative practices of some of America's best-known companies. While this recognition does not establish a "cause and effect" relationship between information technology use and improved outcomes, it demonstrates that technology can play an important role in quality.

The System provides a continuum of care through its seven short-term acute care hospitals with two integrated children's hospitals and a specialty long-term acute care facility, with approximately 3,100 licensed beds, primary and specialty physician services, outpatient centers, physician office buildings, home health, and hospice care throughout the metropolitan Chicago area. Advocate has a long-term academic and teaching affiliation with the University of Illinois at Chicago Health Sciences Center ("**UIC**"). According to officials at UIC, Advocate has historically trained more resident physicians than any other non-university teaching hospital in Illinois.

Advocate is affiliated with several large physician groups. The System has a management and professional service agreement with Dreyer Medical Group, Ltd. ("**DMG**"), which employs approximately 125 full-time equivalent ("**FTE**") physicians. Advocate Medical Group ("**AMG**") is an unincorporated physician group that is a division of Hospitals Corporation, and as of September 30, 2008 employed approximately 172 FTE physicians. Advocate Health Centers, Inc. ("**AHC**") is an Illinois for profit corporation that is a wholly owned subsidiary of Evangelical Services Corporation d/b/a Advocate Network Services, Inc. ("**ESC**"), an Illinois for profit corporation wholly owned by Advocate, that employs approximately 162 FTE physicians. In addition, Advocate operates a physician group at Advocate Christ Medical Center, which employs approximately 70 FTE physicians and at Advocate Illinois Masonic Medical Center, which employs approximately 59 FTE physicians.

Advocate also joint ventures with the members of its hospitals' medical staffs through physician hospital organizations (**"PHOs"**). The System hospitals and approximately 2,900 of the physician members of their respective medical staffs have established separate jointly operated and controlled PHOs. Each of the PHOs is affiliated with one System hospital and is a member of Advocate Health Partners ("**AHP**"), an Illinois not for profit corporation. Advocate Health Partners contracts to provide hospital and physician services to health maintenance organizations, preferred provider organizations, insurers and other third-party payors for its member PHOs. Advocate views these PHOs as an important vehicle for coordination of patient care, for clinical integration and for System-wide managed care contracting. Because Advocate does not control the majority of the membership or governance interests of AHP or the PHOs, their financial results are not consolidated into Advocate's financial statements; however, Advocate's interests in AHP and the PHOs are accounted for on an equity basis.

HISTORY, BACKGROUND AND ORGANIZATION

Advocate acts as the parent corporation for the System and currently has no material operations or assets. Hospitals Corporation serves primarily as the hospital operating company for the System. Except as otherwise described herein, all assets of hospitals in the System are owned by Hospitals Corporation. The assets of Advocate Illinois Masonic Medical Center ("**Masonic**") are owned by Advocate North Side Health Network ("**Advocate North Side**"), an Illinois not for profit corporation whose sole corporate member is Hospitals Corporation. With the exception of certain PHOs, corporations within the System that are not for profit corporations, including Advocate, Hospitals Corporation, Advocate North Side and, as described in further detail below, Advocate Condell Medical Center, are exempt from federal income taxation pursuant to Section 501(c)(3) of Internal Revenue Code of 1986, as amended (the "**Code**").

System Affiliates

As described in the forepart of this Official Statement, Advocate, Hospitals Corporation and Advocate North Side are Members of the Obligated Group under the Master Indenture. Certain affiliates of Advocate described herein are **"Restricted Affiliates"** under the Master Indenture. No Restricted Affiliate or other direct or indirect affiliate of Advocate will be directly obligated to pay any of the Obligations (as defined in the Master Indenture) issued under the Master Indenture, including the Series 2008 Obligation. The Restricted Affiliates and other affiliates which are controlled by Advocate are collectively referred to herein as the **"System Affiliates."** The following entities are Restricted Affiliates under the Master Indenture:

Restricted Affiliate	General Description
Advocate Charitable Foundation	Fundraising organization
Advocate Insurance SPC	A Cayman Islands for-profit corporation and captive insurance company
Advocate Home Care Products, Inc.	Medical equipment provider
EHS Home Health Care Services, Inc. (d/b/a Advocate Home Health Services, Inc.)	Provides home health care services
Evangelical Services Corporation (d/b/a Advocate Network Services, Inc.)	Provides ancillary and support services to the System; owns 100% of Advocate Health Centers, Dreyer Clinic, Inc., High Technology, Inc. and Advocate Home Care Products, Inc.
High Technology, Inc.	Owns and operates diagnostic centers
Hispano Care, Inc.	Spanish language-based preferred provider administrator.
Illinois Masonic Insurance Co., Inc.	Dissolved January 21, 2008
Meridian Hospice (d/b/a Advocate Hospice)	Palliative Services

Certain System Affiliates are not Restricted Affiliates under the Master Indenture. They are referred to as **"Excluded Affiliates"**, and are described below under the caption **"EXCLUDED AFFILIATES."**

As the corporate parent of the System, Advocate has retained, either directly or indirectly through its affiliates' organizational documents, certain reserved powers over each of the other Members of the Obligated Group and the Restricted Affiliates. These reserved powers over the other Members of the Obligated Group and the Restricted Affiliates permit Advocate to remove the members of the Board of Directors of each other Member of the Obligated Group and each Restricted Affiliate. In addition, Advocate's reserved powers over the Restricted Affiliates generally include, but are not limited to, the power to approve amendments to articles of incorporation and bylaws before such amendments become effective; any mergers, consolidations or dissolutions; affiliations under certain conditions; overall operating and capital budgets prior to commitment of expenditures, as well as all expenditures that exceed thresholds established by the Advocate Board of Directors; the transfer of assets that exceed specified limits; and the incurrence or guarantee of any indebtedness for borrowed money not previously approved through the budget approval process or which exceeds limits established by the Advocate Board of Directors. In addition, the reserved powers over the not for profit Restricted Affiliates permit Advocate to cause each Restricted Affiliate (other than Hispano Care, Inc.) to pay or otherwise transfer property and funds to Advocate for purposes of meeting its obligations under the Master Indenture. The ability of Advocate to release control over a Restricted Affiliate at any time is not limited by the Master Indenture.

The bylaws of the Excluded Affiliates do not expressly require such Excluded Affiliates to transfer funds to Advocate for the payment of indebtedness of the System, and such Excluded Affiliates are not contractually obligated pursuant to an agreement or otherwise to provide such funds. In the Master Indenture, Advocate covenants and agrees that it will cause each Restricted Affiliate, and will use reasonable efforts to cause each of the other System Affiliates (subject to contractual and organizational limitations), to pay, loan or otherwise transfer to Advocate such funds as are necessary to enable Advocate to pay debt service on Obligations issued under the Master Indenture.

Acquisition of Condell Medical Center

Advocate Condell Medical Center ("**Advocate Condell**") was recently incorporated as an Illinois not for profit corporation, whose sole corporate member is Hospitals Corporation. On May 20, 2008, Advocate, Advocate Condell and certain other affiliates of Advocate, and Condell Health Network, Condell Medical Center and certain of their affiliates (collectively, "**Condell**") entered into an Asset Purchase Agreement, as amended (the "**Asset Purchase Agreement**") whereby Advocate, Advocate Condell and certain other affiliates of Advocate will acquire substantially all assets and assume certain liabilities of Condell, including the acute care hospital (the "Medical Center") owned and operated by Condell Medical Center and located in Libertyville, Illinois. Condell Medical Center is the largest health care provider in Lake County, Illinois. Its acute care hospital is licensed for 283 beds and provides tertiary care services such as cardiac surgery, neurosurgery and radiation therapy. Condell also includes four immediate care facilities, home services and an intergenerational care center providing child and adult day care services, all of which will also be acquired by Advocate.

Pursuant to the Asset Purchase Agreement, Advocate has committed to completing Condell's planned new 68-private bed tower and certain other projects. Condell's 283 licensed beds includes the 68 beds planned for an addition approved by the Illinois Health Facilities Planning Board ("**IHFPB**") in July 2006. Closing of the acquisition is subject to review and/or approval by applicable government agencies. On August 12, 2008, IHFPB approved the Certificate of Exemption related to the change of ownership of Condell. As of this date, activities to pursue the remaining government agencies' approvals for the acquisition continue. While there can be no assurance when or if such approvals will be obtained, management of the System has submitted all licensure application materials to the appropriate government agencies and does not currently anticipate any issues with receiving such approvals on or prior to December 1, 2008.

Pursuant to the Asset Purchase Agreement, Advocate Condell will assume Condell Medical Center's Medicare and Medicaid provider numbers. Under established law, as a consequence of the assumption by Advocate Condell of those provider numbers (consistent with many hospital transactions), Advocate may be liable to the United States and to the State of Illinois for Medicare and Medicaid overpayments received by Condell Medical Center prior to the closing date of the acquisition. In the course of conducting its due diligence related to this transaction, Advocate learned of certain contractual relationships between Condell Medical Center and certain of its affiliates and physicians on the medical staff of Condell Medical Center. In response to Advocate's findings, and

following further investigation, Condell Medical Center voluntarily disclosed these relationships to the United States Attorney for the Northern District of Illinois and has reached a verbal agreement to pay restitution for failure to comply with applicable federal and state laws and inappropriate billings under Medicare and Medicaid. Neither Advocate nor its Affiliates is a party to this agreement, and such entities are not liable for these improper physician relationships or their legal or financial consequences. Advocate's due diligence did not uncover any other Medicare or Medicaid liabilities arising out of this or any other conduct by Condell Medical Center prior to the acquisition, although Advocate cannot give assurances that unknown, contingent liabilities may not arise in the future or that such liabilities will not have a material adverse effect on the financial condition of Advocate Condell or the Obligated Group.

As described in the forepart of this Official Statement, the acquisition of the Medical Center will be financed using the proceeds of the Series 2008 Bonds and Advocate funds. On the date of closing, Advocate Condell will become a member of the Obligated Group.

Unless otherwise expressly indicated in this *Appendix A*, none of the information about the System, including its sites of care, utilization and financial information, includes information about Condell.

INFORMATION CONCERNING THE SYSTEM

Sites of Care

The System has more than 200 sites of care strategically placed so as to provide a continuum of healthcare services to the greater metropolitan Chicago area. For the locations of the System sites of care, see the map set forth on the inside front cover of this Official Statement.

Mission and Community Benefit

As a faith-based health care organization, sponsored by the United Church of Christ and Evangelical Lutheran Church of America, the mission, values and philosophy of the System form the foundation for its strategic priorities. The System's mission is to serve the health care needs of individuals, families and communities through a wholistic philosophy rooted in the fundamental understanding of human beings as created in the image of God. Consistent with its values of compassion and stewardship, the System makes a major commitment to patients in need, regardless of their ability to pay. This care is provided to patients who meet the criteria established under the System's charity care policy. Patients eligible for charity consideration could earn up to 400% of the federal poverty level. Qualifying patients can receive up to 100% discounts from charges and extended payment plans.

In addition, the System is involved in numerous community benefit activities. These activities are wide-ranging and include providing health education, immunizations for children, support groups, health screening, health fairs, pastoral care, home-delivered meals, transportation services, seminars and speakers, crisis lines, publishing health magazines, medical residency and internships, research and language assistance, and other subsidized health services. These activities are provided free of charge or at a fee that is below the cost of providing them.

Position in the Market

Advocate makes operating and financial decisions on a System-wide basis and provides for complete financial integration of the System hospitals. Further, overall management of the System is centralized which allows for a streamlined decision making process and the ability of the System to respond appropriately to market forces. In addition, of the Chicagoland hospital systems, the System believes it has the greatest geographic coverage in the Chicago metropolitan area. The System is also a leader in physician integration. Three of the largest physician groups in the Chicago metropolitan area are exclusively affiliated with the System, and the System has more than 5,000 physicians on the medical staffs of its hospitals.

As shown in the following table, ten hospitals and/or healthcare systems have significant inpatient market share in the Chicago metropolitan area, which includes the counties of Cook, DuPage, Will, Kane, Lake and McHenry.

	Twelve Months Ended March 31, 2008	Year Ended December 31, 2007
Advocate System*	13.6%	13.6%
Resurrection Healthcare	9.0	9.1
Rush System for Health	5.1	5.0
Northwestern Memorial Hospital	4.1	4.1
Alexian Brother Medical Center	4.0	4.0
Provena Health System	3.8	3.8
Evanston Northwestern Healthcare	3.2	3.2
Adventist Health System	2.6	2.5
Sisters of St. Francis	2.2	2.2
University of Chicago Hospitals	2.1	2.1
Aggregate Market Share of above organizations	49.6%	49.7%

*Does not include Advocate Bethany Hospital
Source: IHA Compdata through December 31, 2007

Utilization Statistics

Hospital admissions for the System's acute care hospitals for the fiscal years ended December 31, 2007 and 2006 and the nine months ended September 30, 2008 and 2007 are set forth below. Also included are certain utilization statistics for the System's home health providers and physician practices for corresponding periods.

	Year Ended December 31,		Nine Months Ended September 30,	
	2006	2007	2007	2008
Acute Care Hospitals				
Acute Care:				
-Admissions*	143,369	142,035	106,735	108,618
-Average Length of Stay (days)	4.65	4.69	4.68	4.76
Outpatient Visits*	1,477,951	1,551,053	1,161,368	1,186,726
Home Health:				
-Home Health Care Admissions	13,789	13.615	10,201	10,975
Physician Practices:				
-Covered Lives				
Full Risk	67,287	67,360	66,766	66,164
Partial Risk	80,781	74,802	76,339	71,618

*Excludes Advocate Bethany Hospital, which was converted to a long-term acute care hospital in March 2006

Hospital Division

A brief description of the System's acute care hospitals is provided below. Each of the hospital facilities is a separate operating division of Hospitals Corporation, the assets of which are owned by Hospitals Corporation (with the exception of the Masonic operations which are owned by Advocate North Side). The location of each hospital is indicated on the map set forth on the inside front cover of this Official Statement.

Advocate Bethany Hospital

Advocate Bethany Hospital (**"Bethany"**) is an 85-licensed bed (approximately 84 of which were in service as of December 31, 2007) long-term acute care facility located on the west side of Chicago, Illinois. Bethany was

constructed in 1983 and opened its doors in 1984. In addition to providing long-term, state-of-the-art, comprehensive care for patients with complex medical conditions which require an extended hospital stay, Bethany offers certain outpatient services, including X-ray, CT, laboratory, mammography, outpatient surgery, chemotherapy, respiratory care, pharmacy, and an emergency department for minor illness and injuries. In 2006, Advocate Bethany Hospital became the first and only specialty hospital on Chicago's West Side.

Advocate Christ Medical Center

Advocate Christ Medical Center (**"Christ Medical Center"**) is a 764-licensed bed (approximately 642 of which were in service as of December 31, 2007) Level I trauma center and teaching and tertiary care facility located in Oak Lawn, Illinois. Oak Lawn is located approximately thirteen miles southwest of downtown Chicago. Christ Medical Center was opened in 1961 as a 195-bed community hospital. Since that time, Christ Medical Center has grown to become one of the largest hospitals in metropolitan Chicago. Christ Medical Center is a leader in cardiology, pediatrics, surgical services, oncology, women's services and emergency medicine. In 1996, Christ Medical Center opened Advocate Hope Children's Hospital, a four-story, 96-bed pediatric facility that is now the largest children's hospital in Chicago's south and southwest suburbs.

Advocate Good Samaritan Hospital

Advocate Good Samaritan Hospital (**"Good Samaritan"**) is a 366-licensed bed (approximately 326 of which were in service as of December 31, 2007) general acute care facility located in Downers Grove, Illinois. Downers Grove is located approximately twenty-four miles west of downtown Chicago. Good Samaritan opened in 1976. In addition to operating a Level I trauma center, Good Samaritan provides services in cardiology, oncology and women's services. It also operates a Special Care Nursery, which is certified by the State of Illinois as a Level III nursery, the highest level of perinatal care available.

Advocate Good Shepherd Hospital

Advocate Good Shepherd Hospital (**"Good Shepherd"**) is a 189-licensed bed (approximately 181 of which were in service as of December 31, 2007) general acute care facility located on an 81-acre campus in unincorporated Lake County near Barrington, Illinois. Barrington is located approximately thirty-five miles northwest of downtown Chicago. Good Shepherd opened in 1979 and is a full-service hospital offering a comprehensive range of services including advanced surgical capabilities, emergency services backed by the resources of a Level II trauma center and a state-of-the-art Birth Center that serves as a health resource for approximately twenty communities in Cook, Lake, Kane and McHenry Counties. In January 2007, HealthGrades, the nation's leading hospital healthcare ratings organization, awarded Good Shepherd its 2007 Distinguished Hospital Award for Clinical Excellence. Good Shepherd opened the Wayne and Patricia Kocourek Family Cardiac Care Center in 2005 ("**Cardiac Care Center**"). The Cardiac Care Center provides patients with immediate access to advanced cardiac care technology, open heart and catheterization facilities in the area. Comprehensive interventional techniques and therapies, including angioplasty, atherectomy, stenting, bypass and valve surgeries are performed on site at Good Shepherd.

Advocate Lutheran General Hospital

Advocate Lutheran General Hospital (**"Lutheran General"**) is a Level I trauma center and tertiary care and teaching hospital with 617 licensed beds (approximately 584 of which were in service as of December 31, 2007), located in Park Ridge, Illinois. Lutheran General also operates Advocate Lutheran General Children's Hospital, one of the most comprehensive providers of pediatric care in Illinois. It is the only children's hospital in the north and northwest suburbs of Chicago, and serves as a major Midwest referral center for infants and children, especially for complex illnesses and chronic conditions. Park Ridge is approximately twenty miles northwest of downtown Chicago. Lutheran General was founded in 1897 and opened at its present site in 1959 as a 316-bed hospital. Lutheran General was the only Illinois hospital recognized for ear, nose and throat services in the 2007 *U.S. News & World Report's* America's Best Hospitals rating.

Advocate South Suburban Hospital

Advocate South Suburban Hospital (**"South Suburban"**) is a 289-licensed bed (approximately 289 of which were in service as of December 31, 2007) general acute care hospital. South Suburban also operates a skilled nursing facility with a complete rehabilitative department dedicated to restorative patient care. South Suburban commenced operations in 1950 as "Hazel Crest General Hospital," a 16-bed acute care facility located in Hazel Crest, Illinois, approximately twenty seven miles south of downtown Chicago.

Advocate Trinity Hospital

Advocate Trinity Hospital (**"Trinity"**) is a 250-licensed bed (approximately 179 of which were in service as of December 31, 2007) general acute care facility located on the far southeast side of Chicago, Illinois. Trinity was founded in 1895 as "South Chicago Hospital." With an approximately 300-member medical staff representing fifty medical specialties and subspecialties, Trinity offers full-service capabilities in inpatient, outpatient and emergency services.

Advocate North Side

Advocate Illinois Masonic Medical Center

Advocate North Side owns Illinois Masonic Medical Center. Masonic is a 551 licensed-bed (approximately 354 of which were in service as of December 31, 2007) teaching and tertiary care hospital located on the north side of Chicago. Masonic was founded to fulfill the Masonic tradition of helping those in need and has been serving the people of Chicago for more than 78 years. Masonic operates one of two Level I trauma centers on Chicago's north side and provides services in areas including cancer, cardiology, obstetrics and emergency services. In 2006, Masonic was nationally recognized for excellence as one of the top 50 of "America's Best Hospitals" by U.S. News & World Report. On January 14, 2008, Advocate Illinois Masonic Medical Center achieved Magnet designation for excellence in nursing services by the American Nurses Credentialing Center's Magnet Recognition Program.

Physician Divisions of Hospitals Corporation and Advocate North Side

Advocate Medical Group

AMG, an operating division of Hospitals Corporation, is a multi-specialty physician practice contracting with and/or employing approximately 172 FTE physicians, 40% of whom are primary care physicians. Ninety-six percent of AMG's physicians are board certified. In addition to providing physician services, AMG also engages in medical, surgical and scientific research and education.

Advocate Christ Medical Group

Advocate Christ Medical Group ("**ACMG**") is an operating division of AMG. ACMG is a multi-specialty physician practice that employs approximately 70 FTE physicians, approximately 38% percent of whom are primary care physicians. In addition to providing physician services, ACMG also engages in medical, surgical and scientific research and education.

Advocate Illinois Masonic Physician Group

Advocate Illinois Masonic Physician Group ("**AIMPG**") is an operating division of Advocate North Side Health Network. More than 70 physicians comprise twelve physician practices providing a wide range of medical and surgical care at sites throughout Chicago's north side. Approximately 59 FTE physicians are employed by AIMPG, of whom 99% percent are board certified.

Home Health Services

The System, through EHS Home Health Care Services, Inc., d/b/a Advocate Home Health Services, an Illinois not for profit corporation ("**Home Health**"), and Meridian Hospice, d/b/a Advocate Hospice, an Illinois not for profit corporation, offers various home health services including palliative services, infusion therapy, respiratory therapy, pharmacy services and durable medical equipment. The System operates approximately five home health service offices across the metropolitan Chicagoland area. The sole member of Home Health is Hospitals Corporation. The sole member of Meridian Hospice is Home Health.

In collaboration with the services provided by Home Health, Advocate Home Care Products, Inc., an Illinois for profit corporation, supplies a full line of medical, convenience and safety equipment for the home. The sole shareholder of Advocate Home Care Products, Inc. is Evangelical Services Corporation, d/b/a Advocate Network Services, Inc., described in further detail below.

Foundations

Advocate Charitable Foundation

Advocate Charitable Foundation ("**Advocate Foundation**") is responsible for fund raising for and on behalf of the System. Advocate Foundation is an Illinois not for profit corporation. Its purposes are to benefit, carry out the purpose of and support the performance of the functions of Hospitals Corporation and other System Affiliates which are exempt from federal income taxation under Sections 501(a) and 501(c)(3) of the Code. The sole corporate member of Advocate Foundation is Advocate.

Advocate Foundation supports various charitable activities with the goal of providing health and education services and programs to needy individuals. Advocate Foundation had fundraising revenue of approximately $13.2 and $13.8 million for the year ended December 31, 2007 and the nine months ended September 30, 2008, respectively. Total assets of Advocate Foundation at December 31, 2007 amounted to $111.7 million and at September 30, 2008 amounted to $103.1 million. Substantially all of Advocate Foundation's assets are held for the benefit of Hospitals Corporation.

Masonic Family Health Foundation, Inc.

Masonic Family Health Foundation, Inc., an Illinois not-for-profit, tax exempt corporation (the "**Masonic Foundation**") was incorporated in 2000. The Board of Directors of Masonic Foundation is elected by Masonic Family Health Services ("**Services Corporation**"), a not-for-profit, tax exempt corporation established by the predecessor owner of Masonic at the time of the purchase by Advocate North Side. One of the members of the Board of the Masonic Foundation is a representative of Advocate. Services Corporation's responsibilities are limited to electing Masonic Foundation's Board and certain limited fundraising activities.

As part of the purchase of Masonic in November 2000, the Masonic Foundation was capitalized by a transfer of Masonic endowment and other funds in the approximate amount of $105.7 million. The organizational documents for Masonic Foundation restrict the use of all but approximately $4.5 million of its funds. (The $4.5 million are restricted funds which must be used in accordance with the restrictions placed upon them by their donors.) In particular, the Masonic Foundation may not use the principal received at the time of sale (exclusive of donor restricted funds) of Masonic to Advocate for any purpose other than to support the operations and/or capital needs of Masonic. Generally, 90% of investment yield on this principal (subject to certain minimum distribution requirements) must be paid to Advocate North Side annually for use at Masonic, and the other 10% may be used for charitable purposes deemed appropriate by the Masonic Foundation Board of Directors.

Masonic Foundation and Services Corporation are independent and are not part of the Advocate System. Their financial statements are not included into the Advocate consolidated financial statements. However, Advocate's interest in the net assets of Masonic Foundation is reflected in Advocate's consolidated balance sheet in the amount of $101.2 million at December 31, 2007 and $84.2 million at September 30, 2008.

For-Profit Operations

Evangelical Services Corporation

ESC is an Illinois for-profit corporation, the sole shareholder of which is Advocate. ESC was incorporated in November 1982 to provide ancillary and support services to the System. ESC presently has five wholly-owned subsidiaries: Advocate Home Care Products, Inc., High Technology, Inc., Advocate Health Centers, Inc., Tinley Orland Medical Center, LLC and Dreyer Clinic, Inc.

High Technology, Inc.

High Technology, Inc. is an Illinois for-profit corporation that owns and operates diagnostic centers in Palos Heights and Tinley Park, Illinois as well as other diagnostic operations in the Chicago metropolitan area. The sole shareholder of High Technology, Inc. is ESC.

EXCLUDED AFFILIATES

Physician Groups

The System is affiliated with several large physician groups in the State of Illinois. AMG, ACMG and AIMPG are discussed above**.** Two others are described below.

Advocate Health Centers, Inc.

AHC is Advocate Health Centers, Inc., an Illinois for-profit corporation, is an organization which provides professional services to members of managed care companies and other third-party payors. AHC employs approximately 162 FTE physicians, 64% of whom are primary care physicians. Sixty-nine percent (69%) of these physicians are board certified.

Dreyer Clinic, Inc.

Dreyer Clinic, Inc. ("**Dreyer Clinic**") is an Illinois for-profit corporation that is wholly-owned by ESC. Dreyer Clinic provides management, administrative, and other services to DMG, an Illinois medical corporation that employs approximately 125 FTE physicians, 41% of whom are primary care physicians, in a number of specialties. DMG is based in Aurora, Illinois, and serves residents of a five-county area at nine different locations throughout the Fox River Valley. Although DMG is owned by its physician shareholders, a majority of the real estate and equipment it uses is owned by Dreyer Clinic. Although Advocate's financial statements include the operations and assets of Dreyer Clinic, Dreyer Clinic is not a Restricted Affiliate due to certain contractual covenants it has with DMG with respect to the transfer of its assets. The financial statements of DMG are not included in Advocate's financial statements, and DMG is neither a System Affiliate nor a Restricted Affiliate and is not, therefore, subject to any of the covenants and restrictions of the Master Indenture.

Joint Ventures

The System is involved and/or has investment or membership interests in numerous joint ventures with other healthcare institutions in the Chicago metropolitan area and Wisconsin. These joint ventures promote the delivery of healthcare services and/or otherwise further the purposes of the System and its constituent corporations. Among its joint ventures, the System has relationships with Hospital Laundry Services, Inc. ("**HLS**"), a not for profit laundry cooperative, and Aurora Consolidated Laboratories ("**Aurora**"), a division of Aurora Health Care, Milwaukee, Wisconsin.

FINANCIAL INFORMATION

The following condensed consolidated summaries of revenues and expenses for the years ended December 31, 2007 and 2006 are derived from the 2007 audited consolidated financial statements of Advocate and the condensed consolidated summaries of revenues and expenses for the nine months ended September 30, 2008

and 2007 are derived from unaudited interim financial statements. The unaudited interim financial statements should not be read or interpreted as indicative of results for the completed current fiscal year or financial condition as of December 31, 2008. The condensed consolidated summaries of revenues and expenses do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The information set forth in the following table related to the years ended December 31, 2007 and 2006, which represents only excerpts from the complete consolidated statement of operations and changes in net assets, should be read in conjunction with the 2007 audited consolidated financial statements of Advocate set forth in *Appendix B* to this Official Statement

The audited 2007 consolidated financial statements of Advocate included in *Appendix B*, as well as the following table, include the Restricted Affiliates and the Excluded Affiliates. The Restricted Affiliates represent approximately 10% of consolidated assets and approximately 3% of consolidated total operating revenues as of and for the years ended December 31, 2007 and 2006, respectively. The Restricted Affiliates represent approximately 11% and 10% of consolidated assets as of September 30, 2008 and 2007 respectively, and approximately 3% of consolidated total operating revenues for the nine months ended September 30, 2008 and 2007. The Excluded Affiliates represent less than 2% and 3% of the consolidated assets as of December 31, 2007 and 2006, respectively, and less than 15% of consolidated total operating revenues for each of the years ended December 31, 2007 and 2006. The Excluded Affiliates represent approximately 2% of consolidated assets and less than 15% of consolidated total operating revenues as of and for the nine months ended September 30, 2008 and 2007.

The financial information included in this Official Statement pertains to Advocate only, and does not include any financial information pertaining to Condell. The audited consolidated financial statements of Condell for its fiscal year ended December 31, 2007 filed by Condell with the Nationally Recognized Municipal Securities Information Repositories disclose total revenue of approximately $320 million, an operating loss of approximately $12.5 million, revenues and gains deficient of expenses and losses of approximately $52.7 million, and total net assets of approximately $119 million. No assurance can be or is provided with respect to the accuracy of these amounts or the financial statements from which they are derived.

	Year Ended December 31,		Nine Months Ended September 30,	
	2006	2007	2007	2008
UNRESTRICTED REVENUES				
Patient service revenue	$2,673,359	$2,860,731	$2,116,021	$2,272,151
Capitation revenue	395,040	413,169	309,548	334,651
Other revenue	194,656	182,920	137,934	149,534
	3,263,055	3,456,820	2,563,503	2,756,336
OPERATING EXPENSES	3,111,505	3,281,293	2,449,576	2,644,638
Operating income	151,550	175,527	113,927	111,698
Investment and other nonoperating income (loss), net	129,305	84,411	124,559	(370,050)
Revenues in excess of (less than) expenses	$ 280,855	$ 259,938	$ 238,486	$ (258,352)

Existing Master Indenture Indebtedness of the System

The outstanding aggregate principal amount of Obligations issued by Advocate under the Master Indenture securing tax-exempt bonds issued for the benefit of the System ("**Tax Exempt Indebtedness**") as of September 30, 2008 was $764,410,000. Set forth below is a description of the Tax Exempt Indebtedness outstanding as of September 30, 2008 and on the date of delivery of the Series 2008 Bonds.

TAX EXEMPT INDEBTEDNESS

Revenue Bonds and Revenue Refunding Bonds, Illinois Finance Authority, Illinois Health Facilities Authority	Par Outstanding as of September 30, 2008	Par Outstanding as of Closing Date
Series 1993C (Lutheran General HealthSystem)	$ 24,730,000	$ 24,730,000
Series 1998A (Advocate Health Care Network)	8,515,000	8,515,000
Series 1998B (Advocate Health Care Network)	26,660,000	26,660,000
Series 2000 (Advocate Health Care Network)	11,335,000	7,570,000
Series 2003A (Advocate Health Care Network)	34,485,000	32,500,000
Series 2003C (Advocate Health Care Network)	34,505,000	32,525,000
Series 2008 A-1 to A-3 (Advocate Health Care Network)	153,430,000	153,430,000
Series 2008 B-1 to B-5 (Advocate Health Care Network)	122,450,000	121,900,000
Series 2008 C-1 to C-3 (Advocate Health Care Network)	348,300,000	348,300,000
Series 2008D (Advocate Health Care Network)	--	180,000,000
Total Tax Exempt Indebtedness	$764,410,000	$936,130,000

The Members of the Obligated Group entered into a standby bond purchase agreement ("**SBPA**") for a three year period with four banks to provide liquidity support for the Series 2008B Bonds and the Series 2008C Bonds. The SBPA requires various covenants to be maintained including both reporting and financial. Bank bonds in the amount of $74.0 million were outstanding at September 30, 2008 under the SBPA and were subsequently remarketed in October 2008. In addition, another $7.3 million of Series 2008C-3 Bonds were converted to bank bonds under the SBPA in October 2008 and have not been remarketed as of the date of this Official Statement. Unless extended, the SBPA will expire on April 29, 2011. In the event that any unreimbursed liquidity draws ("Bank Bonds") are outstanding on the termination date of the SBPA, such Bank Bonds will be subject to mandatory redemption or mandatory purchase and will amortize over five years in twenty equal quarterly installments of principal plus interest, with the initial installment commencing three months after the termination date of the SBPA.

Other Indebtedness of the System

Another System Affiliate has incurred other indebtedness, which is secured by Obligations issued by Advocate under the Master Indenture. This other indebtedness will remain outstanding on the date of issuance of the Series 2008 Bonds. In connection with the acquisition of the entities which now comprise Dreyer Clinic and its related corporations, Advocate and/or Hospitals Corporation issued corporate guaranties to secure existing indebtedness relating to Dreyer Clinic and its subsidiaries. As of September 30, 2008, the outstanding aggregate principal amount of the indebtedness so guaranteed approximates $11.8 million. This indebtedness is included in the consolidated financial statements of Advocate.

Advocate provides a guaranty of obligations of a company of which it is a forty-nine percent owner in the amount of $0.6 million.

The System is primarily self-insured for workers' compensation claims. Under regulatory rules of the State of Illinois, the System is required to post a letter of credit with a State agency to operate a self-insured program. At September 30, 2008 and December 31, 2007, the amount of the letter of credit outstanding totaled $9.8 million and $9.9 million, respectively. The System has a letter of credit outstanding in connection with a building lease arrangement in the amount of $5.4 million. No amounts were drawn on these letters of credit as of September 30, 2008 and December 31, 2007. Advocate has pledged approximately $2.5 million of investments held in trust as partial collateral for certain financing arrangements entered into between a not-for-profit laundry

cooperative (that provides services to the System and of which the System is a member) and a bank. There have been no calls for this guaranty.

In July 2006, this not-for-profit laundry cooperative entered into a linen purchase agreement with one of its suppliers. In connection with this agreement, members of the laundry cooperative guaranteed their proportionate share of the purchase. Advocate's proportionate guarantee amounted to approximately $2.7 million. Should the laundry cooperative fail to purchase the linens by July 2011, each member is required to fulfill its guaranty by purchasing the linens from the supplier.

Advocate has also agreed to provide a $1.0 million advance to a third party under the terms of a management service organization agreement. No amounts have been advanced under this arrangement.

Except as described in the first paragraph above, none of the indebtedness described in this section is secured by the Master Indenture.

Capitalization and Debt Service Coverage

The following table presents Advocate's historical and proforma capitalization as of December 31, 2007. In calculating debt service requirements on indebtedness, the pro forma column assumes the issuance of the Series 2008 Bonds on January 1, 2007, in the aggregate principal amount of $180,000,000. The pro forma column further assumes the issuance of the Series 2008A through 2008C Bonds on January 1, 2007 in the aggregate principal amount of $624,180,000 and the application of the proceeds of their sale on that date.

Historical and Pro Forma Capitalization
As of December 31, 2007

	Total System (In Thousands)	
	Historical	Pro Forma
Total Long-Term Indebtedness	$ 786,949	$ 970,119
Less: Debt Service Reserve Fund[(1)]	17,731	17,731
Total Net Long-Term Indebtedness	769,218	952,388
Unrestricted Net Assets	2,453,428	2,429,405
Total Capitalization	$3,222,646	$3,381,793
Total Net Long-Term Indebtedness as a Percentage of Total Capitalization	23.9%	28.2%

[(1)] Includes Debt Service Reserve Funds on deposit with a trustee.

The following table presents actual coverage of the debt service requirements of the System for the year ended December 31, 2007, based on all indebtedness of the System, including indebtedness of the Excluded Affiliates. Pursuant to the Master Indenture, the historical debt service coverage calculation includes the revenues, expenses and indebtedness of all entities included within the System and consolidated with Advocate in its audited consolidated financial statements, regardless of whether such entities are Restricted Affiliates under the Master Indenture. In calculating debt service requirements on indebtedness, the pro forma column assumes the issuance of the Series 2008 Bonds on January 1, 2007 in the aggregate principal amount of $180,000,000 and the Series 2008A through 2008C Bonds on January 1, 2007 in the aggregate principal amount of $624,180,000. The pro forma computations further assume that interest on the Series 2008A through 2008C Bonds (bearing interest at an average annual interest rate of 3.75% for the period) and the 2008D Bonds (bearing interest at an average annual interest rate of 6.5% for the period) is included in the pro forma calculations, and interest expense incurred in 2007 related to the Series 2007 Bonds, the Series 2005 Bonds and those bonds refinanced with the proceeds of the Series 2007 Bonds is excluded from the pro forma calculations. The actual principal of, and initial rate on, the Series 2008A

Bonds is lower than the respective amounts assumed for purposes of the calculation of the pro forma capitalization and debt service requirements.

Coverage of Debt Service Requirements
For the Year Ended December 31, 2007
(dollars in thousands)

	Historical	Pro Forma
Revenues in excess of expenses	$259,938	$235,915
Adjustments:		
Depreciation, amortization and interest	158,379	172,730
Unrealized losses on unrestricted investments	7,687	7,687
Unrealized losses on interest rate swap obligation	12,207	12,207
Gain on sale of assets not in ordinary course of business	(763)	(763)
Loss on refinancing of debt	3,000	12,672
Net Income Available for Debt Service	$440,448	$440,448
Debt Service Requirement[1]	57,191	57,290
Debt Service Coverage Ratio	7.70x	7.69x

[1] Calculated as required by the terms of the Master Indenture. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Rates and Charges."

Management's Discussion of Financial Performance

Nine months ended September 30, 2008 and 2007

Operating income of $111.7 million was generated during the first nine months of 2008. This resulted in an operating margin of 4.1% compared to an operating margin of 4.4% for the nine months ended September 30, 2007 and 5.1% for the year ended December 31, 2007. The operating income decrease of $2.2 million from 2007 to 2008 includes $6.1 million less in Illinois Medicaid Assessment Program net proceeds due to the expiration of this program on June 30, 2008. Excluding the effect of this expired program from 2007 results, operating income for the third quarter of 2008 would have been $3.8 million or 4.0% higher the comparable period of 2007. The primary drivers of this $3.8 million increase were higher net patient service and capitation revenues, partially offset by higher operating expenses.

Total revenue for the first nine months of 2008 amounted to $2,756.3 million and increased $192.8 million (7.5%) from the comparable period in 2007. This increase was driven by an increase in patient service revenue of $182.2 million (8.9%). The increase in patient service revenue reflects an overall 1.8% increase in admissions and a 2.2% increase in hospital outpatient visits, increased managed care utilization and increased patient acuity. These contributors to the increased patient service revenue were partially offset by higher Medicaid utilization and the decrease in the proceeds from the aforementioned expired State of Illinois Medicaid assessment program ($26.1 million). Capitation revenue, which amounted to $334.7 million, increased by $25.1 million (8.1%) in 2008 compared to the first nine months of 2007 due primarily to increased payment rates in 2008 driven in part by higher acuity of covered membership. Other revenue of $149.5 million increased $11.6 million (8.4%) from the comparable period of the prior year reflecting an increase in grant related revenue and equity income from joint ventures.

Total expenses for the first nine months of 2008 amounted to $2,644.6 million, an increase of $195.1 million (8.0%) from the first nine months of 2007. Expenses in the areas of salaries and wages and purchased services and operating supplies were driven by inflationary pressures. Insurance and claims costs of $148.8 million increased $19.6 million (15.1%) when compared to the first nine months of 2007 primarily due to favorable claim experience in 2007. Other expenses of $142.0 million have increased $15.1 million (11.9%) due to increased

operating lease expense on medical equipment and minor equipment purchases. Interest expense of $25.9 million increased by $5.9 million (29.5%) from the comparable period in 2007 primarily due to the issuance of $200.0 million of bonds in the fourth quarter of 2007 and the collapse of the auction rate securities market in the first quarter of 2008.

On June 30, 2008 the State of Illinois Medicaid Assessment Program expired. A new program has been submitted by the State and is currently under review by the Center for Medicare and Medicaid Services ("CMS"). A final decision from CMS could be rendered as soon as the end of the fourth quarter of 2008.

Years Ended December 31, 2007 and 2006

Operating income of $175.5 million generated during 2007 was $24.0 million greater than 2006. This translates to an operating margin of 5.1% compared to an operating margin 4.6% for the year ended December 31, 2006. The operating income increase of $24.0 million includes an increase in prior year cost report and other settlements of $6.4 million, increased operating income at Lutheran General of $40.3 million primarily due to expense management, and decreased operating losses at Bethany of $12.4 million. Partially offsetting these increases in operating income was increased losses in Advocate's physician practice operations of $11.6 million primarily related to decreased membership and higher medical costs at one of Advocate's medical groups, $12.0 million of lower investment returns on Advocate's self-insurance trust assets, and $11.9 million lower net proceeds from the State of Illinois Medicaid Assessment Program (discussed below).

Total revenue for 2007 amounted to $3,456.8 million and increased $193.8 million (5.9%) from the comparable period in 2006. This increase was primarily driven by an increase in patient service revenue of $187.4 million (7.0%). This increase includes a $6.4 million increase in prior year cost report and other settlements, increases in managed care payment rates in the hospital division, and increased hospital outpatient volumes. For 2007, admissions were 0.9% lower than 2006 but outpatient visits were 4.9% higher than 2006. Proceeds from the State of Illinois Medicaid Assessment Program (discussed below) totaled $104.2 million for the 2007 compared to $156.2 million for 2006. These proceeds were partially offset by a Medicaid assessment, which is part of total expenses, of $80.3 million for 2007 compared to $120.4 million for the prior year for a net benefit of $23.9 million in 2007. Capitation revenue, which amounted to $413.2 million, increased by $18.1 million (4.6%) in 2007 compared to 2006 due to an increase in payment rates resulting in part from higher acuity of membership covered.

Total expenses for 2007 amounted to $3,281.3 million, an increase of $169.8 million (5.5%) from 2006. Increases in expenses in the areas of salaries and wages and purchased services and operating supplies were driven by inflationary pressures. Contracted medical services were $38.4 million (22.4%) higher due to increased utilization of medical services through one of Advocate's medical groups. The provision for uncollectible accounts increased by $3.8 million (2.5%), which is below the increase in net patient service revenue. Insurance and claims costs were $8.7 million or 5.3% lower than 2006 primarily due to favorable claim experience. Other expenses of $255.5 million have decreased $17.2 million (16.3%) due primarily to a decrease in the Medicaid assessment of $40.1 million which was partially offset by increased operating lease expense on medical equipment and minor equipment purchases. Interest expense was $2.7 million or 10.1% lower than 2006 primarily due to the capitalization of interest expense related to ongoing construction projects.

On July 1, 2008, the State of Illinois Medicaid Assessment Program that was approved in November 2006 by CMS, retroactive to July 2005, expired. A proposed new five year program has been submitted by the State of Illinois and is currently under review by CMS. A final decision from CMS is not expected until the end of the fourth quarter of 2008. The total net annual benefit to Advocate hospitals if the new program is approved in its submitted form is approximately $32 million. In regards to the expired program, there are no amounts due to or owed by Advocate at September 30, 2008. Under the expired program, the annual net benefit to Advocate hospitals was approximately $23.9 million. In 2006, the total net payments of $35.8 million for the period of August 1, 2005 through December 31, 2006 were recorded. Of this $35.8 million recorded in 2006, $11.9 million related to 2005.

Liquidity and Capital Resources

Cash provided by operating activities during the first nine months of 2008 amounted to $277.9 million compared to $350.3 million during the comparable period of 2007, a decrease of $72.4 million. Compared to the prior year, the decrease in cash provided by operating activities in 2008 was primarily related to lower settlement amounts from third party payors and an increase in patient accounts receivable primarily due to a slowdown of payments from the State of Illinois on Medicaid patients.

Unrestricted cash and investment balances (including amounts reported as part of assets limited to use and investments under the securities lending program in the 2007 audited consolidated financial statements) was $1,803 million and $1,837 million at September 30, 2008 and 2007 respectively, and $1,799 million at December 31, 2007 and, including amounts held in bond indenture project funds, was $1,838 million and $1,828 million at September 30, 2008 and 2007 respectively, and $1,940 million at December 31, 2007.

Days' cash and investments on hand were 201 days as of September 30, 2008, a decrease of 30 days from December 31, 2007. The decrease is primarily attributed to the following activities:

Revenues less than expenses plus depreciation	(17)	days
Capital expenditures	(19)	
Working capital	22	
Increase in operating expenses	(18)	
Loss on refinancing of debt	1	
Contributions	2	
Other	(1)	
	(30)	days

Net capital expenditures amounted to $169.5 million and $132.8 million for the nine months ended September 30, 2008 and 2007 and $192.6 million for the year ended December 31, 2007. The increase in capital expenditures at September 30, 2008 compared to September 30, 2007 primarily reflects the expenditures made for the building of a new bed tower at one of the System's hospitals. The total capital expenditures made reflect continued investment in the System's facilities and equipment. Cash generated from operations, existing investment balances and proceeds from the System's 2007 bond issue primarily financed the capital expenditures.

The Series 2008 A-1, A-2, A-3, issued on April 23, 2008, and the Series 2003 A and C, issued on October 29, 2003 by the Illinois Health Facilities Authority, both for the benefit of the System, are secured under the terms of the Master Indenture. These bonds were issued as variable rate bonds, uninsured, with stated repayment installments through 2030. These bonds are classified as a current liability in the condensed consolidated balance sheets due to the requirement of bondholders to tender the bonds for purchase and remarketing within twelve months of the September 30, 2008 and December 31, 2007 balance sheet dates. In the event the bonds are not remarketed upon mandatory tender at the end of a long-term rate period, management would utilize marketable unrestricted investments to meet the obligations. The bond proceeds for the Series 2008 A-1, A-2, A-3 were utilized to refund the Series 2007A bonds and certain bond issuance costs. The bond proceeds from the Series 2003 A and C were primarily utilized to fund various capital projects of the organization.

Management believes the System's financial condition is generally good. The organization's cash, other liquid assets, operating cash flow, borrowing capacity, and ability to lease certain medical equipment, taken together are believed to provide adequate resources to fund ongoing operating requirements and maintenance capital requirements.

General and Professional Liability Insurance

The System has a comprehensive insurance program designed to conserve and protect its assets and properties. Risk transfer is utilized to shift exposures and losses to a third party indemnifier when it is deemed prudent and appropriate. Certain components of the insurance program, including hospital professional and general

liability risks, are self-insured on a claims-made basis. The System purchases excess liability insurance in amounts it deems necessary to cover losses that may exceed its self-insured liability limits. Limits of excess liability insurance are commensurate with healthcare professional and general liability industry standards and are placed with financially sound insurance carriers.

Actuarial consultants are retained to determine funding requirements as well as to assist in the estimation of outstanding general and professional liabilities for retained risks. Accruals for general and professional liability claims are actuarially determined on a discounted basis (utilizing a 3.5% rate as of and for the nine months ended September 30, 2008 and as of and for the year ended December 31, 2007). The estimated cost of claims is actuarially determined based on past experience as well as other considerations, including the nature of each claim or incident and relevant trend factors. The System funds its self-insured general and professional liabilities at the expected level (approximately 50th percentile) into an irrevocable trust that is administered by a bank trustee and a captive insurance company. Accrued insurance and claims costs would have been approximately $58.8 million and $73.3 million greater at June 30, 2008 and December 31, 2007, respectively, had these liabilities not been discounted.

Reinsurance receivables are recognized in a manner consistent with the liabilities relating to the underlying reinsured contracts.

The System maintains commercial insurance policies for all additional lines of coverage relevant to the operation of an integrated healthcare delivery system. Some policies carry deductibles. All coverages, insurance placement lines and self-insured programs are reviewed annually by an independent insurance auditor.

Effective January 1, 2002 Advocate became self-insured for hospital general and professional liability claims up to $15.0 million per occurrence. This self-insured retention limit declined to $12.5 million effective January 1, 2008. Excess insurance policies are in place above the self-insurance retention for the hospitals.

Professional liability insurance policies (underlying and excess coverage) related to two of the System's physician practice components, AMG and AHC, expired June 30, 2002. The physician groups' previous insurance company, MIIX Insurance Companies of New Jersey, is currently in a voluntary runoff of claims and has ceased underwriting new policies. The physician groups have acquired underlying claims made policies for the years ended June 30, 2003 and 2004 with ISMIE Mutual. Underlying insurance coverage for the majority of physicians employed by AMG was written through a wholly-owned captive insurance company of Advocate effective July 1, 2004. As of July 1, 2005, the underlying insurance coverage for physicians employed by AHC was written through Advocate's wholly owned captive. Actuarial calculations of estimated losses above the underlying policy limits have been made and incorporated into financial results from July 1, 2002 forward.

Prior to July 1, 2004, Advocate's wholly-owned captive insurance company only issued excess general and professional liability policies, which were all reinsured, for the System's hospital insurance program. In December 2004 this captive began providing general and professional liability coverage to an affiliated medical group managed by the System.

Independent physicians that are credentialed to be a member of an Advocate hospital medical staff must maintain specified insurance levels to practice. Escalating costs of general and professional liability claims and insurance and a dearth of insurance carriers can make it difficult for physicians to maintain such coverage. Additionally, certain hospital competitors have reduced the level of insurance physicians must maintain to practice at their hospital. These market forces may exert further upward pressure on Advocate's insurance expense and/or affect its relations with medical staff members.

The System is a defendant in certain litigation related to professional and general liability risks. Although the outcome of the litigation can not be determined with certainty, management believes, after consultation with legal counsel, that the ultimate resolution of this litigation will not have any material adverse effect on the System's operations or financial condition.

In August 2005 the State of Illinois enacted a law to provide for critical medical liability reforms, including caps on non-economic damages at $0.5 million per physician per claim and $1.0 million per hospital per claim and structured awards to more efficiently provide for future medical care for injured plaintiffs. The law is effective for incidents occurring subsequent to the date the Governor signed the law in August 2005. The law was met with several challenges. On November 13, 2007, a Cook County Circuit Court judge ruled the law unconstitutional. As this ruling deals with the constitutionality of a law, this case was directly appealed to the Illinois Supreme Court. It is anticipated that the Illinois Supreme Court will schedule oral arguments during the fourth quarter of 2008. The Illinois Supreme Court has struck down past attempts to cap liability awards. In May 2007, the Governor signed the Wrongful Death-Grief Damages Bill (Public Act 095-0003), which amends the State of Illinois Wrongful Death Act. This change in the State of Illinois Wrongful Death Act allows juries to now award damages for grief, sorrow, and mental suffering to the surviving spouse and next of kin of the deceased. Previously juries in Illinois were prevented from awarding damages for this purpose. Accordingly, Management cannot predict whether or not either legislation will have a material impact on future insurance and claims cost expense.

Sources of Net Patient Service Revenues

In the fiscal years ended December 31, 2006 and 2007 and the nine months ended September 30, 2007 and 2008, net patient service revenues of the System were generated from the following payment sources:

	Year Ended December 31,		Nine Months Ended September 30,	
	2006	2007	2007	2008
Medicare	27%	27%	28%	26%
Medicaid	12	10	10	9
Managed Care	48	50	50	54
Self Pay, Other	13	13	12	11
	100%	100%	100%	100%

Medicare and Medicaid. For information regarding the Medicare and Medicaid programs, including regulatory actions affecting, and legislative reductions in, Medicare or Medicaid payment rates, see **"BONDHOLDERS' RISKS"** in the forepart of this Official Statement.

Other Payors. As discussed under **"BONDHOLDERS' RISKS"** in the forepart of this Official Statement, it is important to the System to maintain contractual relations with third-party payors for healthcare. These payors include HMOs and PPOs, as well as similar entities ("**Managed Care Payors**"). These payors contract for care for their covered beneficiaries at rates different from the System's established billing rates.

Managed Care and Capitation Revenue

Managed care payors accounted for approximately 41% of hospital admissions and 54% of patient service revenue for the nine months ended September 30, 2008. Given the challenges faced in the managed care marketplace, Advocate continues to attempt to secure reasonable reimbursement rates. Contracts with a significant payor, Health Care Service Corporation, d/b/a Blue Cross and Blue Shield of Illinois ("**Blue Cross**") that represent approximately 50% of hospital managed care patient service revenue for the year ended December 31, 2007 were renewed in late 2006. Advocate executed a new two year contract with Blue Cross for its commercial products for the period January 1, 2007 through December 31, 2008. In addition, management has agreed with Blue Cross in principle on terms and conditions for the commercial products for the period January 1, 2009 through December 31, 2010 and expects that the final contracts will be executed during the fourth quarter of 2008.

Contracts with other managed care payors are generally no more than two years in length and subject to renegotiation or termination at end of term. Negotiations related to contract renewals can be acrimonious and such contracts may or may not be renewed. Advocate cannot predict with any certainty the ultimate outcome of future negotiations with managed care payors as contracts expire.

In June 1998, and as subsequently amended, the System entered into a capitated physician provider agreement with Humana Health Plan, Inc. and Humana Insurance Company and their affiliates ("Humana"). Management finalized the renewal for the commercial HMO product of this capitated agreement with Humana that extends the contract through December 31, 2009 and this agreement for the commercial product will automatically renew for one-year terms unless either party provides notice of termination. Also under this agreement the Medicare product has been renewed through December 31, 2009 and will automatically renew for one-year terms unless either party provides notice of termination. Capitation revenue received under this agreement and similar agreements with Humana amounted to 38% and 41% of total capitation revenue for the nine months ended September 30, 2008 and 2007, respectively; and 40% for the year ended December 31, 2007.

Interest Rate Swaps

On July 7, 2005, Advocate advance refunded certain of its then outstanding fixed rate debt with variable rate debt, and entered into multiple floating-to-fixed interest rate swap arrangements ("Series 2005 Swaps") with Citibank, N.A., New York ("Citi"), in a total notional amount of $226.4 million, pursuant to an ISDA Master Agreement. Since November 15, 2005, Citi has been paying the System amounts the sum of a percentage of the one-month London Interbank Offered Rate ("LIBOR") plus a spread. The System has been paying Citi amounts based on a fixed rate (approximately 3.20%). All Citi and System payments have been made on a same day net payment basis with reference to a notional amount that had been equal to the original principal amount of the Series 2005 Bonds, as amortized, to correspond to the mandatory sinking fund principal amortization schedule for the Series 2005 Bonds. Unless terminated earlier, in accordance with its terms, the Series 2005 Swaps will terminate on November 1, 2022, the originally scheduled maturity date of the Series 2005 Bonds. Under certain circumstances, however, the Series 2005 Swaps are subject to termination prior to the scheduled termination date. In connection with the refinancing of the Series 2005 B Bonds, certain of the Series 2005 Swaps were terminated on October 10, 2007. The System received payment for the fair value of these swaps on the date of termination.

On September 18, 2007, Advocate advance entered into multiple floating-to-fixed interest rate swap arrangements ("Series 2007 Swaps") in a total notional amount of $348.3 million, with Citi, in advance of the issuance and refunding of certain of its debt pursuant to an ISDA Master Agreement. Pursuant to the Series 2007 Swaps, Citi has been paying the System the sum of a percentage of the one-month LIBOR plus a spread. The System has been paying Citi amounts based on a fixed rate (approximately 3.605%). All Citi and System payments have been made on a same day net payment basis with reference to a notional amount that will be equal to the original principal amount of the Series 2007 Bonds, as amortized, to correspond to the mandatory sinking fund principal amortization schedule for those Series 2007 Bonds. Unless terminated earlier, in accordance with its terms, the Series 2007 Swaps will terminate on November 1, 2038, the originally scheduled maturity date of the Series 2007 Bonds. Under certain circumstances, however, the Series 2007 Swaps are subject to termination prior to the scheduled termination date and prior to the maturity date of the Series 2007 Bonds.

Advocate, through the issuance of the Series 2008A, B and C Bonds, refunded all the Series 2005 and Series 2007 Bonds, including those bonds covered by the Series 2007 Swaps and Series 2005 Swaps. The Series 2007 Swaps and Series 2005 Swaps were not terminated, however, and now relate to the Series 2008B Bonds and Series 2008C Bonds, respectively.

See Note 5 to the 2007 audited consolidated financial statements of Advocate for a description of the accounting treatment and fair value for the Series 2005 and Series 2007 Swaps.

GOVERNANCE AND MANAGEMENT

Boards of Directors

Subject to powers reserved to the members of Advocate, the business and affairs of Advocate are managed by its Board of Directors which is composed of nineteen persons, including directors appointed by the United Church of Christ ("UCC"), of whom one is the Illinois Conference Minister of the UCC; directors appointed by the Evangelical Lutheran Church of America ("ELCA") one of whom is the Bishop of the Metropolitan Chicago

Synod; the President of Advocate; the Chairman of the Advocate Foundation's Board of Directors; a physician from AHP and at-large directors.

Pursuant to the By-Laws of Advocate, an Executive Committee of the Board of Directors has been established, consisting of nine members, including the Chairperson and Vice Chairperson of the Board of Directors; the President of Advocate; the Chairperson of the Mission & Spiritual Care, Planning, Finance and Medical/Clinical Affairs Committees and two at large directors. The past Chairperson of the Board may serve as an ex officio member of the Executive Committee. The responsibilities of the Executive Committee are to act on behalf of the Board of Directors between meetings; to nominate candidates for the offices of Chairperson and Vice Chairperson of the Board; to be responsible for planning educational programs for the Board; to conduct evaluations of the members of the Board and to have such additional authority as may be delegated by the Board.

As of the date of the Official Statement, the members of the Board of Directors of Advocate are as follows:

Director	Business Affiliation	Term Expires December 31,
David B. Anderson*	President/Chief Executive Officer Highland Capital Enterprises Corp.	2008
Alejandro Aparicio, M.D.	Director, Division of Continuing Physician Professional Development American Medical Association	2010
Jon E. Christofersen, M.D.	Physician & Board Chairman Dreyer Medical Group	2009
Bruce E. Creger	Chief Executive Officer/SAFCO Corporation	2009
Lynn Crump-Caine*	Founder & Chief Executive Officer Outsidein Consulting	2010
Rev. Phil Hart	Interim Illinois Conference Minister United Church of Christ	Ex-Officio
Rev. Dr. Donald M. Hallberg*	Retired/Executive Director Evangelical Lutheran Church in America Foundation	2010
Mark Harris*	Counsel The Boeing Company	2008
Abe Thomas Hughes II	Managing Director Hughes Girardi Partners	2009
Rev. Wayne Miller	Bishop Metropolitan Chicago Synod of Evangelical Lutheran Church in America	Ex-Officio
Clarence Nixon, Jr., Ph.D.*	Co-Chairman Acquire One, LLC	2008

Director	Business Affiliation	Term Expires December 31,
Pankaj H. Patel, M.D.	Director, Medical Quality Management Advocate Health Centers	2008
Julie P. Schlueter	Senior Vice President New Salem Capital	2009
Joan Fowler Shaver, Ph.D., R.N., F.A.A.N.	Professor and Dean University of Illinois at Chicago College of Nursing	2008
Thomas Shirey	President and Chief Executive Officer Frank Shirey Cadillac, Inc./ Chairperson, Advocate Charitable Foundation	Ex-Officio
James H. Skogsbergh*	President and Chief Executive Officer Advocate Health Care Network	Ex-Officio
Carolyn Hope Smeltzer*	Partner PricewaterhouseCoopers, LLP	2009
Rev. Ozzie Smith, Jr.*	Senior Pastor Covenant United Church of Christ	2009
John Timmer*	Retired/Executive Vice President Cole Taylor Bank	2008

*Member of the Executive Committee

Potential Conflicts of Interest

The System has from time to time entered into contracts or arm's-length transactions for the purchase of supplies, equipment or services from organizations with which members of the Board of Directors of Advocate are affiliated. Management of the System is of the opinion that these relationships do not present a material conflict of interest.

Corporate Officers

The day-to-day management of the System is the responsibility of its principal officers. Key members of the management of Advocate and a summary of their resumes are as follows:

James H. Skogsbergh, age 50, President and Chief Executive Officer. Mr. Skogsbergh joined the System on January 1, 2001 as Executive Vice President and Chief Operating Officer until his election as President and Chief Executive Officer in April 2002. Prior to joining the System, he was President and CEO of Iowa Methodist, Iowa Lutheran and Blank Children's hospitals, as well as Executive Vice President of Iowa Health System, based in Des Moines, Iowa. Mr. Skogsbergh joined Iowa Methodist Medical Center in 1991 as Executive Vice President and moved into progressively more responsible roles. From 1982 to 1991, he was with Memorial Health System of South Bend, Indiana where he began as an administrative resident and moved up through several positions to become Executive Vice President and Chief Operating Officer of Memorial Hospital of South Bend. Mr. Skogsbergh holds a Bachelor of Science degree from Iowa State University, Ames, Iowa, and a Masters of Health Administration from the University of Iowa, Iowa City.

William Santulli, age 51, Executive Vice President and Chief Operating Officer. Mr. Santulli was appointed to this position in 2003 after serving as Chief Executive at Good Samaritan Hospital, a position he held since joining the System in June 2001. Previously, Mr. Santulli served as the chief operating officer of the New England Medical Center (NEMC) in Boston, Massachusetts, where he was accountable for all hospital operations including The Floating Hospital for Children as well as fundraising and research activities. Prior to NEMC, Mr. Santulli served in key leadership positions with Iowa Health System in Des Moines, Iowa, Unihealth America in Los Angeles and Good Samaritan Hospital in Puyallup, Washington. He holds a Masters in Health Care Administration from the University of Minnesota and a Masters Degree in Sociology/Health Services Research from the University of Florida as well as a Bachelor's Degree in Sociology from the University of Notre Dame.

Lee B. Sacks, M.D., age 57, Executive Vice President, Chief Medical Officer. Dr. Sacks joined the Lutheran System in 1990 as Medical Director of the Lutheran General Health Plan, now known as Advocate Lutheran General Health Partners. From 1994 to 1995, he was Vice President of Advocate Lutheran General Health Partners as well as Vice President for Primary Care Development for the Lutheran System. In 1995, Dr. Sacks became President of Advocate Health Partners, a position he continues to hold. He was appointed to his current position in 1997. Dr. Sacks maintained an active family medical practice from 1980 through 1993. He received a Bachelor's degree in Chemical Engineering from the University of Pennsylvania and his Medical Degree from the University of Illinois.

Dominic J. Nakis, age 52, Senior Vice President, Chief Financial Officer and Treasurer. Mr. Nakis was promoted to this position in 2006 after having served the organization as Vice President of Finance and Corporate Controller. Prior to joining Advocate, Mr. Nakis was with the former Ernst & Ernst (now Ernst & Young) in Chicago, Illinois, where, during an eight-year period, he was involved within the firm's health care audit practice. As an undergraduate at University of Illinois at Chicago, Mr. Nakis earned a Bachelor of Science degree in Accounting and he has also earned a Masters of Business Administration from DePaul University in Chicago, Illinois. Mr. Nakis is a member of the American Institute of Certified Public Accountants, Illinois State Society of CPAs and the Healthcare Financial Management Association and has been a past member of the Healthcare Financial Management Association's national Principles and Practices Board.

Gail D. Hasbrouck, age 63, Senior Vice President and General Counsel. Ms. Hasbrouck joined the Evangelical System in 1978 as Assistant Legal Counsel and was promoted to Associate Legal Counsel in 1982 and Vice President, Legal Affairs the following year. Prior to joining the System, Ms. Hasbrouck was a Staff Attorney for three years with the Health and Hospitals Governing Commission. Before that, she was an instructor in the Neuropsychiatric Institute at the University of Illinois' Abraham Lincoln College of Medicine. After receiving her Bachelor's Degree in Sociology from the University of California, Berkeley, Ms. Hasbrouck earned a Master of Arts in Social Service Administration from the University of Chicago and a Juris Doctor from Northwestern University School of Law. She is a past member of the Board of Directors of the American Academy of Hospital Attorneys and past chairperson of the Academy's In-House Counsel Committee. Ms. Hasbrouck is a member of the law board, Northwestern University School of Law, past Chairperson of the Planning Committee of the Corporate Counsel Institute, Northwestern University School of Law and a member of the Executive Committee of the Council of One Hundred, Northwestern University. She is past president of the Illinois Association of Hospital Attorneys. Ms. Hasbrouck was previously adjunct Associate Professor at George Williams College in Downers Grove, Illinois and a lecturer for the Joint Commission on Accreditation of Healthcare Organizations.

Rev. Jerry Wagenknecht, age 61, Senior Vice President, Mission and Spiritual Care. Rev. Wagenknecht served as Vice President, Mission, Values and Philosophy Integration for the System since its inception in 1995. He was staff associate for mission at the Lutheran System from 1991 to 1995. Prior to that, he held several positions from 1979 to 1991, including executive director of Parkside Lodge in Mundelein, Illinois, a residential treatment facility for substance abuse. In 1998, Rev. Wagenknecht became a Consecrated Diakonal Minister in the Council for Health and Human Service Ministries, United Church of Christ. He was ordained as a minister of the Evangelical Lutheran Church in America in 1973 and is board certified by the Association of Professional Chaplains. Rev. Wagenknecht received his Bachelor of Arts degree from Capital University and a Master of Divinity degree from Trinity Lutheran Seminary, both located in Columbus, Ohio. In 1998, he completed the Executive Development Program at the Kellogg Graduate School of Management, Northwestern University in Evanston, Illinois.

Ben Grigaliunas, age 64, Senior Vice President, Human Resources. Mr. Grigaliunas has held this position since the 1995 merger between the Evangelical System and Lutheran System. From 1984 until the merger, Mr. Grigaliunas had served as Senior Vice President, Human Resources and Administration at the Evangelical System. While at the Evangelical System, he was the recipient of the 1994 Healthcare Forum Commitment to Quality Award. Prior to joining the Evangelical System, Mr. Grigaliunas served as vice president of human resources for American Hospital Supply Corporation's scientific products group and vice president of human resources for the Midwest Stock Exchange. Additional previous experience includes vice president, product development and diversification for educational software at Advanced Systems Inc. Mr. Grigaliunas also was assistant professor of psychology at Case Western Reserve University. He earned his Bachelor's and Master's degrees from Western Reserve University and continued on at Case Western Reserve University to obtain his Doctorate Degree in industrial psychology.

Bruce Smith, age 61, Senior Vice President and Chief Information Officer. Prior to the merger with Advocate in 1995, Mr. Smith was Vice President and Chief Information Officer for Lutheran General HealthSystem. Mr. Smith is a member of Health Information Management Systems Society (HIMSS), the HIMSS Chicago CIO Roundtable; and the Scottsdale Institute. Mr. Smith received his Bachelor of Business degree from Western Illinois University and his M.B.A. degree from Loyola University of Chicago.

Scott Powder, age 41, Senior Vice President, Strategic Planning and Growth. Mr. Powder has served in a variety of strategic planning and business development roles for Advocate during the past 14 years. Prior to Advocate, he was the manager of strategy and international marketing for a medical equipment manufacturer. Mr. Powder received an M.B.A. from Kellogg Graduate School of Management at Northwestern University, and a Bachelor of Arts in International Relations from Michigan State University. Mr. Powder currently serves on the faculty of the School of Health Systems Management at Rush University where he teaches and lectures in the areas of strategy, marketing and organizational development. Mr. Powder is actively involved in the community and volunteers in a number of roles for the American Cancer Society, American Heart Association and the March of Dimes.

Wilfredo Ramos, age 49, Senior Vice President, Communications and Government Relations. Mr. Ramos comes to Advocate with a background of over twenty-four years of experience in strategic communication and public relations support to several Fortune 100 companies. He was most recently with Merck and Co Inc. ("Merck"), Whitehouse Station, New Jersey, as its senior director of corporate/Global International Communications. Prior to his role with Merck, he held positions for Nationwide Insurance and Financial Services, Columbus, Ohio, and Allstate Insurance Co., Northbrook, IL.

James Dan, M.D., age 55, President of Physician and Ambulatory Services. Dr. Dan is responsible for leading the growth of the Advocate's medical groups and expanding Advocate's imaging division and related services. Prior to this appointment, Dr. Dan served as President of DuPage Medical Group, a multi-specialty group practice with over 240 physicians. He also serves as Chairman of Access DuPage, a clinic for the uninsured. Previously, he has held a variety of leadership roles including: Vice President of Glen Ellyn Clinic, Chair of the Advocate Good Samaritan Governing Council, Medical Director of Advocate Home Health Care and President of the Good Samaritan Hospital Medical Staff. He has practiced internal medicine in Downers Grove, Illinois for over 26 years.

MEDICAL STAFFS

Each System hospital has a separate medical staff. The members of each medical staff are appointed by the Governing Council of each hospital in accordance with the appointment and reappointment procedures in the respective medical staff bylaws for each particular hospital. As of September 30, 2008, there were more than 4,400 individuals on the active staffs of the System's acute care hospitals. The medical staffs include Active, Associate and other categories of physicians who admit and attend to patients at the System's acute care hospitals. Ninety-one percent of the active staff is board certified specialists.

GOVERNING COUNCILS

Currently, each of the System's hospitals has its own Governing Council. The Board of Directors of Hospitals Corporation appoints the members of each Governing Council to which it delegates certain responsibilities relating to the management of each hospital. These responsibilities include management of the hospital's operations and development, medical staff relations and credentialing, strategic planning, budget planning and appointments and reappointments to staff.

BILLING PRACTICES FOR UNINSURED AND UNDER-INSURED PATIENTS

Both federal and state authorities have opened investigations into the health care industry's billing practices for uninsured and under-insured patients. Billing and charge practices of hospitals continue to be subject to the intense scrutiny of federal, state and local governmental agencies.

On October 23, 2003, the Attorney General commenced an inquiry into allegations that billing practices of some Illinois medical providers are illegal under the Illinois Consumer Fraud and Deceptive Business Practices Act. At least ten Illinois hospitals and health care systems, including Advocate, are subjects of this investigation. Management is fully cooperating with the investigation.

In October 2003, a class action complaint was filed against Advocate Health Care Network and Advocate and Hospitals Corporation in the Circuit Court of Cook County, Illinois, alleging that Advocate had engaged in a scheme of charging the highest and inflated prices to plaintiffs and other uninsured patients so as to require them in effect to pay much higher amounts than insured patients have to pay in violation of the Illinois Consumer Fraud and Deceptive Business Practices Act, as well as other causes of action based upon constructive fraud, breach of contract and unjust enrichment ("**State Complaint**"). Advocate filed a motion to dismiss the amended State Complaint. On November 15, 2004, the Court struck the entire amended complaint, and granted plaintiffs leave to replead. In January 2005, the plaintiffs filed their second amended State Complaint. On August 16, 2005 the Circuit Court granted Advocate's Motion to Dismiss all counts of the second amended complaint except a count relating to a declaratory judgment act and granted the plaintiffs the right to replead their State Complaint within thirty days. Plaintiffs filed a third amended complaint on September 22, 2005. On January 27, 2006, the Circuit Court denied Advocate's motion to dismiss the third amended State Complaint with respect to five of the plaintiffs based upon res judicata doctrine and otherwise denied the motion to dismiss. Advocate filed an answer to the third amended State Complaint with respect to the remaining twelve named plaintiffs and began settlement negotiations in February 2007. October 29, 2008, the parties received Preliminary Approval of their proposed Settlement Agreement from the Circuit Court of Cook County. The Court further ordered that a Fairness Hearing be scheduled for February 25, 2009, at which time the Court will consider the fairness, reasonableness and adequacy of the proposed Settlement and determine whether the Settlement should receive final approval by the Court.

In February 2005 a Class Action Complaint was filed against Advocate and Hospitals Corporation in the Cook County Circuit Court alleging that Advocate engages in a practice and pattern of charging uninsured patients inflated prices for medical care, using rates that are substantially higher than it customarily charges insured patients. The representative plaintiff in this case claims damages as a result of Advocate pursuing its rights under the Illinois Hospital Lien Act (which permits a hospital to collect its charges by claiming up to one-third of a settlement in a personal injury action). The plaintiff had settled his personal injury claim utilizing the hospital's full charges but then demanded that Advocate accept a discounted amount of its charges in adjudication of its lien. Advocate filed a motion to dismiss this complaint based upon the prior pending State Complaint (referenced above). In May 2005

the Circuit Court stayed all proceedings subject to the outcome of the State Complaint. In June 2007, the Court removed the stay and set the matter for trial in December 2007. Since February 2007, the parties have been engaged in settlement negotiations. The December trial date has been continued; although a new trial date has not been established, pending the outcome of the settlement negotiations between the parties.

Advocate believes all of the above complaints are without merit and are not supported by any federal or state law. The billing and collection practices and procedures which plaintiffs seek to challenge are governed by a detailed and complex array of federal Medicare statutes, regulations and policy pronouncements. Advocate believes that its billing and collection practices are consistent with federal and state policies and regulations and intends to vigorously defend its practices. The Illinois Attorney General has filed an amicus ("friend of the court") brief in which the Attorney General indicates that if the allegations of the class action complaint relating to the Illinois Consumer Fraud and Deceptive Practice Act are determined to be true, the Attorney General will preserve its jurisdiction to enforce the laws of the State of Illinois.

At this time, the System is unable to predict the outcome of these investigations or litigation or what, if any, action may be taken or penalties imposed. Management of the System believes that its billing and collection practices comply with current law, though as described in the section entitled "**LAWS, REGULATIONS AND RELATED LITIGATION**," below, laws and regulations related to billing practices have not been interpreted by the courts or regulators or have been subject to varying interpretations. Management cannot predict with any certainty whether or not the outcomes of these investigations or litigation will have a material adverse effect on the financial condition of the System.

The number of uninsured and under-insured individuals is a national issue, and the State of Illinois has a significant number of uninsured and under-insured individuals in the nation. Currently, families with income levels of up to four hundred percent of the federal poverty level are eligible for free or discounted care. Beginning in April 2009, Illinois law will require hospitals that are not rural hospitals to provide a discount to any uninsured patient who applies for a discount and has family income of not more than six hundred percent of the federal poverty income guidelines for all medically necessary health care exceeding $300. Additionally, Advocate does not place liens on primary residences and considers employment status and financial resources of insured and uninsured patients before taking legal action in its accounts receivable collection efforts. As community needs evolve Advocate periodically reviews and revises its policies and procedures relating to charity care and collections.

LAWS, REGULATIONS AND RELATED LITIGATION

As a health care provider, the Advocate System is subject to extensive and frequently changing federal, state and local laws and regulations governing various aspects of its business. In particular, the Advocate System provides a broad range of services, many of which are regulated by different government agencies, subject to differing regulatory schemes and subject to contractual reviews and program audits in the normal course of business. Many operations that the Advocate System undertakes are subject to significant governmental certification and licensing regulations, as well as federal and state laws, including those relating to:

- fraud and abuse;
- billing and pricing practices;
- kickbacks, referrals, rebates and fee-splitting;
- antitrust;
- tax-exempt status, including intermediate sanctions;
- tax-exempt financing including the use of bond proceeds;
- marketing, sales, and pricing practices;
- privacy and security of personal medical information;
- human subject research;
- the handling and disposal of medical specimens, hazardous waste and controlled substances;
- occupational safety; and
- consumer protection.

Government agencies and private whistleblowers have made enforcement of the provisions relating to false claims, kickbacks, physician self-referral and various other fraud and abuse laws a major priority in recent years. Potential sanctions for violation of these statutes and regulations include significant fines and criminal penalties and the loss of various licenses, certificates and authorizations, and loss of tax-exempt status.

Advocate expects that the level of review and audit to which it and other healthcare providers are subject will increase. To foster compliance with applicable laws, Advocate has implemented a compliance program that is designed to detect and correct potential violations of laws and regulations related to its programs. Advocate also tracks enforcement trends, closely reviews government advisories concerning suspect practices, and regularly undertakes to educate its officers, associates and vendors concerning applicable laws and regulations. However, many of the laws and regulations affecting Advocate and its subsidiaries have not been interpreted by regulators or the courts or have been subject to varying interpretations. As a result, regulators may assert that they have broad authority to assert claims for noncompliance and assert claims or penalties based upon their interpretation of those requirements, and it is also not possible to determine the impact (if any) such claims or penalties would have upon Advocate and its subsidiaries.

In June, 2006, a class action complaint was filed against Advocate and several other Chicagoland area hospitals and health care systems in Federal District Court for the Northern District of Illinois alleging that Advocate and the other defendant hospitals (and their unnamed co-conspirators) have for years conspired among themselves to depress the compensation levels of registered nurses employed at the conspiring hospitals in violation of Section 1 of the Sherman Act. The complaint alleges that the defendant hospitals (and their unnamed co-conspirators) engaged in, among other things, the following illegal activities: (i) agreement to exchange non-public data concerning registered nurses' compensation; (ii) agreement not to compete with each other in the setting of registered nurses' compensation; (iii) agreement not to hire directly registered nurses employed at other hospitals by offering a higher wage; (iv) paid registered nurses at the same or nearly the same rate as each other; and (v) obtained and exchanged benchmarking data on recruitment, retention, compensation and benefits through their membership with Metropolitan Chicago Healthcare Council and other industry trade associations. The complaint alleges that the class plaintiffs (registered nurses employed by defendant hospitals) have suffered substantial economic harm in the form of lost compensation as a direct result of defendant and co-conspirator hospitals unlawful conduct. The complaint seeks monetary damages, as well as trebled damages under the antitrust laws. In addition, Plaintiffs seek interest on any damages award and attorneys fees. Advocate believes the complaints are without merit and will defend the claims vigorously. Advocate is unable to predict the ultimate outcome, including liabilities, if any of this litigation.

Tax-Exempt Status

Due to budget deficits and declining tax revenues, federal, state and local governments are increasingly scrutinizing the tax status of not-for-profit hospitals. Over the past several years, various hearings and studies have been undertaken by the federal government related to the tax status of entities exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code. Some of these hearings and studies were designed to address the question of equating tax exempt status with community benefits provided. Other issues addressed included executive compensation levels and corporate compliance. Management cannot predict whether these hearings or studies will ultimately lead to new or changed legislation or regulations that will affect the System's tax exempt status.

Real estate property tax exemptions for not-for-profit hospitals in the State of Illinois have been questioned and challenged both at the State and local levels. The ultimate outcome of these questions and challenges cannot be predicted however the exemptions currently enjoyed by not-for-profit hospitals may be at risk. From 2004 to 2007, the Illinois Department of Revenue denied the request for property tax exemption in three cases impacting other Illinois healthcare providers. These decisions are currently in various stages of appeal. In one of the cases, on August 27, 2008, the Illinois Appellate Court ruled in favor of the Illinois Department of Revenue by overturning a favorable lower court ruling on behalf of one of the healthcare providers.

As set forth elsewhere in this Official Statement, a variety of Advocate's practices are under examination by a number of governmental agencies and private parties. Although no government entity has yet challenged Advocate's tax-exempt status, the increased government scrutiny could lead federal, state or local agencies to challenge Advocate's tax-exempt status.

ACCREDITATION

Each of the System's acute care hospital facilities is appropriately certified for Medicare and Medicaid reimbursement, and each (as well as Home Health) is accredited by the Joint Commission. All of the System's hospitals are members of the Metropolitan Chicago Healthcare Council and the Illinois Hospital Association.

The Cancer Program at Masonic is accredited by the American College of Surgeons. Masonic's Pathology Department and Laboratories are accredited by the College of American Pathologists. All graduate medical education residency programs at Masonic are fully accredited by the Accreditation Council for Graduate Medical Education.

EMPLOYEES

As of September 30, 2008, the System employed approximately 25,800 employees (approximately 21,400 FTEs). Management of the System believes that the salary levels and benefits packages for its employees are competitive. Management believes that the managers of the System generally have good relationships with their employees. Less than 1% are represented by collective bargaining groups.

Advocate, along with other healthcare providers, has been the target of unions attempting to organize employees. Unions have employed various tactics to either directly attract employees or engage in corporate campaign strategies that are designed to undermine the credibility and integrity of the targeted healthcare providers. Management cannot predict with any certainty whether union organizing related activities will have any material adverse effect on the financial condition or operations of the System.

EDUCATIONAL PROGRAMS AND AFFILIATIONS

Lutheran General is one of the largest teaching and referral hospitals in the greater Chicago metropolitan area. It has multiple affiliations for medical education. It is also currently affiliated with many educational institutions, including UIC, University of Chicago, Loyola University and The Chicago Medical School. In addition, Lutheran General has multiple educational affiliations in the areas of nursing, pharmacy, allied health and pastoral care.

Christ Medical Center is affiliated with UIC for the rotation of residents of UIC College of Medicine through certain clinical areas at Christ Medical Center. Christ Medical Center and UIC also participate in a combined residency program for the departments of anesthesiology, emergency medicine, family practice medicine, OB/GYN, orthopedics, pediatrics and surgery.

Masonic serves as a teaching affiliate of Rush University and its related medical colleges, with residency programs in internal medicine, surgery, radiology, pathology, pediatrics and most other accredited specialties. Masonic is also affiliated with Midwestern University Chicago College of Osteopathic Medicine in both graduate and undergraduate training. Masonic also participates in affiliated residency programs in surgery, pathology, and emergency medicine with UIC.

NEW CORPORATE AFFILIATIONS

Healthcare is currently a very dynamic market. Advocate is consistently exploring new opportunities for affiliations with other institutions and organizations. Advocate will consider any potential affiliations which may be in the best interest of the System.

CORPORATE COMPLIANCE

In 1997 Advocate developed a Business Conduct Program intended to assist Advocate Board members, associates, physicians and vendors in conforming their actions to comply with the numerous laws and regulations applicable to the healthcare industry. As part of this program, Advocate has implemented Business Conduct Guidelines and modified its Conflict of Interest Policy and Code of Business Conduct to describe such laws and regulations and give clear guidance as to the manner in which Advocate associates are to conduct their day to day activities. A Corporate Compliance (Business Conduct) Officer oversees the program, and a Business Conduct Compliance Committee and Reimbursement Committee interpret the governing documents and apply them to situations that arise in the course of business. Each major site within the System has elected its own Site Business Conduct Compliance Committee to ensure that it is implementing the Business Conduct Compliance Program into its operations. The Business Conduct Program is primarily concerned with the following areas: patient care, confidentiality, information privacy, information systems security, discrimination, harassment, safety and health, conflicts of interest, tax exemption principles, Medicare/Medicaid fraud and abuse laws, Stark anti referral legislation, Medicare and Medicare coding and billing procedures, questionable accounting or auditing matters, internal accounting controls and accuracy of financial reporting and financial statements. In addition, a Business Conduct Information Hot Line provides associates with a means to report violations of the program or seek guidance and clarification on issues or concerns they might have with respect to their own conduct or the conduct of other Advocate associates. The information hot line may be called on an anonymous basis. Advocate has educated its board, associates, physicians and vendors as to the elements of the program. The Business Conduct Program undergoes periodic review and updates based on new developments.

In connection with the Health Insurance Portability and Accountability Act ("**HIPAA**"), Advocate has implemented the HIPAA rules and standards at all of its sites through the structuring of HIPAA teams and site coordinators, policies and guidelines, and training modules for all associates.

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APPENDIX B

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF ADVOCATE HEALTH CARE NETWORK AND SUBSIDIARIES FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

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CONSOLIDATED FINANCIAL STATEMENTS

Advocate Health Care Network and Subsidiaries
Years Ended December 31, 2007 and 2006
With Report of Independent Auditors

Advocate Health Care Network and Subsidiaries

Consolidated Financial Statements

Years Ended December 31, 2007 and 2006

Contents

ERNST & YOUNG

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Report of Independent Auditors

The Board of Directors
Advocate Health Care Network
Oak Brook, Illinois

We have audited the accompanying consolidated balance sheets of Advocate Health Care Network and subsidiaries (the System) as of December 31, 2007 and 2006, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the System's internal control over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Advocate Health Care Network and subsidiaries at December 31, 2007 and 2006, and the consolidated results of their operations and changes in net assets and their cash flows for the years then ended in conformity with U. S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, on December 31, 2007, the System adopted the recognition provisions of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined-Benefit Pension and Other Postretirement Plans, an Amendment to FASB Statements No. 87, 88, 106, and 132(R),* which changed its method of accounting for its defined-benefit pension benefits.

Ernst & Young LLP

February 15, 2008

Advocate Health Care Network and Subsidiaries

Consolidated Balance Sheets

(Dollars in Thousands)

	December 31	
	2007	**2006**
Assets		
Current assets:		
Cash and cash equivalents	**$ 145,728**	$ 113,224
Short-term investments	**25,817**	27,906
Assets limited as to use	**104,196**	80,170
Patient accounts receivable, less allowances for uncollectible accounts of $102,428 in 2007 and $114,746 in 2006	**290,332**	286,688
Amounts due from primary third-party payors	**53,703**	159,259
Prepaid expenses, inventories, and other assets	**146,710**	123,971
Collateral proceeds received under securities lending program	**151,399**	133,281
Total current assets	**917,885**	924,499
Assets limited as to use:		
Internally and externally designated investments limited as to use	**2,351,463**	1,901,183
Investments under securities lending program	**152,845**	131,440
	2,504,308	2,032,623
Deposit with bond trustees for long-term debt to be advance refunded in 2008	**264,952**	–
Prepaid pension expense and other noncurrent assets	**223,844**	240,172
Interest in healthcare and related entities	**103,958**	106,199
Reinsurance receivable	**138,596**	116,987
Deferred costs and intangible assets, less allowances for amortization	**35,926**	28,098
	3,271,584	2,524,079
Property and equipment – at cost:		
Land and land improvements	**86,861**	83,961
Buildings	**1,380,933**	1,227,286
Movable equipment	**980,443**	941,110
Construction-in-progress	**113,797**	121,312
	2,562,034	2,373,669
Less allowances for depreciation	**1,495,529**	1,365,770
	1,066,505	1,007,899
	$ 5,255,974	$ 4,456,477

	December 31	
	2007	**2006**
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt	**$ 11,405**	$ 24,782
Long-term debt subject to short-term remarketing arrangements *(Note 5)*	**68,990**	109,300
Accounts payable	**99,619**	77,209
Accrued salaries and employee benefits	**199,310**	189,040
Accrued expenses	**127,698**	208,571
Amounts due to primary third-party payors	**121,235**	122,683
Current portion of accrued insurance and claims costs	**90,275**	71,375
Obligations to return collateral under securities lending program	**151,399**	133,281
Total current liabilities	**869,931**	936,241
Noncurrent liabilities:		
Long-term debt, less current portion	**706,554**	478,150
Long-term debt to be advance refunded in 2008	**264,952**	–
Accrued insurance and claims cost	**649,503**	581,420
Accrued losses subject to reinsurance recovery	**138,596**	116,987
Other noncurrent liabilities	**90,966**	67,279
	1,850,571	1,243,836
Total liabilities	**2,720,502**	2,180,077
Net assets:		
Unrestricted	**2,453,428**	2,192,904
Temporarily restricted	**65,713**	67,571
Permanently restricted	**16,331**	15,925
Total net assets	**2,535,472**	2,276,400
	$ 5,255,974	$ 4,456,477

See accompanying notes to consolidated financial statements.

Advocate Health Care Network and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets
(Dollars in Thousands)

	Year Ended December 31	
	2007	**2006**
Unrestricted revenues, gains, and other support		
Net patient service revenue	**$ 2,860,731**	$ 2,673,359
Capitation revenue	**413,169**	395,040
Other revenue	**182,920**	194,656
	3,456,820	3,263,055
Expenses		
Salaries, wages, and employee benefits	**1,607,107**	1,510,243
Purchased services and operating supplies	**737,499**	686,992
Contracted medical services	**209,609**	171,204
Provision for uncollectible accounts	**157,130**	153,359
Insurance and claims costs	**156,060**	164,782
Other	**255,509**	272,732
Depreciation and amortization	**134,351**	125,478
Interest	**24,028**	26,715
	3,281,293	3,111,505
Operating income	**175,527**	151,550
Nonoperating		
Investment income	**100,470**	143,861
Other nonoperating items, net	**(13,059)**	(14,556)
Loss on refinancing of debt	**(3,000)**	–
	84,411	129,305
Revenues in excess of expenses	**259,938**	280,855

Continued on next page

Advocate Health Care Network and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets (continued)
(Dollars in Thousands)

	Year Ended December 31	
	2007	**2006**
Unrestricted net assets		
Revenues in excess of expenses	**$ 259,938**	$ 280,855
Net assets released from restrictions and used for capital purchases	**7,380**	9,059
Net change in unrealized gains/losses on interest rate swaps	**(6,087)**	2,253
Other	**(707)**	23
Increase in unrestricted net assets	**260,524**	292,190
Temporarily restricted net assets		
Contributions for medical education programs, capital purchases, and other purposes	**12,515**	10,923
Realized gains on investments	**2,688**	4,183
Net change in unrealized gains/losses on investments	**(412)**	(593)
Net assets released from restrictions and used for operations, medical education programs, capital purchases, and other purposes	**(16,649)**	(17,227)
Decrease in temporarily restricted net assets	**(1,858)**	(2,714)
Permanently restricted net assets		
Contributions for medical education programs, capital purchases, and other purposes	**406**	175
Increase in permanently restricted net assets	**406**	175
Increase in net assets	**259,072**	289,651
Net assets at beginning of year	**2,276,400**	1,986,749
Net assets at end of year	**$ 2,535,472**	$ 2,276,400

See accompanying notes to consolidated financial statements.

Advocate Health Care Network and Subsidiaries

Consolidated Statements of Cash Flows

(Dollars in Thousands)

	Year Ended December 31	
	2007	**2006**
Operating activities		
Change in net assets	**$ 259,072**	$ 289,651
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation, amortization, and accretion	**136,749**	139,306
Provision for uncollectible accounts	**157,130**	153,359
Credit for deferred income taxes	**(2,279)**	(2,547)
Losses (gains) on sale of property and equipment	**3,537**	(587)
Loss on refinancing of debt	**3,000**	–
Net change in unrealized gains/losses on interest rate swaps	**18,294**	(2,253)
Restricted contributions and gains on investments, net of assets released from restrictions used for operations	**(9,269)**	(8,168)
Changes in operating assets and liabilities:		
Trading securities	**(344,063)**	(265,337)
Patient accounts receivable	**(160,774)**	(227,920)
Amounts due to (from) primary third-party payors	**104,108**	(128,450)
Accounts payable, accrued salaries and employee benefits, accrued expenses, and other noncurrent liabilities	**(35,734)**	143,815
Other assets	**(33,315)**	(5,683)
Accrued insurance and claims cost	**86,983**	108,935
Net cash provided by operating activities	**183,439**	194,121
Investing activities		
Purchases of property and equipment, net	**(192,569)**	(216,309)
Proceeds from sale of property and equipment	**835**	1,090
Purchases of investments designated as nontrading	**(265,315)**	(50,483)
Sales of investments designated as nontrading	**110,501**	50,827
Other	**5,703**	(8,511)
Net cash used in investing activities	**(340,845)**	(223,386)
Financing activities		
Proceeds from issuance of debt	**500,775**	–
Payments of long-term debt	**(326,062)**	(29,048)
Proceeds from restricted contributions and gains on investments	**15,197**	14,688
Net cash provided by (used in) financing activities	**189,910**	(14,360)
Increase (decrease) in cash and cash equivalents	**32,504**	(43,625)
Cash and cash equivalents at beginning of year	**113,224**	156,849
Cash and cash equivalents at end of year	**$ 145,728**	$ 113,224

See accompanying notes to consolidated financial statements.

(Dollars in Thousands)

1. Organization and Summary of Significant Accounting Policies

Organization

Advocate Health Care Network (the System or Advocate) is an Illinois nonprofit, faith-based, health care organization dedicated to providing comprehensive health care services, including inpatient acute and nonacute care, primary and specialty physician services, and various outpatient services to the greater Chicago metropolitan area. Additionally, through a long-term academic and teaching affiliation, Advocate trains resident physicians. Advocate is sponsored by the United Church of Christ and Evangelical Lutheran Church of America. Substantially all expenses of the System are related to providing health care services.

Mission and Community Benefit

As a faith-based, health care organization, the mission, values, and philosophy of the System form the foundation for its strategic priorities. The System's mission is to serve the health care needs of individuals, families, and communities through a holistic philosophy rooted in the fundamental understanding of human beings as created in the image of God. Consistent with its values of compassion and stewardship, the System makes a major commitment to patients in need, regardless of their ability to pay. This care is provided to patients who meet the criteria established under the System's charity care policy. Patients eligible for consideration can earn up to 400% of the federal poverty level, and qualifying patients can receive up to 100% discounts from charges and extended payment plans.

The cost to Advocate of providing care to the uninsured and underinsured and unpaid costs of government-sponsored programs are as follows for the years ended December 31:

	2007	2006
Charity care	**$ 31,085**	$ 29,135
Provision for uncollectible accounts	**31,361**	30,760
Government-sponsored indigent health care	**191,558**	164,226
Total costs of uncompensated care	**$ 254,004**	$ 224,121

1. Organization and Summary of Significant Accounting Policies (continued)

Total costs of uncompensated care represent the largest portion of the total cost of all community benefits provided by the System. The System is also involved in other numerous wide-ranging community benefit activities that include providing health education, immunizations for children, support groups, health screenings, health fairs, pastoral care, home-delivered meals, transportation services, seminars and speakers, crisis lines, publishing health magazines, medical residency and internships, research and language assistance, and other subsidized health services. These activities are provided free of charge or at a fee that is below the cost of providing them. The cost of providing these other community benefits totaled $71,913 in 2006. The cost of these activities and the costs of uncompensated care for 2007 will be compiled, updated, and included in a community benefit report that will be filed with the Office of the Attorney General for the state of Illinois in June 2008.

Principles of Consolidation

Included in the System's consolidated financial statements are all of its wholly owned or controlled subsidiaries. All significant intercompany transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates, assumptions, and judgments that affect the reported amounts of assets and liabilities and amounts disclosed in the notes to the financial statements at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Although estimates are considered to be fairly stated at the time made, actual results could differ materially from those estimates.

Cash Equivalents

The System considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

1. Organization and Summary of Significant Accounting Policies (continued)

Inventories

Inventories, consisting primarily of medical supplies and pharmaceuticals, are stated at the lower of cost (first-in, first-out) or market value.

Investments

Advocate has designated substantially all of its investments as trading. Certain debt-related investments and investments related to self-insurance programs are designated as nontrading. Investments in debt and equity securities with readily determinable fair values are measured at fair value using quoted market prices. Investments in limited partnerships that invest in marketable securities and derivative products (hedge funds) are reported using the equity method of accounting based on information provided by the respective partnership. Investments in private equity limited partnerships are recorded using the cost method of accounting based on information provided by the respective partnership. Investment income or loss (including realized gains and losses, interest, dividends, changes in equity of limited partnerships, and unrealized gains and losses) is included in investment income unless the income or loss is restricted by donor or law or is related to assets designated for self-insurance programs. Investment income on self-insurance trust funds is reported in other revenue. Unrealized gains and losses which are restricted by donor or law are reported as a change in temporarily restricted net assets.

Assets Limited as to Use

Assets limited as to use consist of investments set aside by the Board of Directors for future capital improvements and certain medical education and health care programs. The Board retains control of these investments and may, at its discretion, subsequently use them for other purposes. Additionally, assets limited as to use include investments held by trustees under debt agreements and self-insurance trusts.

Patient Accounts Receivable

The System evaluates the collectibility of its accounts receivable based on the length of time the receivable is outstanding, payor class, historical collection experience, and trends in health care insurance programs. Accounts receivable are charged to the allowance for uncollectible accounts when they are deemed uncollectible.

1. Organization and Summary of Significant Accounting Policies (continued)

Reinsurance Receivable

Reinsurance receivables are recognized in a manner consistent with the liabilities relating to the underlying reinsured contracts.

Deferred Costs

Deferred costs consist primarily of noncurrent deferred tax assets and deferred bond costs. Deferred bond issuance costs are amortized over the life of the bonds using the effective interest method.

Asset Impairment

The System considers whether indicators of impairment are present and performs the necessary tests to determine if the carrying value of an asset is appropriate. Impairment write-downs, except for those related to investments, are recognized in operating income at the time the impairment is identified.

Property and Equipment

Provisions for depreciation of property and equipment are based on the estimated useful lives of the assets ranging from 3 to 40 years using both accelerated and straight-line methods.

Asset Retirement Obligations

The System accounts for the fair value of legal obligations associated with long-lived asset retirements in accordance with Statements of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* and Financial Accounting Standards Board (FASB) Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*. The asset retirement liability, recorded in other noncurrent liabilities, is accreted to the present value at the end of each period. The fair value of the obligation at December 31, 2007 and 2006, was $17,218 and $13,391, respectively.

1. Organization and Summary of Significant Accounting Policies (continued)

Derivative Financial Instruments

The System has entered into derivative transactions to manage its interest rate risk. Derivative instruments are recorded as either assets or liabilities at fair value. Subsequent changes in a derivative's fair value are recognized currently in revenues in excess of expenses unless specific hedge accounting criteria are met. The System currently has interest rate swaps that have been designated as a cash flow hedge of variable rate debt. Prior to April 1, 2007, the changes in the fair value of these interest rate swaps that were highly effective were recognized as a change in net assets until income from the cash flows of the variable rate debt was recognized (see Note 5). The System performed an assessment, both at the inception of the hedge and on a quarterly basis thereafter, to determine whether these interest rate swaps were highly effective in offsetting the changes in the cash flows of the hedged item. Any change in the fair value resulting from hedge ineffectiveness was immediately recorded in revenues in excess of expenses.

General and Professional Liability Risks

The provision for self-insured general and professional liability claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those assets whose use by the System has been limited by donors to a specific time period or purpose. Permanently restricted net assets consist of gifts with corpus values that have been restricted by donors to be maintained in perpetuity. Temporarily restricted net assets and earnings on permanently restricted net assets are used in accordance with the donor's wishes primarily to purchase property and equipment or to fund medical education or other health care programs.

Assets released from restriction to fund purchases of property and equipment are reported in the consolidated statements of operations and changes in net assets as increases to unrestricted net assets. Those assets released from restriction for operating purposes are reported in the consolidated statements of operations and changes in net assets as other revenue. When restricted, earnings are recorded as temporarily restricted net assets until amounts are expended in accordance with the donor's specifications.

1. Organization and Summary of Significant Accounting Policies (continued)

Patient Service Revenue

The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated adjustments under reimbursement agreements with third-party payors, certain of which are subject to audit by administering agencies. These adjustments are accrued on an estimated basis and are adjusted in future periods.

Capitation Revenue

The System has agreements with various managed care organizations under which the System provides or arranges for medical care to members of the organizations in return for a monthly payment per member. Revenue is earned each month as a result of agreeing to provide or arrange for their medical care.

Other Nonoperating Items, Net

Other nonoperating items, net primarily consist of net gains or losses on disposition of property and equipment, changes in the fair value of interest rate swaps, provisions for environmental remediation, and income taxes.

Revenues in Excess of Expenses

The consolidated statements of operations and changes in net assets include revenues in excess of expenses. Changes in unrestricted net assets, which are excluded from revenues in excess of expenses, primarily include contributions of long-lived assets (including assets acquired using contributions, which by donor restriction were to be used for the purposes of acquiring such assets), and certain changes in the fair value of interest rate swaps.

Adoption of New Accounting Standards

On December 31, 2007, the System adopted the recognition and disclosure provisions of FASB Statement No. 158, *Employers' Accounting for Defined-Benefit Pension and Other Post-retirement Plans, an Amendment of FASB Statements No. 87, 88, 106, and 132(R)* (FAS 158).

1. Organization and Summary of Significant Accounting Policies (continued)

FAS 158 requires the system to recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligation at the measurement date, September 30, 2007) of its pension plan in the December 31, 2007, consolidated balance sheet, with a corresponding adjustment to unrestricted net assets. The adjustment to unrestricted net assets represents the plan's unrecognized actuarial gains or losses and the unrecognized prior service credits remaining from the initial adoption of FASB Statement No. 87, *Employers' Accounting for Pensions* (FAS 87), all of which were previously netted against the plan's funded status in the system's balance sheet pursuant to the provisions of FAS 87. These amounts will be subsequently recognized as net periodic pension cost pursuant to the System's historical accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic pension cost in the same periods will be recognized as other changes in unrestricted net assets. Those amounts will be subsequently recognized as a component of net periodic pension cost on the same basis as the amounts recognized in unrestricted net assets at adoption of FAS 158. See Note 7 for further discussion on the effect of adopting FAS 158 on the System's consolidated financial statements.

In 2007, the System adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The System's adoption of FIN 48 had no impact on the System's consolidated financial statements.

In January 2007, FASB's Derivative Implementation Group issued Statement 133 Implementation Issue No. G26 (DIG G26), *Cash Flow Hedges: Hedging Interest Cash Flows on Variable-Rate Assets and Liabilities That are not Based on a Benchmark Interest Rate,* which was effective on April 1, 2007. DIG G26 clarifies the accounting for cash flow hedges, including when an entity is permitted to hedge benchmark interest rate risk. See Note 6 for further discussion on the effect of adopting DIG G26 on the System's consolidated financial statements.

1. Organization and Summary of Significant Accounting Policies (continued)

Reclassifications in the Consolidated Financial Statements

Certain reclassifications were made to the 2006 consolidated financial statements to conform to the classifications used in 2007. The reclassifications had no effect on the change in net assets or on net assets as previously reported.

2. Contractual Arrangements With Third-Party Payors

The System provides care to certain patients under payment arrangements with Medicare, Medicaid, Blue Cross, and various other health maintenance and preferred provider organizations. Services provided under these arrangements are paid at predetermined rates and/or reimbursable costs, as defined. Reported costs and/or services provided under certain of the arrangements are subject to audit by the administering agencies. Changes in Medicare and Medicaid programs and reduction of funding levels could have a material adverse effect on the future amounts recognized as patient service revenue.

Amounts received under the above payment arrangements account for 87% of the System's patient service revenue in both 2007 and 2006. Provision has been made in the consolidated financial statements for contractual adjustments, representing the difference between the established charges for services and actual or estimated payment. The extreme complexity of laws and regulations governing the Medicare and Medicaid programs renders at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Changes in the estimates that relate to prior years' third-party payment arrangements resulted in increases in patient service revenue of $33,451 and $27,135 for the years ended December 31, 2007 and 2006, respectively.

The System's concentration of credit risk relating to accounts receivable is limited due to the diversity of patients and payors. The System grants credit, without collateral, to its patients, most of whom are local residents and insured under third-party payor arrangements. Advocate has established guidelines for placing patient balances with collection agencies, subject to terms of certain restrictions on collection efforts as determined by the System. Amounts due to/from primary third-party payors in the consolidated balance sheets primarily relate to the Blue Cross, Medicare, or Medicaid programs. At December 31, 2007 and 2006, 20% and 15% of patient accounts receivable, respectively, were due from the Blue Cross program, 21% and 22%, respectively, were due from the Medicaid program, and 14% and 14%, respectively, were due from the Medicare program.

2. Contractual Arrangements With Third-Party Payors (continued)

Provision has been made in the consolidated financial statements for the estimated cost of providing certain medical services under capitated arrangements with managed care organizations. The System accrues a liability for reported, as well as an estimate for incurred but not recorded (IBNR) contracted medical services. The liability represents the expected ultimate cost of all reported and unreported claims unpaid at year-end. Management utilizes the services of a consulting actuary to determine the estimated cost of the IBNR claims. The estimates are reviewed periodically, and adjustments to the estimates are reflected in current year operations. At December 31, 2007 and 2006, the liabilities for unpaid medical claims amounted to $33,488 and $32,478, respectively, and are included in accrued expenses in the consolidated balance sheets. In June 1998, and as subsequently amended, the System entered into a capitated physician provider agreement with Humana Health Plan, Inc. and Humana Insurance Company and their affiliates (Humana), which is scheduled to terminate effective December 31, 2008. Capitation revenues received under this agreement and similar agreements with Humana amounted to 40% and 47% of the System's capitation revenue for the years ended December 31, 2007 and 2006, respectively.

On November 21, 2006, the Center for Medicare and Medicaid Services approved the State of Illinois' Hospital Assessment Program with an effective date beginning August 1, 2005, and ending June 30, 2008. The System recognized $104,237 and $156,241 of Illinois hospital assessment revenue and $80,267 and $120,420 of expense in patient service revenue and other expense in 2007 and 2006, respectively.

(Dollars in Thousands)

3. Investments (Including Assets Limited as to Use) and Other Financial Instruments

Investments (including assets limited as to use) and other financial instruments at December 31 are summarized as follows:

	2007	2006
Assets limited as to use:		
Designated for self-insurance programs	**$ 805,043**	$ 677,513
Internally designated for capital improvements, medical education, and health care programs	**1,474,312**	1,283,024
Externally designated under debt agreements	**176,304**	20,816
Investments under Securities Lending Program	**152,845**	131,440
	2,608,504	2,112,793
Other financial instruments:		
Cash and cash equivalents and short-term investments	**171,545**	141,130
	$ 2,780,049	$ 2,253,923

Investments in debt and equity securities with readily determinable fair values are measured at fair value using quoted market prices. Investments in limited partnerships that invest in marketable securities and derivative products (hedge funds) are reported using the equity method of accounting based on information provided by the respective partnership. Investments in private equity limited partnerships are reported using the cost method of accounting. The fair value of these private equity investments based on estimates determined by the investment's management was $40,566 and $8,801 at December 31, 2007 and 2006, respectively. The composition and carrying value of assets limited as to use, short-term investments, and cash and cash equivalents at December 31 is set forth in the following table:

	2007	2006
Cash and short-term investments	**$ 222,671**	$ 154,492
Corporate bonds and other debt securities	**551,601**	324,410
United States government obligations	**138,084**	150,344
Bond and other debt security mutual funds	**603,016**	447,031
Hedge funds	**106,015**	95,973
Private equity limited partnership funds	**40,566**	11,390
Equity securities	**457,439**	424,795
Equity mutual funds	**660,657**	645,488
	$ 2,780,049	$ 2,253,923

(Dollars in Thousands)

3. Investments (Including Assets Limited as to Use) and Other Financial Instruments (continued)

At December 31, 2007, the System is committed to fund $148,000 to various private equity limited partnerships over the next 10 to 12 years.

Investment returns for assets limited as to use, cash and cash equivalents, and short-term investments comprise the following for the years ended December 31:

	2007	2006
Interest and dividend income	**$ 91,680**	$ 67,229
Net realized gains	**80,445**	152,873
Net change in unrealized gains/losses	**(8,100)**	(7,552)
	$ 164,025	$ 212,550

Investment returns are included in the consolidated statements of operations and changes in net assets for the years ended December 31 as follows:

	2007	2006
Other revenue	**$ 61,279**	$ 65,099
Investment income	**100,470**	143,861
Temporarily restricted net assets realized and change in unrealized gains/losses	**2,276**	3,590
	$ 164,025	$ 212,550

The carrying values of cash and cash equivalents, accounts receivable and accounts payable, and accrued expenses are reasonable estimates of their fair values due to the short-term nature of these financial instruments.

As part of the management of the investment portfolio, the System has entered into an arrangement whereby securities owned by the System are loaned primarily to brokers and investment bankers. The loans are arranged through a bank. Borrowers are required to post collateral in the form of United States Treasury securities for securities borrowed equal to approximately 102% of the value of the security on a daily basis at a minimum. The bank is responsible for reviewing the creditworthiness of the borrowers. The System has also entered into an arrangement whereby the bank is responsible for the risk of borrower bankruptcy and

3. Investments (Including Assets Limited as to Use) and Other Financial Instruments (continued)

default. At December 31, 2007 and 2006, the System loaned approximately $152,845 and $131,440, respectively, in securities and accepted collateral for these loans in the amount of $156,665 and $134,955, of which $151,399 and $133,281 represents cash collateral and is included in other current assets and other current liabilities in the accompanying consolidated balance sheets.

4. Interest in Health Care and Related Entities

During 2000, in connection with the acquisition of a medical center, the System acquired an interest in the net assets of the Masonic Family Health Foundation (the Foundation), an independent organization, under the terms of an asset purchase agreement (the Agreement). The use of substantially all of the Foundation's net assets is designated to support the operations and/or capital needs of one of the System's medical facilities. Additionally, 90% of the Foundation's investment yield, net of expenses, on substantially all of the Foundation's investments is designated for the support of one of the System's medical facilities. The Foundation must pay the System, on an annual basis, 90% of the investment yield or an agreed-upon percentage of the beginning of the year net assets.

The interest in the net assets of this organization amounted to $101,150 and $99,619 as of December 31, 2007 and 2006, respectively, and is reflected in interest in health care and related entities in the accompanying consolidated balance sheets. The System's interest in the investment yield is reflected in other revenue in the accompanying consolidated statements of operations and changes in net assets and amounted to $6,835 and $5,224 for the years ended December 31, 2007 and 2006, respectively. Cash distributions received by the System from the Foundation under terms of the Agreement amounted to $5,050 and $5,664 during the years ended December 31, 2007 and 2006, respectively. In addition to the amounts distributed under the Agreement, the Foundation contributed $481 and $350 to the System for program support of one of its medical facilities during the years ended December 31, 2007 and 2006, respectively.

(Dollars in Thousands)

4. Interest in Health Care and Related Entities (continued)

The System has a 50% membership and governance interest in Advocate Health Partners (AHP), which has been accounted for on an equity basis. The System's carrying value in this interest was $0 at December 31, 2007 and 2006. Financial information relating to this interest is as follows:

	2007	2006
	(Unaudited)	
Assets	**$ 85,780**	$ 70,901
Liabilities	**85,987**	71,987
Revenues in excess of expenses	**–**	–

The System contracts with AHP for certain operational and administrative services. Total expenses incurred for these services were $9,447 and $9,876 in 2007 and 2006, respectively. At December 31, 2007 and 2006, the System had an accrued liability to AHP for those services for $4,621 and $4,232, respectively.

AHP purchased claims processing and certain management services from the System in the amounts of $7,946 and $9,077 in 2007 and 2006, respectively. Under terms of an agreement with the System, AHP reimburses the System for salaries, benefits, and other expenses that are incurred by the System on AHP's behalf. The amount billed for these services in 2007 and 2006 was $9,094 and $7,752, respectively. The System had a receivable from AHP at December 31, 2007 and 2006, for claims processing and management services of $1,024 and $1,781, respectively.

The Federal Trade Commission's (FTC's) investigation of AHP and other related parties (collectively, AHP) in relation to AHP's contracting activities with managed care organizations on behalf of independent physicians was completed in 2006. The FTC and AHP entered into a settlement agreement, which does not constitute a finding of fact or an admission by AHP with respect to the allegations. The resulting FTC consent order (the Order) permits AHP to engage in conduct that is reasonably necessary to form or participate in legitimate joint contracting arrangements among competing physicians in a qualified risk-sharing arrangement or, in the AHP clinical integration program, the Order allows the program to continue. The FTC will continue to monitor the AHP clinical integration program. The Order became final on February 7, 2007.

(Dollars in Thousands)

5. Long-Term Debt

Long-term debt, net of unamortized original issue discount or premium, which excludes long-term debt to be advance refunded in 2008, consisted of the following at December 31:

	2007	2006
Revenue bonds and revenue refunding bonds, Illinois Health Facilities Authority Series:		
1993C, 6.0% to 7.0%, principal payable in varying annual installments through April 2018	**$ 29,062**	$ 32,682
1997A, bonds extinguished in 2007	**–**	31,352
1997B (weighted-average rate of 3.60% during 2007), principal payable in varying annual installments through August 2022. Interest based on prevailing market conditions at time of remarketing	**–**	137,850
1998A, 4.50% to 5.20%, principal payable in varying annual installments through August 2022	**9,418**	10,221
1998B, 4.50% to 5.25%, principal payable in varying annual installments through August 2018	**26,717**	26,797
2000, 5.30% to 6.00%, principal payable in varying annual installments through November 2022	**11,331**	18,853
2003A (weighted-average rate of 3.82% during 2007), principal payable in varying annual installments through November 2022. Interest based on prevailing market conditions at time of remarketing	**34,485**	36,425
2003B (weighted-average rate of 3.60% during 2007), principal payable in varying annual installments through November 2022. Interest based on prevailing market conditions at time of remarketing	**–**	36,425
2003C (weighted-average rate of 3.64% during 2007), principal payable in varying annual installments through November 2022. Interest based on prevailing market conditions at time of remarketing	**34,505**	36,450

(Dollars in Thousands)

5. Long-Term Debt (continued)

	2007	2006
Revenue bonds and revenue refunding bonds, Illinois Health Facilities Authority Series (continued):		
2005A-1 variable insured auction rate bonds, subject to seven-day auction periods, payable through November 2022. Interest (ranging from 3.40% – 5.25% during 2007) swapped to a fixed rate of 3.19% over the life of the bonds	**$ 4,450**	$ 53,075
2005A-2 variable insured auction rate bonds, subject to seven-day auction periods, payable through November 2022. Interest (ranging from 3.40% – 5.10% during 2007) swapped to a fixed rate of 3.19% over the life of the bonds	**16,075**	53,100
2005B-1 variable insured auction rate bonds, subject to seven-day auction periods, payable through November 2022. Interest (ranging from 3.40% – 4.75% during 2007) swapped to a fixed rate of 3.20% over the life of the bonds	**26,950**	39,125
2005B-2 variable insured auction rate bonds, subject to seven-day auction periods, payable through November 2022. Interest (ranging from 3.35% – 4.75% during 2007) swapped to a fixed rate of 3.20% over the life of the bonds	**36,525**	39,425
2005B-3 variable insured auction rate bonds, subject to seven-day auction periods, payable through November 2022. Interest (ranging from 3.35% – 4.30% during 2007) swapped to a fixed rate of 3.20% over the life of the bonds	**38,450**	39,350
2007A-1 variable insured auction rate bonds, subject to seven-day auction periods, payable through November 2030. Interest (ranging from 3.35% – 5.10% during 2007)	**70,400**	–
2007A-2 variable insured auction rate bonds, subject to seven-day auction periods, payable through November 2030. Interest (ranging from 3.50% – 5.50% during 2007)	**82,075**	–
2007B-1 variable insured auction rate bonds, subject to seven-day auction periods, payable through November 2038. Interest (ranging from 3.50% – 5.25% during 2007) swapped to a fixed rate of 3.605% over the life of the bonds	**129,900**	–

(Dollars in Thousands)

5. Long-Term Debt (continued)

	2007	2006
Revenue bonds and revenue refunding bonds, Illinois Health Facilities Authority Series (continued):		
2007B-2 variable insured auction rate bonds, subject to seven-day auction periods, payable through November 2038. Interest (ranging from 3.50% – 5.28% during 2007) swapped to a fixed rate of 3.605% over the life of the bonds	**$ 108,425**	$ –
2007B-3 variable insured auction rate bonds, subject to seven-day auction periods, payable through November 2038. Interest (ranging from 3.45% – 5.00% during 2007) swapped to a fixed rate of 3.605% over the life of the bonds	**109,975**	–
Other	**18,206**	21,102
	786,949	612,232
Less current portion of long-term debt	**11,405**	24,782
Less long-term debt subject to short-term remarketing arrangements	**68,990**	109,300
	$ 706,554	$ 478,150

	2007	2006
Long-term debt to be advance refunded in 2008	**$ 264,952**	$ –

Maturities of long-term debt and sinking fund requirements, assuming remarketing of the 2003 A and C variable rate demand revenue refunding bonds, for the five years ending December 31, 2011, are as follows: 2008 – $11,405, 2009 – $11,631, 2010 – $14,048, 2011 – $12,561, and 2012 – $17,038.

The System's unsecured variable rate revenue bonds, Series 2003 (A and C) of $68,990, while subject to a long-term amortization period, may be put to the System at the option of the bondholders in connection with certain remarketing dates. To the extent that bondholders may, under the terms of the debt, put their bonds within 12 months after December 31, 2007, the principal amount of such bonds has been classified as a current obligation in the accompanying consolidated balance sheets. Management believes the likelihood of a material amount of bonds being put to the System is remote. However, to address this possibility, management has taken steps to provide various sources of liquidity in the event any bonds would be put, including accessing alternate sources of financing and maintaining unrestricted assets as a source of self-liquidity.

5. Long-Term Debt (continued)

All outstanding bonds were issued pursuant to a Master Trust Indenture dated as of December 1, 1996 (the Master Indenture), as subsequently amended, between the System and Bank of New York Mellon as master trustee. Under the terms of the Master Indenture and other arrangements, various amounts are to be on deposit with trustees, and certain specified payments are required for bond redemption and interest payments. The Master Indenture and other debt agreements, including a bank credit agreement, also place restrictions on the System and require the System to maintain certain financial ratios. Interest paid net of capitalized interest amounted to $22,729 and $25,545 in 2007 and 2006, respectively. Advocate capitalized interest of approximately $6,000 in 2007 and $0 in 2006.

The 2005 and 2007 variable insured auction rate bonds bear a maximum interest rate of 15%.

The estimated fair value of long-term debt based on quoted market prices for the same or similar issues was $791,276 and $619,170 at December 31, 2007 and 2006, respectively.

In 2000, the System entered into an investment sale arrangement with an investment bank related to certain funds held in trust under debt agreements. The investment sale agreement is for $10,000 and provides the System with a fixed annual investment return of approximately 6.1% over the life of a related bond issue. The agreement matures in November 2022; however, the System may terminate the agreement, without penalty, on or after November 2009.

The System has a $50,000 line of credit with a bank as of December 31, 2007 and 2006. The line of credit terminates in July 2009, and any amounts outstanding on the expiration date would be due and payable in equal quarterly installments over the 12-month period following the expiration date. At December 31, 2007 and 2006, no amounts were outstanding on the line of credit.

On October 10, 2007, the Illinois Finance Authority, on behalf of the System, issued insured variable rate auction bonds, Series 2007, in the amount of $500,775. Of the proceeds, $200,010 were deposited into an investment account and have been or will be used to pay or reimburse the System for the payment of certain costs of acquiring, construction, renovating, remodeling, and equipping certain of its health care facilities. Of the proceeds, $28,103 were used to refund the Series 1997A debt on the same date. The remaining proceeds were placed in an irrevocable trust to advance refund the Series 1997B Bonds and portions of the 2003B, 2005A-1, 2005A-2, 2005B-1, 2005B-2, and 2005B-3 bonds. The refunding occurred in two parts: $1,940 was reimbursed to Series 2003B bondholders from the trust assets on November 15, 2007, the original due date for this payment, and on January 8, 2008, the remaining $264,535 of the trust

5. Long-Term Debt (continued)

assets was paid to the bondholders to refund the remaining debt. The amount that was placed with a trustee and not paid directly to the bondholders prior to December 31, 2007, is reflected in the consolidated balance sheet at December 31, 2007, as deposits with bond trustees for long-term debt to be advance refunded in 2008 and long-term debt to be advance refunded in 2008.

In July 2005, in connection with the issuance of the Series 2005 Bonds, the System entered into multiple floating-to-fixed interest rate swap agreements, which effectively converted the variable auction rates of the bonds to fixed rates of 3.19% or 3.20%. The Series 2005 swap agreements had been designated as cash flow hedges of the base interest rate. In connection with the issuance of the Series 2007B-1, 2007B-2, and 2007B-3 Bonds, the System entered into multiple floating-to-fixed interest rate swap agreements (Series 2007 swaps), which effectively converted the variable auction rates of the bonds to a fixed rate of 3.605%. The market value of all swaps has been recorded in the consolidated balance sheets at December 31, 2007 and 2006. At December 31, 2007, $186 and $14,582 are recorded in other noncurrent assets and other noncurrent liabilities, respectively. At December 31, 2006, $6,298 and $0 are recorded in other noncurrent assets and other noncurrent liabilities, respectively.

Effective April 1, 2007, the System adopted the provisions of DIG G-26. Prior to April 1, 2007, the System applied hedge accounting in accordance with FASB Statement 133. Effective April 1, 2007, the System dedesignated its previous hedging relationships related to the Series 2005 Bonds. The change in fair value of these swaps for the period beginning January 1, 2007 through March 31, 2007, of $81 is included in net change in unrealized gains/losses on interest rate swaps in the consolidated statements of operations and changes in net assets for the year ended December 31, 2007. The amortization of the unrealized derivative gain and the write-off of the unamortized derivative gain for the period beginning April 1 through September 30, 2007, totaled $(6,168), and is included in net change in unrealized gains/losses on interest rate swaps in the consolidated statements of operations and changes in net assets for the year ended December 31, 2007. The accumulated unrealized derivative gain was written off concurrently with the refinancing of the 2005 Series B Bonds, which included the termination of the original Series 2005 swaps. New swap agreements were then established relating to the refinanced Series 2005 debt. The change in the fair value of all swaps from April 1, 2007 through December 31, 2007, excluding the write-off of the 2005 swaps was $(18,376), and is included in the 2007 consolidated statements of operations and changes in net assets as a component of other nonoperating items, net.

(Dollars in Thousands)

6. Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods at December 31:

	2007	2006
Net assets currently available for:		
Purchases of property and equipment	**$ 7,485**	$ 9,482
Medical education and other health care programs	**34,995**	33,508
Net assets available for future periods:		
Purchases of property and equipment	**4,108**	6,487
Medical education and other health care programs	**19,125**	18,094
	$ 65,713	$ 67,571

Permanently restricted net assets generate investment income, which is used to benefit the following purposes or periods at December 31:

	2007	2006
Net assets currently producing investment income:		
Purchases of property and of equipment	**$ 1,072**	$ 1,072
Medical education and other health care programs	**15,107**	14,701
Net assets available to produce investment income in future periods:		
Medical education and other health care programs	**152**	152
	$ 16,331	$ 15,925

(Dollars in Thousands)

7. Retirement Plans

The System maintains a defined-benefit pension plan that covers a majority of its employees (associates) as of December 31. A plan measurement date of September 30 is utilized for this plan.

A summary of changes in the plan assets, projected benefit obligation, and the resulting funded status of the System's defined-benefit pension plan, as well as the changes in the prepaid pension expense, are as follows:

	2007	2006
Change in plan assets:		
Plan assets at fair value at beginning of year	**$ 624,906**	$ 584,244
Actual return on plan assets	**104,105**	57,435
Employer contributions	**1,357**	18,000
Benefits paid	**(30,234)**	(34,773)
Plan assets at fair value at end of year	**$ 700,134**	$ 624,906
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	**$ 529,303**	$ 505,452
Service cost	**32,754**	30,191
Interest cost	**31,392**	28,397
Actuarial loss	**11,569**	36
Benefits paid	**(30,234)**	(34,773)
Projected benefit obligation at end of year	**$ 574,784**	$ 529,303
Plan assets in excess of projected benefit obligation:		
Funded status	**$ 125,350**	$ 95,603
Unrecognized net actuarial losses	**–**	46,052
Unrecognized prior service cost	**–**	284
Prepaid pension expense	**$ 125,350**	$ 141,939
Accumulated benefit obligation at end of year	**$ 544,680**	$ 497,015

(Dollars in Thousands)

7. Retirement Plans (continued)

	2007	2006
Net periodic pension expense is comprised of the following for the years ended December 31:		
Service cost	**$ 32,754**	$ 30,191
Interest cost	**31,392**	28,397
Expected return on plan assets	**(46,363)**	(44,293)
Amortization of:		
Actuarial loss	**1,789**	3,408
Prior service cost	**155**	269
Net pension expense	**$ 19,727**	$ 17,972

The amount of actuarial gain or loss and prior service cost included in other changes in unrestricted net assets expected to be recognized in net periodic pension cost during the fiscal year ending December 31, 2008, is $0 and $23, respectively.

Employer contributions were paid from employer assets for both years presented. No plan assets are expected to be returned to the employer. All benefits paid under the defined-benefit pension plan were paid from the plan's assets. The System anticipates making $1,600 in contributions to the plan's assets during 2008. Expected associate benefit payments are $46,500 in 2008; $50,160 in 2009; $53,170 in 2010; $57,050 in 2011; $60,750 in 2012; and $326,620 in 2013 through 2017.

The System's pension plan's asset allocation and investment strategies are designed to earn returns on plan assets consistent with a reasonable and prudent level of risk. Investments are diversified across classes, economic sectors, and manager style to minimize the risk of loss. Advocate uses investment managers specializing in each asset category and, where appropriate, provides the investment manager with specific guidelines that include allowable and/or prohibited investment types. Advocate regularly monitors manager performance and compliance with investment guidelines.

(Dollars in Thousands)

7. Retirement Plans (continued)

The System's target and actual pension asset allocations are as follows:

		Actual Asset Allocation	
Asset Category	**Strategic Target**	**2007**	**2006**
Domestic and international equity securities	**47.5%**	**60.0%**	60.0%
Private equity limited partnerships and hedge funds	**12.5**	**5.0**	5.0
Fixed income securities	**30.0**	**24.0**	26.0
Real estate	**10.0**	**11.0**	9.0
	100.0%	**100.0%**	100.0%

Within the equity portfolio, investments are diversified among large and mid-capitalizations of 22%; 13% are nonlarge capitalizations; and 25% are international and emerging markets. In 2005, the strategic targets for the pension allocation were revised. This reallocation of pension plan assets into the strategic target allocation percentages is completed except for the transition from domestic and international securities into private equity limited partnerships, which will be completed in four to six years.

Assumptions used to determine benefit obligations at the measurement date are as follows:

	2007	**2006**
Discount rate	**6.15%**	5.75%
Assumed rate of return on assets	**8.00**	8.00
Weighted-average rate of increase in future compensation (age-based table)	**4.80**	4.80

(Dollars in Thousands)

7. Retirement Plans (continued)

Assumptions used to determine net pension expense for the fiscal years are as follows:

	2007	2006
Discount rate	**5.75%**	5.45%
Assumed rate of return on assets	**8.00**	8.00
Weighted-average rate of increase in future compensation (age-based table)	**4.80**	5.10

To develop the assumed long-term rate of return on plan assets assumption, the System considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested, and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the strategic target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio. This resulted in the selection of the 8.00% assumption for 2007. For comparative purposes, the 10-year historical return on pension plan assets for the period ended September 30, 2007, was 8.8%.

The incremental effects of adopting the provisions of FAS 158 on the System's consolidated balance sheet at December 31, 2007, are presented in the following table. The adoption of FAS 158 had no effect on the System's consolidated statement of operations and changes in net assets for the year ended December 31, 2007, or for any prior years, and it will not affect the system's operating results in future periods.

	Prior to Adopting FAS 158	Effect of Adopting FAS 158	As Reported at December 31 2007
Prepaid pension and other noncurrent assets	$ 222,064	$ 1,780	$ 223,844
Unrestricted net assets	2,451,648	1,780	2,453,428

Amounts recorded in unrestricted net assets related to the adoption of FAS 158 consisted of a net actuarial gain of $1,910 and a net prior service cost of $(130).

7. Retirement Plans (continued)

The provisions of FAS 158 requiring the change in the plan's measurement date for the measuring of the plan's assets and benefit obligations as of year-end is effective as of December 31, 2008. The estimated impact on the System's consolidated net assets at December 31, 2008, related to the change in the measurement date, is a decrease of $5,720.

In addition to the defined-benefit pension plan, the System sponsors various defined-contribution plans. Amounts contributed by the System approximated $26,614 and $24,978 in 2007 and 2006, respectively, and are included in salaries, wages, and employee benefits expense.

8. General and Professional Liability Risks

The System is self-insured for substantially all general and professional liability risks. The self-insurance programs combine various levels of self-insured retention with excess commercial insurance coverage. In addition, various umbrella insurance policies have been purchased to provide coverage in excess of the self-insured limits. Irrevocable trust funds, administered by a trustee and a captive insurance company, have been established for the self-insurance programs. Actuarial consultants have been retained to determine the estimated cost of claims, as well as to determine the amount to fund into the irrevocable trust and captive insurance company.

The estimated cost of claims is actuarially determined based on past experience, as well as other considerations, including the nature of each claim or incident and relevant trend factors. Accrued insurance liabilities and contributions to the irrevocable trust were determined utilizing a discount rate of 3.5% for 2007 and 4.5% for 2006. Accrued insurance liabilities would have been approximately $73,727 greater at December 31, 2007, had these liabilities not been discounted.

The System is a defendant in certain litigation, related to professional and general liability risks. Although the outcome of the litigation cannot be determined with certainty, management believes, after consultation with legal counsel, that the ultimate resolution of this litigation will not have any material adverse effect on the System's operations or financial condition.

9. Legal, Regulatory, and Other Contingencies and Commitments

Various federal and state agencies have initiated investigations relating to reimbursement, billing practices, and other matters of Advocate. Additionally, federal and state class action complaints and other litigation have been filed against Advocate relating to its billing practices and other items. The investigations and litigation are in various stages of discovery, and the ultimate resolution of these matters, including the liabilities, if any, cannot be determined at this time; however, in the opinion of management after consultation with legal counsel, the System's billing and other practices comply with applicable laws and regulations. Laws and regulations governing the Medicare and Medicaid programs, which account for 37% and 39% of the System's net patient service revenue in 2007 and 2006, respectively, are extremely complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs. There can be no assurance that current regulatory inquiries will not challenge the System's compliance with those laws and regulations, or that regulatory authorities will allege that the System is not fully compliant with such laws or regulations, and it is not possible to determine the impact (if any) the resulting claims or penalties would have upon the System. To foster compliance with applicable laws and regulations, Advocate maintains a compliance program designed to detect and correct potential violations of laws and regulations related to its programs.

The System is committed to constructing additions and renovations to its medical facilities and implementing information technology projects, which are expected to be completed in future years. The estimated cost of these commitments is $480,359, of which $304,990 has been incurred as of December 31, 2007.

Future minimum rental commitments at December 31, 2007, for all noncancelable leases with original terms of more than one year are $42,937, $34,445, $28,150, $19,334, and $12,713 for the years ending December 31, 2008 through 2012, respectively, and $42,642 thereafter.

Rent expense, which is included in other expenses, amounted to approximately $62,106 and $57,078 in 2007 and 2006, respectively.

9. Legal, Regulatory, and Other Contingencies and Commitments (continued)

In 2002, the System provided a guaranty of obligations under loan and interest rate swap agreements between a bank and a company of which the System is a 49% owner. The outstanding balance of the five-year term loan and the notional amount of the interest rate swap totaled $5,220 at December 31, 2006. In 2007, this debt was replaced with a mortgage loan and a second loan in the amounts of $3,580 and $1,520, respectively. The first loan matures on October 31, 2027 and the second loan is to be paid in 48 monthly installments. The System guarantees the second loan up to $600.

In October 2002, the System sold certain of its medical office buildings to an unrelated party. As part of this transaction, the System entered into agreements to lease back space within these buildings. These leases have been accounted for as sale-leaseback transactions. At the time of the sale, $9,383 of the $30,890 total gain on the sale was deferred and is being amortized over the terms of the related leases. The unamortized deferred gain was $4,833 and $5,567 at December 31, 2007 and 2006, respectively, and deferred gain accretion was $734 and $801 in 2007 and 2006, respectively. The System has no future commitments, obligations, provisions, or circumstances that require or result in the System's continuing involvement with these properties. The future minimum lease obligations under the leaseback terms are included in the above-stated future minimum rental commitments.

At December 31, 2007 and 2006, the System had pledged to a bank approximately $2,500 of assets held in trust as partial collateral for a loan entered into between a not-for-profit laundry cooperative, which provides services to the System, and a bank. In 2006 and 2007, the System provided a guarantee to a supplier of this not-for-profit laundry cooperative in the amount of $2,744.

(Dollars in Thousands)

10. Income Taxes and Tax Status

Certain subsidiaries of the System are for-profit corporations. Significant components of the for-profit subsidiaries' deferred tax assets (liabilities) are as follows at December 31:

	2007	2006
Deferred tax assets		
Allowance for uncollectible accounts	**$ 2,886**	$ 2,705
Other accrued expenses	**84**	90
Reserves for incurred but not reported claims	**1,604**	5,162
Accrued insurance	**14,937**	11,679
Accrued compensation and employee benefits	**2,974**	2,586
Third-party settlements	**444**	–
Prepaid and other assets	**628**	–
Total deferred tax assets	**23,557**	22,222
Net deferred tax assets, included in deferred costs and intangible assets and prepaid expenses, inventories, and other assets	**$ 23,557**	$ 22,222
Deferred tax liabilities		
Other accrued expenses	**$ (19)**	$ (971)
Property and equipment	**(4,694)**	(4,685)
Total deferred tax liabilities, included in other noncurrent liabilities	**$ (4,713)**	$ (5,656)

Significant components of the (credit) provision for income taxes are as follows for the years ended December 31:

	2007	2006
Current:		
Federal	**$ (425)**	$ 6,465
State	**(96)**	1,454
Deferred	**(2,278)**	(2,547)
	$ (2,799)	$ 5,372

10. Income Taxes and Tax Status (continued)

Federal and state income taxes paid were $6,774 and $4,228 in 2007 and 2006, respectively.

Advocate and all other controlled or wholly owned subsidiaries are exempt from income taxes under Internal Revenue Code Section 501(c)(3). They do, however, operate certain programs which generate unrelated business income. The current tax provision recorded on this income was $111 and $(630) for the years ended December 31, 2007 and 2006, respectively. Federal, state, and local governments are increasingly scrutinizing the tax status of not-for-profit hospitals and health care systems.

APPENDIX C

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF ADVOCATE HEALTH CARE NETWORK AND SUBSIDIARIES FOR THE PERIODS ENDED SEPTEMBER 30, 2008 AND 2007

The information provided in this Appendix C was provided by Advocate Health Care Network and is subject to the forward looking statement disclaimer included in the forepart of this Official Statement.

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Advocate Health Care Network and Subsidiaries
Condensed Consolidated Balance Sheets

(dollars in thousands)

	Unaudited September 30, 2008	Note 1 December 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	$ 375,963	$ 145,728
Short term investments	19,083	25,817
Assets limited as to use:		
Externally designated under debt agreements	3,098	4,196
Internally designated for self insurance programs	75,507	100,000
Patient accounts receivable		
less allowance for uncollectible accounts of $131,282 and $102,428	282,368	290,332
Amounts due from third party payors	1,395	53,703
Prepaid expenses, inventories (at cost) and other assets	143,485	146,710
Collateral proceeds received under securities lending program	151,857	151,399
Total current assets	1,052,756	917,885
Assets limited as to use:		
Externally designated under debt agreements, net of amounts required to meet current obligations	68,821	172,108
Internally designated for capital improvement	1,181,010	1,411,628
Internally designated for self insurance programs, less current portion	682,925	705,043
Externally designated for capital improvement, medical education and health care programs	65,236	62,684
Investments under securities lending program	161,719	152,845
	2,159,711	2,504,308
Deposit with bond trustees for long term-debt to be advance refunded in 2008	-	264,952
Prepaid pension expense and other noncurrent assets	207,992	223,844
Investments and interests in health care and related entities	94,354	103,958
Reinsurance receivable	158,210	138,596
Deferred costs and intangible assets, less allowances for amortization	27,800	35,926
	2,648,067	3,271,584
Property and equipment -- at cost:		
Property and equipment	2,688,950	2,562,034
Less allowances for depreciation	1,553,778	1,495,529
	1,135,172	1,066,505
	$ 4,835,995	$ 5,255,974

(Continued on next page)

Note 1: December 31, 2007 financial statement information was derived from and should be read in conjunction with the Advocate Health Care Network and Subsidiaries 2007 Audited Consolidated Financial Statements in Appendix B.

See accompanying notes to interim condensed consolidated financial statements.

Advocate Health Care Network and Subsidiaries
Condensed Consolidated Balance Sheets
(continued)

(dollars in thousands)

	Unaudited September 30, 2008	Note 1 December 31, 2007
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt	$ 15,435	$ 11,405
Long-term debt subject to short-term remarketing arrangements	222,420	68,990
Accounts payable	92,811	99,619
Accrued salaries and employee benefits	214,081	199,310
Accrued expenses	97,595	127,698
Amounts due to primary third-party payors	148,333	121,235
Current portion of accrued insurance and claims costs	99,361	90,275
Obligations to return collateral under securities lending program	153,464	151,399
Total current liabilities	1,043,500	869,931
Noncurrent liabilities:		
Long-term debt, less current portion	543,570	706,554
Long-term debt to be advance refunded in 2008	-	264,952
Accrued insurance and claims costs	720,766	649,503
Accrued losses subject to insurance recovery	158,210	138,596
Interest rate swaps	14,932	14,582
Other noncurrent liabilities	80,459	76,384
Total noncurrent liabilities	1,517,937	1,850,571
Total liabilities	2,561,437	2,720,502
Net assets:		
Unrestricted	2,190,974	2,453,428
Temporarily restricted	66,909	65,713
Permanently restricted	16,675	16,331
	2,274,558	2,535,472
	$ 4,835,995	$ 5,255,974

Note 1: December 31, 2007 financial statement information was derived from and should be read in conjunction with the Advocate Health Care Network and Subsidiaries 2007 Audited Consolidated Financial Statements in Appendix B.

See accompanying notes to interim condensed consolidated financial statements.

Advocate Health Care Network and Subsidiaries
Condensed Consolidated Statements of Operations and Changes in Net Assets

(dollars in thousands)

	Unaudited For the Quarter Ended September 30,		Unaudited For the Nine Months Ended September 30,		Note 1 For the Year Ended December 31,
	2008	**2007**	**2008**	**2007**	**2007**
Unrestricted revenues and other support					
Patient service revenue	**$ 748,174**	$ 686,799	**$ 2,220,109**	$ 2,037,863	**$ 2,756,494**
Proceeds from Medicaid assessment	**-**	26,118	**52,042**	78,158	**104,237**
Capitation revenue	**111,409**	101,060	**334,651**	309,548	**413,169**
Other revenue	**50,868**	46,040	**149,534**	137,934	**182,920**
	910,451	860,017	**2,756,336**	2,563,503	**3,456,820**
Expenses					
Salaries, wages and employee benefits	**439,305**	399,759	**1,288,871**	1,189,518	**1,607,107**
Purchased services and operating supplies	**199,335**	184,824	**593,251**	544,994	**737,499**
Contracted medical services	**49,453**	53,479	**157,548**	158,002	**209,609**
Provision for uncollectible accounts	**51,322**	35,023	**147,875**	123,432	**157,130**
Insurance and claims costs	**45,520**	39,741	**148,769**	129,210	**156,060**
Other	**48,635**	43,919	**142,001**	126,878	**175,242**
Medicaid assessment	**6**	20,082	**40,145**	60,201	**80,267**
Depreciation and amortization	**33,478**	32,438	**100,322**	97,375	**134,351**
Interest	**4,076**	6,598	**25,856**	19,966	**24,028**
	871,130	815,863	**2,644,638**	2,449,576	**3,281,293**
Operating income	**39,321**	44,154	**111,698**	113,927	**175,527**
Nonoperating income (loss)					
Investment (loss) income	**(198,454)**	28,067	**(337,850)**	126,919	**100,470**
Change in the market value of interest rate swaps	**(11,254)**	(4,108)	**(12,881)**	613	**(12,207)**
Other nonoperating (loss), net	**(6,982)**	(2,823)	**(9,675)**	(2,725)	**(852)**
Loss on refinancing of debt	**-**	(248)	**(9,644)**	(248)	**(3,000)**
	(216,690)	20,888	**(370,050)**	124,559	**84,411**
Revenue (less than) in excess of expenses	**$ (177,369)**	$ 65,042	**$ (258,352)**	$ 238,486	**$ 259,938**

(Continued on next page)

Note 1: December 31, 2007 financial statement information was derived from and should be read in conjunction with the Advocate Health Care Network and Subsidiaries 2007 Audited Consolidated Financial Statements in Appendix B .

See accompanying notes to interim condensed consolidated financial statements.

Advocate Health Care Network and Subsidiaries
Condensed Consolidated Statements of Operations and Changes in Net Assets
(continued)
(dollars in thousands)

	For the Quarter Ended September 30,		For the Nine Months Ended September 30,		For the Year Ended December 31,
	2008	**2007**	**2008**	**2007**	**2007**
Unrestricted net assets					
Revenue (less than) in excess of expenses	**$ (177,369)**	$ 65,042	**$ (258,352)**	$ 238,486	**$ 259,938**
Contributions received from a supporting foundation and grants and used for capital purposes	**345**	711	**1,976**	4,050	**7,380**
Net change in unrealized losses on interest rate swaps	**-**	(288)	**-**	(206)	**(6,087)**
Other	**1**	-	**(6,078)**	21	**(707)**
(Decrease) increase in unrestricted net assets	**(177,023)**	65,465	**(262,454)**	242,351	**260,524**
Temporarily restricted net assets					
Contributions for medical education programs, capital purchases, and other purposes	**2,742**	4,681	**13,055**	8,503	**12,515**
Realized gains on investments	**235**	268	**588**	1,337	**2,688**
Net change in unrealized losses / gains on investments	**(3,129)**	516	**(4,721)**	1,111	**(412)**
Net assets released from restrictions and used for operations, for capital purposes and for medical education programs	**(2,713)**	(3,341)	**(7,726)**	(10,701)	**(16,649)**
(Decrease) increase in temporarily restricted net assets	**(2,865)**	2,124	**1,196**	250	**(1,858)**
Permanently restricted net assets					
Contributions for medical education programs, capital purchases, and other purposes	**116**	45	**344**	373	**406**
Increase in permanently restricted net assets	**116**	45	**344**	373	**406**
(Decrease) increase in net assets	**(179,772)**	67,634	**(260,914)**	242,974	**259,072**
Net assets at beginning of period	**2,454,330**	2,451,740	**2,535,472**	2,276,400	**2,276,400**
Net assets at end of period	**$ 2,274,558**	$ 2,519,374	**$ 2,274,558**	$ 2,519,374	**$ 2,535,472**

Note 1: December 31, 2007 financial statement information was derived from and should be read in conjunction with the Advocate Health Care Network and Subsidiaries 2007 Audited Consolidated Financial Statements in Appendix B.

See accompanying notes to interim condensed consolidated financial statements.

Advocate Health Care Network and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(dollars in thousands)

	Unaudited		Unaudited		Note 1
	For the Quarter Ended Ended September 30,		For the Nine Months Ended September 30,		For the Year Ended December 31,
	2008	2007	2008	2007	2007
Operating activities					
Change in net assets	**$ (179,772)**	$ 67,634	**$ (260,914)**	$ 242,974	**$ 259,072**
Adjustments to reconcile change in net assets to cash provided by operating activities:					
Depreciation, amortization and accretion	**33,729**	32,758	**101,192**	98,284	**136,749**
Provision for uncollectible accounts	**51,322**	35,023	**147,875**	123,432	**157,130**
Credit for deferred income taxes	**-**	-	**-**	-	**(2,279)**
Losses on sale of property and equipment	**338**	2,400	**665**	2,337	**3,537**
Loss on refinancing of debt	**-**	248	**9,644**	248	**3,000**
Net change in unrealized losses / gains on interest rate swaps	**11,254**	4,396	**12,881**	(407)	**18,294**
Restricted contributions and gains on investments, net of assets released from restrictions used for operations	**(2,368)**	(2,629)	**(5,749)**	(6,651)	**(9,269)**
Change in operating assets and liabilities:					
Trading securities	**179,390**	(39,884)	**270,628**	(190,275)	**(344,063)**
Patient accounts receivable	**(17,827)**	(55,503)	**(139,912)**	(117,402)	**(160,774)**
Amounts due from/to third-party payors	**8,130**	86,405	**79,406**	136,541	**104,108**
Accounts payable, accrued salaries, employee benefits, accrued expenses and other noncurrent liabilities	**36,019**	46,294	**(18,663)**	(1,940)	**(35,734)**
Other assets	**16,493**	14,936	**447**	(19,065)	**(33,315)**
Accrued insurance and claims costs	**31,247**	21,828	**80,351**	82,183	**86,983**
Net cash provided by operating activities	**167,955**	213,906	**277,851**	350,259	**183,439**
Investing activities					
Purchases of property and equipment, net	**(59,753)**	(53,140)	**(169,546)**	(132,771)	**(192,569)**
Proceeds from sale of property and equipment	**189**	792	**406**	809	**835**
Net sales and purchases of non trading investments	**37,117**	(1,141)	**104,384**	(1,106)	**(154,814)**
Other	**(8,341)**	9,532	**13,339**	10,542	**5,703**
Net cash used in investing activities	**(30,788)**	(43,957)	**(51,417)**	(122,526)	**(340,845)**
Financing activities					
Proceeds from issuance of debt and line of credit	**-**	(21,892)	**624,180**	(21,892)	**500,775**
Payment of long-term debt and line of credit	**(1,534)**	4,849	**(629,644)**		**(326,062)**
Proceeds from restricted contributions and gains on on investments, net of assets released from restrictions	**(37)**	5,499	**9,265**	11,313	**15,197**
Net cash (used in) provided by financing activities	**(1,571)**	(11,544)	**3,801**	(10,579)	**189,910**
Increase in cash and cash equivalents	**135,596**	158,405	**230,235**	217,154	**32,504**
Cash and cash equivalents at beginning of period	**240,367**	171,973	**145,728**	113,224	**113,224**
Cash and cash equivalents at end of period	**$ 375,963**	$ 330,378	**$ 375,963**	$ 330,378	**$ 145,728**

Note 1: December 31, 2007 financial statement information was derived from and should be read in conjunction with the Advocate Health Care Network and Subsidiaries 2007 Audited Consolidated Financial Statements .

See accompanying notes to interim condensed consolidated financial statements.

Note A - Basis of Presentation

The accompanying condensed consolidated financial statements for the quarters and the nine months ended September 30, 2008 and 2007 have been prepared in accordance with accounting principles generally accepted in the United States applied on a basis substantially consistent with that of the 2007 audited consolidated financial statements of Advocate Health Care Network and Subsidiaries ("Advocate" or "System"). They do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2008 are not necessarily indicative of the results that may be experienced during the year ending December 31, 2008.

The condensed consolidated balance sheet, statement of operations and changes in net assets and statement of cash flows at December 31, 2007 and for the year then ended have been derived from the 2007 audited consolidated financial statements of Advocate but do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

Note B - Accounting Pronouncements

Adoption of New Accounting Standards

In March 2008, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133* ("SFAS 161"). SFAS 161 is intended to enhance the current disclosure framework in Statement 133. SFAS 161 requires that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation. Additionally disclosure is required of (i) the purpose of derivative use in terms of the risks that the entity is intending to manage, (ii) the fair values of derivative instruments and their gains and losses in a tabular format and (iii) information about credit-risk-related contingent features. This new standard is effective for fiscal years and interim periods beginning after November 15, 2008. Advocate will adopt this new standard in 2009.

Effective, January 1, 2008, Advocate adopted Statement of Financial Accounting Standards No. 157 *Fair Value Measurements* ("SFAS 157"), which defines fair value, establishes a market-based hierarchy for measuring fair value and expands disclosures about fair value measurements. SFAS 157 is applicable whenever another accounting pronouncement requires or permits assets and liabilities to be measured at fair value, but does not require any new fair value measurements. In November 2007, FASB issued a FASB Staff Position ("FSP") that deferred the effective date of SFAS 157 for one year for all non-financial assets and liabilities, except for those items that are recognized or disclosed at fair value in the financial statements on a recurring basis.

SFAS 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in processing an asset or liability. As a basis for evaluating such assumptions, SFAS 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs in measuring fair value as follows:

Level 1: Quoted prices in active markets for identified assets or liabilities.

Level 2: Inputs, other than the quoted process in active markets, that are observable either directly or indirectly.

Level 3: Unobservable inputs in which there is little or no market data which then requires the reporting entity to develop its own assumptions about what market participants would use in pricing the asset or liability.

The following are assets and liabilities measured at fair value on a recurring basis at September 30, 2008:

		Fair Value Measurements Using		
Description	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Trading Securities:				
Designated for self insurance programs	$758,432	$625,540	$132,892	$0
Designated internally or externally for specific capital improvements, medical education and health care programs	1,062,514	913,827	148,687	0
Short-term investments	19,083	16,460	2,623	0
Externally designated under debt agreements	52,417	16,388	36,029	0
Investments under securities lending program	161,719	139,256	22,463	0
	$2,054,165	**$1,711,471**	**$342,694**	**$0**
Available for Sale Securities:				
Externally designated under debt agreements	**19,502**	**14,272**	**5,230**	**0**
Investments at Fair Value	**$2,073,667**	**$1,725,743**	**$347,924**	**$0**
Investments not at Fair Value (included as part of Designated for specific capital improvements, medical education , and health care programs)	**183,732**			
Total Investments	**$2,257,399**			
Interest Rate Swaps				
Other noncurrent liabilities	**($23,281)**	**$0**	**($23,281)**	**$0**

The SFAS 157 fair value of interest rate swaps presented in the noncurrent liability section of the condensed consolidated balance sheets reflects an adjustment for the value of collateral posted $8.4 million as of September 30, 2008 related to these swap arrangements. The collateral was returned to the System from the counterparty in full in October 2008.

In February 2007, the FASB issued FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115* ("SFAS 159"), which, among other things, provides an option to elect fair value as an alternative measurement for selected financial assets and liabilities not previously recorded at fair value. As a result of adopting SFAS 159, Advocate did not elect fair value accounting for any asset or liabilities that are not currently required to be measured at fair value.

On January 1, 2008, the System adopted the recognition and disclosure provisions related to the change in the plan's measurement date required by FASB Statement No. 158, *Employers' Accounting for Defined-Benefit Pension and Other Postretirement Plans, an Amendment of FASB Statements No. 87, 88, 106, and 132(R)* ("SFAS 158"). The provisions of SFAS 158 require that the plan's measurement date for measuring the defined benefit plan assets and obligations must be as of the date of the employer's fiscal year-end statement of financial position. This new provision effectively eliminates the System's use of an earlier measurement date. The impact on the System's consolidated net assets for the year ending December 31, 2008, related to the change in the measurement date, is a decrease of $5.7 million reflected in the other changes in unrestricted net assets on the consolidated statements of operations and changes in net assets.

Note C - Reclassifications in the Condensed Consolidated Financial Statements

Certain reclassifications were made to the 2007 condensed consolidated financial statements to conform with the classifications used in 2008.

Note D – Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates, assumptions, and judgments that affect the reported amounts of assets and liabilities and amounts disclosed in the notes to the financial statements at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Although estimates are considered to be fairly stated at the time made, actual results could differ materially from those estimates.

Advocate considers critical accounting policies to be those that require the more significant judgments and estimates in the preparation of its financial statements, including, but not limited to, the following: recognition of patient service revenue, which includes, contractual allowances and third-party settlements; contracted medical service expense recognition and reserves for incurred but not reported claims; accounting for goodwill; asset impairment or disposal of long-lived assets; provisions for uncollectible accounts and charity care; reserves for losses and expenses related to health care professional, general and other self-insured liability risks; analysis of potential other than temporary declines in fair value of non-trading investments; and pension plan actuarial assumptions. Management relies on historical experience and on other assumptions believed to be reasonable under the circumstances in making its judgments and estimates. Although estimates are considered to be reasonable at the time made, actual results could differ materially from those estimates.

Changes in estimates that relate to prior years' payment arrangements resulted in increases to net patient service revenue of $1.6 million and $15.9 million for the quarters ended September 30, 2008 and 2007,

respectively; $10.6 million and $31.2 million for the nine months ended September 30, 2008 and 2007, respectively, and $33.5 million for the year ended December 31, 2007.

Note E – Retirement Plans

The System maintains a defined benefit pension plan ("Plan") that covers substantially all of its employees ("associates"). The provisions of FAS 158 requiring the change in the plan's measurement date for the measuring of the plan's assets and benefit obligations in 2008. The impact on the System's consolidated net assets at September 30, 2008, related to the change in the measurement date was a decrease of $5.7 million. Prepaid pension expense as of September 30, 2008 and December 31, 2007 amounted to $109.1 million and $125.4 million, respectively. Plan expense included in the Condensed Consolidated Statements of Operations and Changes in Net Assets is as follows:

	For the Nine Months Ended September 30,		For the Year Ended December 31,
	2008	2007	2007
Service cost	$27,255	$24,566	$32,754
Interest cost	27,360	23,544	31,392
Expected return on plan assets	(37,467)	(34,772)	(46,363)
Amortization of:			
Actuarial loss	0	1,342	1,789
Prior service cost	17	116	155
Net pension expense	$17,165	$14,795	$19,727

Amounts funded into the Plan were paid from employer assets and were as follows (there were no contributions other than cash):

	For the Quarter Ended September 30,		For the Nine Months Ended September 30,		For the Year Ended December 31,
	2008	2007	2008	2007	2007
Cash contributions	$6,595	$1,357	$6,595	$1,357	$1,357

The System made contributions of $1,357 during 2007 from employer assets. At this time, subject to investment returns, the System anticipates making $6,595 in contributions to the Plan's assets during 2008. Expected associate benefit payments from Plan assets are $46,500 in 2008; $50,160 in 2009, $53,170 in 2010; $57,050 in 2011, $60,750 in 2012 and $326,620 in 2013 through 2017.

The System's target and actual allocation of Plan assets are as follows:

	Strategic Target	September 30, 2008	December 31, 2007
Equity securities	47.5%	48.7%	60.0%
Fixed income securities	30.0	29.3	24.0
Real estate	10.0	13.7	11.0
Private equity, limited partnerships and hedge funds	12.5	8.3	5.0
	100.0%	100.0%	100.0%

The investment policy establishes the target asset allocation among the following styles: 19.0% large and mid capitalization equity; 11.9% non-large capitalization equities; 16.6% international and emerging marketable equities; 30.0% fixed income; 10.0% real estate; 7.5% private equity investments; and 5.0% hedge funds. In 2005, the strategic targets for the pension allocation were revised. This reallocation of pension plan assets into the strategic target allocation percentages is completed except for the transition from domestic to international securities into private equity limited partnerships, which will be completed in four to six years. Assets of the Plan are managed by a number of external investment professionals. In order to minimize risk and achieve further diversification, limitations are placed on investment managers as to the overall amount that can be invested in one issuer (except for U.S. government obligations and its agencies) or economic sector.

In addition to the defined benefit pension plan, the System sponsors various defined contribution plans for its associates. Contributions to these plans, that are included in salaries, wages and employee benefits expense in the Condensed Consolidated Statements of Operations and Changes in Net Assets, were as follows:

	For the Quarter Ended September 30,		For the Nine Months Ended September 30,		For the Year Ended December 31,
	2008	2007	2008	2007	2007
Contribution plan expense	$7,316	$6,740	$21,788	$20,205	$26,614

Due to volatility in the stock and capital markets in the United States and globally through October 31, 2008, there is the likelihood of declines in the fair value of plan assets by year-end.

Note F – Long-Term Debt

Maturities of long-term debt and sinking fund requirements at September 30, 2008, assuming remarketing of the Series 2003A, 2003C and 2008A variable rate demand revenue refunding for the five years ending September 30, 2013 are as follows (although $74.0 million of Series 2008B and 2008C bonds were converted to bank bonds as of September 30, 2008, for the purposes of the maturities calculations for 2010 – 2013, it is assumed that all Series 2008B and Series 2008C bonds are remarketed and mature under the original amortization schedule. As of the date of this report only approximately $7.4 million of these bonds have been converted to bank bonds): 2009 - $15,435; 2010 - $14,003; 2011 - $11,302; 2012 - $13,015; and 2013 - $17,319.

On April 29, 2008 the Illinois Finance Authority ("IFA"), on behalf of the System, completed the issuance of uninsured, variable rate bonds, Series 2008, in the approximate amount of $623.2 million. The issuance of these bonds allowed Advocate to complete the refunding of the Series 2005 and 2007 insured, auction rate securities in the amount of $623.2 million. In connection with the issuance of the Series 2005 Bonds, Advocate entered into multiple floating-to-fixed interest rate swap agreements in the notional amount of $122.5 million which effectively converted the variable rate bonds to fixed rates of approximately 3.20%. In connection with the issuance of the Series 2007 Bonds, Advocate entered into multiple floating-to-fixed interest rate swap agreements in the notional amount of $348.3 million which effectively converted the variable rate bonds to fixed rates of approximately 3.61%. The issuance of the Series 2008 bonds substantially preserved the existing maximum annual debt service and bond average life achieved in Advocate's October 10, 2007 bond issuance as well as the 2005 and 2007 swap agreements. The Series 2008 bond issue included three different series. The Series 2008A bonds in the total amount of $153.4 million, which are in the form of annual, uninsured put bonds broken down into three sub-series with staggered remarketing dates of approximately $51.1 million each, priced at an initial rate of 1.90%. The Series 2008A bonds refunded the Series 2007A bonds. The Series 2008 B and C bonds, in the total amount of $470.8 million, were issued as uninsured, weekly, variable rate demand bonds, broken down into ten sub-series that correspond with the 2005 and 2007 interest rate swap agreements, and are backed by a bank standby purchase agreement (that includes four banks) in the event of a failed remarketing. The Series 2008B Bonds refunded the Series 2005A and 2005B bonds and the Series 2008C bonds refunded the Series 2007B bonds. Advocate incurred a loss on the refinancing of the Series 2005 and Series 2007 bonds in the amount of $9.6 million.

Effective April 1, 2007, the System adopted the provisions of *SFAS 133 Implementation Issue No. G26* ("DIG G-26"). Prior to adopting DIG G-26, the System applied hedge accounting in accordance with FAS 133 and as such mark-to-market adjustments were reflected as an increase or decrease to unrestricted net assets, except for any changes in the value of certain swaps that were determined to have arisen from the ineffectiveness of the instruments, as determined through the hypothetical derivative method. Any ineffectiveness had been recorded as a nonoperating item in the Condensed Consolidated Statements of Operations and Changes in Net Assets. With the adoption of DIG G-26, changes in the fair value of interest rate swaps subsequent to April 1, 2007 have been recorded in the nonoperating section in the Condensed Consolidated Statements of Operations and Changes in Net Assets.

Interest rate swaps are recorded at fair value in the Condensed Consolidated Balance Sheets. As a result of recent turmoil in the market, Advocate has incurred unrealized losses on these interest rate swap agreements.

At September 30, 2008 the fair value of the swaps was $27,277 and was recorded as part of noncurrent liabilities. At December 31, 2007, $186 and $14,582 were recorded in other noncurrent assets and other noncurrent liabilities, respectively.

Note G - Investments

Investments and assets limited as to use are classified as trading. Investments in debt and equity securities with readily determinable fair values are measured at fair value using quoted market prices. Investments in limited partnerships that invest in marketable securities and derivative products (hedge funds) are reported using the equity method of accounting based on information provided by the respective partnership. Investments in private equity limited partnerships are primarily recorded at cost as the ownership percentages are less than five percent. Investment income or loss (including realized gains and losses, interest, dividends, changes in equity of limited partnerships, and unrealized gains and losses) is included in investment income unless the income or loss is restricted by donor or law or is related to assets designated for self-insurance

programs. Investment income on self-insurance trust funds is reported in other revenue. Unrealized gains and losses, which are restricted by donor or law are reported as a change in temporarily restricted net assets.

Investment returns for assets limited as to use, cash and cash equivalents, and short term investments comprise the following:

	For the Quarter Ended September 30,		For the Nine Months Ended September 30,		For the Year Ended December 31,
	2008	2007	2008	2007	2007
Interest and dividend income	$ 16,011	$20,141	$ 38,062	$ 57,677	$ 91,680
Net realized gains/losses	(17,552)	8,444	(32,439)	30,871	80,445
Net change in unrealized gains/losses	(184,073)	15,393	(300,063)	84,108	(8,100)
	$(185,614)	$43,978	$(294,440)	$172,656	$164,025

Investment returns are included in the consolidated statements of operations and changes in net assets as follows:

	For the Quarter Ended September 30,		For the Nine Months Ended September 30,		For the Year Ended December 31,
	2008	2007	2008	2007	2007
Other Revenue	$ 15,735	$15,131	$ 47,543	$ 43,296	$ 61,279
Investment income	(198,454)	28,067	(337,850)	126,919	100,470
Temporarily restricted net assets realized and change in unrealized gains/losses	(2,895)	781	(4,133)	2,442	2,276
	$(185,614)	$43,979	$(294,440)	$172,657	$164,025

Investments in limited partnerships (hedge funds) totaled $102.0 million at September 30, 2008 and $106.0 million at December 31, 2007. Investments in private equity limited partnerships totaled $80.7 million at September 30, 2008 and $40.6 million at December 31, 2007.

With respect to private equity limited partnerships, the System is committed at September 30, 2008 to fund $208.5 million to various private equity limited partnerships over the next ten to twelve years. Additional allocations of investments are anticipated to be made to private equity limited partnerships in the future as opportunities arise.

Due to the volatility in the stock and capital markets in the United States and globally through October 31, 2008, there is the likelihood of declines in the fair value of the investment portfolio by year-end.

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APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE

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APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE

A brief description of the Master Indenture is included hereafter in this Appendix D to the Official Statement. Such descriptions do not purport to be comprehensive or definitive. All references herein to the Master Indenture are qualified in their entirety by reference to each such document, copies of which are available for review prior to the issuance and delivery of the Series 2008D Bonds at the office of the Authority and thereafter at the office of the Bond Trustee. All references to the Series 2008D Bonds are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto included in the Bond Indenture.

DEFINITIONS OF CERTAIN TERMS

The following are definitions of certain terms used in the Master Indenture.

"*Accelerable Instrument*" means any Obligation or any mortgage, indenture, loan agreement or other instrument under which there has been issued or incurred, or by which there is secured, any Indebtedness evidenced by an Obligation, which Obligation or instrument provides that, upon the occurrence of an event of default under such Obligation or instrument, the holder thereof may request that the Master Trustee declare such Obligation or Indebtedness due and payable prior to the date on which it would otherwise become due and payable.

"*Act*" means the Illinois Finance Authority Act, as from time to time amended.

"*Additional Obligations*" means any evidence of Indebtedness issued after the issuance of the Series 1997 Obligations (as defined in the Master Indenture) authorized to be issued by a Member pursuant to the Master Indenture which has been authenticated by the Master Trustee pursuant to the Master Indenture.

"*Affiliate*" means a corporation, limited liability company, partnership, joint venture, association, business trust or similar entity (a) which is controlled directly or indirectly by a Member; or (b) a majority of the members of the Directing Body of which are members of the Directing Body of a Member. For the purposes of this definition, control means with respect to: (a) a corporation having stock, the ownership, directly or indirectly, of more than 50% of the securities (as defined in Section 2(1) of the Securities Act of 1933, as amended) of any class or classes, the holders of which are ordinarily, in the absence of contingencies, entitled to elect a majority of the directors of such corporation; (b) a not for profit corporation not having stock, having the power to elect or appoint, directly or indirectly, a majority of the members of the Directing Body of such corporation; or (c) any other entity, the power to direct the management of such entity through the ownership of at least a majority of its voting securities or the right to designate or elect at least a majority of the members of its Directing Body, by contract or otherwise. For the purposes of this definition, "Directing Body" means with respect to: (a) a corporation having stock, such corporation's board of directors and the owners, directly or indirectly, of more than 50% of the securities (as defined in Section 2(1) of the Securities Act of 1933, as amended) of any class or classes, the holders of which are ordinarily, in the absence of contingencies, entitled to elect a majority of the corporation's directors (both of which groups shall be considered a Directing Body); (b) a not for profit corporation not having stock, such corporation's members if the members have complete discretion to elect the corporation's directors, or the corporation's directors if the corporation's members do not have such discretion; and (c) any other entity, its governing board or body. For the purposes of this

definition, all references to directors and members shall be deemed to include all entities performing the function of directors or members however denominated.

"*Authority*" means the Illinois Finance Authority, a body politic and corporate created and existing under and by virtue of the Act, and its successors and assigns.

"*Board Resolution*" means a copy of a resolution certified by the Secretary or an Assistant Secretary of a Person to have been duly adopted by the Governing Body of such Person and to be in full force and effect on the date of such certification, and delivered to the Master Trustee.

"*Bondholder*," "*holder*" or "*owner of the Bonds*" means the registered owner of any Related Bond.

"*Bond Indenture*" means the Trust Indenture dated as of November 1, 2008 between the Authority and the Bond Trustee.

"*Bond Trustee*" means The Bank of New York Trust Company, N.A., as bond trustee or any successor trustee under the Bond Indenture.

"*Book Value*," when used with respect to Property or assets, means the value of such Property or assets, net of accumulated depreciation and amortization, as reflected in the most recent audited financial statements of the System which have been prepared in accordance with generally accepted accounting principles, provided that such aggregate shall be calculated in such a manner that no portion of the value of any Property of any System Affiliate is included more than once.

"*Borrower*" means Advocate Health and Hospitals Corporation, an Illinois not for profit corporation, and its successors and assigns and any surviving, resulting or transferee corporation.

"*Capitalized Interest*" means amounts irrevocably deposited in escrow to pay interest on Funded Indebtedness or Related Bonds and interest earned on amounts irrevocably deposited in escrow to the extent such interest earned is required to be applied to pay interest on Funded Indebtedness or Related Bonds.

"*Capitalized Lease*" means any lease of real or personal property which, in accordance with generally accepted accounting principles, is required to be capitalized on the balance sheet of the lessee.

"*Capitalized Rentals*" means, as of the date of determination, the amount at which the aggregate Net Rentals due and to become due under a Capitalized Lease under which a Person is a lessee would be reflected as a liability on a balance sheet of such Person.

"*Code*" means the Internal Revenue Code of 1986, as amended from time to time. Each reference to a section of the Code herein shall be deemed to include the United States Treasury Regulations, including temporary and proposed regulations, relating to such section which are applicable to the Related Bonds or the use of the proceeds thereof.

"*Consultant*" means a professional consulting, accounting, investment banking or commercial banking firm selected by the Obligated Group Agent and not unacceptable to the Master Trustee, having the skill and experience necessary to render the particular report required and having a favorable and nationally recognized reputation for such skill and experience, which firm does not control any Member of the Obligated Group or any Affiliate thereof and is not controlled by or under common control with any Member of the Obligated Group or an Affiliate thereof.

"*Construction Index*" means the most recent issue of the Dodge Construction Index for U.S. and Canadian Cities with reference to the city in which the subject property is located (or, if such Index is not available for such city, with reference to the city located closest geographically to the city in which the subject property is located), or, if such Index is no longer published or used by the federal government in measuring costs under Medicare or Medicaid programs, such other index which is certified to be comparable and appropriate by the Obligated Group Agent in an Officer's Certificate delivered to the Master Trustee and which other index is not unacceptable to the Master Trustee.

"*Controlling Member*" means the Member designated by the Obligated Group Agent to establish and maintain control over a Restricted Affiliate as provided by the Master Indenture.

"*Corporation*" means Advocate Health Care Network, an Illinois not for profit corporation and its successors and assigns and any surviving, resulting or transferee corporation.

"*Current Assets*" means cash and cash equivalent deposits, marketable securities, accounts receivable, accrued interest receivable and any other assets of a Person ordinarily considered current assets under generally accepted accounting principles.

"*Current Value*" means (i) with respect to Property, Plant and Equipment: (a) the aggregate fair market value of such Property, Plant and Equipment as reflected in the most recent written report of an appraiser selected by the Obligated Group Agent and not unacceptable to the Master Trustee and, in the case of real property, who is a member of the American Institute of Real Estate Appraisers (MAI), delivered to the Master Trustee (which report shall be dated not more than three years prior to the date as of which Current Value is to be calculated) increased or decreased by a percentage equal to the aggregate percentage increase or decrease in the Construction Index from the date of such report to the date as of which Current Value is to be calculated, minus the fair market value (as reflected in such most recent appraiser's report) of any Property, Plant and Equipment disposed of since the last such report increased or decreased by a percentage equal to the aggregate percentage increase or decrease in the Construction Index from the date of such report to the date as of which Current Value is to be calculated; plus (b) the Book Value of any Property, Plant and Equipment acquired since the last such report increased or decreased by a percentage equal to the aggregate percentage increase or decrease in the Construction Index from the date of such acquisition to the date as of which Current Value is to be calculated, minus (c) the Book Value of any such Property, Plant and Equipment disposed of and (ii) with respect to any other Property or assets, the fair market value of such Property or assets, which fair market value shall be evidenced in a manner not unacceptable to the Master Trustee.

"*Debt Service Requirements*" means, with respect to the period of time for which calculated, the aggregate of the payments required to be made during such period in respect of principal (whether at maturity, as a result of mandatory sinking fund redemption, mandatory prepayment or otherwise) and interest on outstanding Funded Indebtedness of each Person or a group of Persons with respect to which calculated; provided that: (a) interest shall be excluded from the determination of the Debt Service Requirements to the extent that Capitalized Interest is available to pay such interest; and (b) principal of Indebtedness shall be excluded from the determination of Debt Service Requirements to the extent that amounts are on deposit in an irrevocable escrow and such amounts (including, where appropriate, the earnings or other increment to accrue thereon) are required to be applied to pay such principal and such amounts so required to be applied are sufficient to pay such principal.

"*Escrow Obligations*" means, (i) with respect to any Obligation which secures a series of Related Bonds, the obligations permitted to be used to refund or advance refund such series of Related Bonds under the Related Bond Indenture, or (ii) with respect to any other Obligation, those securities identified in the Supplemental Master Indenture pursuant to which such Obligations were issued.

"*Expenses*" means, for any period, the aggregate of all expenses calculated under generally accepted accounting principles, including without limitation any taxes, incurred by the Person or group of Persons involved during such period, minus (a) interest on Funded Indebtedness, (b) depreciation and amortization, (c) any unrealized loss resulting from changes in the value of investment securities or any Interest Rate Swap Obligation, (d) extraordinary expenses (including without limitation losses on the sale of assets other than in the ordinary course of business and losses on the extinguishment of debt), (e) any expenses resulting from a forgiveness of or the establishment of reserves against Indebtedness of an Affiliate which does not constitute an extraordinary expense and, if such calculation is being made with respect to the System, excluding any such expenses attributable to transactions between any System Affiliate and any other System Affiliate and (f) losses resulting from any reappraisal, revaluation or write-down of assets, including "other than temporary" declines in the value of investments.

"*Facilities*" means all land, leasehold interests and buildings and all fixtures and equipment (as defined in the Uniform Commercial Code or equivalent statute in effect in the state where such fixtures or equipment are located) of a Person.

"*Fiscal Year*" means any twelve-month period beginning on January 1 of any calendar year and ending on December 31 of such calendar year or such other consecutive twelve-month period selected by the Obligated Group Agent as the fiscal year for the System.

"*Funded Indebtedness*" means, with respect to any Person, (a) all Indebtedness of such Person for money borrowed or credit extended which is not Short-Term; (b) all Indebtedness of such Person incurred or assumed in connection with the acquisition or construction of Property which is not Short-Term; (c) the Person's Guaranties of Indebtedness which are not Short-Term; and (d) Capitalized Rentals under Capitalized Leases entered into by the Person; provided, however, that Indebtedness that could be described by more than one of the foregoing categories shall not in any case be considered more than once for the purpose of any calculation made pursuant to the Master Indenture.

"*Governing Body*" means the board of directors, board of trustees or similar group in which the right to exercise the powers of corporate directors or trustees is vested or an executive committee of such board or any duly authorized committee of that board to which the relevant powers of that board have been lawfully delegated.

"*Guaranty*" means all obligations of a Person guaranteeing, or in effect guaranteeing, any Indebtedness or other obligation of any Primary Obligor in any manner, whether directly or indirectly including but not limited to obligations incurred through an agreement, contingent or otherwise, by such Person: (1) to purchase such Indebtedness or obligation or any Property constituting security therefor; (2) to advance or supply funds: (i) for the purchase or payment of such Indebtedness or obligation, or (ii) to maintain working capital or other balance sheet condition; (3) to purchase securities or other Property or services primarily for the purpose of assuring the owner of such Indebtedness or obligation of the ability of the Primary Obligor to make payment of the Indebtedness or obligation; or (4) otherwise to assure the owner of such Indebtedness or obligation against loss in respect thereof.

"*Historical Debt Service Coverage Ratio*" means, for any period of time, the ratio consisting of a numerator equal to the amount determined by dividing Income Available for Debt Service for that period by the Debt Service Requirements on Funded Indebtedness for such period and a denominator of one; provided that, when such calculation is being made with respect to the System, Income Available for Debt Service and Debt Service Requirements shall be determined only with respect to those Persons who are System Affiliates at the close of such period.

"*Income Available for Debt Service*" means, for any period, the excess of Revenues over Expenses of the Person or group of Persons involved.

"*Indebtedness*" means, for any Person, (a) all Guaranties by such Person, (b) all liabilities (exclusive of reserves such as those established for deferred taxes or litigation) recorded or required to be recorded as such on the audited financial statements of such Person in accordance with generally accepted accounting principles, and (c) all obligations for the payment of money incurred or assumed by such Person (i) due and payable in all events or (ii) if incurred or assumed primarily to assure the repayment of money borrowed or credit extended, due and payable upon the occurrence of a condition precedent or upon the performance of work, possession of Property as lessee, rendering of services by others or otherwise and shall include, without limitation, Non-Recourse Indebtedness; provided that Indebtedness shall not include Indebtedness of one System Affiliate to another System Affiliate, any Guaranty by any System Affiliate of Indebtedness of any other System Affiliate, the joint and several liability of any System Affiliate on Indebtedness issued by another System Affiliate, Interest Rate Swap Obligations or any obligation to repay moneys deposited by patients or others with a System Affiliate as security for or as prepayment of the cost of patient care or any rights of residents of life care, elderly housing or similar facilities to endowment or similar funds deposited by or on behalf of such residents.

"*Independent Counsel*" means an attorney duly admitted to practice law before the highest court of any state and, without limitation, may include independent legal counsel for the Borrower, the Corporation, any Member, the Authority, the Master Trustee or the Bond Trustee.

"*Interest Rate Swap Obligation*" means obligations of any Person pursuant to any arrangement with any other Person whereby, directly or indirectly, such Person is entitled to receive from time to time periodic payments calculated by applying either a floating or a fixed rate of interest on a stated principal amount in exchange for periodic payments made by such other Person calculated by applying a fixed or a floating rate of interest on the same amount, which arrangement does not constitute an obligation to repay money borrowed, credit extended or the equivalent thereof.

"*Lien*" means any mortgage, pledge or lease of, security interest in or lien, charge, restriction or encumbrance on any Property of the Person involved in favor of, or which secures any obligation to, any Person other than any Member or any System Affiliate and any Capitalized Lease under which any Member or System Affiliate is lessee and the lessor is not a Member or a System Affiliate.

"*Loan Agreement*" means the Loan Agreement dated as of November 1, 2008 between the Borrower and the Authority.

"*Master Indenture*" or "*Master Indenture (Amended and Restated)*" means the Master Trust Indenture (Amended and Restated) dated as of December 1, 1996 between the Corporation and the Master Trustee, as supplemented and amended through the Twelfth Supplemental Master Indenture and as it may from time to time be further amended or supplemented in accordance with its terms.

"*Master Trustee*" means U.S. Bank National Association, as master trustee or any successor trustee under the Master Indenture.

"*Member*" or "*Member of the Obligated Group*" means the Corporation, the Borrower, Advocate North Side Health Network and any person listed on Exhibit C to the Master Indenture after designation as a Member of the Obligated Group pursuant to the terms of the Master Indenture and which has not ceased such status pursuant to the provisions of the Master Indenture summarized under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE-Cessation of Status as a Member of the Obligated Group" below.

"*Net Proceeds*" means, when used with respect to any insurance or condemnation award or sale consummated under threat of condemnation, the gross proceeds from the insurance or condemnation award or sale with respect to which that term is used less all expenses (including attorney's fees, adjuster's fees and any expenses of the Master Trustee) incurred in the collection of such gross proceeds.

"*Net Rentals*" means all fixed rents (including as such all payments which the lessee is obligated to make to the lessor on termination of the lease or surrender of the Property other than upon termination of the lease for a default thereunder) payable under a lease or sublease of real or personal Property excluding any amounts required to be paid by the lessee (whether or not designated as rents or additional rents) on account of maintenance, repairs, insurance, taxes and similar charges. Net Rentals for any future period under any so-called "percentage lease" shall be computed on the basis of the amount reasonably estimated to be payable thereunder for such period, but in any event not less than the amount paid or payable thereunder during the immediately preceding period of the same duration as such future period; provided that the amount estimated to be payable under any such percentage lease shall in all cases recognize any change in the applicable percentage called for by the terms of such lease.

"*Non-Recourse Indebtedness*" means any Indebtedness the liability for which is effectively limited to Property, Plant and Equipment and the income therefrom, the cost of which Property, Plant and Equipment shall have been financed solely with the proceeds of such Indebtedness with no recourse, directly or indirectly, to any other Property of any Member.

"*Obligated Group*" means the Corporation, the Borrower, Advocate North Side Health Network and any other Person which has fulfilled the requirements for entry into the Obligated Group set forth in the provisions of the Master Indenture summarized under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE-Entrance Into the Obligated Group" below and which has not ceased such status pursuant to the provisions of the Master Indenture summarized under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE-Cessation of Status as a Member of the Obligated Group" below.

"*Obligated Group Agent*" means the Corporation or such other Member as may be designated from time to time pursuant to written notice to the Master Trustee and each Related Issuer executed by the President or Chairman of the Governing Body of the Corporation or, if the Corporation is no longer a Member of the Obligated Group, of each Member of the Obligated Group.

"*Obligation*" means the Series 1997 Obligations (as defined in the Master Indenture), any Additional Obligations (including the Series 2008 Obligation), the LGH Master Notes (as defined in the Master Indenture) and any Obligation or Obligations issued in exchange therefor.

"*Obligation holder,*" "*holder*" or "*owner of the Obligation*" means the registered owner of any fully registered or book entry Obligation unless alternative provision is made in the Supplemental Master Indenture pursuant to which such Obligation is issued for establishing ownership of such Obligation, in which case such alternative provision shall control.

"*Officer's Certificate*" means a certificate signed, in the case of a certificate delivered by a corporation, by the President, any Vice President or any other officer authorized to sign by resolution of the Governing Body of such corporation or, in the case of a certificate delivered by any other Person, the chief executive or chief financial officer of such other Person.

"*Outstanding*" means, in the case of Indebtedness of a Person other than Related Bonds or Obligations, all such Indebtedness of such Person which has been issued except any such portion thereof cancelled after purchase on the open market or surrendered for cancellation or because of payment at or

redemption prior to maturity, any such Indebtedness in lieu of which other Indebtedness has been duly issued and any such Indebtedness which is no longer deemed outstanding under its terms and with respect to which such Person is no longer liable under the terms of such Indebtedness.

"*Outstanding Obligations*" or "*Obligations outstanding*" means all Obligations which have been duly authenticated and delivered by the Master Trustee under the Master Indenture, except:

(a) Obligations cancelled after purchase in the open market or because of payment at or prepayment or redemption prior to maturity;

(b) (i) Obligations for the payment or redemption of which cash or Escrow Obligations shall have been theretofore deposited with the Master Trustee (whether upon or prior to the maturity or redemption date of any such Obligations); provided that if such Obligations are to be prepaid or redeemed prior to the maturity thereof, notice of such prepayment or redemption shall have been given or irrevocable arrangements satisfactory to the Master Trustee shall have been made therefor, or waiver of such notice satisfactory in form to the Master Trustee shall have been filed with the Master Trustee and (ii) Obligations securing Related Bonds for the payment or redemption of which cash or Escrow Obligations shall have been theretofore deposited with the Related Bond Trustee (whether upon or prior to the maturity or redemption date of any such Obligations); provided that if such Related Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given or arrangements satisfactory to the Related Bond Trustee shall have been made therefor, or waiver of notice satisfactory in form to the Related Bond Trustee shall have been filed with the Related Bond Trustee;

(c) Obligations in lieu of which others have been authenticated under the Master Indenture; and

(d) For the purpose of all consents, approvals, waivers and notices required to be obtained or given under the Master Indenture, Obligations held or owned by a Member of the Obligated Group or System Affiliate.

Notwithstanding the foregoing, any Obligation securing Related Bonds shall be deemed outstanding if such Related Bonds are Outstanding.

"*Outstanding Related Bonds*" or "*Related Bonds outstanding*" means all Related Bonds which have been duly authenticated and delivered by the Related Bond Trustee under the Related Bond Indenture and are deemed outstanding under the terms of such Related Bond Indenture or, if such Related Bond Indenture does not specify when Related Bonds are deemed outstanding thereunder, all such Related Bonds which have been so authenticated and delivered, except:

(a) Related Bonds cancelled after purchase in the open market or because of payment at or redemption prior to maturity;

(b) Related Bonds for the payment or redemption of which cash or Escrow Obligations of the type described in clause (ii)(a) of the definition thereof shall have been theretofore deposited with the Related Bond Trustee (whether upon or prior to the maturity or redemption date of any such Bonds) in accordance with the Related Bond Indenture; provided that if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given or arrangements satisfactory to the Related Bond Trustee shall have been made therefor, or waiver of such notice satisfactory in form to the Related Bond Trustee shall have been filed with the Related Bond Trustee;

(c) Related Bonds in lieu of which others have been authenticated under the Related Bond Indenture; and

(d) For the purposes of all covenants, approvals, waivers and notices required to be obtained or given under the Related Bond Indenture, Related Bonds held or owned by a Member or System Affiliate.

"*Permitted Encumbrances*" means the Master Indenture, any Related Loan Document, any Related Bond Indenture and, as of any particular time:

(a) Liens arising by reason of good faith deposits with a System Affiliate in connection with tenders, leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by any System Affiliate to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges; any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable any System Affiliate to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with workmen's compensation, unemployment insurance, pensions or profit sharing plans or other social security plans or programs, or to share in the privileges or benefits required for corporations participating in such arrangements;

(b) any Lien on Property acquired subject to an existing Lien, if at the time of such acquisition, the aggregate amount remaining unpaid on the Indebtedness secured thereby (whether or not assumed by the System Affiliate) does not exceed the fair market value or (if such Property has been purchased) the lesser of the acquisition price or the fair market value of the Property subject to such Lien as determined in good faith by the Governing Body of the System Affiliate;

(c) any Lien on any Property of any System Affiliate granted in favor of or securing Indebtedness to any other System Affiliate;

(d) any Lien on Property if such Lien equally and ratably secures all of the Obligations and, if the Obligated Group Agent shall so determine, any other Indebtedness of any System Affiliate;

(e) leases which relate to Property of a System Affiliate which is of a type that is customarily the subject of such leases, such as office space for physicians and educational institutions, food service facilities, gift shops and radiology or other hospital-based specialty services, pharmacy and similar departments; leases, licenses or similar rights to use Property to which any System Affiliate is a party existing as of December 1, 1996 and any renewals and extensions thereof; and any leases, licenses or similar rights to use Property whereunder a System Affiliate is lessee, licensee or the equivalent thereof upon fair and reasonable terms no less favorable to the lessee or licensee than would obtain in a comparable arm's-length transaction;

(f) Liens for taxes and special assessments which are not then delinquent, or if then delinquent are being contested in accordance with the provisions of the Master Indenture;

(g) utility, access and other easements and rights-of-way, restrictions, encumbrances and exceptions which do not materially interfere with or materially impair the operation of the Property affected thereby (or, if such Property is not being then operated, the operation for which it was designed or last modified);

(h) any mechanic's, laborer's, materialman's, supplier's or vendor's Lien or right in respect thereof if payment is not yet due under the contract in question or if such Lien is being contested in accordance with the provisions of the Master Indenture;

(i) such Liens, defects, irregularities of title and encroachments on adjoining property as normally exist with respect to property similar in character to the Property involved and which do not materially adversely affect the value of, or materially impair, the Property affected thereby for the purpose for which it was acquired or is held by the owner thereof, including without limitation statutory liens granted to banks or other financial institutions, which liens have not been specifically granted to secure Indebtedness and which do not apply to Property which has been deposited as part of a plan to secure Indebtedness;

(j) zoning laws and similar restrictions which are not violated by the Property affected thereby;

(k) statutory rights under Section 291, Title 42 of the United States Code, as a result of what are commonly known as Hill-Burton grants, and similar rights under other federal statutes or statutes of the state in which the Property involved is located;

(l) all right, title and interest of the state where the Property involved is located, municipalities and the public in and to tunnels, bridges and passageways over, under or upon a public way;

(m) Liens on or in Property given, granted, bequeathed or devised by the owner thereof existing at the time of such gift, grant, bequest or devise, provided that (i) such Liens consist solely of restrictions on the use thereof or the income therefrom, or (ii) such Liens secure Indebtedness which is not assumed by any System Affiliate and such Liens attach solely to the Property (including the income therefrom) which is the subject of such gift, grant, bequest or devise;

(n) Liens of or resulting from any judgment or award, the time for the appeal or petition for rehearing of which shall not have expired, or in respect of which any System Affiliate shall at any time in good faith be prosecuting an appeal or proceeding for a review and in respect of which a stay of execution pending such appeal or proceeding for review shall be in existence;

(o) Liens on moneys deposited by patients or others with a System Affiliate as security for or as prepayment of the cost of patient care or any rights of residents of life care, elderly housing or similar facilities to endowment or similar funds deposited by or on behalf of such residents;

(p) Liens on Property due to rights of third party payors for recoupment of excess reimbursement paid;

(q) any security interest in the Rebate Fund, any depreciation reserve, debt service or interest reserve, debt service fund or any similar fund established pursuant to the terms of any Supplemental Master Indenture, Related Bond Indenture or Related Loan Document in favor of

the Master Trustee, a Related Bond Trustee, a Related Issuer or the holder of the Indebtedness issued pursuant to such Supplemental Master Indenture, Related Bond Indenture or Related Loan Document or the provider of any liquidity or credit support for such Related Bond or Indebtedness;

(r) any Lien on any Related Bond or any evidence of Indebtedness of any System Affiliate acquired by or on behalf of any System Affiliate by the provider of liquidity or credit support for such Related Bond or Indebtedness;

(s) such Liens, covenants, conditions and restrictions, if any, which do not secure Indebtedness and which are other than those of the type referred to in this definition, as are set forth in Exhibit D to the Master Indenture, and which (i) in the case of Property owned by any System Affiliate on the date of delivery of the Master Indenture, do not and will not, so far as can reasonably be foreseen, materially adversely affect the value of the Property currently affected thereby or materially impair the same, and (ii) in the case of any other Property, do not materially impair or materially interfere with the operation or usefulness thereof for the purpose for which such Property was acquired or is held by a System Affiliate;

(t) Liens on accounts receivable arising as a result of the sale of such accounts receivable with or without recourse, provided that the principal amount of Indebtedness secured by any such Lien does not exceed the aggregate sales price of such accounts receivable received by the Member or Restricted Affiliate selling the same by more than 15%;

(u) Liens on any Property of a System Affiliate at the effective date of the Master Indenture or existing at the time any Person becomes a System Affiliate; provided that no such Lien (or the amount of Indebtedness secured thereby) may be increased, extended, renewed or modified to apply to any Property of such System Affiliate not subject to such Lien on such date unless such Lien as so increased, extended, renewed or modified is otherwise permitted under the Master Indenture;

(v) Liens on Property of a Person existing at the time such Person is merged into or consolidated with a System Affiliate, or at the time of a sale, lease or other disposition of the properties of a Person as an entirety or substantially as an entirety to a System Affiliate which becomes part of a Property that secures Indebtedness that is assumed by a System Affiliate as a result of any such merger, consolidation or acquisition; provided, that no such Lien may be increased, extended, renewed, or modified after such date to apply to any Property of a System Affiliate not subject to such Lien on such date unless such Lien as so increased, extended, renewed or modified is otherwise permitted under the Master Indenture;

(w) Liens which secure Non-Recourse Indebtedness;

(x) any other Liens on any Property expressly permitted by the Master Indenture or approved in writing by the holders of all of the Outstanding Obligations; and

(y) Liens on Property of a System Affiliate securing Indebtedness, Interest Rate Obligations or other obligations, in addition to those Liens permitted as defined above in this definition of Permitted Encumbrances, if the total aggregate Book Value (or at the option of the Obligated Group Agent, Current Value) of the Property subject to a Lien of the type described in this subsection (y) does not exceed 15% of the value of the total assets of the System Affiliates (calculated on the same basis as the value of Property subject to such Lien).

"*Person*" means any natural person, firm, joint venture, association, partnership, business trust, corporation, public body, agency or political subdivision thereof or any other similar entity.

"*Primary Obligor*" means the Person who is primarily obligated on an obligation which is guaranteed by another Person.

"*Property*" means any and all rights, titles and interests in and to any and all property, whether real or personal, tangible (including cash) or intangible, wherever situated and whether now owned or hereafter acquired.

"*Property, Plant and Equipment*" means all Property of each Member which is classified as property, plant and equipment under generally accepted accounting principles.

"*Rebate Fund*" means the Rebate Fund created by the Tax Exemption Agreement or any similar agreement delivered in connection with Related Bonds.

"*Related Bonds*" means the Series 2008D Bonds and any other revenue bonds or similar obligations issued by any state, commonwealth or territory of the United States or any municipal corporation or other political subdivision formed under the laws thereof or any constituted authority, agency or instrumentality of any of the foregoing empowered to issue obligations on behalf thereof, the proceeds of which are loaned or otherwise made available to any Member or System Affiliate in consideration, whether in whole or in part, of the execution, authentication and delivery of an Obligation or Obligations to such governmental issuer.

"*Related Bond Indenture*" means the Bond Indenture and any indenture, bond resolution or similar instrument pursuant to which any series of Related Bonds is issued.

"*Related Bond Trustee*" means the Bond Trustee and any other trustee under any Related Bond Indenture and any successor trustee thereunder or, if no trustee is appointed under a Related Bond Indenture, the Related Issuer.

"*Related Issuer*" means the Authority and any other issuer of a series of Related Bonds.

"*Related Loan Document*" means the Loan Agreement and any other document or documents (including without limitation any lease, sublease or installment sales contract) pursuant to which any proceeds of any Related Bonds are advanced to any Member or System Affiliate (or any Property financed or refinanced with such proceeds is leased, sublet or sold to a Member or System Affiliate).

"*Restricted Affiliate*" means any Person which has been designated as such in accordance with the Master Indenture so long as such Person has not been further designated as no longer being a Restricted Affiliate as provided in the Master Indenture.

"*Revenues*" means, for any period, (a) in the case of any Person providing health care services, the sum of (i) net patient service revenues plus (ii) other operating revenues, plus (iii) non-operating revenues (other than income derived from the sale of assets not in the ordinary course of business or any gain from the extinguishment of debt or other extraordinary item or earnings which constitute Capitalized Interest or earnings on amounts which are irrevocably deposited in escrow to pay the principal of or interest on Indebtedness); and (b) in the case of any other Person, gross revenues less sale discounts and sale returns and allowances, as determined in accordance with generally accepted accounting principles; but excluding in any event (i) any unrealized gain resulting from changes in the value of investment

securities or any Interest Rate Swap Obligation, (ii) any gains on the sale or other disposition of fixed or capital assets not in the ordinary course, (iii) earnings resulting from any reappraisal, revaluation or write-up of fixed or capital assets, (iv) any revenues recognized from deferred revenues related to entrance fees or (v) the portion of any realized gain that is recognized as a result of the sale of an asset that previously has been subject to a "write-down" as an "other than temporary" loss; provided, however, that if such calculation is being made with respect to the System, such calculation shall be made in such a manner so as to exclude any revenues attributable to transactions between any System Affiliate and any other System Affiliate.

"*Series 2008 Obligation*" means the Direct Note Obligation, Series 2008 (Illinois Finance Authority) issued by the Borrower under and pursuant to the Master Indenture.

"*Short-Term,*" when used in connection with Indebtedness, means Indebtedness of a Person for money borrowed or credit extended having an original maturity less than or equal to one year and not renewable at the option of the debtor for, or subject to any binding commitment to refinance or otherwise provide for such Indebtedness having, a term greater than one year beyond the date of original issuance.

"*Supplemental Master Indenture*" means an indenture amending or supplementing the Master Indenture (Amended and Restated) entered into pursuant to the provisions of the Master Indenture summarized under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE-Supplemental Master Indentures" below.

"*System*" means the affiliated group of Persons comprised of all the System Affiliates.

"*System Affiliate*" means each Member of the Obligated Group, each Affiliate of the Corporation or any other Member of the Obligated Group, each Restricted Affiliate and each other Person with whom a Member or Restricted Affiliate has in place a contract or other agreement whereby such Person is obligated to make payments in respect of Obligations as described in the Master Indenture.

"*Tax-Exempt Organization*" means a Person organized under the laws of the United States of America or any state thereof which is an organization described in Section 501(c)(3) of the Code, which is exempt from federal income taxes under Section 501(a) of the Code and which is not a "private foundation" within the meaning of Section 509(a) of the Code, or corresponding provisions of federal income tax laws from time to time in effect.

"*Tax Exemption Agreement*" means the Tax Exemption Certificate and Agreement dated the Closing Date among the Borrower, the Corporation, Advocate North Side Health Network, the Authority and the Bond Trustee.

"Thirteenth Supplemental Master Indenture" means the Thirteenth Supplemental Master Trust Indenture dated as of November 1, 2008 between the Corporation, the Borrower, Advocate North Side Health Network, Advocate Condell Medical Center and the Master Trustee.

SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE

The Master Indenture contains various covenants, security provisions, terms and conditions, certain of which are summarized below. Reference is made to the Master Indenture, as amended and supplemented, for a full and complete statement of its provisions.

THE OBLIGATIONS; PAYMENT OF THE OBLIGATIONS

The total principal amount of Obligations and the number of Obligations that may be created under the Master Indenture are not limited.

The Series 2008 Obligation is intended to be the absolute and unconditional, joint and several obligation of each Member of the Obligated Group. See "BONDHOLDERS' RISKS - Matters Relating to Enforceability of the Master Indenture" in the forepart of this Official Statement. The Series 2008 Obligation will not be secured by any pledge or mortgage of, or security interest in, any assets of any Member except for additional security which may be granted to certain Obligations. The Master Indenture provides that Supplemental Master Indentures pursuant to which one or more series of Obligations entitled to additional security is issued may provide for such supplements or amendments to the provisions of the Master Indenture, including the provisions thereof relating to the exercise of remedies upon the occurrence of an event of default, as are necessary to provide such security and to permit realization upon such security solely for the benefit of the Obligations entitled thereto.

(A) Each Member unconditionally and irrevocably (subject to the right of such Member to cease its status as a Member of the Obligated Group pursuant to the terms and conditions of the Master Indenture summarized below under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Cessation of Status as a Member of the Obligated Group"), jointly and severally covenants that it will promptly pay the principal of, premium, if any, and interest on every Obligation issued under the Master Indenture at the place, on the dates and in the manner provided in the Master Indenture and in said Obligations according to the true intent and meaning thereof. Notwithstanding any schedule of payments upon the Obligations set forth in the Master Indenture or in the Obligations, each Member unconditionally and irrevocably (subject to the right of such Member to cease its status as a Member of the Obligated Group pursuant to the terms and conditions of the Master Indenture summarized below under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Cessation of Status as a Member of the Obligated Group"), jointly and severally agrees to make payments upon each Obligation and be liable therefor at the times and in the amounts (including principal, interest and premium, if any) equal to the amounts to be paid as interest, principal at maturity or by mandatory sinking fund redemption, or premium, if any, upon any Related Bonds from time to time outstanding. If any Member does not tender payment of any installment of principal, premium or interest on any Obligation when due and payable, the Master Trustee shall provide prompt written notice of such nonpayment to such Member and the Obligated Group Agent.

(B) Each Controlling Member shall cause each of its Restricted Affiliates and shall use reasonable efforts to cause each of its other System Affiliates (subject to contractual and organizational limitations) to pay, loan or otherwise transfer to the Obligated Group Agent or other Member (1) such amounts as are necessary to duly and punctually pay the principal of, premium, if any, and interest on all Outstanding Obligations or portions thereof the proceeds of which were loaned or otherwise made available to such Restricted Affiliate or that were otherwise issued for the benefit of such Restricted Affiliate and any other payments, including the purchase price of Related Bonds tendered for purchase pursuant to the terms of a Related Bond Indenture or Related Loan Document, required by the terms of such Obligations, on the dates, at the times and at the places and in the manner provided in such Obligations, the applicable Supplemental Master Indenture and the Master Indenture, when and as the same become payable, whether at maturity, upon call for redemption, by acceleration of maturity or otherwise, and (2) such amounts that are otherwise necessary to enable each Member to comply with the provisions of the Master Indenture summarized in the previous paragraph with respect to the other Obligations issued by the Obligated Group.

(C) The Obligated Group Agent shall at all times maintain an accurate and complete list of all Persons designated as Restricted Affiliates and all Persons who are System Affiliates. Upon adoption by the Governing Body of the Obligated Group Agent of a Board Resolution, any Person may be designated as a Restricted Affiliate under the Master Indenture. The Obligated Group Agent by Board Resolution shall designate the Corporation or any other Member as the Controlling Member. With respect to each such Person, and so long as such Person is designated as a Restricted Affiliate, the Obligated Group Agent, or any Member designated by the Obligated Group Agent as the Controlling Member, shall either (a) maintain, directly or indirectly, control of each Restricted Affiliate, including the power to direct the management, policies, disposition of assets and actions of such Restricted Affiliate to the extent required to cause such Restricted Affiliate to comply with the terms and conditions of the Master Indenture, whether through the ownership of voting securities, by contract, partnership interests, membership, reserved powers, or the power to appoint members, trustees or directors or otherwise, or (b) execute and have in effect such contracts or other agreements that the Obligated Group Agent or Controlling Member, in the sole judgment of its Governing Body, deems sufficient for it to cause such Restricted Affiliate to comply with the terms and conditions of the Master Indenture. Any Person will cease to be a Restricted Affiliate and will not be subject to any of the provisions of the Master Indenture upon the declaration of the Governing Body of the Obligated Group Agent in a Board Resolution, and upon such declaration, such Person shall no longer be subject to any of the covenants applicable to a Restricted Affiliate under the Master Indenture. Notwithstanding anything to the contrary in the Master Indenture, no Person shall cease to be a Restricted Affiliate or a System Affiliate if any Outstanding Related Bonds have been issued for the benefit of such Person until there is delivered to the Master Trustee an opinion of nationally recognized municipal bond counsel (which counsel and opinion, including without limitation the scope, form, substance and other aspects thereof, are not unacceptable to the Master Trustee) to the effect that, under then existing law, the cessation by such Person of its status as a Restricted Affiliate or System Affiliate will not adversely affect the validity of any Related Bond or any exemption from federal or state income taxation of interest payable thereon to which such Related Bond would otherwise be entitled.

(D) Each Controlling Member covenants that it will cause, pursuant to the provisions of the Master Indenture summarized in the previous paragraph, each of its Restricted Affiliates to comply with the terms and conditions of the Master Indenture which are applicable to such Restricted Affiliate, and of the Related Loan Document, if any, to which such Restricted Affiliate is a party. The Corporation covenants that it will take such action as it deems reasonably necessary to ensure that the terms or conditions of the Master Indenture applicable to System Affiliates are complied with.

The Obligations will be general, unsecured obligations of the Members of the Obligated Group and any future Member of the Obligated Group and are not secured by any pledge of, mortgage on or security interest assets of the Members of the Obligated Group or any future Member of the Obligated Group, any Restricted Affiliate or System Affiliate except for the additional security which may be granted to certain Obligations as described above. No System Affiliate or Restricted Affiliate will be obligated to pay any of the Obligations.

ENTRANCE INTO THE OBLIGATED GROUP

Any Person may become a Member of the Obligated Group if:

(a) Such Person is a corporation;

(b) Such Person shall execute and deliver to the Master Trustee a Supplemental Master Indenture acceptable to the Master Trustee which shall be executed by the Master Trustee and each then current Member, containing (i) the agreement of such Person (A) to become a Member of the Obligated Group and thereby to become subject to compliance with all provisions

of the Master Indenture and (B) unconditionally and irrevocably (subject to the right of such Person to cease its status as a Member of the Obligated Group pursuant to the terms and conditions of the Master Indenture summarized below under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Cessation of Status as a Member of the Obligated Group") to jointly and severally make payments upon each Obligation at the times and in the amounts provided in each such Obligation and (ii) representations and warranties by such Person substantially similar to those set forth in the Master Indenture other than those concerning tax exempt status if such Person is not a Tax-Exempt Organization and except that any representation regarding incorporation and good standing shall refer to the actual type and state of incorporation of such person (but with such deviations as are acceptable to the Master Trustee);

(c) The Obligated Group Agent shall, by appropriate action of its Governing Body, have approved the admission of such Person to the Obligated Group and each of the Members shall have taken such action, if any, required to approve the admission of such Person to the Obligated Group;

(d) The Master Trustee shall have received (1) a certificate of the Obligated Group Agent which demonstrates that, immediately upon such Person becoming a Member of the Obligated Group the Members would not, as a result of such transaction, be in default in the performance or observance of any covenant or condition to be performed or observed by them under the Master Indenture, (2) an opinion of Independent Counsel to the effect that (x) the instrument described in paragraph (b) above has been duly authorized, executed and delivered and constitutes a legal, valid and binding agreement of such Person, enforceable in accordance with its terms, subject to customary exceptions for bankruptcy, insolvency and other laws generally affecting enforcement of creditors' rights and application of general principles of equity and to the exceptions set forth in the forepart of this Official Statement under the caption "BONDHOLDERS' RISKS - Matters Relating to Enforceability of the Master Indenture" and (y) the addition of such Person to the Obligated Group will not adversely affect the status as a Tax-Exempt Organization of any Member which otherwise has such status, and (3) if all amounts due or to become due on all Related Bonds have not been paid to the holders thereof and provision for such payment has not been made in such manner as to have resulted in the defeasance of all Related Bond Indenture, an opinion of nationally recognized municipal bond counsel (which counsel and opinion, including without limitation the scope, form, substance and other aspects thereof, are not unacceptable to the Master Trustee), to the effect that under then existing law the consummation of such transaction, whether or not contemplated on the date of delivery of any such Related Bond, would not adversely affect the validity of any Related Bond or any exemption from federal or state income taxation of interest payable on such Related Bond otherwise entitled to such exemption; and

(e) (i) The Master Indenture is amended to include a description of any Permitted Encumbrances on the Property of such Person of the type described in paragraph (s)(ii) of the definition of Permitted Encumbrances thereof and (ii) the exhibit to the Master Indenture listing the Members of the Obligated Group is amended to add such Person as a Member.

Each successor, assignee, surviving, resulting or transferee corporation of a Member must agree to become, and satisfy the above-described conditions to becoming, a Member of the Obligated Group prior to any such succession, assignment or other change in such Member's corporate status.

CESSATION OF STATUS AS A MEMBER OF THE OBLIGATED GROUP

Each Member covenants that it will not take any action, corporate or otherwise, which would cause it or any successor thereto into which it is merged or consolidated under the terms of the Master Indenture to cease to be a Member of the Obligated Group unless:

(a) if the Member proposing to withdraw from the Obligated Group is a party to any Related Loan Documents with respect to Related Bonds which remain outstanding, another Member of the Obligated Group has issued an Obligation under the Master Indenture evidencing or assuming the obligation of the Obligated Group in respect of such Related Bonds;

(b) prior to cessation of such status, there is delivered to the Master Trustee an opinion of nationally recognized municipal bond counsel (which counsel and opinion, including without limitation the scope, form, substance and other aspects thereof, are not unacceptable to the Master Trustee) to the effect that, under then existing law, the cessation by the Member of its status as a Member will not adversely affect the validity of any Related Bond or any exemption from federal or state income taxation of interest payable thereon to which such Bond would otherwise be entitled;

(c) prior to and immediately after such cessation, no event of default exists under the Master Indenture and no event shall have occurred which with the passage of time or the giving of notice, or both, would become such an event of default;

(d) prior to such cessation there is delivered to the Master Trustee an opinion of Independent Counsel (which Counsel and opinion, including without limitation the scope, form, substance and other aspects thereof, are not unacceptable to the Master Trustee) to the effect that the cessation by such Member of its status as a Member will not adversely affect the status as a Tax-Exempt Organization of any Member which otherwise has such status; and

(e) prior to cessation of such status, each Member of the Obligated Group consents in writing to the withdrawal by such Member.

The Master Indenture does not restrict the System's ability to transfer Property, including cash, marketable securities or receivables, to anyone, including related or affiliated persons or persons who control the System directly or indirectly, or release control of System Affiliates or Restricted Affiliates or the ability of the Members of the Obligated Group to withdraw from the Obligated Group even if such actions could cause the System to fail to maintain its Historical Debt Service Coverage Ratio at 1.10 to 1 or cause the Obligated Group to fail to make its debt service payment on Obligations issued under the Master Indenture.

SUBSTITUTE OBLIGATIONS UPON WITHDRAWAL OF A MEMBER

In the event any Member ceases to be a Member of the Obligated Group in accordance with the provisions of the Master Indenture summarized above under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Cessation of Status as a Member of the Obligated Group" and, in compliance with subsection (a) of such caption, another Member issues an Obligation under the Master Indenture pursuant to a Supplemental Master Indenture evidencing or assuming the Obligated Group's obligation in respect of Related Bonds, if so provided for in such Obligation originally issued by such withdrawing Member, such Obligation shall be surrendered to the Master Trustee in exchange for a substitute Obligation without notice to or consent of any related Bondholder, provided that

such substitute Obligation provides for payments of principal, interest, premium and other amounts identical to the surrendered Obligation and sufficient to provide all payments on the Related Bonds.

LIENS ON PROPERTY

No Member, Restricted Affiliate or System Affiliate shall create or incur or permit to be created or incurred or to exist any Lien on any Property of any Member, Restricted Affiliate or System Affiliate, except Permitted Encumbrances. See "SECURITY FOR THE SERIES 2008D BONDS" in the forepart of this Official Statement.

RATES AND CHARGES

Each Member covenants and agrees to, and each Controlling Member covenants to cause each of its Restricted Affiliates to, conduct its business on a revenue producing basis and to charge such fees and rates and to exercise such skill and diligence as to provide income from its Property together with other available funds sufficient to pay promptly all payments of principal and interest on its Indebtedness, all expenses of operation, maintenance and repair of its Property and all other payments required to be made by it under the Master Indenture to the extent permitted by law. Each Member further covenants and agrees that it will, and each Controlling Member covenants that it will cause each of its Restricted Affiliates to, from time to time as often as necessary and to the extent permitted by law, revise its rates, fees and charges in such manner as may be necessary or proper to comply with the provisions of the Master Indenture summarized under this caption.

The Obligated Group Agent shall calculate the Income Available for Debt Service of the System for each Fiscal Year and (i) calculate the Historical Debt Service Coverage Ratio of the System for the Fiscal Year and (ii) calculate the Income Available for Debt Service of the Members and Restricted Affiliates only and the Historical Debt Service Coverage Ratio of the Members and Restricted Affiliates for the Fiscal Year and deliver a copy of such calculations to the Persons to whom financial statements are required to be delivered under the Master Indenture.

If in any Fiscal Year the Historical Debt Service Coverage Ratio of the System is less than 1.10 to 1, the Master Trustee shall require the Obligated Group Agent at its expense to retain a Consultant to make recommendations with respect to the rates, fees and charges of the System Affiliates and the System's methods of operation and other factors affecting its financial condition in order to increase such Historical Debt Service Coverage Ratio to at least 1.10 to 1.

A copy of the Consultant's report and recommendations, if any, shall be filed with each System Affiliate, the Master Trustee, each Related Bond Trustee and each Related Issuer. Each Member shall follow and each Controlling Member shall cause each Restricted Affiliate to follow each recommendation of the Consultant applicable to it to the extent feasible (as determined in the reasonable judgment of the Governing Body of such Member and each Related Issuer) and permitted by law. The Corporation shall take such steps as it considers feasible to cause System Affiliates that are not Members or Restricted Affiliates to follow each recommendation of the Consultant applicable to such System Affiliate. The provisions summarized under this caption shall not be construed to prohibit any Person from serving indigent patients to the extent required for such Person to continue its qualification as a Tax-Exempt Organization or from serving any other class or classes of patients without charge or at reduced rates so long as such service does not prevent the System from satisfying the other requirements summarized under this caption.

The foregoing provisions notwithstanding, if in any Fiscal Year the Historical Debt Service Coverage Ratio of the System is less than 1.10 to 1, the Master Trustee shall not be obligated to require the Obligated Group Agent to retain a Consultant to make such recommendations if: (a) there is filed with the Master Trustee (who shall provide a copy to each Related Bond Trustee and Related Issuer) a written report addressed to them of a Consultant (which Consultant and report, including without limitation the scope, form, substance and other aspects of such report, are not unacceptable to the Master Trustee) which contains an opinion of such Consultant that applicable laws or regulations have prevented the System from generating Income Available for Debt Service during such Fiscal Year in an amount sufficient to produce a Historical Debt Service Coverage Ratio of the System of 1.10 to 1 or higher, and, if requested by the Master Trustee, such report is accompanied by a concurring opinion of Independent Counsel (which Counsel and opinion, including without limitation the scope, form, substance and other aspects thereof, are not unacceptable to the Master Trustee) as to any conclusions of law supporting the opinion of such Consultant; (b) the report of such Consultant indicates that the fees and rates charged by the System Affiliates are such that, in the opinion of the Consultant, the System has generated the maximum amount of Revenues reasonably practicable given such laws or regulations; and (c) the Historical Debt Service Coverage Ratio of the System was at least 1.00 to 1 for such Fiscal Year. The Obligated Group Agent shall not be required to cause the Consultant's report referred to in the preceding sentence to be prepared more frequently than once every two Fiscal Years if at the end of the first of such two Fiscal Years the Obligated Group Agent provides to the Master Trustee (who shall provide a copy to each Related Bond Trustee and Related Issuer) an opinion of Independent Counsel (which Counsel and opinion, including without limitation the scope, form, substance and other aspects thereof, are not unacceptable to the Master Trustee) to the effect that the applicable laws and regulations underlying the Consultant's report delivered in respect of the previous Fiscal Year have not changed in any material way.

INSURANCE

Each Member shall and each Controlling Member covenants to cause each of its Restricted Affiliates to, maintain or cause to be maintained at its sole cost and expense, insurance with respect to its Property, the operation thereof and its business against such casualties, contingencies and risks (including but not limited to public liability and employee dishonesty) and in amounts not less than is customary in the case of corporations engaged in the same or similar activities and similarly situated and as is adequate to protect its Property and operations.

SALE, LEASE OR OTHER DISPOSITION OF PROPERTY

Except as may be expressly provided in any Supplemental Master Indenture, the ability of the Members of the Obligated Group, any Restricted Affiliate or any System Affiliate to sell, lease or otherwise dispose of (including without limitation any involuntary disposition) any Property is not limited by the provisions of the Master Indenture. See "SECURITY FOR THE SERIES 2008D BONDS" in the forepart of this Official Statement.

The Master Indenture does not restrict the System's ability to transfer Property, including cash, marketable securities or receivables, to anyone, including related or affiliated persons or persons who control the System directly or indirectly, or release control of System Affiliates or Restricted Affiliates or the ability of the Members of the Obligated Group to withdraw from the Obligated Group even if such actions could cause the System to fail to maintain its Historical Debt Service Coverage Ratio at 1.10 to 1 or cause the Obligated Group to fail to make its debt service payment on Obligations issued under the Master Indenture.

MERGER, CONSOLIDATION, SALE OR CONVEYANCE

(a) Each Member agrees that it will not merge into, or consolidate with, one or more corporations which are not Members, or allow one or more of such corporations to merge into it, or sell or convey all or substantially all of its Property to any Person who is not a Member, unless:

(i) Any successor corporation to such Member (including without limitation any purchaser of all or substantially all the Property of such Member) is a corporation organized and existing under the laws of the United States of America or a state thereof and shall execute and deliver to the Master Trustee an appropriate instrument, satisfactory to the Master Trustee, containing the agreement of such successor corporation to assume, jointly and severally, the due and punctual payment of the principal of, premium, if any, and interest on all Obligations according to their tenor and the due and punctual performance and observance of all the covenants and conditions of the Master Indenture to be kept and performed by such Member;

(ii) Immediately after such merger or consolidation, or such sale or conveyance, no Member would be in default in the performance or observance of any covenant or condition of any Related Loan Document or the Master Indenture; and

(iii) If all amounts due or to become due on all Related Bonds have not been fully paid to the holders thereof or fully provided for, there shall be delivered to the Master Trustee an opinion of nationally recognized municipal bond counsel (which counsel and opinion, including without limitation the scope, form, substance and other aspects thereof, are not unacceptable to the Master Trustee) to the effect that under then existing law the consummation of such merger, consolidation, sale or conveyance, whether or not contemplated on the original date of delivery of such Related Bonds, would not adversely affect the validity of such Related Bonds or the exemption otherwise available from federal or state income taxation of interest payable on such Related Bonds.

(b) In case of any such consolidation, merger, sale or conveyance and upon any such assumption by the successor corporation, such successor corporation shall succeed to and be substituted for its predecessor, with the same effect as if it had been named in the Master Indenture as such Member and the Member party to such transaction, if it is not the survivor, shall thereupon be relieved of any further obligation or liabilities under the Master Indenture or upon the Obligations and such Member as the predecessor or non-surviving corporation may thereupon or at any time thereafter be dissolved, wound up or liquidated. Any successor corporation to such Member thereupon may cause to be signed and may issue in its own name Obligations under the Master Indenture and the predecessor corporation shall be released from its obligations under the Master Indenture and under any Obligations, if such predecessor corporation shall have conveyed all Property owned by it (or all such Property shall be deemed conveyed by operation of law) to such successor corporation. All Obligations so issued by such successor corporation under the Master Indenture shall in all respects have the same legal rank and benefit under the Master Indenture as Obligations theretofore or thereafter issued in accordance with the terms of the Master Indenture as though all of such Obligations had been issued under the Master Indenture by such prior Member without any such consolidation, merger, sale or conveyance having occurred.

(c) In case of any such consolidation, merger, sale or conveyance such changes in phraseology and form (but not in substance) may be made in Obligations thereafter to be issued as may be appropriate.

(d) The Master Trustee may rely upon an opinion of Independent Counsel as conclusive evidence that any such consolidation, merger, sale or conveyance, and any such assumption, complies

with the provisions of the Master Indenture summarized under this caption and that it is proper for the Master Trustee under the provisions of the Master Indenture to join in the execution of any instrument required to be executed and delivered by the provisions of the Master Indenture summarized under this caption.

(e) Except as may be expressly provided in any Supplemental Master Indenture, the ability of any Restricted Affiliate or any System Affiliate to merge into, or consolidate with, one or more corporations, or allow one or more corporations to merge into it, or sell or convey all or substantively all of its Property to any Person is not limited by the provisions of the Master Indenture. Notwithstanding anything to the contrary in the Master Indenture, no System Affiliate shall engage in any merger or consolidation or disposition of substantially all of its assets if any Outstanding Related Bonds have been issued for the benefit of such System Affiliate until there is delivered to the Master Trustee an opinion of nationally recognized municipal bond counsel (which counsel and opinion, including without limitation the scope, form, substance and other aspects thereof, are not unacceptable to the Master Trustee) to the effect that, under then existing law, such action will not adversely affect the validity of any Related Bond or any exemption from federal or state income taxation of interest payable thereon to which such Related Bond would otherwise be entitled.

The Master Indenture does not restrict the System's ability to transfer Property, including cash, marketable securities or receivables, to anyone, including related or affiliated persons or persons who control the System directly or indirectly, or release control of System Affiliates or Restricted Affiliates or the ability of the Members of the Obligated Group to withdraw from the Obligated Group even if such actions could cause the System to fail to maintain its Historical Debt Service Coverage Ratio at 1.10 to 1 or cause the Obligated Group to fail to make its debt service payment on Obligations issued under the Master Indenture.

DAMAGE OR DESTRUCTION

Each Member agrees under the Master Indenture to notify the Master Trustee, and each Controlling Member agrees to notify the Master Trustee with respect to each of its Restricted Affiliates, immediately in the case of the destruction of its Facilities, or the Facilities of such Restricted Affiliate, or any portion thereof as a result of fire or other casualty, or any damage to such Facilities or portion thereof as a result of fire or other casualty, the Net Proceeds of which are estimated to exceed $1,000,000.

In the event such Net Proceeds are less than or equal to $1,000,000, the Person suffering such casualty or loss may use such Net Proceeds in any manner it deems prudent and as is consistent with the Master Indenture, with any Related Loan Document and with the Tax Exemption Agreement, including particularly the provisions of the Loan Agreement. In the event such Net Proceeds exceed $1,000,000, the Person suffering such casualty or loss shall within 12 months after the date on which the Net Proceeds are finally determined elect by written notice of such election to the Master Trustee one of the following three options:

(a) Option A-Repair and Restoration. Such Person may elect to replace, repair, reconstruct, restore or improve any of the Facilities of the Obligated Group or any Restricted Affiliate or acquire additional Facilities for the Obligated Group or any Restricted Affiliate or repay Indebtedness incurred for any such purpose pending the receipt of such Net Proceeds. In the event such Person shall elect this Option A, such Person shall complete the replacement, repair, reconstruction, restoration, improvement and acquisition of the Facilities, whether or not the Net Proceeds of insurance received for such purposes are sufficient to pay for the same.

(b) Option B-Prepayment of Obligations. Such Member may elect to have all of the Net Proceeds payable as a result of such damage or destruction applied to the prepayment of the Obligations. In such event such Member shall, in its notice of election to the Master Trustee, direct the Master Trustee to apply such Net Proceeds, when and as received, to the prepayment of Obligations.

(c) Option C-Partial Restoration and Partial Prepayment of Obligations. Such Person may elect to have a portion of such Net Proceeds applied to the replacement, repair, reconstruction, restoration and improvement of the Facilities of the Obligated Group or any Restricted Affiliate or the acquisition of additional Facilities for the Obligated Group or any Restricted Affiliate or the repayment of Indebtedness incurred for any such purpose pending the receipt of such Net Proceeds with the remainder of such Net Proceeds to be applied to prepay Obligations.

The foregoing notwithstanding, no Member will be required to comply with the provision of the Master Indenture summarized under this caption to the extent that the Facilities damaged or destroyed were pledged as security for Indebtedness, including Indebtedness secured by Liens, and the documents pursuant to which such Indebtedness was incurred require Net Proceeds to be applied in a manner inconsistent with the provisions of the Master Indenture summarized under this caption.

CONDEMNATION

Each Member agrees under the Master Indenture to notify the Master Trustee, and each Controlling Member agrees to notify the Master Trustee with respect to each of its Restricted Affiliates, immediately upon the final resolution of and receipt of any Net Proceeds payable in connection with any condemnation or taking, or payment received in a sale transaction consummated under threat of condemnation (any such award, compensation, damages or payment being hereinafter referred to as an "award") of any Facilities, which exceeds $1,000,000.

In the event such Net Proceeds are less than or equal to $1,000,000, the Person suffering such casualty or loss may use such Net Proceeds in any manner it deems prudent, and as is consistent herewith, with any Related Loan Document and with the Tax Exemption Agreement, including particularly the provisions of the Loan Agreement. In the event such Net Proceeds exceed the $1,000,000, the Person in question shall within 12 months after the date on which the Net Proceeds are finally determined elect by written notice of such election to the Master Trustee one of the following three options:

(a) Option A-Repairs and Improvements. The Person may elect to use the Net Proceeds of the award for restoration or replacement of or repairs and improvements to the Facilities of the Obligated Group or any Restricted Affiliate or the acquisition of additional Facilities for the Obligated Group or any Restricted Affiliate or the repayment of Indebtedness incurred for any such purpose pending the receipt of such Net Proceeds. In the event such Person shall elect this Option A, such Person shall complete the replacement, repair, reconstruction, restoration, improvement and acquisition of the Facilities, whether or not the Net Proceeds of the award received for such purposes are sufficient to pay for the same.

(b) Option B-Prepayment of Obligations. Such Member may elect to have such Net Proceeds of the award applied to the prepayment of the Obligations. In such event such Member shall, in its notice of election to the Master Trustee, direct the Master Trustee to apply such Net Proceeds, when and as received, to the prepayment of Obligations.

(c) Option C-Partial Restoration and Partial Prepayment of Obligations. Such Person may elect to have a portion of such Net Proceeds of the award applied to the repair, replacement, restoration and improvement of the Facilities of the Obligated Group or any Restricted Affiliate or the acquisition of additional Facilities for the Obligated Group or any Restricted Affiliate or the repayment of Indebtedness incurred for any such purpose pending the receipt of such Net Proceeds, with the remainder of such Net Proceeds to be applied to the prepayment of Obligations.

The foregoing notwithstanding, no Member will be required to comply with the provisions of the Master Indenture summarized under this caption to the extent that the Facilities condemned were pledged as security for Indebtedness, including Indebtedness secured by Liens, and the documents pursuant to which such Indebtedness was issued require Net Proceeds to be applied in a manner inconsistent with the provisions of the Master Indenture summarized under this caption.

OTHER COVENANTS OF THE MEMBERS

Each Member covenants under the Master Indenture to, and each Controlling Member covenants under the Master Indenture to cause each of its Restricted Affiliates to, among other things, (a) comply with all present and future laws, ordinances, orders, decrees, decisions, rules, regulations and requirements of every duly constituted governmental authority, commission and court and the officers thereof which may be applicable to it or any of its affairs, business, operations and Property, pay or discharge its obligations and Indebtedness and comply with the terms of any Liens on its Property; provided that such Member or Restricted Affiliate has the right to contest any of the foregoing provided that no such contest shall subject any Related Issuer, any Obligation holder or the Master Trustee, any Obligation holder or any Related Issuer to the risk of any liability, and that the Member or Restricted Affiliate will save all Related Issuers, all Related Bond Trustees, all Obligation holders and the Master Trustee harmless from and against all losses, judgments, decrees and costs as a result of such contest; (b) procure and maintain all necessary licenses and permits and use its best efforts to maintain the status of its health care Facilities (other than those not currently having such status or not having such status on the date a Person becomes a Member or Restricted Affiliate under the Master Indenture) as providers of health care services eligible for payment under those third-party payment programs which its Governing Body determines are appropriate.

DEFAULTS AND REMEDIES

The following events are "events of default" under the Master Indenture:

(a) failure of the Obligated Group to pay any installment of interest or principal, or any premium, on any Obligation when the same shall become due and payable, whether at maturity, upon any date fixed for prepayment or by acceleration or otherwise and the continuance of such failure for five days; or

(b) failure of any Member to comply with, observe or perform any of the covenants, conditions, agreements or provisions of the Master Indenture and to remedy such default within 30 days after written notice thereof to such Member and the Obligated Group Agent from the Master Trustee or the holders of at least 25% in aggregate principal amount of the outstanding Obligations; provided, that if such default cannot with due diligence and dispatch be wholly cured within 30 days but can be wholly cured, the failure of the Member to remedy such default within such 30-day period shall not constitute a default under the Master Indenture if the Member shall immediately upon receipt of such notice commence with due diligence and dispatch the curing of

such default and, having so commenced the curing of such default, shall thereafter prosecute and complete the same with due diligence and dispatch; or

(c) any representation or warranty made by any Member in the Master Indenture or in any statement or certificate furnished to the Master Trustee or the purchaser of any Obligation in connection with the sale of any Obligation or furnished by any Member pursuant to the Master Indenture proves untrue in any material respect as of the date of the issuance or making thereof and shall not be corrected or brought into compliance within 30 days after written notice thereof to the Obligated Group Agent by the Master Trustee or the holders of at least 25% in aggregate principal amount of the outstanding Obligations; or

(d) default in the payment of the principal of, premium, if any, or interest on any Indebtedness for borrowed money (other than Non-Recourse Indebtedness) of any Member, including without limitation any Indebtedness created by any Related Loan Document, as and when the same shall become due, or an event of default as defined in any mortgage, indenture, loan agreement or other instrument under or pursuant to which there was issued or incurred, or by which there is secured, any such Indebtedness (including any Obligation) of any Member, and which default in payment or event of default entitles the holder thereof to declare or, in the case of any Obligation, to request that the Master Trustee declare, such Indebtedness due and payable prior to the date on which it would otherwise become due and payable; provided, however, that if such Indebtedness is not evidenced by an Obligation or issued, incurred or secured by or under a Related Loan Document, a default in payment thereunder shall not constitute an "event of default" under the Master Indenture unless the unpaid principal amount of such Indebtedness, together with the unpaid principal amount of all other Indebtedness so in default, exceeds 10% of Current Assets of the System as shown on or derived from the then latest available audited consolidated financial statements of the System; or

(e) any judgment, writ or warrant of attachment or of any similar process shall be entered or filed against any Member or against any Property of any Member and remains unvacated, unpaid, unbonded, unstayed or uncontested in good faith for a period of 30 days; provided, however, that none of the foregoing shall constitute an event of default unless the amount of such judgment, writ, warrant of attachment or similar process, together with the amount of all other such judgments, writs, warrants or similar processes so unvacated, unpaid, unbonded, unstayed or uncontested, exceeds 10% of Current Assets of the System as shown on or derived from the then latest available audited consolidated financial statements of the System; or

(f) any Member admits insolvency or bankruptcy or its inability to pay its debts as they mature, or is generally not paying its debts as such debts become due, or makes an assignment for the benefit of creditors or applies for or consents to the appointment of a trustee, custodian or receiver for such Member, or for the major part of its Property; or

(g) a trustee, custodian or receiver is appointed for any Member or for the major part of its Property and is not discharged within 30 days after such appointment; or

(h) bankruptcy, dissolution, reorganization, arrangement, insolvency or liquidation proceedings, proceedings under Title 11 of the United States Code, as amended, or other proceedings for relief under any bankruptcy law or similar law for the relief of debtors are instituted by or against any Member (other than bankruptcy proceedings instituted by any Member against third parties), and if instituted against any Member are allowed against such Member or are consented to or are not dismissed, stayed or otherwise nullified within 60 days after such institution; or

(i) payment of any installment of interest or principal, or any premium, on any Related Bond shall not be made when the same shall become due and payable under the provisions of any Related Bond Indenture.

If an event of default has occurred and is continuing, the Master Trustee may, and if requested by either the holders of not less than 25% in aggregate principal amount of Outstanding Obligations or the holder of any Accelerable Instrument under which Accelerable Instrument an event of default exists (which event of default permits the holder thereof to request that the Master Trustee declare such Indebtedness evidenced by an Obligation due and payable prior to the date on which it would otherwise become due and payable), shall, by notice in writing delivered to the Obligated Group Agent, declare the entire principal amount of all Obligations then outstanding under the Master Indenture and the interest accrued thereon immediately due and payable, and the entire principal and such interest shall thereupon become immediately due and payable, subject, however, to the provisions of the Master Indenture summarized below under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Waiver of Events of Default."

Upon the occurrence of any event of default under the Master Indenture, the Master Trustee may pursue any available remedy including a suit, action or proceeding at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Obligations outstanding under the Master Indenture and any other sums due under the Master Indenture and may collect such sums in the manner provided by law out of the Property of any Member wherever situated.

DIRECTION OF PROCEEDINGS

The holders of (i) a majority in aggregate principal amount of the Obligations then outstanding which have become due and payable either by their terms or as a result of acceleration and have not been paid in full in the case of remedies exercised to enforce such payment, or (ii) a majority in aggregate principal amount of the Obligations then outstanding in the case of any other remedy, have the right under the Master Indenture to direct in writing the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Master Indenture or for the appointment of a receiver or any other proceedings under the Master Indenture; provided, that such direction shall not be otherwise than in accordance with the provisions of law and the Master Indenture and that the Master Trustee shall have the right to decline to comply with any such request if the Master Trustee shall be advised by counsel (who may be its own counsel) that the action so directed may not lawfully be taken or the Master Trustee in good faith shall determine that such action would be unjustly prejudicial to the holders of the Obligations not parties to such direction. Pending such direction from the holders of a majority in aggregate principal amount of the Obligations outstanding, such direction may be given in the same manner and with the same effect by the holder of an Accelerable Instrument upon whose request the Master Trustee has accelerated the Obligations.

The foregoing notwithstanding, the holders of a majority in aggregate principal amount of the Obligations then outstanding which are entitled to the exclusive benefit of certain security in addition to that intended to secure all or other Obligations shall have the right under the Master Indenture to direct in writing the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Master Indenture, the Supplemental Master Indenture or Indentures pursuant to which such Obligations were issued or so secured or any separate security document in order to realize on such security; provided, however, that such direction shall not be otherwise than in accordance with the provisions of law and of the Master Indenture.

WAIVER OF EVENTS OF DEFAULT

If, at any time after the principal of all Obligations shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered and before the acceleration of any Related Bond, any Member shall pay or shall deposit with the Master Trustee a sum sufficient to pay all matured installments of interest upon all such Obligations and the principal and premium, if any, of all such Obligations that shall have become due otherwise than by acceleration (with interest on overdue installments of interest and on such principal and premium, if any, at the rate borne by such Obligations to the date of such payment or deposit, to the extent permitted by law) and the expenses of the Master Trustee, and any and all events of default under the Master Indenture, other than the nonpayment of principal of and accrued interest on such Obligations that shall have become due by acceleration, shall have been remedied, then and in every such case the holders of a majority in aggregate principal amount of all Obligations then outstanding and the holder of each Accelerable Instrument who requested the giving of notice of acceleration, by written notice to the Obligated Group Agent and to the Master Trustee, may waive all events of default and rescind and annul such declaration and its consequences; but no such waiver or rescission and annulment shall extend to or affect any subsequent event of default, or shall impair any right consequent thereon.

SUPPLEMENTAL MASTER INDENTURES

Subject to the limitations set forth in the next paragraph, the Members and the Master Trustee may, without the consent of, or notice to, any of the Obligation holders, amend or supplement the Master Indenture, for any one or more of the following purposes: (a) to cure any ambiguity or defective provision in or omission from the Master Indenture in such manner as is not inconsistent with and does not impair the security of the Master Indenture or adversely affect the holder of any Obligation; (b) to grant to or confer upon the Master Trustee for the benefit of the Obligation holders any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Obligation holders and the Master Trustee, or either of them, to add to the covenants of the Members for the benefit of the Obligation holders or to surrender any right or power conferred under the Master Indenture upon any Member; (c) to assign and pledge under the Master Indenture any additional revenues, properties or collateral; (d) to evidence the succession of another corporation to the agreements of a Member or the Master Trustee, or the successor of any thereof under the Master Indenture; (e) to permit the qualification of the Master Indenture under the Trust Indenture Act of 1939, as then amended, or under any similar federal statute hereafter in effect or to permit the qualification of any Obligations for sale under the securities laws of any state of the United States; (f) to provide for the refunding or advance refunding of any Obligation; (g) to provide for the issuance of Additional Obligations; (h) to reflect the addition to or withdrawal of a Member from the Obligated Group; (i) to provide for the issuance of Obligations with original issue discount, provided such issuance would not materially adversely affect the holders of Outstanding Obligations; (j) to permit an Obligation to be secured by security which is not extended to all Obligation holders; (k) to permit the issuance of Obligations which are not in the form of a promissory note; (l) to modify or eliminate any of the terms of the Master Indenture; provided, however, that (1) such Supplemental Master Indenture shall expressly provide that any such modifications or eliminations shall become effective only when there is no Obligation outstanding of any series created prior to the execution of such Supplemental Master Indenture and (2) the Master Trustee may, in its discretion, decline to enter into any such Supplemental Master Indenture which, in its opinion, may not afford adequate protection to the Master Trustee when the same becomes operative; and (m) to make any other change which, in the opinion of the Master Trustee, does not materially adversely affect the holders of any of the Obligations and, in the opinion of each Related Bond Trustee, does not materially adversely affect the holders of the Related Bonds with respect to which it acts as trustee, including without limitation any modification, amendment or supplement to the Master Indenture or any indenture supplemental to the Master Indenture

in such a manner as to establish or maintain exemption of interest on any Related Bonds under a Related Bond Indenture from federal income taxation under applicable provisions of the Code.

The holders of not less than 51% in aggregate principal amount of the Obligations which are outstanding under the Master Indenture at the time of the execution of such Supplemental Master Indenture or, in case less than all of the several series of Obligations are affected thereby, the holders of not less than 51% in aggregate principal amount of the Obligations of each series affected thereby which are outstanding under the Master Indenture at the time of the execution of such Supplemental Master Indenture, shall have the right, from time to time, anything contained in the Master Indenture to the contrary notwithstanding, to consent to and approve the execution by the Members and the Master Trustee of such Supplemental Master Indentures as shall be deemed necessary and desirable by the Members for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Master Indenture or in any Supplemental Master Indenture; provided, however, that nothing contained in the Master Indenture shall permit, or be construed as permitting, (a) an extension of the stated maturity or reduction in the principal amount of or reduction in the rate or extension of the time of paying of interest on or reduction of any premium payable on the redemption of, any Obligation, without the consent of the holder of such Obligation, (b) a reduction in the aforesaid aggregate principal amount of Obligations the holders of which are required to consent to any such Supplemental Master Indenture, without the consent of the holders of all the Obligations at the time outstanding which would be affected by the action to be taken, (c) the creation of any lien ranking prior to or on a parity with the lien of the Master Indenture with respect to the trust estate, if any, subject to the Master Indenture or terminate the lien of the Master Indenture on any Property at any time subject to the Master Indenture or deprive the holder of any Obligation of the security afforded by the lien of the Master Indenture, or (d) modification of the rights, duties or immunities of the Master Trustee, without the written consent of the Master Trustee.

RIGHT TO CONSENT

Each Member shall have the right to agree in any Related Bond Indenture, Related Loan Document or Supplemental Master Indenture pursuant to which an Obligation is issued that, so long as any Related Bonds remain outstanding under such Related Bond Indenture or such Obligation remains outstanding, any or all provisions of the Master Indenture which provide for approval, consent, direction or appointment by the Master Trustee, provide that anything must be satisfactory or acceptable to the Master Trustee or not unacceptable to the Master Trustee, allow the Master Trustee to request anything or contain similar provisions granting discretion to the Master Trustee shall be deemed to also require or allow, as the case may be, the approval, consent, appointment, satisfaction, acceptance, request or like exercise of discretion by the Related Issuer, the Related Bond Trustee or the holders of some specified percentage of such Obligations as provided for in such Obligations, or any one thereof, and that all items required to be delivered or addressed to the Master Trustee under the Master Indenture shall also be delivered or addressed to the Related Issuer, such Obligation holders and the Related Bond Trustee, or any one thereof, unless waived thereby. If a Member enters into any such agreements in a Related Bond Indenture, Related Loan Document or Supplemental Master Indenture, such agreements shall be deemed to be included in the Master Indenture as if set forth in the Master Indenture.

SUMMARY OF CERTAIN PROVISIONS OF THE THIRTEENTH SUPPLEMENTAL MASTER INDENTURE

The Thirteenth Supplemental Master Indenture includes an amendment to Section 412(A) of the Master Indenture. The Bond Trustee, by its acceptance of the Series 2008D Obligation, has been deemed

to have consented to the amendment and restatement of Section 412(A) of the Master Indenture to read as set forth below.

"Section 412(A) As soon as practicable after they are available, but in no event more than 150 days after the last day of each Fiscal Year, a financial report for such Fiscal Year certified by a firm of nationally recognized independent certified public accountants selected by the Obligated Group Agent and not unacceptable to the Master Trustee and each Related Issuer covering the operations of the System for such Fiscal Year and containing an audited consolidated and an unaudited consolidating balance sheet as of the end of such Fiscal Year and an audited consolidated and an unaudited consolidating statement of operations and changes in net assets for such Fiscal Year, showing in each case in comparative form the financial figures for the preceding Fiscal Year, and, so long as not contrary to the current recommendations of the American Institution of Certified Public Accountants, a statement from such accountants that, in making the examination necessary for the audit of such financial statements, nothing has come to their attention that would lead them to believe that any Member, Restricted Affiliate or System Affiliate has violated any provisions of this Master Indenture, or if such accountants shall have obtained knowledge of any such default or defaults, they shall disclose in such statement the default or defaults and the nature thereof (but such accountants shall not be liable directly or indirectly to anyone for failure to obtain knowledge of any default) it being understood that such accountants shall not be liable directly or indirectly to any person for any failure to obtain knowledge of any such violation.. There shall also be delivered any information disseminated pursuant to any Continuing Disclosure Agreement at the time delivered to the Dissemination Agent thereunder."

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APPENDIX E

SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE AND THE LOAN AGREEMENT

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DEFINITIONS OF CERTAIN TERMS

"Account" means any of the accounts established under the Bond Indenture.

"Acquired Facilities" means the health facilities being purchased from the Medical Center on the Closing Date with proceeds from the sale of the Series 2008D Bonds pursuant to the Asset Purchase Agreement.

"Act" means the Illinois Finance Authority Act, 20 ILCS 3501/801-1 *et seq.,* as supplemented and amended.

"Advocate Condell" means Advocate Condell Medical Center, an Illinois not for profit corporation, and its successors and assigns and any surviving, resulting or transferee corporation.

"Asset Purchase Agreement" means the Asset Purchase Agreement effective as of May 15, 2008, by and among Advocate Condell, the Borrower, the Corporation, the Medical Center and certain of their affiliates pursuant to which Advocate Condell is acquiring certain of the Medical Center's assets, including the Acquired Facilities, on the Closing Date.

"Authority" means the Illinois Finance Authority, a body politic and corporate created and existing under and by virtue of the Act, and its successors and assigns.

"Authorized Denomination" means, with respect to any Series 2008D Bond, $5,000 and any integral multiple thereof.

"Authorized Officer" means (a) in the case of the Authority, its Chairman, Vice Chairman, Treasurer, Secretary, Assistant Secretary, Executive Director (or any person duly appointed to any such office on an interim basis) or any other member, employee or officer of the Authority designated by the Authority to act on behalf of the Authority; (b) in the case of the Borrower, its President, its Chief Financial Officer, any of its Vice Presidents and any other officer of the Borrower designated by its President, its Chief Financial Officer or any of its Vice Presidents in writing to the Bond Trustee as authorized to take certain actions required hereunder on behalf of the Borrower; and (c) in the case of the Bond Trustee, any Vice President, any Assistant Vice President, any Trust Officer and any other person authorized by or pursuant to the by-laws of the Bond Trustee or a resolution of the Board of Directors of the Bond Trustee.

"Bond Counsel" means Chapman and Cutler LLP, Chicago, Illinois, or any other nationally recognized municipal bond attorney or firm of municipal bond attorneys approved by the Authority and acceptable to the Bond Trustee.

"Bond Financed Property" or *"Bond Financed Properties"* means all real and personal property to be financed or refinanced, in whole or in part, directly or indirectly out of the proceeds of the Series 2008D Bonds, including the Acquired Facilities.

"Bond Indenture" means the Bond Trust Indenture dated as of November 1, 2008, from the Authority to the Bond Trustee, as it may from time to time be amended or supplemented.

"Bond Purchase Agreement" means the Bond Purchase Agreement among Citigroup Global Markets Inc., as representative of the underwriters named therein, the Members of the Obligated Group and the Authority providing for the sale of the Series 2008D Bonds.

"Bond Register" means the registration books of the Authority kept by the Bond Trustee to evidence the registration and transfer of the Series 2008D Bonds.

"Bond Resolution" means the resolution adopted by the Authority on September 9, 2008, authorizing the issuance of the Series 2008D Bonds.

"Bond Sinking Fund" means the Fund by that name established by the Bond Indenture and as summarized under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE – FUNDS – Bond Sinking Fund" in this APPENDIX E.

"Bond Trustee" means The Bank of New York Mellon Trust Company, N.A., a national banking association organized and existing under the laws of the United States, and any corporation resulting from or surviving any consolidation or merger to which it or its successors may be a party, and any successor trustee at the time serving as such under the Bond Indenture; provided in each case, the requirements of the Bond Indenture are satisfied. All references in the Bond Indenture to "designated corporate trust office" of the Bond Trustee shall mean the office of the Bond Trustee located at the address set forth in the Bond Indenture.

"Bond Year" means the twelve-month period beginning November 1 of a calendar year and ending on October 31 of the next calendar year. For the purpose of calculating debt service on the Series 2008D Bonds payable in any Bond Year, principal and interest payable thereon on November 1 of any Bond Year shall be deemed to be payable during the preceding Bond Year.

"Bondholder," *"Bondowner," "holder," "Owner,"* or *"owner of the Series 2008D Bonds"* means the registered owner of any Series 2008D Bond.

"Bonds" means the Series 2008D Bonds.

"Borrower" means Advocate Health and Hospitals Corporation, an Illinois not for profit corporation, and its successors and assigns and any surviving, resulting or transferee corporation.

"Borrower Documents" means the Loan Agreement, the Use Agreement, the Bond Purchase Agreement, the Thirteenth Supplemental Master Indenture, the Series 2008D Obligation, the Project Certificate and the Tax Agreement.

"Business Day" means any day other than a Saturday, Sunday or other day on which banks located in the State of Illinois are required or authorized to remain closed or other day on which the New York Stock Exchange is closed.

"Closing Date" means the date of issuance of the Series 2008D Bonds.

"Code" means the Internal Revenue Code of 1986, as amended, or any successor sections of a subsequent income tax statute or code, including the regulations, rulings and proclamations promulgated and proposed thereunder or under the predecessor code.

"Corporation" means Advocate Health Care Network, an Illinois not for profit corporation, and its successors and assigns and any surviving, resulting or transferee corporation.

"Cost" or *"Costs,"* when used in connection with the Project, means all costs incurred with respect to the acquisition, construction, improvement, renovation and equipping of the Project and any costs which are otherwise financeable under the Act, including the cost of acquiring the Acquired Facilities.

"Cost of Issuance Fund" means the Fund by that name established by the Bond Indenture and as summarized under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE – FUNDS – Costs of Issuance Fund" in this APPENDIX E.

"Defeasance Obligations" means (a) U.S. Treasury notes, bonds, certificates (including SLGs) and direct obligations of the U.S. Treasury stripped by the U.S. Treasury itself, (b) the interest component of Resolution Funding Corp. strips, (c) obligations of the following agencies on which the timely payment of principal and interest is fully guaranteed by the United States of America: U.S. Export-Import Bank (direct obligations or fully guaranteed certificates of beneficial interest); Farmers Home Administration; Federal Financing Bank; General Services Administration (participation certificates); U.S. Maritime Administration (guaranteed Title XI financing); U.S. Department of Housing and Urban Development (project notes, local authority bonds, new communities debentures or U.S. public housing notes and bonds), or (d) pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by S&P.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"Event of Default" means (i) with respect to the Bond Indenture, any of the events defined as "Events of Default" under the Bond Indenture and summarized in this APPENDIX E under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE – Defaults and Remedies" and (ii) with respect to the Loan Agreement, any of the events defined as "Events of Default" under the Loan Agreement and summarized in this APPENDIX E under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT – Defaults and Remedies."

"Favorable Opinion of Bond Counsel" means, with respect to any action relating to the Series 2008D Bonds, the occurrence of which requires such an opinion, a written legal opinion of Bond Counsel addressed to the Bond Trustee and the Borrower to the effect that such action is permitted under the Bond Indenture and will not impair the exclusion of interest on the Series 2008D Bonds from gross income for purposes of federal income taxation (subject to customary exceptions).

"Fitch" means Fitch Ratings, a corporation organized and existing under the laws of the State of New York, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, shall be deemed to refer to any other nationally recognized securities rating agency designated by the Obligated Group Agent by notice to the Authority and the Bond Trustee.

"Fund" means any of the funds established pursuant to the Bond Indenture.

"Independent Architect" means an architect, engineer or firm of architects or engineers selected by the Obligated Group Agent, not objected to by the Authority and licensed by, or permitted to practice in, the State, which architect, engineer or firm of architects or engineers shall have no interest, direct or indirect, in any Member of the Obligated Group or any System Affiliate and, in the case of an individual, shall not be a partner, member, director, officer, controlling shareholder or employee of any Member of the Obligated Group or any System Affiliate and, in the case of a firm, shall not have a partner, member, director, officer or employee who is a partner, member, director, officer, controlling shareholder or employee of any Member of the Obligated Group or any System Affiliate; it being understood that an arm's-length contract with a Member of the Obligated Group or any System Affiliate for the performance of architectural or engineering services shall not in and of itself be regarded as creating an interest in or an employee relationship with such entity and that the term Independent Architect may include an architect or engineer or a firm of architects or engineers who otherwise meet the requirements of this definition and who also are under contract to construct the facility which they have designed.

"Independent Counsel" means an attorney or firm whose members are attorneys duly admitted to practice law before the highest court of any state and, without limitation, may include independent legal counsel for the Authority, the Bond Trustee, the Borrower or any other Member of the Obligated Group or any System Affiliate.

"Interest Fund" means the Fund by that name established by the Bond Indenture and as summarized under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE – FUNDS – Interest Fund" in this APPENDIX E.

"Interest Payment Date" means with respect to the Series 2008D Bonds, May 1 and November 1 of each year, commencing May 1, 2009.

"Loan Agreement" means the Loan Agreement dated as of November 1, 2008, between the Borrower and the Authority, as it may from time to time be amended or supplemented.

"Loan Payment" means a payment by the Borrower pursuant to the Loan Agreement of amounts which correspond to the principal, premium, if any, and interest payments on the Series 2008D Bonds plus related fees and expenses, all in accordance with the Loan Agreement.

"Master Indenture" means the Master Trust Indenture (Amended and Restated) dated as of December 1, 1996, among the Corporation, the Borrower, Northside, Advocate Condell and the Master Trustee, as supplemented and amended through the Thirteenth Supplemental Master

Indenture and as it may be further supplemented and amended by various supplemental indentures from time to time.

"Master Trustee" means U.S. Bank National Association (successor to LaSalle Bank National Association), as master trustee, or any successor trustee under the Master Indenture.

"Medical Center" means Condell Medical Center, an Illinois not for profit corporation.

"Member" or *"Member of the Obligated Group"* means any person that is from time to time a member of the Obligated Group established under the Master Indenture, which (as of the date of the Bond Indenture) is comprised of the Corporation, the Borrower, Northside and Advocate Condell.

"Moody's" means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Obligated Group Agent by notice to the Authority and the Bond Trustee.

"Northside" means Advocate North Side Health Network, an Illinois not for profit corporation, and its successors and assigns and any surviving, resulting or transferee corporation.

"Obligated Group" means the Obligated Group established under the Master Indenture.

"Obligated Group Agent" means the Corporation or any other corporation designated as the Obligated Group Agent pursuant to the Master Indenture.

"Officer's Certificate" means a certificate signed by an Authorized Officer.

"Optional Redemption Fund" means the Fund by that name established by the Bond Indenture and as summarized under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE – FUNDS – Optional Redemption Fund" in this APPENDIX E.

"Outstanding Series 2008D Bonds" or *"Series 2008D Bonds outstanding"* means all Series 2008D Bonds which have been duly authenticated and delivered by the Bond Trustee under the Bond Indenture, except:

(a) Series 2008D Bonds canceled after purchase in the open market or because of payment at or redemption prior to maturity in accordance with the Bond Indenture;

(b) Series 2008D Bonds deemed paid as provided in the Bond Indenture;

(c) Series 2008D Bonds in lieu of which others have been authenticated under the Bond Indenture; and

(d) For the purposes of all consents, approvals, waivers and notices required to be obtained or given under the Bond Indenture, Series 2008D Bonds owned by the Borrower or any other Member of the Obligated Group or by a System Affiliate.

"Paying Agent" means the bank or banks, if any, designated pursuant to the Bond Indenture to receive and disburse the principal of and interest on the Series 2008D Bonds or designated pursuant to the Master Indenture to receive and disburse the principal of and interest on any Obligations.

"Person" means any natural person, firm, association, corporation or public body.

"Plans and Specifications" means the plans and specifications for the Project which have been prepared by an Independent Architect and approved by the Borrower, together with such modifications and alterations thereto as are made by the Borrower in accordance with the provisions of the Loan Agreement.

"Project" means all of the Property financed, refinanced or reimbursed with proceeds of the Series 2008D Bonds.

"Project Certificate" means the Project Certificate dated the Closing Date from the Corporation, the Borrower and Advocate Condell, relating to the Bond Financed Properties.

"Project Documents" means (i) all available preliminary and final Plans and Specifications for the Project (and the Borrower agrees to deliver to the Authority, upon the Authority's request, the final versions of such Plans and Specifications as they become available and in any event, if so requested, by such time as work is commenced on the portion of the Project to which such Plans and Specification relate); (ii) a schedule of the acquisition, construction, improvement, renovation and equipping costs to be paid or reimbursed with the proceeds of the Series 2008D Bonds on deposit in the Project Fund and the Borrower's estimate of such costs (each a "Schedule"); (iii) applicable letters of non-reviewability, certificates of need or permits for the various portions of the Project, if required, from the Illinois Department of Public Health, the Illinois Health Facilities Planning Board and such other governmental agency as are required to be obtained as of the Closing Date; (iv) all licenses and permits to operate the Project and Advocate Condell's existing health care facilities; and (v) all licenses and permits received as of the Closing Date to construct the Project.

"Project Fund" means the Fund by that name established by the Bond Indenture and as summarized under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE – FUNDS – Project Fund" in this APPENDIX E.

"Qualified Investments" means:

(1) United States Obligations;

(2) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:

- Export-Import Bank
- Rural Economic Community Development Administration
- U.S. Maritime Administration
- Small Business Administration
- U.S. Department of Housing & Urban Development (PHAs)
- Federal Housing Administration
- Federal Financing Bank;

(3) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

- Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC)
- Obligations of the Resolution Funding Corporation (REFCORP)
- Senior debt obligations of the Federal Home Loan Bank System;

(4) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-l" or "A-1+" by S&P and maturing not more than 360 calendar days after the date of purchase. (Ratings on holding companies are not considered as the ratings of the bank);

(5) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1+" by S&P and which matures not more than 270 calendar days after the date of purchase;

(6) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P, including those for which the Bond Trustee or an affiliate performs services for a fee, whether as a custodian, transfer agent, investment advisor or otherwise;

(7) Pre-refunded Municipal Obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(A) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Moody's or S&P or any successors thereto; or

(B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph (1) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on

such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(8) Municipal Obligations rated "Aaa/AAA" or general obligations of states with a rating of "A2/A" or higher by both Moody's and S&P;

(9) Investment agreements approved in writing by the Authority (supported by appropriate opinions of counsel); and

(10) Other forms of investments, provided that such investments (in each case, supported by appropriate opinions of counsel) are (i) unsecured investment agreements with a bank, registered broker-dealer or other financial institution (each, a "Provider") which has a long-term debt rating, or whose parent has a long-term debt rating, without regard to qualifier, in the two highest rating categories from a Rating Agency (regardless of whether or not such Rating Agency rates the Series 2008D Bonds); provided, however, that in the event the Provider is downgraded below the "A" rating category (or its equivalent) by all of the Rating Agencies (regardless of whether or not any such Rating Agency rates the Series 2008D Bonds), the Provider must within 14 Business Days from the downgrade either (a) collateralize the agreement with obligations described in (1), (2), (7) or (8) of this definition such that value of the collateral pledged is not less than 102% of the principal balance, such obligations to be marked to market not less frequently than weekly and to be held by an independent third party custodian; (b) obtain a guaranty from a financial institution whose rating from a Rating Agency (regardless of whether or not such Rating Agency rates the Series 2008D Bonds) is not lower than "A"; or (c) assign the agreement to a financial institution whose rating from a Rating Agency (regardless of whether or not such Rating Agency rates the Series 2008D Bonds) is not lower than "A," or (ii) collateralized investment agreements (including repurchase agreements) with a registered broker-dealer (which is subject to SIPC) which are collateralized in the manner described in the preceding clause (i).

Ratings of Qualified Investments referred to herein shall be determined at the time of purchase of such Qualified Investments and without regard to ratings subcategories. The Bond Trustee shall have no responsibility to monitor the ratings of Qualified Investments after the initial purchase of such Qualified Investments.

The value of the Qualified Investments shall be determined as follows:

(a) For the purpose of determining the amount in any fund, all Qualified Investments credited to such fund shall be valued at fair market value. The Bond Trustee shall determine the fair market value based on accepted industry standards and from accepted industry providers. Accepted industry providers shall include but are not

limited to pricing services provided by Financial Times Interactive Data Corporation, Merrill Lynch and Citigroup Global Markets Inc.

(b) Certificates of deposit and bankers' acceptances shall be valued at the face amount thereof, plus accrued interest thereon.

(c) The value of any Qualified Investment not specified above shall be established by prior agreement between the Borrower and the Bond Trustee.

"Rating Agency" means, as of any date, each of Moody's, if Series 2008D Bonds are then rated by Moody's, Fitch, if Series 2008D Bonds are then rated by Fitch, and S&P, if Series 2008D Bonds are then rated by S&P.

"Rebate Fund" means the Rebate Fund created by the Tax Agreement.

"Record Date" means with respect to the Series 2008D Bonds, April 15 and October 15 of each year.

"Resolution" means the resolution adopted and approved by the Authority on September 9, 2008, authorizing, among other things, the issuance of the Series 2008D Bonds.

"Series 2008D Bonds" means the Illinois Finance Authority Revenue Bonds, Series 2008D (Advocate Health Care Network).

"Series 2008D Obligation" means the Borrower's Direct Note Obligation, Series 2008D (Illinois Finance Authority) issued to the Authority to secure the Borrower's obligations under the Loan Agreement.

"State" means the State of Illinois.

"System Affiliate" has the meaning set forth in APPENDIX D to this Official Statement.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Obligated Group Agent by notice to the Authority and the Bond Trustee.

"Tax Agreement" means the Tax Exemption Certificate and Agreement dated the Closing Date among the Authority, the Bond Trustee, the Corporation, the Borrower and Advocate Condell.

"Tax-Exempt Organization" means a Person organized under the laws of the United States of America or any state thereof (a) which is an organization described in Section 501(c)(3) of the Code, (b) which is exempt from federal income taxes under Section 501(a) of the Code

and (c) which is not a "private foundation" within the meaning of Section 509(a) of the Code, unless there is delivered to the Authority and the Bond Trustee an opinion of Bond Counsel to the effect that the status of such Person as a private foundation will not adversely affect any exemption from federal income taxation to which interest on any Series 2008D Bond would otherwise be entitled.

"Thirteenth Supplemental Master Indenture" means the Thirteenth Supplemental Master Trust Indenture dated as of November 1, 2008, among the Corporation, the Borrower, Northside, Advocate Condell and the Master Trustee, providing for the issuance of the Series 2008D Obligation.

"Unassigned Rights" means the rights of the Authority to receive payment of expenses, fees, and indemnification from the Borrower pursuant to the Loan Agreement, the right of the Authority to receive indemnification from Advocate Condell pursuant to the Use Agreement and the rights of the Authority to make determinations and to receive notices pursuant to the Loan Agreement.

"Unrelated Trade or Business" means an activity which constitutes an "unrelated trade or business" within the meaning of Section 513(a) of the Code without regard to whether such activity results in unrelated trade or business income subject to taxation under Section 512(a) of the Code.

"*Use Agreement"* means the Use Agreement dated as of November 1, 2008, between the Borrower and Advocate Condell, relating to the use of the Bond Financed Property. Under the Use Agreement, Advocate Condell covenants and agrees to operate its Properties so as to comply with certain of the covenants of the Borrower contained in the Loan Agreement, including the covenants summarized below under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT — Maintenance and Operation of Bond Financed Property," "— Use of Bond Financed Property," "— Assignment, Sale, or Lease of Bond Financed Property," "— Maintenance of Corporate Existence and Qualification," "— Recording and Maintenance of Liens" and "— Covenants Relating to the Tax Status of the Series 2008D Bonds."

SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE

The following, in addition to information provided elsewhere in this Official Statement, summarizes certain provisions of the Bond Indenture. Reference is made to the Bond Indenture for a complete description thereof. The discussion herein is qualified by such reference.

PLEDGE AND ASSIGNMENT TO BOND TRUSTEE

In order to (a) secure the payment of the principal of, premium, if any, and interest on the Series 2008D Bonds and (b) secure the performance and observance of all of the covenants and conditions contained in the Bond Indenture and the Series 2008D Bonds, the Authority will assign and pledge to the Bond Trustee:

(i) all right, title and interest of the Authority in and to the Series 2008D Obligation and all sums payable in respect of the indebtedness evidenced thereby;

(ii) all right, title and interest of the Authority in and to the Loan Agreement and the amounts payable to the Authority under the Loan Agreement (except Unassigned Rights);

(iii) All right, title and interest of the Authority in and to the Use Agreement (except Unassigned Rights);

(iv) all cash and securities held in the funds and accounts established under the Bond Indenture and all other property pledged to the Bond Trustee as security under the Bond Indenture; and

(v) any and all other property of every kind and nature from time to time after the execution of the Bond Indenture, by delivery or by writing of any kind, conveyed, pledged, assigned or transferred as and for additional security under the Bond Indenture by the Authority or the Borrower or by anyone on their behalf to the Bond Trustee, including without limitation funds of the Borrower held by the Bond Trustee as security for the Series 2008D Bonds.

There is, however, expressly excepted and excluded from the lien and operation of the Bond Indenture amounts held by the Bond Trustee in the Rebate Fund established by the Tax Agreement.

THE SERIES 2008D BONDS ARE LIMITED OBLIGATIONS

The Series 2008D Bonds, together with all principal, premium, if any, and interest thereon, shall be special, limited obligations of the Authority and shall always be payable solely from and secured by a pledge of the payments or prepayments to be made on the Series 2008D Obligation, amounts payable under the Loan Agreement (except for Unassigned Rights), certain moneys held by the Bond Trustee under the Bond Indenture and certain income from the investment of any of the foregoing, and shall always be a valid claim of the respective holders thereof only against the funds established under the Bond Indenture and other moneys held by the Bond Trustee for the benefit of the Series 2008D Bonds and the payments due or to become due under the Loan Agreement and on the Series 2008D Obligation and such other sources assigned and pledged under the Bond Indenture, all of which are assigned and pledged under the Bond Indenture for the equal and ratable payment of the Series 2008D Bonds and shall be used for no other purpose than to pay the principal of, premium, if any, and interest on the Series 2008D Bonds, except as may be otherwise expressly authorized in the Bond Indenture.

The Series 2008D Bonds are issued pursuant to the Act and the Resolution and do not and shall never constitute an indebtedness or obligation, general or moral, or a pledge of the faith and credit of the Authority, the State or any political subdivision thereof within the purview of any constitutional or statutory limitation or provision or a charge against the general credit or the taxing powers, if any, of the State, the Authority or any other political subdivision thereof, and

shall never give rise to any pecuniary liability of the Authority, and neither the Authority, the State nor any other political subdivision thereof shall be liable for the payments of principal of, premium, if any, and interest on the Series 2008D Bonds, and the Series 2008D Bonds are payable from no other source, but are special, limited obligations of the Authority, secured as aforesaid and payable solely out of the trust estate and receipts of the Authority derived pursuant to the Series 2008D Obligation and the Loan Agreement. No owner of the Series 2008D Bonds shall have the right to compel any exercise of the taxing power of the State or any other political subdivision thereof to pay the Series 2008D Bonds or the interest or premium, if any, thereon. The Authority does not have the power to levy taxes for any purpose whatsoever.

FUNDS

The following funds are created by the Bond Indenture:

Cost of Issuance Fund. The Bond Trustee shall establish and maintain the Cost of Issuance Fund and deposit a portion of the proceeds of the Series 2008D Bonds therein in accordance with the Bond Indenture. Moneys on deposit in the Cost of Issuance Fund shall be applied to pay the fees, costs and expenses of issuing the Series 2008D Bonds, including, without limitation, printing expenses in connection with the Bond Indenture, the Loan Agreement, the Series 2008D Obligation, the Series 2008D Bonds, the Preliminary Official Statement relating to the Series 2008D Bonds and this Official Statement; Rating Agency fees; legal fees; the administrative charge of the Authority; the initial fees and expenses of the Bond Trustee and any Paying Agent; all other fees and expenses of the Bond Trustee and any Paying Agent; and all other fees and expenses incurred in connection with the issuance of the Series 2008D Bonds. The costs described above shall be payable upon submission of a Written Request from the Borrower stating that the amount indicated thereon is justly due and owing, has not been the subject of another Written Request which has been paid, and is a proper cost of issuing the Series 2008D Bonds. Any moneys remaining in the Cost of Issuance Fund on the earlier of the date on which all costs of issuance of the Series 2008D Bonds have been paid or April 1, 2009, shall be transferred to the Interest Fund and applied as provided in the Bond Indenture.

Interest Fund. The Bond Trustee shall establish and maintain the Interest Fund. All payments of interest on the Series 2008D Obligation pledged under the Bond Indenture (other than prepayments), as and when received by the Bond Trustee, shall be deposited in the Interest Fund.

On or before the Business Day prior to May 1, 2009, the Bond Trustee shall deposit in the Interest Fund from any moneys received by the Bond Trustee for that purpose an amount which is equal to the interest coming due on the Series 2008D Bonds on May 1, 2009. Thereafter, on or before the Business Day prior to each subsequent Interest Payment Date on the Series 2008D Bonds, the Bond Trustee shall deposit in the Interest Fund from any moneys received by the Bond Trustee for that purpose an amount which, together with any amount then on deposit in the Interest Fund and available for such purpose, is equal to the amount of interest coming due on the Series 2008D Bonds on such Interest Payment Date. No deposit pursuant to this paragraph need be made, however, to the extent that there is a sufficient amount already on

deposit and available for such purpose in the Interest Fund to be applied to the payment of interest on the Series 2008D Bonds to become due on the next succeeding Interest Payment Date.

Moneys in the Interest Fund, other than income earned thereon which is to be transferred to other funds created under the Bond Indenture or to the Rebate Fund, shall be used by the Bond Trustee to pay interest on the Series 2008D Bonds, as it becomes due.

Bond Sinking Fund. The Bond Trustee shall establish and maintain the Bond Sinking Fund. All payments of principal on the Series 2008D Obligation pledged under the Bond Indenture (other than prepayments) shall be deposited as and when received by the Bond Trustee in the Bond Sinking Fund and shall be applied by the Bond Trustee to pay principal of the Series 2008D Bonds as such principal becomes due.

On or before the Business Day prior to each date on which a payment of principal is due on the Series 2008D Bonds, the Bond Trustee shall deposit in the Bond Sinking Fund from any moneys received by the Bond Trustee for that purpose an amount which, after taking into account any amount then on deposit in the Bond Sinking Fund and available for such purpose, is equal to the principal amount due on the Series 2008D Bonds on such principal payment date. No such deposit need be made, however, to the extent that there is a sufficient amount already on deposit and available for such purpose in the Bond Sinking Fund to be applied to such next maturity.

Except as otherwise provided in the Bond Indenture, moneys deposited in the Bond Sinking Fund pursuant to the foregoing provisions shall be used by the Bond Trustee to pay the Series 2008D Bonds in accordance with the schedule provided for in the Bond Indenture.

Optional Redemption Fund. The Bond Trustee shall establish and maintain the Optional Redemption Fund. In the event of (i) prepayment by or on behalf of the Borrower of amounts payable on the Series 2008D Obligation, including prepayment with condemnation or insurance proceeds, or (ii) deposit with the Bond Trustee by the Borrower or the Authority of moneys from any other source for redeeming Series 2008D Bonds, except as otherwise provided in the Bond Indenture, such moneys shall be deposited into the Optional Redemption Fund. Moneys on deposit in the Optional Redemption Fund shall be used first, to make up any deficiencies existing in the Interest Fund and the Bond Sinking Fund (in the order listed) and second, for the redemption or purchase of Series 2008D Bonds in accordance with the provisions of the Bond Indenture.

Project Fund. The Bond Trustee shall establish and maintain the Project Fund and deposit a portion of the proceeds of the Series 2008D Bonds therein in accordance with the Bond Indenture. Any moneys received by the Bond Trustee from any other source for the Project shall be deposited in the Project Fund unless otherwise specifically excepted under the Bond Indenture or unless contrary provision is made in the Loan Agreement. The moneys in the Project Fund shall be applied to the payment of the Costs of the Project and, pending such application, shall be held as trust funds under the Bond Indenture in favor of the Holders of the outstanding Series 2008D Bonds and for the further security of such Holders until paid out or transferred in the Bond Indenture.

Moneys deposited in the Project Fund shall be paid out from time to time by the Bond Trustee at the Written Request of the Borrower in order to pay, or to reimburse the Borrower and Advocate Condell for the payment of, Costs of the Project. The Borrower is required under the Loan Agreement to submit to the Bond Trustee and the Authority, within 90 days after the completion of the Bond Financed Property, a completion certificate of the Borrower making various certifications described in the Bond Indenture.

If after payment by the Bond Trustee of all orders theretofore tendered to the Bond Trustee for the Costs of the Project and after receipt by the Bond Trustee of the certificate of completion discussed above, there shall remain any moneys in the Project Fund, the Borrower may elect (i) to retain all or a portion of such moneys in the Project Fund until October 1, 2011 and withdraw such moneys to pay or reimburse the Borrower or Advocate Condell for payment of the Cost of an additional "health facility project" or "health facility projects" (as such terms are defined in the Act) if the Borrower complies with the provisions of the Loan Agreement relating to changes in or amendments to the Project Documents, or (ii) to instruct the Bond Trustee to deposit such moneys in the Interest Fund, the Bond Sinking Fund and the Optional Redemption Fund (in the order listed) and use such moneys (in the order listed) to make the next interest payment from the Interest Fund, to make the next principal payment from the Bond Sinking Fund so long as the next principal payment is required to be made within 13 months from the date of deposit therein and then to redeem Series 2008D Bonds from moneys on deposit in the Optional Redemption Fund; provided, however, that if the Borrower and the Bond Trustee receive a Favorable Opinion of Bond Counsel to the effect that such moneys may be retained in the Project Fund or deposited in a manner not in accordance with the foregoing provisions, such moneys may be retained in the Project Fund or, if such opinion is received by the Bond Trustee in sufficient time to permit the Bond Trustee to follow any directions contained therein, deposited as set forth in such opinion. The foregoing notwithstanding, amounts remaining in the Project Fund after completion of the Project which are attributable to investment earnings may be transferred to the Rebate Fund upon the written request of the Borrower.

As soon as practicable after the Borrower has made an election or instruction pursuant to clause (i) or (ii) of the preceding paragraph, the Borrower shall recalculate the average reasonably expected economic life of the Bond Financed Property. If any recalculation demonstrates that the average maturity of the Series 2008D Bonds exceeds 120% of the average reasonably expected economic life of the Bond Financed Property, the Borrower shall provide written notice thereof to the Bond Trustee which shall call Series 2008D Bonds for optional redemption with the funds deposited in the Optional Redemption Fund by the Borrower pursuant to the Loan Agreement.

INVESTMENT OF FUNDS

Moneys in the Interest Fund, the Bond Sinking Fund, the Project Fund, the Cost of Issuance Fund and the Optional Redemption Fund shall be invested only in accordance with the provisions of the Bond Indenture and the Tax Agreement. Such moneys shall be invested only in Qualified Investments (including Qualified Investments of the Bond Trustee or of any affiliate of the Bond Trustee), in each case upon the oral instructions of the Borrower followed promptly by a Written Request of the Borrower filed with the Bond Trustee, upon which oral instructions the

Bond Trustee is entitled to rely and act. Such Qualified Investments shall mature on or before the date or dates that moneys therefrom are anticipated to be required. The Bond Trustee may conclusively rely upon the Borrower's written instructions as to both the suitability and legality of Qualified Investments. Ratings of Qualified Investments shall be determined at the time of purchase of such investments and without regard to ratings subcategories. The Bond Trustee is authorized to purchase Qualified Investments notwithstanding that an affiliate of the Bond Trustee has underwritten, privately placed or made a market for any such Qualified Investments, or may in the future underwrite, privately place or make a market for any such Qualified Investments and is also authorized to trade with itself, or with any affiliate of the Bond Trustee, in the purchase and sale of Qualified Investments. Notwithstanding anything in the Bond Indenture to the contrary, in no case shall any investment be otherwise than in accordance with the investment limitations contained in the Bond Indenture and in the Tax Agreement. The Bond Trustee shall not be liable or responsible for any loss resulting from any such investment so long as such investment was made in accordance with the duties imposed on the Bond Trustee pursuant to the Bond Indenture. All income derived from the investment of moneys on deposit in such Funds shall, subject to the provisions of the Bond Indenture, be deposited into the Project Fund prior to the completion of the Project and thereafter in the Bond Sinking Fund or the Interest Fund, at the option of the Borrower.

ARBITRAGE AND TAX COVENANTS

Subject to the Borrower's direction of the investment of moneys on deposit in certain Funds, the Authority covenants and agrees in the Bond Indenture that it will not take any action or fail to take any action, to the extent permitted by applicable law, with respect to the investment of the proceeds of any Series 2008D Bonds or with respect to the payments derived from the Series 2008D Obligation or the Loan Agreement which may result in constituting the Series 2008D Bonds "arbitrage bonds" within the meaning of such term as used in Section 148 of the Code. The Authority further covenants and agrees that it will comply with and take all actions required by the Tax Agreement. Subject to the Borrower's direction of the investment of moneys on deposit in certain Funds, the Authority further covenants that it will not take any action, permit any action to be taken or fail to take any action, to the extent permitted by applicable law, with respect to the investment of the proceeds of the Series 2008D Bonds, with respect to the payments derived from the Series 2008D Obligation and the Loan Agreement or with respect to any other amounts, regardless of the source or where held, which may have an adverse effect on any exemption from federal income taxation to which interest on the Series 2008D Bonds would otherwise be entitled. The Authority shall be deemed to have complied with the requirements of the Bond Indenture described in this paragraph so long as it acts on the Written Request of the Borrower. The Bond Trustee covenants in the Bond Indenture that it will not take any action, permit any action to be taken or fail to take any action with respect to investments of any amounts held by the Bond Trustee relating to the Series 2008D Bonds, to the extent the Bond Trustee has investment discretion under the Bond Indenture, that may result in constituting the Series 2008D Bonds "arbitrage bonds" within the meaning of such term as used in Section 148 of the Code.

DEFAULTS AND REMEDIES

Each of the following events is an Event of Default under the Bond Indenture:

(a) payment of any installment of interest payable on any of the Series 2008D Bonds shall not be made when the same shall become due and payable; or

(b) payment of the principal of or the premium, if any, payable on any of the Series 2008D Bonds shall not be made when the same shall become due and payable, either at maturity, by proceedings for redemption, upon acceleration, through failure to make any payment to any Fund under the Bond Indenture or otherwise; or

(c) failure by the Authority to observe or perform any other covenant, condition or agreement on its part to be observed or performed in the Bond Indenture or the Series 2008D Bonds for a period of 30 days after written notice of such failure shall have been given to the Borrower and the Authority by the Bond Trustee; provided, however, that if such observance or performance requires work to be done, actions to be taken or conditions to be remedied which by its or their nature cannot reasonably be done, taken or remedied, as the case may be, within such 30-day period, no Event of Default under this subparagraph (c) shall be deemed to have occurred or to exist if and so long as the Authority or the Borrower, as the case may be, shall have commenced such work, action or remediation within such 30-day period and provided written notice thereof to the Bond Trustee and shall diligently and continuously prosecute the same to completion;

(d) the Authority shall for any reason be rendered incapable of fulfilling its obligations under the Bond Indenture; or

(e) any Event of Default shall occur and be continuing under the Loan Agreement from and after the date the Authority is entitled to request that the Master Trustee declare the Series 2008D Obligation to be immediately due and payable; or

(f) an event of default shall occur under the Master Indenture, which default is not cured or waived and extends beyond any period of grace with respect thereto.

Upon the happening of an Event of Default specified in subparagraph (a) or (b) above, the Bond Trustee shall, by notice in writing delivered to the Authority, declare the entire principal amount of the Series 2008D Bonds then outstanding and the interest accrued thereon to be immediately due and payable, and said entire principal and interest shall thereupon become and be immediately due and payable, subject, however, to the provisions of the Bond Indenture with respect to waivers of Events of Default and rescission of any acceleration as described in this APPENDIX E under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE—Waivers of Events of Default." Upon the happening of any Event of Default specified in subparagraphs (c) through (f) above and the continuance of the same for the period, if any, specified in said paragraphs, the Bond Trustee may, without any action on the part of the Bondholders, and shall (i) at the written request of the holders of not less than 25% in aggregate

principal amount of the Series 2008D Bonds then outstanding under the Bond Indenture and (ii) by written notice delivered to the Authority, declare the entire principal amount of the Series 2008D Bonds then outstanding and the interest accrued thereon immediately due and payable, by notice in writing delivered to the Authority, and said entire principal and interest shall thereupon become and be immediately due and payable, subject, however, to the provisions of the Bond Indenture with respect to waivers of Events of Default and rescission of any acceleration as described in this APPENDIX E under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE—Waivers of Events of Default."

DIRECTION OF PROCEEDINGS BY BONDHOLDERS

The owners of a majority in aggregate principal amount of Series 2008D Bonds then outstanding shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Bond Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Bond Indenture, including the enforcement of the rights of the Authority under the Loan Agreement and the Use Agreement, the appointment of a receiver or any other proceedings under the Bond Indenture; *provided,* that such direction shall not be otherwise than in accordance with the provisions of law and of the Bond Indenture.

RIGHTS AND REMEDIES OF BONDHOLDERS

No Owner of any Series 2008D Bond shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Bond Indenture or for the execution of any trust under the Bond Indenture or for the appointment of a receiver or any other remedy thereunder, unless a default shall have become an Event of Default and the holders of not less than 25% in aggregate principal amount of Series 2008D Bonds then outstanding shall have made a written request to the Bond Trustee and shall have offered it reasonable opportunity either to proceed to exercise the powers granted under the Bond Indenture or to institute such action, suit or proceeding in its own name, and unless they have offered to the Bond Trustee indemnity as provided in the Bond Indenture, and unless the Bond Trustee shall thereafter fail or refuse to exercise the power granted under the Bond Indenture, or to institute such action, suit or proceeding in its own name; and such notification, request, offer of indemnity and consent are declared in every case at the option of the Bond Trustee to be conditions precedent to the execution of the powers and trusts of the Bond Indenture and to any action or cause of action for the enforcement of the Bond Indenture, or for the appointment of a receiver or for any other remedy thereunder; it being understood and intended that no one or more holders of the Series 2008D Bonds shall have any right in any manner whatsoever to affect, disturb or prejudice the lien of the Bond Indenture by any action or to enforce any right thereunder except in the manner provided therein, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner provided therein and for the equal benefit of the holders of all Series 2008D Bonds outstanding. Nothing contained in the Bond Indenture shall, however, affect or impair the right of any Owner to enforce the payment of the principal of and interest on any Series 2008D Bond at and after the maturity thereof, or the obligation of the Authority to pay the principal of and interest on the Series 2008D Bonds to the respective Owners thereof at the time and place, from the source and in the manner expressed in the Series 2008D Bonds.

WAIVERS OF EVENTS OF DEFAULT

The Bond Trustee may, in its discretion, waive any Event of Default under the Bond Indenture and its consequences and rescind any declaration of maturity of principal, and shall do so upon the written request of the owners of (1) at least a majority in aggregate principal amount of all the Series 2008D Bonds outstanding in respect of which default in the payment of principal and/or interest exists or (2) at least a majority in aggregate principal amount of all the Series 2008D Bonds outstanding in the case of any other Event of Default; provided, however, that there shall not be waived (a) any Event of Default in the payment of the principal of any Outstanding Series 2008D Bonds when due at the dates of maturity specified therein or (b) any default in the payment when due of the interest on any such Bonds, unless prior to such waiver or rescission all arrears of interest, with interest thereon (to the extent permitted by law) at the rate borne by the Series 2008D Bonds in respect of which such default shall have occurred on overdue installments of interest or all arrears of payments of principal when due, as the case may be, and all expenses of the Bond Trustee and any Paying Agent in connection with such default shall have been paid or provided for, and in case of any such waiver or rescission or in case any proceeding taken by the Bond Trustee on account of any such default shall have been discontinued or abandoned or determined adversely, then and in every such case the Authority, the Bond Trustee and the Bondholders shall, subject to any determination in such proceeding, be restored to their former positions and rights under the Bond Indenture respectively, but no such waiver or rescission shall extend to any subsequent or other default or impair any right consequent thereon.

SUPPLEMENTAL BOND INDENTURES

Subject to the limitation summarized in the following paragraph with respect to this paragraph, the Authority and the Bond Trustee may, without the consent of, or notice to, any of the Bondholders, enter into an indenture or indentures supplemental to the Bond Indenture, as shall not be inconsistent with the terms and provisions of the Bond Indenture, for any one or more of the following purposes: (a) to cure any ambiguity or formal defect or omission in the Bond Indenture; (b) to grant to or confer upon the Bond 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 and the Bond Trustee, or either of them; (c) to assign and pledge under the Bond Indenture additional revenues, properties or collateral; (d) to evidence the appointment of a separate trustee or the succession of a new trustee under the Bond Indenture; (e) to modify, amend or supplement the Bond Indenture or any indenture supplemental thereto in such manner as to permit the qualification of the Bond Indenture under the Trust Indenture Act of 1939, as then amended, or any similar federal statute hereafter in effect or to permit the qualification of the Series 2008D Bonds for sale under the securities laws of any state of the United States; (f) to modify, amend or supplement the Bond Indenture or any indenture supplemental thereto in such manner as to permit the issuance of coupon bonds and to permit the exchange of Series 2008D Bonds from registered form to coupon form and vice versa; (g) to provide for the refunding or advance refunding of any Series 2008D Bonds; (h) to provide for certificated Series 2008D Bonds if the Series 2008D Bonds are no longer held in a book-entry only system; (i) to amend or modify this Bond Indenture, or any part thereof, in such manner as may be necessary to maintain the exclusion from gross income for purposes of federal income

taxation of the interest on the Series 2008D Bonds; (j) to modify, amend or supplement this Bond Indenture, or any part thereof, in such manner as the Bond Trustee and the Authority deem necessary in order to comply with any statute, regulation, judicial decision or other law relating to secondary market disclosure requirements with respect to tax-exempt obligations of the type that includes the Series 2008D Bonds; (k) to provide for changes in the components of the Project, to the extent permitted by this Bond Indenture and the Loan Agreement; (l) to provide for the appointment of a successor securities depository; or (m) to make any other change that, in the judgment of the Bond Trustee, does not materially adversely affect the rights of any Bondholders. The Authority and the Bond Trustee may not enter into an indenture supplemental to the Bond Indenture pursuant to clause (f) of this paragraph unless they shall have received an opinion of Bond Counsel to the effect that the issuance of coupon bonds will not adversely affect the validity of such Series 2008D Bonds or result in the loss of any exemption from federal income taxation to which interest on the Series 2008D Bonds would otherwise be entitled.

In addition to supplemental indentures for the purposes summarized in the immediately preceding paragraph and subject to the terms and provisions contained in this paragraph, and not otherwise, the holders of not less than a majority in aggregate principal amount of the Series 2008D Bonds which are outstanding under the Bond Indenture at the time of the execution of such indenture or supplemental indenture shall have the right, from time to time, anything contained in the Bond Indenture to the contrary notwithstanding, to consent to and approve the execution by the Authority and the Bond Trustee of such other indenture or indentures supplemental to the Bond Indenture as shall be deemed necessary and desirable by the Authority for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Bond Indenture or in any supplemental indenture; *provided, however,* that nothing contained in this paragraph or in the immediately preceding paragraph shall permit, or be construed as permitting a supplemental indenture to effect: (a) an extension of the stated maturity or reduction in the principal amount of, or reduction in the rate or extension of the time of paying of interest on, or reduction of any premium payable on the redemption of, any Series 2008D Bonds, without the consent of the Owners of such Series 2008D Bonds; (b) a reduction in the amount or extension of the time of any payment required to be made to or from the Interest Fund or the Bond Sinking Fund; (c) the creation of any lien prior to or on a parity with the lien of the Bond Indenture, without the consent of the Owners of all the Series 2008D Bonds at the time outstanding; (d) a reduction in the aforesaid aggregate principal amount of Series 2008D Bonds the Owners of which are required to consent to any such supplemental indenture, without the consent of the Owners of all the Series 2008D Bonds at the time outstanding which would be affected by the action to be taken; or (e) a modification of the rights, duties or immunities of the Bond Trustee, without the written consent of the Bond Trustee.

If at any time the Authority shall request the Bond Trustee to enter into any such supplemental indenture for any of the purposes of the immediately preceding paragraph, the Bond Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed execution of such supplemental indenture to be mailed by first class mail, postage prepaid to each holder of Series 2008D Bonds as shown on the registration books of the Bond Trustee. Such notice shall briefly set forth the nature of the proposed supplemental indenture and shall state that copies thereof are on file at the designated corporate trust office of

the Bond Trustee for inspection by all Bondholders. The Bond Trustee shall not, however, be subject to any liability to any Bondholder by reason of its failure to mail such notice, and any such failure shall not affect the validity of such supplemental indenture when consented to and approved as provided in this caption. If the holders of not less than a majority in aggregate principal amount of the Series 2008D Bonds outstanding under the Bond Indenture at the time of the execution of any such supplemental indenture shall have consented to and approved the execution thereof as in the Bond Indenture provided, no holder of any Series 2008D 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 Bond Trustee or the Authority from executing the same or from taking any action pursuant to the provisions thereof. Upon the execution of any such supplemental indenture as permitted and provided in the immediately preceding paragraph, the Bond Indenture shall be and be deemed to be modified and amended in accordance therewith.

Anything in the Bond Indenture to the contrary notwithstanding, so long as no Event of Default exists under the Loan Agreement, a supplemental indenture described under this caption shall not become effective unless and until the Borrower has consented in writing to the execution and delivery of such supplemental indenture.

AMENDMENTS TO LOAN AGREEMENT

The Authority, the Borrower and the Bond Trustee may, without the consent of or notice to the Owners of the Series 2008D Bonds, consent to any amendment, change or modification of the Loan Agreement (i) as may be required by the provisions of the Bond Indenture or the Loan Agreement, (ii) to cure any ambiguity or formal defect or omission, (iii) to grant to or confer upon the Authority or the Bond Trustee, for the benefit of the Owners, any additional rights, remedies, powers or authorities that lawfully may be granted to or conferred upon the Authority or the Bond Trustee, (iv) to amend or modify the Loan Agreement, or any part thereof, in such manner as may be necessary to maintain the exclusion from gross income for purposes of federal income taxation of the interest on the Series 2008D Bonds, (v) to provide that the Series 2008D Bonds may be secured by additional security not otherwise provided for in the Loan Agreement, (vi) to modify, amend or supplement the Loan Agreement, or any part thereof, in such manner as the Bond Trustee and the Borrower deem necessary in order to comply with any statute, regulation, judicial decision or other law relating to secondary market disclosure requirements with respect to tax-exempt obligations of the type that includes the Series 2008D Bonds, (vii) to provide for changes in the components of the Project, to the extent permitted by the Bond Indenture and the Loan Agreement, (viii) to provide for the appointment of a successor securities depository, (ix) to provide for the availability of certificated Series 2008D Bonds and (x) in connection with any other change therein which, in the judgment of the Bond Trustee, does not materially adversely affect the rights of the Bond Trustee or the Owners of the Series 2008D Bonds; provided, however, that nothing in this caption shall permit, or be construed as permitting, any amendment, change or modification of the Loan Agreement that may result in anything described in the lettered clauses contained in the second paragraph under the caption "THE BOND INDENTURE—Supplemental Bond Indentures" without the consent of each Bondholder affected. In addition, subject to the terms and provisions described in the second succeeding paragraph, the Authority, with the consent of the Bond Trustee, may grant such

waivers of compliance by the Borrower with the provisions of the Loan Agreement as to them may seem necessary or desirable to effectuate the purposes or the intent of the Loan Agreement and which, in the judgment of the Bond Trustee, do not have a material adverse effect upon the interests of the Bondholders.

Except for the amendments, changes or modifications as summarized in the immediately preceding paragraph, neither the Authority, the Borrower nor the Bond Trustee shall consent to any other amendment, change or modification of the Loan Agreement without the written approval or consent, given and procured as provided in this paragraph, of the Owners of not less than a majority in aggregate principal amount of the Series 2008D Bonds which are outstanding under the Bond Indenture at the time of execution of any such amendment, change or modification. If at any time the Authority and the Borrower shall request the consent of the Bond Trustee to any such proposed amendment, change or modification, the Bond Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of such proposed amendment, change or modification to be given in the same manner as described above under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE—Supplemental Bond Indentures" in this APPENDIX E 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 designated corporate trust office of the Bond Trustee for inspection by all Bondholders. The Bond Trustee shall not, however, be subject to any liability to any Bondholder by reason of its failure to give such notice, and any such failure shall not affect the validity of such amendment, change or modification when consented to and approved as provided in this paragraph. If the Owners of not less than a majority in aggregate principal amount of the Series 2008D Bonds outstanding under the Bond Indenture at the time of the execution of any such amendment, change or modification shall have consented to and approved the execution thereof as in the Bond Indenture provided, no Owner of any Bond shall have any right to object to any of the terms contained therein or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Bond Trustee or the Authority from executing the same or from taking any action pursuant to the provisions thereof.

Under no circumstances shall any amendment to the Loan Agreement alter the Series 2008D Obligation with respect to the payments of principal, premium, if any, and interest thereon without the consent of the Owners of all of the outstanding Series 2008D Bonds.

DEFEASANCE OF SERIES 2008D BONDS

If the Authority shall pay or provide for the payment of the entire indebtedness on all the Series 2008D Bonds outstanding in any one or more of the following ways:

(a) by paying or causing to be paid the principal of (including redemption premium, if any) and interest on all the Series 2008D Bonds outstanding, as and when the same become due and payable;

(b) by depositing with the Bond Trustee, in trust, at or before maturity, moneys in an amount sufficient to pay or redeem (when redeemable) all the Series 2008D

Bonds outstanding (including the payment of premium, if any, and interest payable on such Series 2008D Bonds to the maturity or redemption date thereof), provided that such moneys, if invested, shall be invested in noncallable Defeasance Obligations in an amount, without consideration of any income or increment to accrue thereon, sufficient to pay or redeem (when redeemable) and discharge the indebtedness on all outstanding Series 2008D Bonds at or before their respective maturity dates, it being understood that the investment income on such noncallable Defeasance Obligations may be used for any other purpose under the Act;

(c) by delivering to the Bond Trustee, for cancellation by it, all the Series 2008D Bonds outstanding; or

(d) by depositing with the Bond Trustee, in trust, noncallable Defeasance Obligations in such amount as the Bond Trustee shall determine will, together with the income or increment to accrue thereon, without consideration of any reinvestment thereof, and any uninvested cash, be fully sufficient to pay or redeem (when redeemable) and discharge the indebtedness on all outstanding Series 2008D Bonds at or before their respective maturity dates, provided that the Bond Trustee shall receive and may rely upon a verification report prepared by a recognized firm of independent certified public accountants or verification experts, acceptable to the Bond Trustee and the Authority, as conclusive evidence of the sufficiency of the amount of such deposit;

and if the Authority shall pay or cause to be paid all other sums payable under the Bond Indenture by the Authority, the Bond Indenture and the estate and rights granted under the Bond Indenture shall cease, determine, and become null and void, and thereupon the Bond Trustee shall, upon receipt of a Written Request of the Authority and an opinion of Bond Counsel addressed to the Authority, the Borrower and the Bond Trustee to the effect that the Series 2008D Bonds are no longer outstanding under the Bond Indenture, forthwith execute proper instruments acknowledging satisfaction of and discharging the Bond Indenture with respect to the Series 2008D Bonds and the lien thereof. The satisfaction and discharge of the Bond Indenture with respect to the Series 2008D Bonds shall be without prejudice to the rights of the Bond Trustee to charge and be reimbursed by the Borrower for any fees and expenditures which it may thereafter incur in connection herewith.

Any moneys, funds, securities, or other property remaining on deposit in the Cost of Issuance Fund, the Interest Fund, the Bond Sinking Fund, the Project Fund, the Optional Redemption Fund or in any other Fund or investment under the Bond Indenture (other than said Defeasance Obligations or other moneys deposited in trust as above provided) shall, upon the full satisfaction of the Bond Indenture, forthwith be transferred, paid over and distributed to the Authority and the Borrower, as their respective interests may appear.

PROVISION FOR PAYMENT OF A PORTION OF THE SERIES 2008D BONDS

If the Authority shall pay or provide for the payment of the entire indebtedness on any portion of the Series 2008D Bonds, in one or more of the following ways:

(a) by paying or causing to be paid the principal of (including premium, if any) and interest on any such portion of the Series 2008D Bonds as and when the same shall become due and payable;

(b) by depositing with the Bond Trustee, in trust, at or before maturity, moneys in an amount sufficient to pay or redeem (when redeemable) any such portion of the Series 2008D Bonds (including the payment of premium, if any, and interest payable thereon to the maturity or redemption date thereof), provided that such moneys, if invested, shall be invested in noncallable Defeasance Obligations in an amount, without consideration of any income or increment to accrue thereon, sufficient to pay or redeem (when redeemable) and discharge the indebtedness on any such portion thereof at or before their respective maturity dates, it being understood that the investment income on such Defeasance Obligations may be used for any other purpose under the Act;

(c) by delivering to the Bond Trustee, for cancellation by it, any such portion of Series 2008D Bonds; or

(d) by depositing with the Bond Trustee, in trust, Defeasance Obligations, in such amount as the Bond Trustee shall determine will, together with the income or increment to accrue thereon, without consideration of any reinvestment thereof, be fully sufficient to pay or redeem (when redeemable) and discharge the indebtedness on any such portion of Series 2008D Bonds at or before their respective maturity dates, provided that the Bond Trustee shall receive and may rely upon a verification report prepared by a recognized firm of independent certified public accountants or verification experts, acceptable to the Bond Trustee and the Authority, as conclusive evidence of the sufficiency of the amount of such deposit;

and if the Authority shall also pay or cause to be paid all other sums payable under the Bond Indenture by the Authority with respect to such portion of Series 2008D Bonds and the Bond Trustee shall have received an opinion of Bond Counsel addressed to the Authority, the Borrower and the Bond Trustee to the effect that such Series 2008D Bonds are no longer outstanding under the Bond Indenture, and, if such Series 2008D Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Bond Indenture or provisions satisfactory to the Bond Trustee shall have been made for the giving of such notice, such portion of the Series 2008D Bonds shall cease to be entitled to any lien, benefit or security under the Bond Indenture. The liability of the Authority in respect of such Series 2008D Bonds shall continue, but the Owners thereof shall thereafter be entitled to payment (to the exclusion of all other Bondholders) only out of the moneys or Defeasance Obligations deposited with the Bond Trustee as aforesaid.

REDEMPTION AFTER DEFEASANCE

Notwithstanding anything to the contrary in the Bond Indenture, upon the provision for payment of the Series 2008D Bonds or any portion thereof as described above in this APPENDIX E under the captions "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE—Defeasance of Series 2008D Bonds" and "—Provision for Payment of a Portion of the Series 2008D Bonds,"

the optional redemption provisions (but not the extraordinary optional redemption provisions) of the Bond Indenture allowing the Series 2008D Bonds to be called for redemption prior to maturity upon proper notice (notwithstanding provision for the payment of such Series 2008D Bonds having been made through a date after the first optional redemption date provided for such Series 2008D Bonds in the Bond Indenture) shall remain available to the Authority, upon direction of the Borrower, unless, in connection with making the deposits referred to under such captions, the Authority, at the direction of the Borrower, shall have irrevocably elected to waive any future right to call such Series 2008D Bonds or portions thereof for redemption prior to maturity. No such redemption shall occur, however, unless the Borrower shall deliver on behalf of the Authority to the Bond Trustee (a) Defeasance Obligations and/or cash sufficient to discharge such Series 2008D Bonds (or portion thereof) on the redemption date or dates selected, (b) an opinion of a recognized independent certified public accountant or verification expert verifying that such Defeasance Obligations, together with the expected earnings thereon, and/or cash will be sufficient to provide for the payment of such Series 2008D Bonds to the redemption dates, and (c) an opinion of Bond Counsel (which opinion may be based upon a ruling or rulings of the Internal Revenue Service) to the effect that such earlier redemption will not result in the loss of any exemption for purposes of federal income taxation to which interest on such Series 2008D Bonds would otherwise be entitled. The Bond Trustee will give written notice of any such redemption to the owners of the Series 2008D Bonds affected thereby.

None of the Series 2008D Bonds may be refunded as aforesaid nor may the Bond Indenture be discharged if under any circumstances such refunding would result in the loss of any exemption for purposes of federal income taxation to which interest on such Series 2008D Bonds would otherwise be entitled. As a condition precedent to the advance refunding of any Series 2008D Bonds, the Bond Trustee shall receive an opinion of Bond Counsel (which opinion may be based upon a ruling or rulings of the Internal Revenue Service) to the effect that such refunding would not result in the loss of any exemption for the purposes of federal income taxation to which interest on such Series 2008D Bonds would otherwise be entitled.

SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT

The following, in addition to information provided elsewhere in this Official Statement, summarizes certain provisions of the Loan Agreement. Reference is made to the Loan Agreement for a complete description thereof. The discussion herein is qualified by such reference.

Under the Use Agreement, Advocate Condell covenants and agrees to operate its Properties so as to comply with certain of the covenants of the Borrower contained in the Loan Agreement, including the covenants summarized below under the subcaptions "Maintenance and Operation of Bond Financed Property," "Use of Bond Financed Property," "Assignment, Sale, or Lease of Bond Financed Property," "Maintenance of Corporate Existence and Qualification," "Recording and Maintenance of Liens" and "Covenants Relating to the Tax Status of the Series 2008D Bonds."

CONSENT TO ASSIGNMENT OF LOAN AGREEMENT RIGHTS AND THE SERIES 2008D OBLIGATION TO THE BOND TRUSTEE

As a source of payment for the Series 2008D Bonds, the Authority will assign to the Bond Trustee all the Authority's rights in the Loan Agreement (except Unassigned Rights) and the Series 2008D Obligation pursuant to the Bond Indenture. The Borrower consents to such assignment and agrees to make payment of all sums assigned by the Authority directly to the Bond Trustee without defense or set-offs by reason of any dispute between the Borrower and the Authority.

LOAN TERM

The Borrower's obligations under the Loan Agreement shall commence on the date of the execution and delivery of the Loan Agreement and shall terminate after payment in full of all principal of, premium, if any and interest on the Series 2008D Bonds or the provision for the payment thereof shall have been made pursuant to the Bond Indenture; all fees, charges and indemnities and expenses of the Authority and the Bond Trustee have been fully paid or provision made for such payment; and all other amounts due under the Loan Agreement, the Bond Indenture and the Series 2008D Obligation have been fully paid or provision made for such payment; provided, however, that certain of the covenants and obligations set forth in the Loan Agreement shall survive the termination of the Loan Agreement and the payment in full of the amounts due under the Loan Agreement and the Series 2008D Obligation.

PAYMENT OF PRINCIPAL, PREMIUM, IF ANY, AND INTEREST; PREPAYMENTS

The Borrower agrees to make payments under the Loan Agreement in such amounts and at such times as shall be sufficient to make all payments of principal of, premium, if any and interest on the Series 2008D Bonds when due and payable.

At the option of the Borrower and after giving at least 35 days' written notice to the Authority and the Bond Trustee (or such lesser period of notice as may be acceptable to the Bond Trustee), the Borrower may prepay all or a portion of the Loan Payments by paying to the Bond Trustee the then applicable optional redemption price of the Series 2008D Bonds or by paying to the Bond Trustee an amount sufficient to defease all or any portion of the Series 2008D Bonds under the provisions of the Bond Indenture summarized above under the caption "DEFEASANCE OF SERIES 2008D BONDS" in this APPENDIX E.

OBLIGATIONS UNCONDITIONAL

The Borrower's obligations under the Loan Agreement and the obligations of the Obligated Group under the Series 2008D Obligation are continuing, unconditional and absolute, and are independent of and separate from any obligations of the Authority and shall not be diminished or deferred for any reason whatsoever, irrespective of the doing of any act or the omission thereof by the Authority or the Bond Trustee, irrespective of the existence of any other circumstances which might otherwise constitute a legal or equitable defense or discharge of the

obligations of the Borrower under the Loan Agreement, including without limitation (i) any matters of abatement, setoff, counterclaim, recoupment, defense or other right the Borrower or the other Members of the Obligated Group may have against the Authority or the Bond Trustee, suppliers of any portion of the Obligated Group's hospital facilities or anyone for any reason whatsoever; (ii) compliance with specifications, conditions, design, operation, disrepair or fitness for use of, or any damage to or loss or destruction of any portion of the Obligated Group's hospital facilities, any condemnation or sale in anticipation of condemnation of all or any portion of the Bond Financed Property, or any interruption or cessation in the use or possession thereof for any reason whatsoever; (iii) any insolvency, bankruptcy, reorganization or similar proceedings by or against the Borrower or the other Members of the Obligated Group; (iv) any failure of any supplier to deliver any portion of the Bond Financed Property for any reason whatsoever except as otherwise provided herein; (v) any acts or circumstances that may constitute failure of consideration, sale, loss, destruction or condemnation of or damage to the Bond Financed Property; or (vi) any change in the tax or other laws of the United States of America or of the State or any political subdivision of either or any failure of the Authority to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or in connection with the Loan Agreement. The Borrower waives, to the extent permitted by applicable law, any and all rights which it may now have or which at any time hereafter may be conferred upon it, by statute or otherwise, to terminate, cancel, quit or surrender the Loan Agreement except in accordance with the express terms hereof. The parties to the Loan Agreement intend that the payments made pursuant to the Series 2008D Obligation shall be paid to the Bond Trustee on behalf of the Authority without diminution of any kind.

NO RECOURSE

The obligations of the Authority under the Loan Agreement are special, limited obligations of the Authority, payable solely out of the revenues and income derived under the Loan Agreement and the Series 2008D Obligation and as otherwise provided under the Loan Agreement, the Bond Indenture and the Bond Resolution. The obligations of the Authority under the Loan Agreement shall not be deemed to constitute an indebtedness or an obligation of the Authority, the State or any political subdivision thereof within the purview of any constitutional limitation or statutory provision, or a charge against the credit or general taxing powers, if any, of any of them. The Authority does not have the power to levy taxes for any purposes whatsoever.

Neither the Authority nor any member, director, officer, employee or agent of the Authority nor any person executing the Series 2008D Bonds shall be liable personally for the Series 2008D Bonds or be subject to any personal liability or accountability by reason of the issuance of the Series 2008D Bonds. No recourse shall be had for the payment of the principal of, premium, if any, and interest on any of the Series 2008D Bonds or for any claim based thereon or upon any obligation, covenant or agreement contained in the Bond Indenture, the Loan Agreement or the Bond Purchase Agreement against any past, present or future member, officer, agent or employee of the Authority, or any incorporator, member, officer, employee, director or trustee of any successor corporation, as such, either directly or through the Authority 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 expressly waived and released as a condition of and consideration for the execution of the Bond Indenture and the Loan Agreement and the issuance of the Series 2008D Bonds.

AGREEMENT TO COMPLETE PROJECT

The Borrower agrees to cause that the Project (other than the acquisition of the Medical Center) will be completed in accordance with the Plans and Specifications and, that it will provide all moneys necessary to complete such portion of the Project and to acquire or otherwise provide all equipment and furnishings necessary for the operation of such portion of the Project as "health facilities" under the Act. In the event the money in the Project Fund shall not be sufficient to make such payment in full, the Borrower agrees to pay directly, or to deposit moneys in the Project Fund for the payment of, such Costs as may be in excess of the moneys available therefor in the Project Fund. THE AUTHORITY DOES NOT MAKE ANY WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, THAT THE MONEYS WHICH WILL BE DEPOSITED INTO THE PROJECT FUND, AND WHICH UNDER THE PROVISIONS OF THE LOAN AGREEMENT WILL BE AVAILABLE FOR PAYMENT OF THE COSTS OF THE PROJECT, WILL BE SUFFICIENT TO PAY ALL OF THE COSTS WHICH WILL BE INCURRED IN CONNECTION THEREWITH. The Borrower agrees that if, after exhaustion of the moneys in the Project Fund, the Borrower should pay, or deposit monies in the Project Fund for the payment of, any portion of the Costs of the Project, it shall not be entitled to any reimbursement therefor from the Authority, the Bond Trustee or the owners of any of the Series 2008D Bonds, nor shall it be entitled to any diminution of the amounts payable under the Loan Agreement.

CHANGES IN OR AMENDMENTS TO PROJECT DOCUMENTS

The Borrower may make, authorize or permit such changes in or amendments to the Project Documents as the Borrower may reasonably determine are necessary or desirable. No such change or amendment shall be made which would (i) result in the Project being used for any purpose prohibited by the Loan Agreement, (ii) violate or conflict with the terms of any approvals or findings of non-reviewability concerning the Project by the Illinois Health Facilities Planning Board, (iii) result in the Project or any portion thereof not being located on real Property owned by or leased to Advocate Condell and referred to in the TEFRA notice for the Series 2008D Bonds or (iv) violate or conflict with any provision of the Project Certificate or the Tax Agreement.

MAINTENANCE AND OPERATION OF BOND FINANCED PROPERTY

The Borrower shall be responsible for operating and maintaining the Bond Financed Property in good working order, making from time to time all needed material repairs thereto, and shall maintain reasonable amounts of insurance coverage and pay all costs of such maintenance, repair and insurance; provided, however, that nothing in this paragraph shall require the Borrower to operate or maintain the Bond Financed Property or any part thereof if it determines that it is not in its best interests to do so.

USE OF BOND FINANCED PROPERTY

The Borrower will use the Bond Financed Property only in furtherance of the lawful purposes of the Borrower and only for purposes permitted by the Act. The Borrower further agrees that it will not use the Bond Financed Property or any part thereof for sectarian instruction or primarily as a place of religious worship or as a facility used primarily in connection with any part of the program of a school or department of divinity for any religious denomination or primarily for the training of priests, ministers, rabbis or other similar persons in the field of religion. Notwithstanding the payment of the Series 2008D Obligation, and notwithstanding the termination of the Loan Agreement, the Borrower agrees that it will continue to comply with the restriction stated in the preceding sentence on the sectarian use of the Bond Financed Property. The Borrower will permit inspections of the Bond Financed Property solely in order to determine whether the Borrower has complied with the provisions of this paragraph. Nothing contained in the Loan Agreement, however, shall prevent the Borrower from having a chapel or chapels in its facilities for the use of patients, employees or visitors or from having a chaplain staff and chaplain training program.

ASSIGNMENT, SALE, LEASE OR DISPOSITION OF BOND FINANCED PROPERTY

The Borrower may assign its interest in the Loan Agreement and may sell, lease and dispose of the Bond Financed Property, in whole or in part, without the prior written consent of the Authority or the Bond Trustee; provided that in connection with any such assignment of the Loan Agreement or any sale, lease or disposition of the Bond Financed Property, in whole or in part, other than in the ordinary course of business, the Borrower shall provide the Bond Trustee with (i) a certificate of an Authorized Officer of the Borrower to the effect that such assignment or such sale or lease will not result in any event of default, or event which, with the passage of time or the giving of notice or both, would constitute an event of default under the Master Indenture and (ii) an opinion of Bond Counsel to the effect that such assignment or such sale or lease is authorized or permitted under the terms of the Act and will not, by itself, adversely affect the exclusion of interest on the Series 2008D Bonds from gross income of the Bondholders for federal income tax purposes. No such assignment, sale or lease shall relieve the Borrower from its obligations under the Loan Agreement or the Series 2008D Obligation.

MAINTENANCE OF CORPORATE EXISTENCE AND QUALIFICATION

Unless the Borrower complies with the provisions of the Loan Agreement summarized under this caption, the Borrower agrees that as long as any Series 2008D Bonds are outstanding it will maintain its existence, will not dissolve, liquidate or otherwise dispose of all or substantially all of its assets, and will not consolidate with or merge into another corporation or permit one or more other corporations to consolidate with or merge into it. Any dissolution, liquidation, disposition, consolidation or merger shall be subject to the following conditions:

(a) the Borrower provides a certificate to the Authority and Bond Trustee, in form and substance satisfactory to such parties, to the effect that no Event of Default exists under the Bond Indenture or the Loan Agreement and no such Event of Default will be caused by such dissolution, liquidation, disposition, consolidation or merger;

(b) the entity surviving such dissolution, liquidation, disposition, consolidation or merger, if other than the Borrower, assumes in writing and without condition or qualification the obligations of the Borrower under each of the Borrower Documents;

(c) the Borrower or the entity surviving such dissolution, liquidation, disposition, consolidation or merger, within ten days after execution thereof, furnishes to the Authority and the Bond Trustee a true and complete copy of the instrument of dissolution, liquidation, disposition, consolidation or merger;

(d) neither the validity nor the enforceability of the Series 2008D Bonds, the Bond Indenture or any agreements to which the Borrower is a party is adversely affected by such dissolution, liquidation, disposition, consolidation or merger;

(e) (i) the exclusion of the interest on the Series 2008D Bonds from the gross income of the Bondholders for federal income tax purposes is not adversely affected by such dissolution, liquidation, disposition, consolidation or merger, and (ii) the provisions of the Act, the Bond Indenture and the Borrower Documents are complied with concerning such dissolution, liquidation, disposition, consolidation or merger;

(f) no rating on the Series 2008D Bonds, if the Series 2008D Bonds are then rated, is reduced or withdrawn as a result of such dissolution, liquidation, disposition, consolidation or merger; provided, however, that this condition need not be satisfied if an Affiliate (as defined in the Master Indenture) of the Borrower merges into the Borrower;

(g) any successor to the Borrower shall be qualified to do business in the State and shall continue to be qualified to do business in the State throughout the term of the Loan Agreement;

(h) the Project continues to be as described in the Loan Agreement; and

(i) the Authority has executed a certificate acknowledging receipt of all documents, information and materials required by this subcaption.

As of the effective date of such dissolution, liquidation, disposition, consolidation or merger, the Borrower (at its cost) shall furnish to the Authority and the Bond Trustee (i) an opinion of Bond Counsel, in form and substance satisfactory to such parties, as to item (e) above, and (ii) an opinion of Independent Counsel, in form and substance satisfactory to such parties, as to the legal, valid and binding nature of item (d) above.

COVENANTS RELATING TO THE TAX STATUS OF THE SERIES 2008D BONDS

The Borrower and the Authority covenant in the Loan Agreement that each will not take (or fail to take) any action or permit (or fail to permit) any action to be taken on its behalf, or cause or permit any circumstance within its control to arise or continue, if such action or circumstance, or its reasonable expectation on the date of issuance of the Series 2008D Bonds,

would adversely affect the exclusion of interest on the Series 2008D Bonds from gross income of the owners thereof for federal income tax purposes.

The Borrower covenants in the Loan Agreement that, notwithstanding any other provision of the Loan Agreement or any other instrument, it will neither make nor cause to be made nor permit any investment or other use of the proceeds of the Series 2008D Bonds or the use of any property or investment property financed or refinanced thereby, which use would cause any of the Series 2008D Bonds to be an "arbitrage bond" under Section 148(a) of the Code, bonds described in paragraph (3) or (4) of Section 149(d) of the Code relating to restrictions on advance refundings or "hedge bonds" under Section 149(g) of the Code. The Borrower agrees in the Loan Agreement that it will not make or permit any use of the proceeds of the Series 2008D Bonds, or the investment proceeds thereof, or any use of the Bond Financed Property, which would adversely affect the exclusion of interest on the Series 2008D Bonds from gross income of the owners thereof for federal income tax purposes. The Borrower covenants in the Loan Agreement that neither it nor any related person (as defined in Section 1.150-1(e) of the Regulations, as defined in the Tax Agreement) over which it has control shall purchase obligations of the Authority in an amount related to the Series 2008D Obligation.

APPLICATION OF CERTAIN GIFTS

The Borrower acknowledges in the Loan Agreement that it or Advocate Condell may receive from time to time gifts, grants, donations, bequests or other charitable contributions or below-market rate loans regardless of the form or the source thereof, the proceeds of which when received by the Borrower or Advocate Condell are restricted to payment of the costs of all or a portion of the Bond Financed Property (referred to as "Gifts"). The Borrower covenants and agrees that if and when the Borrower or Advocate Condell receives any Gifts, it will apply the proceeds thereof within 90 days of the receipt thereof to the prepayment of the principal of the Series 2008D Obligation or will make such changes in or amendments to the Project Documents as are necessary to cause such gifts, grants, donations, bequests or other charitable contributions or below-market rate loans not to constitute Gifts. The Borrower further covenants that the proceeds of all pledges made pursuant to any fund-raising campaigns of the Borrower or Advocate Condell which are not restricted by the donors thereof to pay costs of the Bond Financed Property will be applied by the Borrower or Advocate Condell for other corporate and charitable purposes of the Borrower or Advocate Condell, and not to pay costs of the Bond Financed Property or to reimburse the Borrower or Advocate Condell for the payment of costs of the Bond Financed Property.

RECORDING AND MAINTENANCE OF LIENS

(a) The Borrower will, at its own expense, take all necessary action to maintain and preserve the liens and security interest of the Borrower Documents and the Bond Indenture as long as any principal, premium, if any, or interest on the Series 2008D Bonds remains unpaid.

(b) The Borrower will, forthwith after the execution and delivery of the Borrower Documents and the Bond Indenture and thereafter from time to time, cause the Borrower Documents and the Bond Indenture, including any amendments thereof and supplements thereto,

and any financing statements in respect thereof to be filed, registered and recorded in such manner and such places as may be required by law in order to publish notice of and fully to perfect and protect (i) the lien and security interest thereof upon the trust estate created under the Bond Indenture and (ii) the lien and security interest therein granted to the Bond Trustee, if any, upon the rights, if any, of the Authority assigned under the Borrower Documents and the Bond Indenture, and from time to time will perform or cause to be performed any other act as provided by law and will execute or cause to be executed any and all continuation statements and further instruments necessary for such publication, perfection and protection. Except to the extent it is exempt therefrom, the Borrower will pay or cause to be paid all filing, registration and recording fees incident to such filing, registration and recording, and all expenses incident to the preparation, execution and acknowledgment of such instruments of further assurance, and all federal or state fees and other similar fees, duties, imposts, assessments and charges arising out of or in connection with the execution and delivery of the Borrower Documents, the Bond Indenture and such instruments of further assurance.

(c) The Authority shall have no responsibility for the preparation, filing or recording of any instrument, document or financing statement or for the maintenance of any security interest intended to be perfected thereby. The Authority will execute such instruments provided to it by the Borrower as may be reasonably necessary in connection with such filing or recording.

DEFAULTS AND REMEDIES

The following events constitute Event of Defaults under the Loan Agreement:

(a) failure by the Borrower to pay any Loan Payment or other payment required to be paid under the Loan Agreement on or before the date on which such Loan Payment is due and payable;

(b) failure by the Borrower to observe and perform any covenant, condition or agreement on its part to be observed or performed under this Loan Agreement (other than a failure referred to in the preceding subparagraph (a)) or the Tax Agreement, or the failure by Advocate Condell to comply with or perform any covenant, condition or agreement on its part to be observed or performed under the Use Agreement or the Tax Agreement, in each case for a period of 30 days after written notice specifying such failure and requesting that it be remedied, is given to the party in default by the Authority or the Bond Trustee, unless the Authority and the Bond Trustee shall agree in writing to an extension of such time prior to its expiration; provided, however, that if the failure stated in the notice is correctable but cannot be corrected within the applicable period, the Authority and the Bond Trustee will not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the party in default within the applicable period and diligently pursued until such failure is corrected;

(c) the filing by the Borrower of a petition seeking relief for itself under Title 11 of the United States Code, as now constituted or hereafter amended, or the filing by the Borrower of an answer consenting to, admitting the material allegations of or otherwise not controverting, or the failure of the Borrower to timely controvert, a petition

filed against it seeking relief under Title 11 of the United States Code, as now constituted or hereafter amended, or the filing of such petition or answer by the Borrower or the failure of the Borrower to timely controvert such a petition, with respect to relief under the provisions of any other now existing or future applicable bankruptcy, insolvency or other similar law of the United States of America or any state thereof;

(d) the entry of an order for relief, which is not stayed, against the Borrower under Title 11 of the United States Code, as now constituted or hereafter amended, or the entry of an order, judgment or decree by operation of law or by a court having jurisdiction, which is not stayed, adjudging the Borrower a bankrupt or insolvent under, or ordering relief against the Borrower under, or approving as properly filed a petition seeking relief against the Borrower under, the provisions of any other now existing or future applicable bankruptcy or insolvency or other similar law of the United States of America or any state thereof, or appointing a receiver, liquidator, assignee, sequestrator, trustee or custodian of the Borrower or all or any of substantial portion of the property of the Borrower, or ordering the reorganization, winding up or liquidation of the affairs of the Borrower, or the expiration of 60 days after the filing of any involuntary petition against the Borrower seeking any of the relief specified in this Section without the petition being dismissed prior to that time;

(e) an Event of Default shall occur under the Bond Indenture; or

(f) an event of default under the Master Indenture shall have occurred, which default is not cured or waived and extends beyond any period of grace with respect thereto.

The preceding subparagraph (b) is subject to the following limitation: if by reason of force majeure, the Borrower is unable in whole or in part to carry out the agreements on its part contained in the Loan Agreement, the Borrower shall not be deemed in default during the continuance of such inability. The term "force majeure" as used herein shall mean, without limitation, the following: acts of God; strikes, lockouts or other industrial disturbances; acts of public enemies; orders or restraints of any kind of the government of the United States of America or of the State or any of their departments, agencies or officials, or any civil or military authority; insurrections; riots; landslides; earthquakes; fires; storms; droughts; floods; explosions; or breakage or accident to machinery, transmission pipes or canals.

Upon the occurrence and during the continuance of any Event of Default under the Loan Agreement, the Authority and the Bond Trustee shall, in addition to any other remedies provided in the Loan Agreement or by law, have the right, at its or their option, without any further demand or notice, to take one or any combination of the following remedial steps:

(a) declare all amounts due under the Series 2008D Obligation to be immediately due and payable, and upon written notice to the Borrower the same shall become immediately due and payable without further notice or demand; or

(b) take whatever other action at law or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due under the Loan Agreement or to enforce any other rights of the Bond Trustee or the Authority thereunder or as the owner of the Series 2008D Obligation issued under the Master Indenture.

No remedy conferred upon or reserved to the Authority or the Bond Trustee in the Loan Agreement is intended to be exclusive, and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Loan Agreement and the Bond Indenture or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right, remedy or power accruing upon any Event of Default under the Loan Agreement shall impair any such right, remedy or power or shall be construed to be a waiver thereof, but any such right, remedy or power may be exercised from time to time and as often as may be deemed expedient.

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APPENDIX F

FORM OF BOND COUNSEL OPINION

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APPENDIX F

FORM OF BOND COUNSEL OPINION

[On Letterhead of Chapman and Cutler LLP]

[Dated Date of Closing]

Illinois Finance Authority
Chicago, Illinois

Citigroup Global Markets Inc.
Chicago, Illinois

The Bank of New York Mellon Trust Company, N.A., as bond trustee
Chicago, Illinois

Loop Capital Markets LLC
Chicago, Illinois

Advocate Health Care Network
Oak Brook, Illinois

Cabrera Capital Markets, LLC
Chicago, Illinois

Re: $180,000,000 Illinois Finance Authority Revenue Bonds, Series 2008D (Advocate Health Care Network)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance on the date hereof by the Illinois Finance Authority (the "Authority") of $180,000,000 in aggregate principal amount of Illinois Finance Authority Revenue Bonds, Series 2008D (Advocate Health Care Network) (the "Series 2008D Bonds"). The Series 2008D Bonds are being issued under the provisions of the Illinois Finance Authority Act, as amended (the "Act"), and under and pursuant to the Bond Trust Indenture dated as of November 1, 2008 (the "Bond Indenture"), between the Authority and The Bank of New York Mellon Trust Company, N.A., a national banking association, as bond trustee (the "Bond Trustee").

The proceeds of the Series 2008D Bonds are being loaned to Advocate Health and Hospitals Corporation, an Illinois not for profit corporation (the "Borrower"), pursuant to the Loan Agreement dated as of November 1, 2008 (the "Loan Agreement"), between the Authority and the Borrower for the purpose of providing funds to (i) finance, refinance and reimburse the Borrower and Advocate Condell Medical Center, an Illinois not for profit corporation and an affiliate of the Borrower ("Advocate Condell"), for all or a portion of the costs of the acquisition, construction, improvement, renovation and equipping of certain health care and related office facilities (the "Project") of Advocate Condell and (ii) pay certain expenses incurred in connection with the issuance of the Series 2008D Bonds, all as permitted under the Act. Concurrently with the issuance of the Series 2008D Bonds, the Borrower and Advocate Condell will enter into the Use Agreement dated as of November 1, 2008 (the "Use Agreement"),

between Advocate Condell and the Borrower, relating to the use of the Bond Financed Property (as defined in the Bond Indenture).

In order to secure the payment of the Series 2008D Bonds, the Borrower, concurrently with the issuance and delivery of the Series 2008D Bonds, is issuing and delivering to the Authority, and the Authority is assigning to the Bond Trustee all of its right, title and interest in and to the $180,000,000 Advocate Health and Hospitals Corporation Direct Note Obligation, Series 2008D (Illinois Finance Authority) (the "Series 2008D Obligation"). The Series 2008D Obligation is being issued by the Borrower pursuant to the Thirteenth Supplemental Master Trust Indenture dated as of November 1, 2008 (the "Supplemental Master Indenture"), supplementing and amending the Master Trust Indenture (Amended and Restated) dated as of December 1, 1996, as previously supplemented and amended (said Master Trust Indenture, as so supplemented and amended, being referred to herein as the "Master Indenture"), among the Borrower, Advocate Condell, Advocate Health Care Network, an Illinois not for profit corporation and the sole corporate member of the Borrower (the "Corporation"), and Advocate North Side Health Network, an Illinois not for profit corporation and an affiliate of the Borrower ("North Side" and, collectively with the Borrower, Advocate Condell and the Corporation, the "Obligated Group" or the "Members of the Obligated Group"), and U.S. Bank National Association, as successor master trustee (the "Master Trustee").

The Series 2008D Bonds have been sold to Citigroup Global Markets Inc., as representative (the "Representative") of the underwriters (the "Underwriters"), pursuant to a Bond Purchase Agreement dated November 7, 2008 (the "Bond Purchase Agreement"), among the Representative, the Members of the Obligated Group and the Authority. In connection with the sale of the Series 2008D Bonds, the Corporation has delivered an Official Statement dated November 7, 2008 (the "Official Statement").

In connection with the issuance of the Series 2008D Bonds, the Authority, the Bond Trustee, the Corporation, the Borrower and Advocate Condell have executed a Tax Exemption Certificate and Agreement dated the date hereof (the "Tax Agreement"), which places certain restrictions on the investment of moneys held in the funds established by the Bond Indenture and which, under certain circumstances, would require the transfer of certain moneys held in such funds to a Rebate Fund created under the Tax Agreement.

As bond counsel, we have examined the following:

(a) certified copies of the proceedings of the Authority authorizing or approving, among other things, the execution and delivery of the Bond Indenture, the Loan Agreement, the Use Agreement, the Bond Purchase Agreement, the Supplemental Master Indenture, the Series 2008D Obligation, the Official Statement and the Tax Agreement, and the issuance and sale of the Series 2008D Bonds;

(b) certified copies of the Articles of Incorporation, as amended, of the Members of the Obligated Group, and the Bylaws, as amended, of such Members;

(c) certificates of the Secretary of State of the State of Illinois relative to the good standing of the Members of the Obligated Group in the State of Illinois;

(d) certified copies of the corporate proceedings of the Board of Directors of each of the Members of the Obligated Group authorizing or approving, among other things, the execution and delivery of the Bond Indenture, the Series 2008D Obligation, the Supplemental Master Indenture, the Loan Agreement, the Use Agreement, the Bond Purchase Agreement, the Official Statement and the Tax Agreement, and the issuance and sale of the Series 2008D Bonds;

(e) the executed Series 2008D Obligation, and executed counterparts of the Bond Indenture, the Loan Agreement, the Use Agreement, the Bond Purchase Agreement, the Supplemental Master Indenture, the Official Statement and the Tax Agreement;

(f) a specimen Series 2008D Bond;

(g) executed opinions of Foley & Lardner LLP, special counsel to the Members of the Obligated Group, and Schiff Hardin LLP, counsel to the Authority; and

(h) such other documents and showings and related matters of law as we have deemed necessary in order to enable us to render this opinion.

Based upon the foregoing and in reliance upon the matters hereinafter referred to, we are of the opinion that:

1. The Bond Indenture, the Loan Agreement, the Bond Purchase Agreement and the Tax Agreement have been duly authorized by all necessary action on the part of the Authority, have been duly executed and delivered by authorized officers of the Authority and, assuming the due authorization, execution and delivery thereof by the other parties thereto, constitute the legal, valid and binding obligations of the Authority enforceable against the Authority in accordance with their respective terms, except to the extent limited by bankruptcy, reorganization or other similar laws affecting creditors' rights generally and by the availability of equitable remedies, and except to the extent that the enforcement of the indemnification provisions of the Loan Agreement and the Bond Purchase Agreement may be limited by federal or state securities laws. The Series 2008D Obligation has been pledged and assigned by the Authority to the Bond Trustee pursuant to the Bond Indenture as security for the Series 2008D Bonds.

2. The Series 2008D Bonds have been duly authorized by all necessary action on the part of the Authority, have been duly executed by authorized officers of the Authority, authenticated by the Bond Trustee and issued by the Authority and constitute the legal, valid and binding limited obligations of the Authority enforceable in accordance with their terms, except to the extent limited by bankruptcy, reorganization or other similar laws affecting the enforcement of creditors' rights generally and by the

availability of equitable remedies, and the Series 2008D Bonds are entitled to the benefits and security of the Bond Indenture.

3. Subject to compliance by the Authority, the Corporation, the Borrower and Advocate Condell with certain covenants, under present law, interest on the Series 2008D Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations. Interest on the Series 2008D Bonds is taken into account, however, in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. Failure to comply with certain of such covenants of the Authority, the Corporation, the Borrower and Advocate Condell could cause the interest on the Series 2008D Bonds to be includable in gross income for federal income tax purposes retroactively to the date of issuance of the Series 2008D Bonds. Ownership of the Series 2008D Bonds may result in other federal tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Series 2008D Bonds. Interest on the Series 2008D Bonds is not exempt from present Illinois income taxation. Ownership of the Series 2008D Bonds may result in other state and local tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Series 2008D Bonds.

In rendering this opinion, we have relied upon the opinion of Foley & Lardner LLP, special counsel to the Members of the Obligated Group, referred to in paragraph (g) above, with respect to, among other things, (i) the status of the Members of the Obligated Group as organizations described in Section 501(c)(3) of the Code that are exempt from federal income taxation under Section 501(a) of the Code and (ii) the validity and binding effect upon and enforceability against the applicable Members of the Obligated Group of the Master Indenture, the Loan Agreement, the Use Agreement, the Series 2008D Obligation, the Tax Agreement and the Bond Purchase Agreement, subject to the exceptions set forth in said opinion. In rendering the opinions in paragraph 3 hereof, we have relied upon certificates of even date herewith of the Corporation, the Borrower and Advocate Condell with respect to certain material facts within the knowledge of the Corporation, the Borrower and Advocate Condell relating to the application of the proceeds of the Series 2008D Bonds. In rendering this opinion, we have relied upon certifications of the Authority with respect to certain material facts within the knowledge of the Authority.

Our opinion represents our legal judgment based upon our review of the law and the facts that we deem relevant to render such opinion, and is not a guarantee of a result. 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.

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