PRELIMINARY OFFERING MEMORANDUM DATED JULY 30, 2018

NEW ISSUE - BOOK-ENTRY ONLY **See "RATINGS" herein**

$730,000,000*
ADVOCATE HEALTH AND HOSPITALS CORPORATION
Taxable Bonds
Series 2018
(Advocate Aurora Health Credit Group)

AdvocateAuroraHealth

$_____ _____% Bond Due August 15, 2028* issue price _____% CUSIP _____**
$_____ _____% Bond Due August 15, 2048* issue price _____% CUSIP _____**

ISIN _____, COMMON CODE _____

Interest Payable February 15 and August 15, commencing February 15, 2019
Dated: Date of Delivery

The Advocate Health and Hospitals Corporation Taxable Bonds, Series 2018 (Advocate Aurora Health Credit Group) (the "Taxable Bonds") are being issued as fixed rate bonds through a book-entry system of The Depository Trust Company, New York, New York ("DTC") under a Bond Trust Indenture dated as of August 1, 2018 (the "Bond Indenture") between Advocate Health and Hospitals Corporation ("the "Corporation") and U.S. Bank National Association (the "Bond Trustee"). The Taxable Bonds will be issued in authorized denominations of $1,000 or any multiple thereof, and no physical delivery of the Taxable Bonds will be made to beneficial owners, except as described herein. Interest on the Taxable Bonds will be payable on February 15, 2019 and semiannually thereafter on each August 15 and February 15. So long as Cede & Co. is the registered owner of any of the Taxable Bonds, principal or Make-Whole Redemption Price (as defined herein) of, and interest on, the Taxable Bonds will be payable by the Bond Trustee to DTC, which, in turn, is responsible for remitting such principal or Make-Whole Redemption Price and interest to its participants for subsequent disbursement to the beneficial owners of the Taxable Bonds, as described in this Offering Memorandum. See "BOOK-ENTRY ONLY SYSTEM AND GLOBAL CLEARANCE PROCEDURES" herein.

The Taxable Bonds will be payable solely from payments to be made by the Corporation under the Bond Indenture that are evidenced by the Taxable Bonds Obligation (as defined herein). Payment of the Taxable Bonds Obligation is a joint and several liability of the Members of the Obligated Group (as defined herein). See "SECURITY FOR THE TAXABLE BONDS" herein.

The proceeds from the sale of the Taxable Bonds will be used by the Corporation and certain of the Members of the Obligated Group to refinance certain outstanding indebtedness and to pay costs of issuing the Series 2018 Bonds (as defined herein) and refinancing such indebtedness. See "PLAN OF FINANCE" herein.

The Taxable Bonds are subject to optional redemption under certain circumstances. See "THE TAXABLE BONDS – Redemption" herein.

Interest on and gain, if any, on the sale of the Taxable Bonds are not excludable from gross income for federal, state or local income tax purposes. See "CERTAIN FEDERAL INCOME TAX CONSIDERATIONS" herein.

This cover page contains information for general reference only. It is not intended as a summary of this transaction. Investors are advised to read the entire Offering Memorandum, including the Appendices, to obtain information essential to making an informed investment decision.

The Taxable Bonds are offered when, as and if issued by the Underwriters, subject to prior sale and to the approval of legality and certain other matters by Polsinelli PC, counsel for the Members of the Obligated Group. Certain legal matters will passed upon for the Underwriters by Dentons US LLP, their special counsel. J.P. Morgan Securities LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated, both of whom are Underwriters, or their affiliates, are expected to receive a portion of the proceeds from the issuance of the Taxable Bonds. See "RELATIONSHIP OF CERTAIN PARTIES" herein. It is expected that the Taxable Bonds in definitive form will be available for delivery to DTC in New York, New York, on or about August __, 2018.

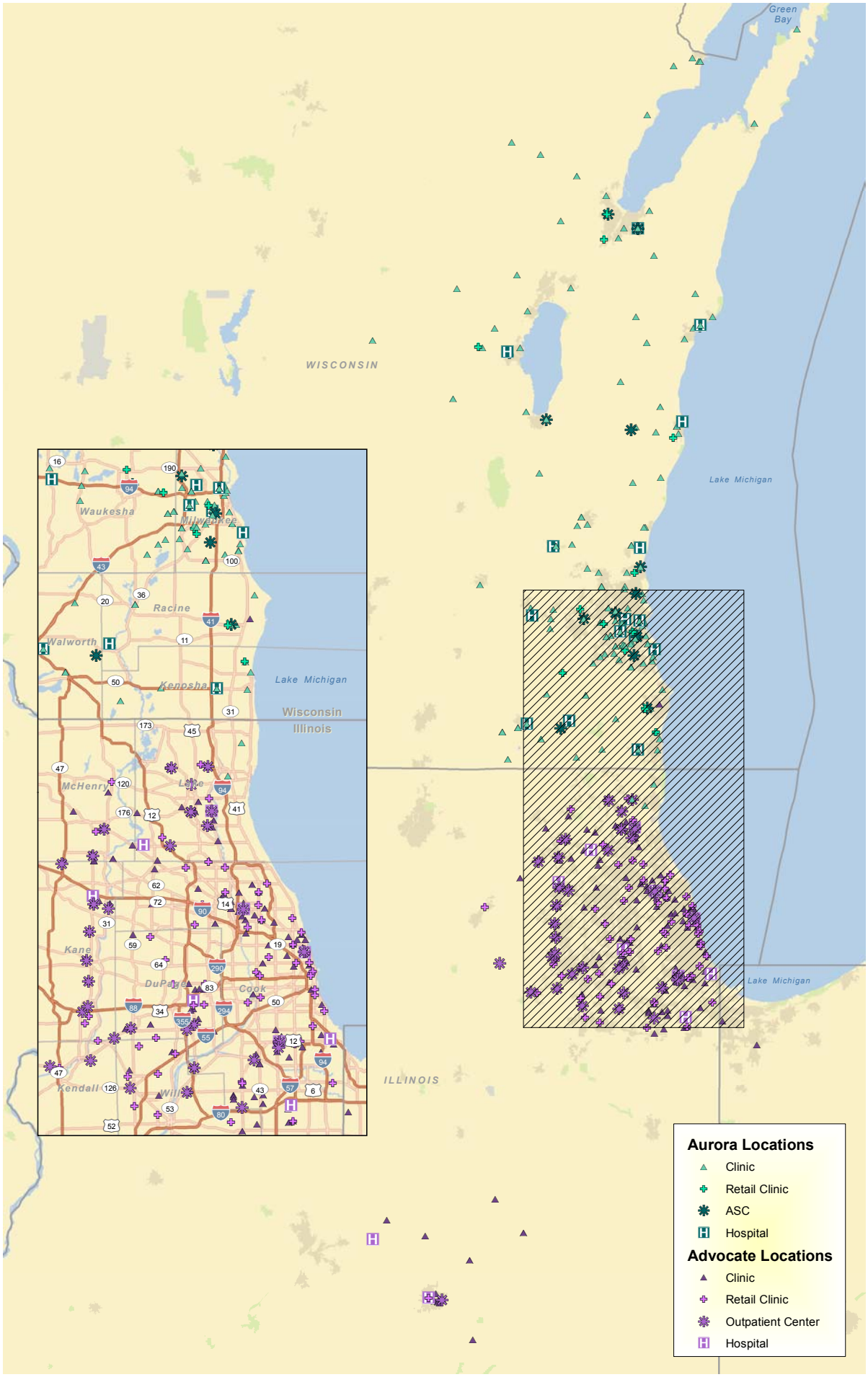
J.P. Morgan **Citigroup**

BofA Merrill Lynch **Loop Capital Markets**

The date of this Offering Memorandum is August __, 2018

* Preliminary, subject to change.

** Registered trademark of The American Bankers Association. CUSIP data is provided by CUSIP Global Services ("CGS"), managed by S&P Global Market Intelligence on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP numbers are provided for convenience of reference only. None of the Obligated Group or the Underwriters assume any responsibility for the accuracy of such numbers.


Green Bay
WISCONSIN
Lake Michigan
Waukesha
Racine
Walworth
Kenosha
Wisconsin
Illinois
McHenry
Lake
Kane
DuPage
Cook
Kendall
Will
ILLINOIS
Aurora Locations
Clinic
Retail Clinic
ASC
Hospital
Advocate Locations
Clinic
Retail Clinic
Outpatient Center
Hospital

The Taxable 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 J.P. Morgan Securities LLC, Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated or Loop Capital Markets LLC (collectively, the "Underwriters") or by any Member of the Obligated Group 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 Offering Memorandum does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the Taxable Bonds offered hereby, nor shall there be any sale of the Taxable Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information contained in this Offering Memorandum has been furnished by the Members 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 Underwriters. The information set forth herein is subject to change without notice after the date of this Offering Memorandum and neither the delivery of this Offering Memorandum nor any 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 Members of the Obligated Group, the Restricted Affiliates or DTC since the date of this Offering Memorandum.

The Underwriters have provided the following sentence for inclusion in this Offering Memorandum: The Underwriters have reviewed the information in this Offering Memorandum 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 THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE TAXABLE 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 TAXABLE BONDS AND THE TAXABLE BONDS 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 THE MEMBERS OF THE OBLIGATED GROUP, THE RESTRICTED AFFILIATES, THE PLAN OF FINANCE 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 MAY BE A CRIMINAL OFFENSE.

The CUSIP numbers are not intended to create a database and do not serve in any way as a substitute for the CUSIP Service. The CUSIP numbers shown on the cover page and under the caption "SUMMARY OF THE OFFERING" have been assigned to this issue by an organization not affiliated with the Underwriters or the Obligated Group and are included for convenience only. None of the Underwriters or the Obligated Group is responsible for the selection of CUSIP numbers, nor is any representation made as to their correctness on the Taxable Bonds or as indicated herein. The CUSIP numbers are included in this Offering Memorandum for the convenience of the owners and potential owners of the Taxable Bonds. No assurance can be given that the CUSIP number for a particular Taxable Bond will remain the same after the date of issuance and delivery of the Taxable Bonds.

INFORMATION CONCERNING OFFERING RESTRICTIONS IN CERTAIN JURISDICTIONS OUTSIDE THE UNITED STATES

References in this section to the "Issuer" means Advocate Health and Hospitals Corporation and references to "Bonds" or "Securities" mean the Taxable Bonds offered hereby. Neither the Issuer nor the Underwriters assume any responsibility for this section.

MINIMUM UNIT SALES

THE TAXABLE BONDS WILL TRADE AND SETTLE ON A UNIT BASIS (ONE UNIT EQUALING ONE BOND OF $1,000 PRINCIPAL AMOUNT). FOR ANY SALES MADE OUTSIDE THE UNITED STATES, THE MINIMUM PURCHASE AND TRADING AMOUNT IS 150 UNITS (BEING 150 BONDS IN AN AGGREGATE PRINCIPAL AMOUNT OF $150,000).

PROSPECTIVE INVESTORS IN THE EUROPEAN ECONOMIC AREA

THE BONDS ARE NOT INTENDED TO BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO AND SHOULD NOT BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO ANY RETAIL INVESTOR IN THE EUROPEAN ECONOMIC AREA ("*EEA*"). FOR THESE PURPOSES, A RETAIL INVESTOR MEANS A PERSON WHO IS ONE (OR MORE) OF: (I) A RETAIL CLIENT AS DEFINED IN POINT (11) OF ARTICLE 4(1) OF DIRECTIVE 2014/65/EU (AS AMENDED, "*MIFID II*"); OR (II) A CUSTOMER WITHIN THE MEANING OF DIRECTIVE 2002/92/EC (AS AMENDED, THE "*INSURANCE MEDIATION DIRECTIVE*"), WHERE THAT CUSTOMER WOULD NOT QUALIFY AS A PROFESSIONAL CLIENT AS DEFINED IN POINT (10) OF ARTICLE 4(1) OF MIFID II; OR (III) NOT A QUALIFIED INVESTOR AS DEFINED IN DIRECTIVE 2003/71/EC (AS AMENDED, THE "*PROSPECTUS DIRECTIVE*"). CONSEQUENTLY, NO KEY INFORMATION DOCUMENT REQUIRED BY REGULATION (EU) NO 1286/2014 (AS AMENDED, THE "*PRIIPS REGULATION*") FOR OFFERING OR SELLING THE BONDS OR OTHERWISE MAKING THEM AVAILABLE TO RETAIL INVESTORS IN THE EEA HAS BEEN PREPARED AND THEREFORE OFFERING OR SELLING THE BONDS OR OTHERWISE MAKING THEM AVAILABLE TO ANY RETAIL INVESTOR IN THE EEA MAY BE UNLAWFUL UNDER THE PRIIPS REGULATION.

THIS OFFERING MEMORANDUM HAS BEEN PREPARED ON THE BASIS THAT ALL OFFERS OF THE BONDS TO ANY PERSON THAT IS LOCATED WITHIN A MEMBER STATE OF THE EEA WILL BE MADE PURSUANT TO AN EXEMPTION UNDER ARTICLE 3 OF THE PROSPECTUS DIRECTIVE, AS IMPLEMENTED IN MEMBER STATES OF THE EEA, FROM THE REQUIREMENT TO PRODUCE A PROSPECTUS FOR OFFERS OF THE SECURITIES. ACCORDINGLY, ANY PERSON MAKING OR INTENDING TO MAKE ANY OFFER IN THE EEA OF THE BONDS SHOULD ONLY DO SO IN CIRCUMSTANCES IN WHICH NO OBLIGATION ARISES FOR THE ISSUER OR ANY OF THE UNDERWRITERS TO PRODUCE A PROSPECTUS FOR SUCH OFFER. NEITHER THE ISSUER NOR THE UNDERWRITERS HAVE AUTHORIZED, NOR DO THEY AUTHORIZE, THE MAKING OF ANY OFFER OF BONDS THROUGH ANY FINANCIAL INTERMEDIARY, OTHER THAN OFFERS MADE BY THE UNDERWRITERS, WHICH CONSTITUTE THE FINAL PLACEMENT OF THE BONDS CONTEMPLATED IN THIS OFFERING MEMORANDUM.

IN RELATION TO EACH MEMBER STATE OF THE EEA THAT HAS IMPLEMENTED THE PROSPECTUS DIRECTIVE (EACH, A "*RELEVANT MEMBER STATE*"), WITH EFFECT FROM AND INCLUDING THE DATE ON WHICH THE PROSPECTUS DIRECTIVE IS IMPLEMENTED IN THAT RELEVANT MEMBER STATE, THE OFFER OF ANY BONDS WHICH IS THE SUBJECT OF THE OFFERING CONTEMPLATED BY THIS OFFERING MEMORANDUM IS NOT BEING MADE AND WILL NOT BE MADE TO THE PUBLIC IN THAT RELEVANT MEMBER STATE, OTHER THAN: (A) TO ANY LEGAL ENTITY WHICH IS A "*QUALIFIED INVESTOR*" AS SUCH TERM IS DEFINED IN THE PROSPECTUS DIRECTIVE; (B) TO FEWER THAN 150 NATURAL OR LEGAL PERSONS (OTHER THAN "*QUALIFIED INVESTORS*" AS SUCH TERM IS DEFINED IN THE PROSPECTUS DIRECTIVE), SUBJECT TO OBTAINING THE PRIOR CONSENT OF THE RELEVANT UNDERWRITER OR THE ISSUER FOR ANY SUCH OFFER OR (C) IN ANY OTHER CIRCUMSTANCES FALLING WITHIN ARTICLE 3(2) OF THE PROSPECTUS DIRECTIVE; PROVIDED THAT NO SUCH OFFER OF THE BONDS SHALL REQUIRE THE

ISSUER OR THE UNDERWRITER TO PUBLISH A PROSPECTUS PURSUANT TO ARTICLE 3 OF THE PROSPECTUS DIRECTIVE OR A SUPPLEMENT TO A PROSPECTUS PURSUANT TO ARTICLE 16 OF THE PROSPECTUS DIRECTIVE.

FOR THE PURPOSES OF THIS PROVISION, THE EXPRESSION AN "*OFFER OF SECURITIES TO THE PUBLIC*" IN RELATION TO THE BONDS IN ANY RELEVANT MEMBER STATE MEANS THE COMMUNICATION IN ANY FORM AND BY ANY MEANS OF SUFFICIENT INFORMATION ON THE TERMS OF THE OFFER AND THE BONDS TO BE OFFERED SO AS TO ENABLE AN INVESTOR TO DECIDE TO PURCHASE THE BONDS, AS THE SAME MAY BE VARIED IN THAT RELEVANT MEMBER STATE BY ANY MEASURE IMPLEMENTING THE PROSPECTUS DIRECTIVE IN THAT RELEVANT MEMBER STATE.

EACH SUBSCRIBER FOR OR PURCHASER OF THE SECURITIES IN THE OFFERING LOCATED WITHIN A RELEVANT MEMBER STATE WILL BE DEEMED TO HAVE REPRESENTED, ACKNOWLEDGED AND AGREED THAT IT IS A "*QUALIFIED INVESTOR*" WITHIN THE MEANING OF ARTICLE 2(1)(E) OF THE PROSPECTUS DIRECTIVE. THE ISSUER AND EACH UNDERWRITER AND OTHERS WILL RELY ON THE TRUTH AND ACCURACY OF THE FOREGOING REPRESENTATION, ACKNOWLEDGEMENT AND AGREEMENT.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM

THIS OFFERING MEMORANDUM IS FOR DISTRIBUTION ONLY TO, AND IS DIRECTED SOLELY AT, PERSONS WHO (I) ARE INVESTMENT PROFESSIONALS AS SUCH TERM IS DEFINED IN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005, AS AMENDED (THE "*FINANCIAL PROMOTION ORDER*"), (II) ARE PERSONS FALLING WITHIN ARTICLE 49(2)(A) TO (D) OF THE FINANCIAL PROMOTION ORDER, (III) ARE OUTSIDE THE UNITED KINGDOM, OR (IV) ARE PERSONS TO WHOM AN INVITATION OR INDUCEMENT TO ENGAGE IN INVESTMENT ACTIVITY (WITHIN THE MEANING OF SECTION 21 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (THE "*FSMA*")) IN CONNECTION WITH THE ISSUE OR SALE OF ANY BONDS MAY OTHERWISE BE LAWFULLY COMMUNICATED OR CAUSED TO BE COMMUNICATED (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS "*RELEVANT PERSONS*"). THIS OFFERING MEMORANDUM IS DIRECTED ONLY AT RELEVANT PERSONS AND MUST NOT BE ACTED ON OR RELIED ON BY PERSONS WHO ARE NOT RELEVANT PERSONS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS OFFERING MEMORANDUM RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS. ANY PERSON WHO IS NOT A RELEVANT PERSON SHOULD NOT ACT OR RELY ON THIS OFFERING MEMORANDUM OR ANY OF ITS CONTENTS. THIS OFFERING MEMORANDUM HAS NOT BEEN APPROVED FOR THE PURPOSES OF SECTION 21 OF THE FSMA AND DOES NOT CONSTITUTE AN OFFER TO THE PUBLIC IN ACCORDANCE WITH THE PROVISIONS OF SECTION 85 OF THE FSMA.

NOTICE TO PROSPECTIVE INVESTORS OF HONG KONG

THE CONTENTS OF THIS OFFERING MEMORANDUM HAVE NOT BEEN REVIEWED BY ANY REGULATORY AUTHORITY IN HONG KONG. YOU ARE ADVISED TO EXERCISE CAUTION IN RELATION TO THE OFFER OF THE BONDS. IF YOU ARE IN ANY DOUBT ABOUT ANY OF THE CONTENTS OF THIS OFFERING MEMORANDUM, YOU SHOULD OBTAIN INDEPENDENT PROFESSIONAL ADVICE.

THIS OFFERING MEMORANDUM HAS NOT BEEN, AND WILL NOT BE, REGISTERED AS A PROSPECTUS (AS DEFINED IN THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE (CHAPTER 32 OF THE LAWS OF HONG KONG)) IN HONG KONG NOR HAS IT BEEN APPROVED BY THE SECURITIES AND FUTURES COMMISSION OF HONG KONG PURSUANT TO THE SECURITIES AND FUTURES ORDINANCE (CHAPTER 571 OF THE LAWS OF HONG KONG) ("*SFO*"). ACCORDINGLY, THE BONDS MAY NOT BE OFFERED OR SOLD IN HONG KONG BY MEANS OF THIS OFFERING MEMORANDUM OR ANY OTHER DOCUMENT, AND THIS OFFERING MEMORANDUM

MUST NOT BE ISSUED, CIRCULATED OR DISTRIBUTED IN HONG KONG, OTHER THAN (A) TO 'PROFESSIONAL INVESTORS' AS DEFINED IN THE SFO AND ANY RULES MADE UNDER THE SFO OR (B) IN OTHER CIRCUMSTANCES WHICH DO NOT RESULT IN THIS OFFERING MEMORANDUM OR ANY OTHER DOCUMENT BEING A "*PROSPECTUS*" AS DEFINED IN THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS ORDINANCE (CAP. 32) OF HONG KONG (THE "*C(WUMP)O*") OR WHICH DO NOT CONSTITUTE AN OFFER TO THE PUBLIC WITHIN THE MEANING OF THE C(WUMP)O. IN ADDITION, NO PERSON MAY ISSUE OR HAVE IN ITS POSSESSION FOR THE PURPOSES OF ISSUE, WHETHER IN HONG KONG OR ELSEWHERE, ANY ADVERTISEMENT, INVITATION OR DOCUMENT RELATING TO THE BONDS, WHICH IS DIRECTED AT, OR THE CONTENTS OF WHICH ARE LIKELY TO BE ACCESSED OR READ BY, THE PUBLIC OF HONG KONG (EXCEPT IF PERMITTED TO DO SO UNDER THE SECURITIES LAWS OF HONG KONG) OTHER THAN WITH RESPECT TO BONDS WHICH ARE OR ARE INTENDED TO BE DISPOSED OF ONLY (A) TO PERSONS OUTSIDE HONG KONG, (B) TO 'PROFESSIONAL INVESTORS' AS DEFINED IN THE SFO AND ANY RULES MADE UNDER THE SFO.

JAPAN

THE BONDS HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE FINANCIAL INSTRUMENTS AND EXCHANGE ACT OF JAPAN (ACT NO. 25 OF 1948, AS AMENDED, THE "FIEA"). NEITHER THE BONDS NOR ANY INTEREST THEREIN MAY BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, IN JAPAN OR TO, OR FOR THE BENEFIT OF, ANY RESIDENT OF JAPAN (AS DEFINED UNDER ITEM 5, PARAGRAPH 1, ARTICLE 6 OF THE FOREIGN EXCHANGE AND FOREIGN TRADE ACT (ACT NO. 228 OF 1949, AS AMENDED)), OR TO OTHERS FOR RE-OFFERING OR RESALE, DIRECTLY OR INDIRECTLY, IN JAPAN OR TO, OR FOR THE BENEFIT OF, ANY RESIDENT OF JAPAN, EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF, AND OTHERWISE IN COMPLIANCE WITH, THE FIEA AND ANY OTHER APPLICABLE LAWS, REGULATIONS AND MINISTERIAL GUIDELINES OF JAPAN.

THE PRIMARY OFFERING OF THE BONDS AND THE SOLICITATION OF AN OFFER FOR ACQUISITION THEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER PARAGRAPH 1, ARTICLE 4 OF THE FIEA. AS IT IS A PRIMARY OFFERING, IN JAPAN, THE BONDS MAY ONLY BE OFFERED, SOLD, RESOLD OR OTHERWISE TRANSFERRED, DIRECTLY OR INDIRECTLY TO, OR FOR THE BENEFIT OF CERTAIN QUALIFIED INSTITUTIONAL INVESTORS AS DEFINED IN THE FIEA ("QIIs") IN RELIANCE ON THE QIIs-ONLY PRIVATE PLACEMENT EXEMPTION AS SET FORTH IN ITEM 2(I), PARAGRAPH 3, ARTICLE 2 OF THE FIEA. A QII WHO PURCHASED OR OTHERWISE OBTAINED THE BONDS CANNOT RESELL OR OTHERWISE TRANSFER THE BONDS IN JAPAN TO ANY PERSON EXCEPT ANOTHER QII.

NOTICE TO PROSPECTIVE INVESTORS IN TAIWAN

THE OFFER OF THE BONDS HAS NOT BEEN AND WILL NOT BE REGISTERED OR FILED WITH, OR APPROVED BY, THE FINANCIAL SUPERVISORY COMMISSION OF TAIWAN AND/OR OTHER REGULATORY AUTHORITY OF TAIWAN PURSUANT TO RELEVANT SECURITIES LAWS AND REGULATIONS, AND THE BONDS MAY NOT BE OFFERED, ISSUED OR SOLD IN TAIWAN THROUGH A PUBLIC OFFERING OR IN CIRCUMSTANCES WHICH CONSTITUTE AN OFFER WITHIN THE MEANING OF THE SECURITIES AND EXCHANGE ACT OF TAIWAN THAT REQUIRES THE REGISTRATION OR FILING WITH OR APPROVAL OF THE FINANCIAL SUPERVISORY COMMISSION OF TAIWAN. THE BONDS MAY BE MADE AVAILABLE OUTSIDE TAIWAN FOR PURCHASE BY INVESTORS RESIDING IN TAIWAN (EITHER DIRECTLY OR THROUGH PROPERLY LICENSED TAIWAN INTERMEDIARIES), BUT MAY NOT BE OFFERED OR SOLD IN TAIWAN EXCEPT TO QUALIFIED INVESTORS VIA A TAIWAN LICENSED INTERMEDIARY. ANY SUBSCRIPTIONS OF BONDS SHALL ONLY BECOME EFFECTIVE UPON ACCEPTANCE BY THE ISSUER OR THE RELEVANT DEALER OUTSIDE TAIWAN AND SHALL BE DEEMED A CONTRACT ENTERED INTO IN THE JURISDICTION OF INCORPORATION OF THE ISSUER OR RELEVANT DEALER, AS THE CASE MAY BE, UNLESS OTHERWISE SPECIFIED IN THE SUBSCRIPTION DOCUMENTS RELATING TO THE BONDS SIGNED BY THE INVESTORS.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFERING MEMORANDUM

This Offering Memorandum contains "forward-looking statements" within the meaning of the federal securities laws. Forward-looking statements are those statements that do not relate solely to historical or current fact, and can often be identified by use of words including but not limited to like "may," "believe," "will," "expect," "project," "estimate," "anticipate," "plan," or "continue." These forward-looking statements, when made, are based on the current plans and expectations of the Obligated Group that, although believed to be reasonable, 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, the following:

- federal or state reform of health care, including the Patient Protection and Affordable Care Act (the "Affordable Care Act") and related rules and regulations, and any potential modifications or challenges to the Affordable Care Act or any other such legislation;
- the highly competitive nature of the health care business;
- pressures to contain costs by managed care organizations, insurers, health care providers and the Obligated Group's ability to negotiate acceptable terms with third party payors;
- changes in the Medicare and Medicaid programs that may impact reimbursements to health care providers and insurers, as well as possible additional changes in such programs;
- the Obligated Group's ability to attract and retain qualified management and other personnel, including affiliated physicians, nurses and medical support personnel;
- liabilities and other claims asserted against the Obligated Group;
- changes in accounting standards and practices;
- changes in general economic conditions;
- future divestitures or acquisitions;
- changes in revenue mix or delays in receiving payments from third party payors, as has been the case in Illinois as a result of state budget constraints;
- the availability and cost of capital to fund future expansion plans of the Obligated Group and to provide for ongoing capital expenditure needs;
- changes in business strategy or development plans;
- the Obligated Group's ability to implement shared services and other initiatives and realize decreases in administrative, supply and infrastructure costs;
- the outcome of pending and any future litigation;
- the ability to achieve expected levels of patient volumes and control the costs of providing services;
- results of reviews of the Obligated Group's cost reports; and
- increased costs from further government regulation of health care and the Obligated Group's failure to comply, or allegations of any failure to comply, with applicable laws and regulations, including without limitation, laws, regulations, policies and procedures relating to the status of the Members of the Obligated Group as tax-exempt organizations as well as its ability to comply with the requirements of Medicare and Medicaid programs.

These forward-looking statements speak only as of the date made. Except as required by law, the Members of the Obligated Group have undertaken no obligation to publicly update or revise any forward-looking statement contained in this Offering Memorandum, whether as a result of information, future events or otherwise. 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 Offering Memorandum.

SUMMARY OF THE OFFERING

Issuer	Advocate Health and Hospitals Corporation
Securities Offered	Taxable Bonds, Series 2018 (Advocate Aurora Health Credit Group)
CUSIP*	
ISIN	
Common Code	
Interest Accrual Dates	Interest will accrue from the Settlement Date
Interest Payment Dates	February 15 and August 15 of each year, commencing February 15, 2019
Optional Redemption	The Taxable Bonds are subject to optional redemption prior to their respective stated maturities in Authorized Denominations, upon written direction of the Corporation provided to the Bond Trustee, in whole or in part on any Business Day in such amounts and order of maturity as directed by the Corporation, (i) before the date that is six months prior to the maturity date of the Bonds, at the Make-Whole Redemption Price, together with accrued interest to the date fixed for redemption and (ii) on or after the date that is six months prior to the maturity date of the Taxable Bonds, at a redemption price equal to 100% of the principal amount of the Taxable Bonds to be redeemed, together with accrued interest thereon to the redemption date.
Settlement Date	August ___, 2018
Authorized Denominations	$1,000 and any multiple thereof
Form and Depository	The Taxable Bonds will be delivered solely in book-entry form through the facilities of DTC.
Use of Proceeds	The proceeds from the sale of the Taxable Bonds will be used by the Corporation and certain other Members of the Obligated Group to refinance certain outstanding indebtedness and pay costs of issuance.
Ratings	Moody's: Aa3 (stable) S&P: AA (stable) Fitch: AA (stable)

* Registered trademark of The American Bankers Association. CUSIP data is provided by CGS, managed by S&P Global Market Intelligence on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP numbers are provided for convenience of reference only. None of the Obligated Group or the Underwriters assume any responsibility for the accuracy of such numbers

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OFFERING MEMORANDUM

relating to

$730,000,000*
Advocate Health and Hospitals Corporation
Taxable Bonds
Series 2018
(Advocate Aurora Health Credit Group)

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 C*** *and* ***APPENDIX D*** *hereto for definitions of certain words and terms used herein.*

Purpose of this Offering Memorandum

The purpose of this Offering Memorandum, including the cover page and the appendices, is to set forth certain information in connection with the offering by Advocate Health and Hospitals Corporation, an Illinois not for profit corporation (the "Corporation"), of its Taxable Bonds, Series 2018 (Advocate Aurora Health Credit Group) (the "Taxable Bonds"). The Taxable Bonds will be issued pursuant to and will be secured by a Bond Trust Indenture dated as of August 1, 2018 (the "Bond Indenture"), between the Corporation and U.S. Bank National Association, as bond trustee (the "Bond Trustee").

Advocate Aurora Health

Advocate Aurora Health, Inc., a Delaware nonprofit corporation (the "Parent Corporation") is the sole corporate member of Aurora Health Care, Inc., a Wisconsin nonstock not-for-profit corporation ("AHC") and Advocate Health Care Network, an Illinois not for profit corporation ("Advocate Network Corporation"). Advocate Network Corporation is the sole corporate member of the Corporation. The Parent Corporation, Advocate Network Corporation and AHC and their controlled subsidiaries and controlled affiliates, including the Corporation, are collectively referred to herein as the "System". The System was formed on April 1, 2018 in furtherance of the parties' common and unifying charitable health care mission to promote and improve the quality and expand the scope and accessibility of affordable health care and health-care related services for the communities they serve.

The System is comprised of various not for profit and for profit entities, the primary activities of which are the delivery of health care services or the provision of goods and services ancillary thereto. The Parent Corporation currently has no material operations or activities of its own, apart from its ability to control the Obligated Group Members (including the Corporation) and the Restricted Affiliates (described below).

The System provides a continuum of care through its 25 acute care hospitals, an integrated children's hospital and a psychiatric hospital, which in total have 6,573 licensed beds, primary and specialty physician services, outpatient centers, physician office buildings, pharmacies, behavioral health care, rehabilitation and home health and hospice care in northern and central Illinois and eastern Wisconsin. A map depicting the location of the acute care hospitals and other sites of care of the System

is included on the inside cover page of this Offering Memorandum. A description of the System and certain information as to its constituent parts is contained in ***APPENDIX A*** hereto.

The Obligated Group

Upon the issuance of the Taxable Bonds, the Obligated Group will consist of the following Members:

- Advocate Aurora Health, Inc.
- Advocate Health Care Network
- Advocate Health and Hospitals Corporation
- Advocate Sherman Hospital
- Advocate North Side Health Network
- Advocate Condell Medical Center
- Aurora Health Care, Inc.
- Aurora Health Care Metro, Inc.
- Aurora Health Care Southern Lakes, Inc.
- Aurora Health Care Central, Inc. d/b/a Aurora Sheboygan Memorial Medical Center
- Aurora Medical Center of Washington County, Inc.
- Aurora Health Care North, Inc. d/b/a Aurora Medical Center Manitowoc County
- Aurora Medical Center of Oshkosh, Inc.
- Aurora Medical Group, Inc.
- Aurora Medical Center Grafton LLC

As described below and in ***APPENDIX C*** 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 Taxable Bonds

The proceeds of the Taxable Bonds will be used, together with other available funds (i) to refinance the Prior Debt (as defined herein) and (ii) to pay certain expenses incurred in connection with the issuance of the Series 2018 Bonds (as defined herein) and the refinancing of the Prior Debt. See "PLAN OF FINANCE" herein for a more detailed description of the refinancing of the Prior Debt.

Security

Source of Payment; the Master Indenture. Except as described in this Offering Memorandum, the Taxable Bonds will be payable solely from payments to be made by the Corporation under the Bond Indenture and by the Members of the Obligated Group on the Direct Note Obligation, Taxable Series 2018 (U.S. Bank National Association, as trustee) (the "Taxable Bonds Obligation") issued by the Obligated Group Agent under an Amended and Restated Master Trust Indenture dated as of September 1, 2011 (as heretofore supplemented and amended, the "Master Trust Indenture"), among the Members of the Obligated Group and U.S. Bank National Association, as master trustee (the "Master Trustee"), and as further supplemented and amended by a Twelfth Supplemental Master Trust Indenture dated as of August 1, 2018 (the "Twelfth Supplemental Indenture" and, together with the Master Trust Indenture, the "Master Indenture") among the Members of the Obligated Group and the Master Trustee. Advocate Network Corporation is presently the Obligated Group Agent under the Master Indenture. The Obligated Group Agent may be changed from time to time in accordance with the Master Indenture. The

sources of payment of, and security for, the Taxable Bonds are more fully described in this Offering Memorandum. See "SECURITY FOR THE TAXABLE BONDS" herein. The Members of the Obligated Group are jointly and severally liable on any Obligations (as defined below) issued under the Master Indenture, including the Taxable Bonds Obligation.

Certain entities are "Restricted Affiliates" as of the date of issuance of the Taxable Bonds. These Restricted Affiliates are described in ***APPENDIX A*** hereto. The Master Indenture provides that after an entity is designated as a Restricted Affiliate, the Obligated Group Agent 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. Each entity, the financial statements of which are required, under U.S. generally accepted accounting principles, to be consolidated or combined into the financial statements of any Member of the Obligated Group or Restricted Affiliate 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, other than as discussed in this Offering Memorandum, no plans have been made, nor has any corporate action been taken, in furtherance 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 Taxable Bonds Obligation will be the general, unsecured joint and several obligation of the Obligated Group. If a current Member of the Obligated Group should withdraw from the Obligated Group in accordance with the provisions of the Master Indenture, such Member would no longer be obligated under the Master Indenture, any supplemental master indentures or any Obligations. No other System Affiliate, including any Restricted Affiliate, will be directly obligated to pay any of the Obligations (as defined below), including the Taxable Bonds 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 such amounts as are necessary to comply with the provisions of the Master Indenture. The Master Indenture applies directly only to current Members 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 Taxable Bonds 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, 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 the Members of the Obligated Group, any Restricted Affiliate or any System Affiliate. Further, 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. The Master Indenture does, however, impose restrictions on Liens on property of all System Affiliates, including Restricted Affiliates. For a more detailed description of the Master Indenture, see "SECURITY FOR THE TAXABLE BONDS" herein and "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE" in ***APPENDIX C*** hereto.

See ***APPENDIX A*** hereto for a more detailed description of the Members of the Obligated Group, a list of the Restricted Affiliates and certain other System Affiliates. ***APPENDIX B-1*** hereto includes certain audited consolidated financial statements of Advocate Network Corporation and subsidiaries and ***APPENDIX B-2*** hereto includes certain audited consolidated financial statements of AHC and affiliates. Certain corporations and other entities that are System Affiliates of the Parent Corporation are not

Restricted Affiliates under the Master Indenture (the "Excluded Affiliates"). The financial statements included in ***APPENDIX A***, ***APPENDIX B-1*** and ***APPENDIX B-2*** include the Excluded Affiliates. See ***APPENDIX A*** hereto under the heading "INFORMATION CONCERNING THE SYSTEM."

Master Indenture Amendments. The Members of the Obligated Group have proposed the adoption of certain amendments to the Master Indenture described herein pursuant to the Second Amended and Restated Master Indenture dated as of August 1, 2018 between the Members of the Obligated Group and the Master Trustee (the "Second Amended and Restated Master Indenture"). See "SECURITY FOR THE TAXABLE BONDS – Amendments to the Master Indenture; Second Amended and Restated Master Indenture."

Other Indebtedness. Upon the issuance of the Series 2018 Bonds (as defined herein), approximately $2.75 billion* in principal amount of Long-Term Indebtedness (excluding Guarantees) will be outstanding and secured by Obligations issued under the Master Indenture (excluding Obligations issued in connection with interest rate swaps or undrawn bank agreements). See ***APPENDIX A*** hereto under the heading "FINANCIAL INFORMATION – Master Indenture Obligations." Additional Obligations may be issued in the future under the Master Indenture on a parity basis with the Taxable Bonds Obligation. The 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*** under the heading "FINANCIAL INFORMATION – Other Indebtedness and Financial Arrangements."

Covenants Related to Other Indebtedness. The Members of the Obligated Group have entered into agreements with certain banks, which agreements contain certain covenants and restrictions solely for the benefit of such banks and which covenants are in addition to, and in certain cases more restrictive than, the covenants in the Master Indenture. See "SECURITY FOR THE TAXABLE BONDS – Covenants Related to Other Indebtedness."

Bondholders' Risks

There are risks associated with the purchase of the Taxable Bonds. See the information under the heading "BONDHOLDERS' RISKS" herein for a discussion of some of those risks.

Additional Information

This Offering Memorandum speaks only as of its date, and the information herein is subject to change, completion or amendment without notice. Brief descriptions of the System, the Taxable Bonds and certain other documents relating to the Taxable Bonds are included in this Offering Memorandum. 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 will be available from the Bond Trustee following the issuance of the Taxable Bonds, and all references herein to the Taxable 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 C*** – "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE" and ***APPENDIX D*** – "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE" hereto.

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

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* Preliminary, subject to change.

PLAN OF FINANCE

The Corporation will cause the proceeds of the Taxable Bonds, together with other available funds, including the proceeds of the Series 2018 Tax-Exempt Bonds described below, to be used (i) to refinance the Prior Debt described below, and (ii) to pay certain expenses incurred in connection with the issuance of the Taxable Bonds and the Series 2018 Tax-Exempt Bonds and the refinancing of the Prior Debt (the "Plan of Finance"). See "ESTIMATED SOURCES AND USES OF FUNDS" herein.

Concurrent Financings

Concurrently with the issuance of the Taxable Bonds, it is currently anticipated that the Wisconsin Health and Educational Facilities Authority will issue $500 million* of tax-exempt bonds (the "Series 2018 Tax-Exempt Bonds") to include: (i) a series of fixed rate bonds; (ii) one or more series of variable rate bonds, each operating initially in a Long-Term Interest Rate period, described in a separate official statement; and (iii) one or more series of variable rate bonds to be issued by the Authority, each operating initially in a FRN Interest Rate period, described in a separate official statement. The Taxable Bonds together with the Series 2018 Tax-Exempt Bonds are referred to as the "Series 2018 Bonds".

* Preliminary, subject to change.

System Debt Consolidation

A portion of the proceeds of the Series 2018 Bonds is expected to be used to refinance the following indebtedness (collectively, the "Prior Debt") as part of the Plan of Finance:

Series	Principal to be Refinanced
Wisconsin Health and Educational Facilities Authority	
Variable Rate Demand Revenue Bonds, Series 1999C (Aurora Health Care, Inc.)	$ 50,000,000
Variable Rate Revenue Bonds, Series 2008A (Aurora Health Care, Inc.)	80,000,000
Variable Rate Revenue Bonds, Series 2008B (Aurora Health Care, Inc.)	79,470,000
Revenue Bonds, Series 2009A (Aurora Health Care, Inc.)	15,500,000
Revenue Bonds, Series 2010A (Aurora Health Care, Inc.)	152,935,000
Revenue Bonds, Series 2010B (Aurora Health Care, Inc.)	23,980,000
Variable Rate Revenue Bonds, Series 2010C (Aurora Health Care, Inc.)	102,235,000
Revenue Bonds, Series 2012A (Aurora Health Care, Inc.)	202,740,000
Variable Rate Revenue Bonds, Series 2012B (Aurora Health Care, Inc.)	34,250,000
Variable Rate Revenue Bonds, Series 2012C (Aurora Health Care, Inc.)	34,250,000
Variable Rate Revenue Bonds, Series 2012D (Aurora Health Care, Inc.)	50,185,000
Revenue Bonds, Series 2013A (Aurora Health Care, Inc.)	115,750,000
Aurora Health Care, Inc.	
Aurora Health Care, Inc. Taxable Bonds, Series 2015A	40,000,000
Aurora Health Care, Inc. Taxable Bonds, Series 2016A	96,650,000
Aurora Health Care, Inc. Taxable Bonds, Series 2016B	71,905,000
Drawn Portion of Taxable Bank Line	58,500,000

Discharge of Aurora Master Indenture and Substitution of Certain Master Notes

AHC, Aurora Health Care Metro, Inc., Aurora Health Care Southern Lakes, Inc., Aurora Health Care Central, Inc. d/b/a Aurora Sheboygan Memorial Medical Center, Aurora Medical Center of Washington County, Inc., Aurora Health Care North, Inc. d/b/a Aurora Medical Center Manitowoc County, Aurora Medical Center of Oshkosh, Inc., Aurora Medical Group, Inc. and Aurora Medical Center Grafton LLC (collectively, the "New Members") are, prior to the date of the issuance of the Series 2018 Bonds, party to a Second Restated Master Trust Indenture dated as of January 1, 2012, as supplemented and amended (the "AHC Master Indenture"), with U.S. Bank National Association, as master trustee (the "AHC Master Trustee"). Assuming the issuance of the Series 2018 Bonds and the application of the

proceeds thereof pursuant to the Plan of Finance, the Parent Corporation presently expects that the Master Notes (as defined in the AHC Master Indenture) will be cancelled, the AHC Master Indenture will be discharged and the liens on property securing the Master Notes issued under the AHC Master Indenture will be released. To accomplish this discharge of the AHC Master Indenture, certain debt secured by Master Notes under the AHC Master Indenture will be refinanced as described above, and any holders of Master Notes not refinanced as described herein will remit their Master Note for cancellation in exchange for an Obligation issued under the Master Indenture.

THE TAXABLE BONDS

Reference is made to the Bond Indenture and to the summary of certain provisions of the Bond Indenture included in ***APPENDIX D*** for a more complete description of the Taxable Bonds and for the definition of terms not otherwise defined in the following summary. The discussion herein is qualified by such reference.

General

The Taxable Bonds are being issued pursuant to the Bond Indenture in the aggregate principal amounts and with the maturity dates set forth on the cover of this Offering Memorandum. As described below under the caption "BOOK-ENTRY ONLY SYSTEM AND GLOBAL CLEARANCE PROCEDURES," when issued, the Taxable Bonds will be registered in the name of Cede & Co., as Bondholder and partnership nominee of The Depository Trust Company ("DTC"), New York, New York. So long as DTC, or its nominee, is the registered owner of all of the Taxable Bonds, all payments on the Taxable Bonds will be made directly to DTC. The Taxable Bonds will be dated their Date of Issue, and shall bear interest from such date at the rates per annum shown on the inside cover page of this Offering Memorandum, payable on February 15 and August 15, commencing February 15, 2019.

The principal or Make-Whole Redemption Price of the Taxable Bonds shall be payable in lawful money of the United States of America at the Corporate Trust Office of the Bond Trustee. Payment of the interest on any Taxable Bond shall be made to the person whose name appears on the registration books of the Bond Trustee as the Holder thereof as of the close of business on the first day of the calendar month immediately preceding the applicable Interest Payment Date (the "Record Date"), whether or not such day is a Business Day, except as provided in the next paragraph. Interest will be paid in lawful money of the United States of America by check or draft mailed to each Holder at the address shown on the registration books maintained by the Bond Trustee pursuant to the Bond Indenture or, at the option of any Holder of at least $1,000,000 in aggregate principal amount of the Taxable Bonds, by wire transfer to the wire transfer account number located in the United States of America designated by the Holder and filed with the Bond Trustee for such purpose at least one Business Day prior to the Record Date. As long as the book-entry system is in effect and DTC is the Securities Depository, Cede & Co. (or another nominee as has been specified by DTC) is the Holder.

Any such interest not so punctually paid or duly provided for shall cease to be payable to the Holder on the applicable Record Date and shall be paid to the person in whose name the Taxable Bond is registered at the close of business on a Special Record Date for the payment of such defaulted interest. The Special Record Date will be fixed by the Bond Trustee and notice will be delivered to the Holders by Electronic Notice, confirmed by first class mail not less than ten (10) days prior to such Special Record Date.

Interest shall be calculated based on a 360-day year with twelve 30-day months.

Redemption

Optional Redemption. The Taxable Bonds are subject to optional redemption prior to their respective stated maturities in Authorized Denominations, upon written direction of the Corporation provided to the Bond Trustee, in whole or in part on any Business Day in such amounts and order of maturity as directed by the Corporation, (i) before the date that is six months prior to the maturity date of the Taxable Bonds, at the Make-Whole Redemption Price, together with accrued interest to the date fixed for redemption and (ii) on or after the date that is six months prior to the maturity date of the Taxable Bonds, at a redemption price equal to 100% of the principal amount of the Taxable Bonds to be redeemed, together with accrued interest thereon to the redemption date.

As used herein, the Make-Whole Redemption Price means the greater of (1) 100% of the principal amount of any Taxable Bonds being redeemed, or (2) the sum of the present values of the remaining scheduled payments of principal and interest on any Taxable Bonds being redeemed (exclusive of interest accrued to the date of redemption) discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus ___ basis points. Any different Make-Whole Redemption Price for any Additional Bonds shall be set forth in the related Supplemental Indenture. For purposes of this paragraph, the following definitions shall apply:

"Comparable Treasury Issue" means, with respect to the Taxable Bonds of a particular maturity, the United States Treasury security selected by a Designated Investment Banker as having an actual maturity comparable to the remaining average life of the Taxable Bonds of such maturity to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining average life of such Bonds of such maturity to be redeemed.

"Comparable Treasury Price" means, with respect to any redemption date, for the Taxable Bonds of a particular maturity, (A) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations or, (B) if the Designated Investment Banker obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such Reference Treasury Dealer Quotations.

"Designated Investment Banker" means one of the Reference Treasury Dealers selected as such and appointed by the Corporation.

"Reference Treasury Dealer" means one or more entities designated by the Corporation, or their respective affiliates that are primary U.S. government securities dealers, and their respective successors; provided that if any of these firms or their respective affiliates shall cease to be a primary U.S. government securities dealer (a "Primary Treasury Dealer"), the Corporation shall substitute therefor another Primary Treasury Dealer.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date, for Taxable Bonds of a particular maturity, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the third Business Day preceding such redemption date.

"Treasury Rate" means, with respect to any redemption date, for Taxable Bonds of a particular maturity, the rate per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue with respect thereto, computed as of the second Business Day immediately preceding such

redemption date, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price with respect thereto for such redemption date.

The Make-Whole Redemption Price shall be determined by an independent accounting firm or financial advisor retained by the Corporation and such accounting firm or financial advisor shall perform all actions and make all calculations required to determine the Make-Whole Redemption Price. The Bond Trustee and the Corporation may conclusively rely on such accounting firm's or financial advisor's calculations in connection with, and determination of, the Make-Whole Redemption Price, and shall bear no liability for such reliance.

Selection of Taxable Bonds for Redemption. Whenever provision is made in the Bond Indenture for the redemption of less than all of the Taxable Bonds of any maturity, the Bond Trustee shall allocate the Taxable Bonds to be redeemed from all Taxable Bonds of such maturity subject to redemption or such given portion thereof not previously called for redemption, on a pro rata pass-through distribution of principal basis. The Bond Trustee shall promptly notify the Corporation in writing of the Taxable Bonds or portions thereof so selected for redemption.

If the Taxable Bonds are registered in book-entry only form and so long as DTC or a successor securities depository is the sole registered owner of the Taxable Bonds, if less than all of the Taxable Bonds of a maturity are called for prior redemption, the particular Taxable Bonds or portions thereof to be redeemed shall be selected on a pro rata pass-through distribution of principal basis in accordance with DTC (or such successor securities depository's) procedures.

It is the Corporation's intent that redemption allocations made by DTC (or a successor securities depository) be made on a pro rata pass-through distribution of principal basis as described above. However, the Corporation can provide no assurance that DTC, DTC's Direct and Indirect Participants, any other intermediary, or a successor securities depository will allocate the redemption of Taxable Bonds on such basis. If DTC (or a successor securities depository's) operational arrangements do not allow for the redemption of the Taxable Bonds on a pro rata pass-through distribution of principal basis as discussed above, the Taxable Bonds will be selected for redemption, in accordance with DTC (or such successor securities depository's) procedures, by lot.

For purposes of calculation of the "pro rata pass-through distribution of principal," "pro rata" means, for any amount of principal to be paid, the application of a fraction to each denomination of each maturity of the respective Taxable Bonds where (a) the numerator of which is equal to the amount due to the respective Holders on a payment date, and (b) the denominator of which is equal to the total original par amount of the respective Taxable Bonds.

If the Taxable Bonds are no longer registered in book-entry-only form, each Holder will receive an amount of Taxable Bonds equal to the original face amount then beneficially held by that Holder, registered in such Holder's name. Thereafter, any redemption of less than all of the Taxable Bonds of any maturity will continue to be paid to the registered Holders of such Taxable Bonds on a pro-rata basis, based on the portion of the original face amount of any such Taxable Bonds to be redeemed.

Notice and Effect of Redemption. Each notice of redemption shall state (i) the maturities of the Taxable Bonds or portions thereof that are to be redeemed, (ii) the date of redemption, (iii) the place or places where the redemption will be made, including the name and address of the Bond Trustee, (iv) the method of calculation of the Make-Whole Redemption Price, (v) the CUSIP numbers assigned to the Taxable Bonds to be redeemed, (vi) in the case of any Taxable Bonds to be redeemed in part only, the amount of such Taxable Bonds to be redeemed, (vii) the original dated date, interest rate and stated maturity date of each Taxable Bond to be redeemed and (viii) if funds shall not be irrevocably deposited with the Bond Trustee to pay the Required Bond Payments to the redemption date on or prior to the date

that the redemption notice is first given as aforesaid, such notice shall state that any redemption is conditional on such funds being deposited with the Bond Trustee on the redemption date and that a failure to make such deposit shall not constitute an event of default under the Bond Indenture. Each notice shall also (a) state that if, on the date of redemption, the Bond Trustee holds sufficient moneys therefor, then, on the date of redemption, the Make-Whole Redemption Price of the Taxable Bonds to be redeemed (if any), plus accrued interest thereon (if any) to the redemption date, shall become due and payable, and that from and after said date, interest on such Taxable Bonds shall cease to accrue and be payable, and (b) require that on said date, such Taxable Bonds shall be surrendered. "Required Bond Payments" means all payments of: (a) principal or Make-Whole Redemption Price of the Taxable Bonds when and as the same become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by acceleration or otherwise and (b) each installment of interest on any Taxable Bond when and as the same become due and payable.

As long as the book-entry system is in effect with respect to the Taxable Bonds and DTC is the then current Securities Depository, any redemption notice shall be given to Cede & Co. (or such other nominee as has been specified by DTC), as Holder of the Taxable Bonds.

At least 20 but not more than 60 days prior to the redemption date, such notice shall be given to the respective Holders of Taxable Bonds designated for redemption by Electronic Notice, confirmed by first-class mail, postage prepaid at their addresses appearing on the registration books maintained by the Bond Trustee as of the close of business on the day before the notice is given; provided, that failure of the Bond Trustee to give such notice to a Holder or any defect in such notice shall not affect the validity of the redemption of any other Taxable Bonds. Notwithstanding anything to the contrary contained in the Bond Indenture, in the event all of the Taxable Bonds to be redeemed are held in book-entry form, the notice shall be made by Electronic Notice and the notice period may be less than 20 days prior to the redemption date provided such notice period complies with the operational guidelines of the then current Securities Depository in effect 60 days prior to the date of the scheduled redemption. A second notice of redemption shall be delivered no more than 60 days after the redemption date by the same means as the first notice, to any Holder of Taxable Bonds who has not turned Taxable Bonds in for redemption within 30 days after the redemption date; provided, that failure of the Bond Trustee to give such notice to any such Holder or any defect in such notice shall not affect the validity of the redemption of such Taxable Bonds.

Any notice of redemption may be rescinded by written notice given to the Bond Trustee by the Corporation no later than five Business Days prior to the redemption date. The Bond Trustee shall give notice of such rescission as soon thereafter as practicable in the same manner, and to the same persons, as notice of such redemption was given.

Notice of the redemption of Taxable Bonds (or portions thereof) having been given as required under the Bond Indenture, and moneys for payment of the principal or Make-Whole Redemption Price of such Taxable Bonds, plus interest accrued thereon to the redemption date, being held by the Bond Trustee, the Taxable Bonds (or portions thereof) so called for redemption shall become due and payable on the redemption date specified in such notice and on such date, interest on the Taxable Bonds (or portions thereof) called for redemption shall cease to accrue, such Taxable Bonds shall cease to be entitled to any benefit or security under the Bond Indenture, and the Holders of such Taxable Bonds (or portions thereof) shall have no rights in respect thereof except to receive payment of said principal or Make-Whole Redemption Price and accrued interest (if any) to the redemption date.

See ***APPENDIX*** **D** – "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE – "Transfer of Bonds" and " – Bond Register" for additional information on the transfer and registration of the Taxable Bonds in the event the book-entry system is not in effect for the Taxable Bonds.

Additional Bonds

The Bond Indenture provides that, subsequent to the issuance of the Taxable Bonds, the Corporation may issue Additional Bonds pursuant to a supplemental bond indenture, without notice to or consent of the Holders of the Taxable Bonds, in which case any Additional Bonds so issued will have the same form and terms, as one or more of the maturities of the Taxable Bonds, including but not limited to the same redemption provisions as the applicable maturity of the Taxable Bonds, (other than the date of issuance and, under certain circumstances, the date from which interest thereon will begin to accrue), and will carry the same right to receive accrued and unpaid interest, as the applicable maturity of the Taxable Bonds previously issued, and such Additional Bonds will form a single series with the Taxable Bonds. As a condition to any such issuance of Additional Bonds, the Corporation would need to certify that such issuance will not cause the then-outstanding Taxable Bonds to be required to be registered under the Securities Act of 1933, as amended or the Bond Indenture to be required to be qualified under the Trust Indenture Act of 1939, as amended. See ***APPENDIX* D** – "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE – Additional Bonds."

SECURITY FOR THE TAXABLE BONDS

The Taxable Bonds are secured under the provisions of the Bond Indenture and payable from payments required to be made by the Corporation under the Bond Indenture and certain other amounts described therein and are secured by the Taxable Bonds Obligation issued under the Master Indenture. The covenants and agreements in the Bond Indenture are for the equal and ratable benefit of all present and future owners of the Taxable Bonds, without preference, priority or distinction of any Taxable Bonds over any other Taxable Bonds.

The Obligations and Absence of Collateral Security Therefor

Pursuant to the Master Indenture, the Obligated Group Agent will issue the Taxable Bonds Obligation to the Bond Trustee to secure the Corporation's obligation to make payments under the Bond Indenture. The Taxable Bonds 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, 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 the Members of the Obligated Group, any Restricted Affiliate or any other System Affiliate. No other System Affiliate or Restricted Affiliate, as such, is or will be obligated to pay any of the Obligations, unless they become an Obligated Group Member.

The Master Indenture

All Obligations issued under the Master Indenture are and will be secured on a parity basis with each other. This includes any existing Obligations and additional Obligations that may hereafter be issued under and in accordance with the terms of the Master Indenture, provided that other Obligations may be secured by collateral in addition to that generally provided for all Obligations, to the extent permitted by the Master Indenture. Upon the issuance of the Taxable Bonds, approximately $2.75 billion* in principal amount of Long-Term Indebtedness (excluding Guarantees) will be secured by Obligations outstanding under the Master Indenture (excluding Obligations issued in connection with interest rate swaps or to providers of undrawn bank agreements). See the audited consolidated financial statements in ***APPENDIX B-1*** and ***APPENDIX B-2*** hereto and ***APPENDIX A*** under the heading "FINANCIAL INFORMATION – Other Indebtedness and Financial Arrangements" for a description of other indebtedness of the Obligated Group that is not secured by the Master Indenture.

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* Preliminary, subject to change.

Payments on the Obligations will be the joint and several obligations of each Member 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 (as defined in the Master Indenture), including cash, marketable securities or receivables, to anyone, including related or affiliated persons or persons who control the System directly or indirectly, or to release control of System 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 the System's Historical Debt Service Coverage Ratio at 1.10 to 1.00 or greater as set forth in the Master Indenture 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" in ***APPENDIX C*** 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.

Amendments to the Master Indenture; Second Amended and Restated Master Indenture

Subject to certain limitations, currently the holders of not less than 51% in aggregate principal amount of outstanding Obligations may consent to the execution of a supplement to the Master Indenture for the purpose of amending or rescinding the terms or provisions of the Master Indenture. See ***APPENDIX C*** for the conditions upon which "51%" will be changed to "50.1%". The Bond Trustee is entitled to vote the Taxable Bonds Obligation with respect to any such proposed amendment. Such an amendment could adversely affect the Bondholders, and the consenting holders could consist entirely of holders of Obligations other than the Taxable Bonds Obligation. In addition, the Master Indenture permits certain amendments to be made without the consent of the holders of the Obligations. See ***APPENDIX C*** "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Supplemental Master Indentures" hereto.

The Obligated Group Members intend, over time, to implement certain amendments to the Master Indenture pursuant to the Second Amended and Restated Master Indenture. Such proposed amendments are noted in "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE" in ***APPENDIX C*** hereto and will become effective upon receipt of the Required Consent, as described in ***APPENDIX C***. By purchase of the Taxable Bonds, the bondholders (i) shall consent, and shall be deemed to have consented, to the Second Amended and Restated Master Indenture, and (ii) shall waive, and shall be deemed to have waived, any and all other formal notice, implementation, execution or timing requirements that may otherwise be required under the Master Indenture in order to implement the Second Amended and Restated Master Indenture. Upon obtaining the Required Consent of the Holders, such Second Amended and Restated Master Indenture, at the election of the Obligated Group Agent, will then be effective. Upon the issuance of the Taxable Bonds, the Required Consent will not have been obtained. After giving effect to the issuance of the Series 2018 Bonds, there will be $2.75 billion* of Obligations Outstanding under the Master Indenture that have the right to consent to the Second

Amended and Restated Master Indenture and the consent of the Holders of $1.23 billion*, or 44.7%* in aggregate principal amount of such Obligations shall have been obtained. As such, no assurance can be given as to whether, or when, the Second Amended and Restated Master Indenture will become effective.

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. No other System Affiliate (including Restricted Affiliates) will be directly obligated to pay any Obligations, including the Taxable Bonds Obligation, or to advance any funds therefore. Under the Master Indenture, however, 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 Controlling Member such amounts as are necessary to enable the Members to comply with the provisions of the Master Indenture; provided, however, that a Controlling Member is not required to cause its Restricted Affiliate to pay, loan or otherwise transfer to the Obligated Group Agent any amounts that constitute any grant, gift, bequest, contribution or other donation specifically restricted to an object or purpose inconsistent with their use for payment of Required Payments. The Master Indenture applies directly only to current Members of the Obligated Group. The Master Indenture, however, 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 Taxable Bonds Obligation) 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 imposes restrictions on Liens on property of all System Affiliates, including Restricted Affiliates. The Master Indenture, however, does not contain any financial 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 C*** hereto.

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 applicable corporation laws in its state of incorporation or organization, as applicable. For a description of the effect of the Federal Bankruptcy Code and other laws affecting creditors' rights on the ability of any Member of the Obligated Group to enforce the Master Indenture with respect to the 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 C*** hereto.

Covenants Related to Other Indebtedness

The Members of the Obligated Group have entered into agreements with certain banks (collectively, the "Banks"), which agreements (collectively, the "Bank Agreements") contain certain

covenants and restrictions (collectively, the "Bank Covenants") solely for the benefit of such Banks, which covenants are in addition to, and in certain cases more restrictive than, the covenants in the Master Indenture. These Bank Covenants may be waived, modified or amended by the related Bank in their sole discretion and without notice to or consent by the bond trustee of any outstanding bonds, the Bond Trustee, the Master Trustee, the holders of outstanding bonds, including the Taxable Bonds, the holders of any Obligations or any other Person. Violation of any of such Bank Covenants may result in an event of default under the related Bank Agreement, which may result in an event of default under the Master Indenture, which could result in acceleration of all of the Obligations, including the Taxable Bonds Obligation. The Taxable Bonds are not supported by a credit facility or liquidity facility. Copies of certain of the Bank Agreements that directly support tax-exempt bonds are required to be posted by the applicable remarketing agent for such bonds on the Municipal Securities Rulemaking Board's ("MSRB") Electronic Municipal Market Access ("EMMA") system, found at http://emma.msrb.org. See "FINANCIAL INFORMATION – Master Indenture Obligations" in ***APPENDIX A*** hereto.

Replacement of Taxable Bonds Obligation with Substitute Note

Under the Bond Indenture, without the consent of or notice to the Holders, the Bond Trustee is required to surrender the Taxable Bonds Obligation to the Master Trustee for cancellation upon receipt by the Bond Trustee of: (i) a written request of the Corporation requesting such surrender and delivery; (ii) an executed copy of a replacement master indenture (other than the Master Indenture) between the members of an obligated group described therein and a master trustee (the "Replacement Master Indenture"); (iii) a properly executed obligation (the "Replacement Obligation") issued under the Replacement Master Indenture in favor of the Bond Trustee with the same tenor and effect as the Taxable Bonds Obligation (in a principal amount equal to the then Outstanding principal amount of the Taxable Bonds), duly authenticated by the master trustee under the Replacement Master Indenture and registered to the Bond Trustee; (iv) an Opinion of Counsel, addressed to the Bond Trustee, to the effect that: (A) the Replacement Obligation has been validly issued under the Replacement Master Indenture and constitutes a valid and binding obligation of the Corporation (or as applicable, the obligated group created pursuant to the Replacement Master Indenture and each other member of the obligated group (if any) that is jointly and severally liable under the Replacement Master Indenture), (B) all requirements and conditions to the issuance of the Replacement Obligation set forth in the Replacement Master Indenture have been complied with and satisfied, and (C) registration of the Replacement Obligation under the Securities Act of 1933, as amended, is not required or, if registration is required, the Replacement Obligation has been so registered, subject to such qualifications as are not unreasonably objected to by the Bond Trustee; (v) a copy of the Replacement Master Indenture, certified as a true and accurate copy by the master trustee under the Replacement Master Indenture; provided, however, that nothing contained in the Bond Indenture shall permit, or be construed as permitting, (1) any extension of the maturity of any Taxable Bond, or reduction in the amount of principal thereof, or extension of the time of payment required by the Bond Indenture for the payment of any Taxable Bond, or reduction of the rate of interest thereon, or extension of the time of payment of interest thereon, or change the transferability provisions with respect to the Taxable Bonds, without the consent of the Holder of each Taxable Bond so affected, or (2) a reduction of the percentage of Taxable Bonds the consent of the Holders of which is required to effect any such modification or amendment, or (3) the creation of any lien on the assets pledged under the Bond Indenture prior to or on a parity basis with the lien created by the Bond Indenture, or depriving the Holders of the Taxable Bonds of the lien created by the Bond Indenture on such assets (except as expressly provided in the Bond Indenture), without the consent of the Holders of all Taxable Bonds at the time Outstanding that would be affected by the action to be taken, or (4) a modification of the rights, duties or immunities of the Bond Trustee without the written consent of the Bond Trustee.

See ***APPENDIX D***, "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE – Release and Substitution of Obligation Upon Delivery of Replacement Master Indenture" hereto.

Upon satisfaction of such conditions, all references in the Bond Indenture to the Taxable Obligation shall be deemed to be references to the Replacement Obligation, all references to the Master Indenture shall be deemed to be references to the Replacement Master Indenture, all references to the Master Trustee shall be deemed to be references to the master trustee under the Replacement Master Indenture, all references to the Obligated Group and the members of the Obligated Group shall be deemed to be references to the obligated group and the members of the obligated group under the Replacement Master Indenture and all references to the Supplement shall be deemed to be references to the supplemental master indenture pursuant to which the Replacement Master Note is issued.

Permitted Assignments

The Corporation may assign the obligations of the Corporation contained in the Bond Indenture to any member of the Obligated Group (the "Member Assignee"), as a whole or in part, without the prior written consent of the Bond Trustee or any Holder, upon satisfaction of the certain requirements summarized in ***APPENDIX D,*** "SUMMARY OF THE BOND INDENTURE — Permitted Assignments." The Corporation shall cause notice of any assignment of the Bond Indenture to be provided to all Bondholders by posting the same on the MSRB's EMMA system, found at http://emma.msrb.org. See ***APPENDIX D***, "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE – Permitted Assignments" hereto

Amendments of Bond Indenture

The Bond Indenture permits the modification or amendment of the Bond Indenture in certain circumstances with the consent of the holders of not less than 50.1% of the aggregate principal amount of the Taxable Bonds outstanding at the time of such modification or amendment. 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 in certain circumstances without the consent of the holders of the Taxable Bonds. See ***APPENDIX D***, "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE–Amendments Permitted" hereto.

BOOK-ENTRY ONLY SYSTEM AND GLOBAL CLEARANCE PROCEDURES

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear Bank S.A./N.V. ("Euroclear") or Clearstream Banking SA ("Clearstream") (DTC, Euroclear and Clearstream together, the "Clearing Systems") currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that we believe to be reliable, but none of the Corporation, the Bond Trustee or the Underwriters take any responsibility for the accuracy, completeness or adequacy of the information in this section. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. We will not have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Taxable Bonds held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

DTC Book-Entry Only System. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Taxable Bonds. The Taxable 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 Taxable Bond certificate will be issued for each maturity of the Taxable 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 United States ("U.S.") and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission ("SEC"). More information about DTC can be found at www.dtcc.com.

Purchases of Taxable Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Taxable Bonds on DTC's records. The ownership interest of each actual purchaser of each Taxable 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 Taxable 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 Taxable Bonds, except in the event that use of the book-entry system for the Taxable Bonds is discontinued.

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Taxable Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Taxable Bonds, such as redemptions, defaults, and proposed amendments to the documents governing and securing the Taxable Bonds. For example, Beneficial Owners of the Taxable Bonds may wish to ascertain that the nominee holding the Taxable 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 Bond Trustee and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Taxable 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 the Taxable Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Corporation as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Taxable 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 Taxable 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 Corporation, 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 Corporation or any Obligated Group Member, 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 Corporation 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 Taxable Bonds at any time by giving reasonable notice to the Corporation or the Bond Trustee. Under such circumstances, in the event that a successor depository is not obtained, Taxable Bond certificates are required to be printed and delivered.

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

THE INFORMATION PROVIDED ABOVE HAS BEEN PROVIDED BY DTC. NO REPRESENTATION IS MADE BY THE BOND TRUSTEE, THE CORPORATION, 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 Taxable Bonds are registered in the name of DTC or its nominee, Cede & Co., the Corporation, the Master Trustee and the Bond Trustee will recognize only DTC or its nominee, Cede & Co., as the registered owner of the Taxable Bonds for all purposes, including payments, notices and voting.

NONE OF THE UNDERWRITERS, THE MEMBERS OF THE OBLIGATED GROUP, THE MASTER TRUSTEE OR 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 TAXABLE 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 TAXABLE BOND INCLUDING, WITHOUT LIMITATION, ANY NOTICE OF REDEMPTION, PURCHASE OR ANY EVENT THAT WOULD OR COULD GIVE RISE TO A PURCHASE RIGHT OR AN OPTION WITH RESPECT TO ANY TAXABLE 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 OR INTEREST ON, OR THE REDEMPTION PRICE OF, ANY TAXABLE 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 Corporation may treat DTC as, and deem DTC to be, the absolute owner of the Taxable Bonds for all purposes whatsoever, including, without limitation, (i) the payment of principal or redemption price of and interest on the Taxable Bonds, (ii) giving notices of redemption and other matters with respect to the Taxable Bonds, (iii) registering transfers with respect to the Taxable Bonds and (iv) the selection of Taxable Bonds for redemption.

Euroclear and Clearstream. Euroclear and Clearstream have advised us as follows:

Euroclear and Clearstream each hold securities for their customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream customers are worldwide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system, either directly or indirectly.

Clearing and Settlement Procedures

General. The Taxable Bonds sold in offshore transactions will be initially issued to investors through the book-entry facilities of DTC, or Euroclear and Clearstream in Europe if the investors are participants in those systems, or indirectly through organizations that are participants in the systems. For any of such Taxable Bonds, the record holder will be DTC's nominee. Euroclear and Clearstream will hold omnibus positions on behalf of their participants through customers' securities accounts in Euroclear's and Clearstream's names on the books of their respective depositories.

The depositories, in turn, will hold positions in customers' securities accounts in the depositories' names on the books of DTC. Because of time zone differences, the securities account of a Euroclear or Clearstream participant as a result of a transaction with a participant, other than a depository holding on behalf of Euroclear or Clearstream, will be credited during the securities settlement processing day, which must be a business day for Euroclear or Clearstream, as the case may be, immediately following the DTC settlement date. These credits or any transactions in the securities settled during the processing will be reported to the relevant Euroclear participant or Clearstream participant on that business day. Cash

received in Euroclear or Clearstream as a result of sales of securities by or through a Euroclear participant or Clearstream participant to a DTC Participant, other than the depository for Euroclear or Clearstream, will be received with value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream cash account only as of the business day following settlement in DTC.

Transfers between participants will occur in accordance with DTC rules. Transfers between Euroclear participants or Clearstream participants will occur in accordance with their respective rules and operating procedures. Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Euroclear participants or Clearstream participants, on the other, will be effected in DTC in accordance with DTC rules on behalf of the relevant European international clearing system by the relevant depositories; however, cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in the system in accordance with its rules and procedures and within its established deadlines in European time. The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its depository to take action to effect final settlement on its behalf by delivering or receiving securities in DTC, and making or receiving payment in accordance with normal procedures for same day funds settlement applicable to DTC. Euroclear participants or Clearstream participants may not deliver instructions directly to the depositories.

We will not impose any fees in respect of holding the Taxable Bonds; however, holders of book-entry interests in the Taxable Bonds may incur fees normally payable in respect of the maintenance and operation of accounts in the Clearing Systems.

Initial Settlement. Interests in the Taxable Bonds will be in uncertified book-entry form. Purchasers electing to hold book-entry interests in the Taxable Bonds through Euroclear and Clearstream accounts will follow the settlement procedures applicable to conventional Eurobonds. Book-entry interests in the Taxable Bonds will be credited to Euroclear and Clearstream participants' securities clearance accounts on the business day following the date of delivery of the Taxable Bonds against payment (value as on the date of delivery of the Taxable Bonds). DTC participants acting on behalf of purchasers electing to hold book-entry interests in the Taxable Bonds through DTC will follow the delivery practices applicable to securities eligible for DTC's Same Day Funds Settlement system. DTC participants' securities accounts will be credited with book-entry interests in the Taxable Bonds following confirmation of receipt of payment to us on the date of delivery of the Taxable Bonds.

Secondary Market Trading. Secondary market trades in the Taxable Bonds will be settled by transfer of title to book-entry interests in the Clearing Systems. Title to such book-entry interests will pass by registration of the transfer within the records of Euroclear, Clearstream or DTC, as the case may be, in accordance with their respective procedures. Book-entry interests in the Taxable Bonds may be transferred within Euroclear and within Clearstream and between Euroclear and Clearstream in accordance with procedures established for these purposes by Euroclear and Clearstream. Book-entry interests in the Taxable Bonds may be transferred within DTC in accordance with procedures established for this purpose by DTC. Transfer of book-entry interests in the Taxable Bonds between Euroclear or Clearstream and DTC may be effected in accordance with procedures established for this purpose by Euroclear, Clearstream and DTC.

Special Timing Considerations. You should be aware that investors will only be able to make and receive deliveries, payments and other communications involving the Taxable Bonds through Euroclear or Clearstream on days when those systems are open for business. In addition, because of time-zone differences, there may be complications with completing transactions involving Euroclear and/or Clearstream on the same business day as in the United States. U.S. investors who wish to transfer their interests in the Taxable Bonds, or to receive or make a payment or delivery of Taxable Bonds, on a

particular day, may find that the transactions will not be performed until the next business day in Brussels if Euroclear is used, or Luxembourg if Clearstream is used.

Clearing Information. We expect that the Taxable Bonds will be accepted for clearance through the facilities of Euroclear and Clearstream. The international securities identification numbers, common codes and CUSIP numbers for the Taxable Bonds are set out on the front cover and under the caption "SUMMARY OF THE OFFERING" in this Offering Memorandum.

General. None of Euroclear, Clearstream or DTC is under any obligation to perform or continue to perform the procedures referred to above, and such procedures may be discontinued at any time.

Neither us nor any of our agents will have any responsibility for the performance by Euroclear, Clearstream or DTC or their respective direct or indirect participants or account holders of their respective obligations under the rules and procedures governing their operations or the arrangements referred to above.

The information above concerning the Clearing Systems has been obtained from sources that the Underwriters believe to be reliable, but the Underwriters take no responsibility for the accuracy thereof.

ESTIMATED SOURCES AND USES OF FUNDS*

The proceeds to be received from the sale of the Series 2018 Bonds, together with certain other funds as set forth below, are expected to be applied as set forth below:

Estimated Sources of Funds:	**Series 2018A Bonds**	**Series 2018B Bonds**	**Series 2018C Bonds**	**Taxable Bonds**	**Total**
Par Amount					
Plus/Less Premium/Discount					
Trustee Held Funds					
Obligated Group Funds					
Total Sources of Funds:					
Estimated Uses of Funds:					
Refinance Prior Debt					
Costs of Issuance[(1)]					
Total Uses of Funds:					

* Preliminary, subject to change. Includes *de minimis* rounding adjustments.

(1) Includes Underwriters' discount, financial advisor fee, legal fees, accounting fees, rating agency fees, bank fees, printing costs and other miscellaneous expenses relating to the issuance of the Series 2018 Bonds and the refinancing of the Prior Debt.

ESTIMATED DEBT SERVICE SCHEDULE*

The following table sets forth for each year ending December 31, the estimated amounts required in each year for the payment of the principal and interest on the Series 2018 Bonds, together with the estimated principal and interest payable with respect to certain outstanding Long-Term Indebtedness of the Obligated Group secured by Obligations issued under the Master Indenture, and assuming the refinancing of the Prior Debt.

Year Ending December 31	Taxable Bonds Principal and Interest	Debt Service Series 2018 Tax-Exempt Bonds	Debt Service on certain other Long-Term Indebtedness secured by the Master Indenture[1]	Total Debt Service
2019			$ 91,578,054	
2020			92,664,790	
2021			92,297,622	
2022			92,530,989	
2023			92,040,637	
2024			160,919,728	
2025			88,819,485	
2026			88,346,860	
2027			87,640,110	
2028			90,523,125	
2029			90,288,233	
2030			90,249,589	
2031			89,624,986	
2032			89,521,062	
2033			89,597,132	
2034			89,353,727	
2035			89,271,216	
2036			89,174,167	
2037			89,097,296	
2038			89,000,343	
2039			56,197,603	
2040			56,161,113	
2041			56,194,109	
2042			56,202,347	
2043			56,202,706	
2044			56,200,169	
2045			67,722,047	
2046			51,043,550	
2047			51,040,700	
2048			26,886,800	
2049			26,973,425	
2050			27,010,675	
2051			27,009,150	
			--	
Total			**$2,487,383,542**	

* Preliminary, subject to change. Includes *de minimis* rounding adjustments.

[1] Certain existing Long-Term Indebtedness for Advocate Network Corporation and its affiliates that will remain outstanding after the issuance of the Series 2018 Bonds bears interest at variable rates. The calculations here assume the following with respect to that Long-Term Indebtedness (i) that the Series 2008C Bonds bear interest at an average annual interest rate of approximately 3.605% to their maturity date, based on an interest rate swap currently in place; (ii) that the Series 2011B Bonds, the Series 2011C Bonds, and the Series 2011D Bonds bear interest at an average annual interest rate of 3.00% to their maturity date; (iii) that the Series 2003A Bonds and the Series 2003C Bonds, which currently bear interest at Long-Term Rates and are subject to mandatory tender at the end of their respective current Long Term Rate Period, bear interest at an annual interest rate of 1.375% and 1.60% (their respective current interest rates) through their respective maturity dates; and (iv) that the Series 2008A-1 Bonds, Series 2008A-2 Bonds and the Series 2008A-3 Bonds, which currently bear interest at Long-Term Rates and are subject to mandatory tender at the end of their current Long Term Rate Period in 2020, 2020 and 2019, respectively, bear interest at an average annual interest rate of 5.00% through their respective maturity dates. No assurance can be given that such interest rates will be achieved or maintained as long as the Series 2018B Bonds are outstanding. For additional information regarding such bonds, see "FINANCIAL INFORMATION – Master Indenture Obligations" in ***APPENDIX A*** hereto. For a description of certain other Long-term Indebtedness of the System secured under the Master Indenture and included in this table that will remain outstanding on the date of issuance of the Series 2018B Bonds, see ***APPENDIX A*** hereto in the table under the heading "FINANCIAL INFORMATION –Master Indenture Obligations." Does not include (i) certain guaranties outstanding as Obligations under the Master Indenture and certain bank agreements secured by Obligations under the Master Indenture, each as described in ***APPENDIX A*** under the heading "FINANCIAL INFORMATION – Master Indenture Obligations" or (ii) Obligations securing certain interest rate swaps, as described in ***APPENDIX A*** under the heading "FINANCIAL INFORMATION – Interest Rate Swaps."

BONDHOLDERS' RISKS

General

As described herein under the heading, "SECURITY FOR THE TAXABLE BONDS," the principal of and interest on the Taxable Bonds are payable solely from amounts payable by the Corporation under the Bond Indenture and by the Obligated Group on the Taxable Bonds Obligation. No representation or assurance is given or can be made that revenues will be realized by the Obligated Group or the Restricted Affiliates in amounts sufficient to pay debt service on the Taxable Bonds when due and other payments necessary to meet the obligations of the Obligated Group or the Restricted Affiliates. These revenues are affected by and subject to conditions that may change in the future to an extent and with effects that cannot be determined at this time. The risk factors discussed below as well as those factors discussed under "SECURITY FOR THE TAXABLE BONDS" (including the lack of certain covenants) should be considered in evaluating the ability of the Members of the Obligated Group and any Restricted Affiliates to make payments in amounts sufficient to provide for the payment of the principal of and interest on the Taxable 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 or Make-Whole Redemption Price of, and interest on, the Taxable Bonds. The Underwriters have not made any independent investigation of the extent to which any such factors may have an adverse effect on the revenues of the System.

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

Economic Conditions and Financial Markets

The disruption of the credit and financial markets several years ago led to volatility in the securities markets, significant volatility in investment portfolios, increased business failures and consumer and business bankruptcies, and was a major cause of the economic recession in 2008 and 2009.The health of the economy has a direct impact on the System and also increases stress on the budgets of the states. Hospitals feel the impact of higher unemployment, reduced personal income earning expectations and diminished access to private insurance. Budget pressures have impacted the State of Illinois, resulting in more stringent Medicaid eligibility standards and delays of payment of amounts due under Medicaid and other state or local payment programs.

Effects of a weaker economy on hospitals and physician practice operations can result in (but are not limited to) lower patient volumes as patients defer elective health care services; rising charity care and bad debt expense; budget pressures on federal and state governments intensifying reviews of Medicare and Medicaid reimbursement rates; unfavorable changes in payor mix away from commercial payors; financial pressures and decreasing membership at health care insurers, contributing to lower commercial rate increases for health care providers; and increased difficulty attracting philanthropy.

The American Recovery and Reinvestment Act of 2009 ("ARRA") includes several provisions that were intended to provide financial relief to the health care sector, including a requirement that states promptly reimburse healthcare providers and a subsidy to the recently unemployed for health insurance premium costs. ARRA also established a framework for the implementation of a nationally-based health information technology program, including incentive payments which commenced in 2011 to eligible

healthcare providers to encourage implementation of health information technology and electronic health records. Assuming federal funding is available, such incentive payments are payable to eligible health care providers that comply with the applicable federal requirements, including demonstrating "meaningful use" of electronic health records, in each period over a four year period. Pursuant to ARRA, commencing in 2015, Medicare eligible providers that do not demonstrate "meaningful use" of electronic health records will receive downward adjustments in their Medicare reimbursement. The System demonstrated "meaningful use" of electronic health records at the majority of its health care facilities, and has received incentive payments available under ARRA. There is no assurance that such payments will continue. The Centers for Medicare & Medicaid Services ("CMS"), an agency of the United States Department of Health and Human Services ("HHS"), has commenced audits of providers that have received meaningful use payments. Several of the System's hospitals have received audit requests from CMS related to meaningful use, and no material audit adjustments have been made as a result of these audits.

In response to the economic recession in 2008 and 2009, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Financial Reform Act") was enacted in 2010. The Financial Reform Act included broad changes to the existing financial regulatory structure, including the creation of new federal agencies to identify and respond to risks to the financial stability of the United States. In June 2017, the House approved a Dodd-Frank repeal bill, the Financial Choice Act, which scales back or eliminates many of the post-economic crisis rules. In November 2017, the Economic Growth, Regulatory Relief, and Consumer Protection Act (the "Economic Growth Act") was introduced to the Senate. The Economic Growth Act is a more targeted reform bill than the Financial Choice Act, but there is a significant amount of overlap. The Economic Growth Act became law in May 2018. The effect of the Economic Growth Act is unclear.

Debt Limit Increase

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

In February 2018, President Trump signed a bill suspending the debt ceiling to March 1, 2019. System management is unable to determine at this time what impact any reinstatement of the debt ceiling or the future failure to increase the federal debt limit if it is reinstated may have on the operations and financial condition of the System, although such impact may be material. Additionally, the market price or marketability of the Obligated Group's outstanding bonds, including the Taxable Bonds, in the secondary market may be materially adversely impacted by any failure to increase the federal debt limit.

Impact of Investment Performance

The System has significant holdings in a broad range of investments. Investment income (including both realized and unrealized gains on investments) has contributed significantly to the System's financial results over recent years. Market fluctuations have affected and will likely continue to materially affect the value of those investments and those fluctuations may be and historically have been material. The state of the economy and market disruptions have exacerbated the market fluctuations. Reduction in investment income and the market value of its investments may have a negative impact on the System's financial condition, including its ability to provide its own liquidity for variable rate debt or to fund capital expenditures from cash and investments.

Affordable Care Act

In March 2010, the Patient Protection and Affordable Care Act (the "Affordable Care Act") was enacted to overhaul the United States health care system and regulate many aspects of health care delivery and financing. A significant component of the Affordable Care Act is reformation of the sources and methods by which consumers will pay for health care for themselves and their families, and by which employers will procure health insurance for their employees and dependents of their employees and, as a consequence, expansion in the overall number of consumers of health care services. The Affordable Care Act was designed, in substantial part, to make available, or subsidize the premium costs of, health care insurance for some of the millions of currently uninsured (or underinsured) consumers, in particular those who fall below certain income levels. The Affordable Care Act proposed to accomplish that objective through various provisions, summarized as follows: (i) the creation of active markets (referred to as exchanges) in which individuals and small employers can purchase health care insurance for themselves and their families or their employees and dependents; (ii) the provision of means-tested subsidies for premium costs to certain individuals and families based upon their income relative to federal poverty levels; (iii) the requirement that individual consumers obtain, and certain employers provide, a minimum level of health care insurance, and the provision of a penalty in the form of taxes on consumers and employers that do not comply with these mandates; (iv) the expansion of private commercial insurance coverage generally through such reforms as prohibitions on denials of coverage for pre-existing conditions and elimination of lifetime or annual cost caps; and (v) the expansion of existing public programs for individuals and families, including Medicaid. The Tax Cuts and Jobs Act (discussed under the caption "BONDHOLDERS' RISKS – Tax Reform" below) eliminates the individual mandate described in (iii) above, in 2019. The effect of the repeal of the individual mandate cannot be predicted with certainty, but will likely result in fewer individuals carrying health insurance.

The Affordable Care Act also contains more than thirty-two sections related to health care fraud and abuse and program integrity, as well as significant amendments to existing criminal, civil and administrative anti-fraud statutes. The potential for increased legal exposure due to the Affordable Care Act's enhanced compliance and regulatory requirements, disclosure and transparency obligations, quality of care expectations and extraordinary enforcement provisions could increase the System's operating expenses.

With respect to charity care, the Affordable Care Act contains many features from previous tax exemption reform proposals, including a set of sweeping changes applicable to charitable hospitals exempt under Section 501(c)(3) of the Internal Revenue Code. The Affordable Care Act: (i) imposes new eligibility requirements for 501(c)(3) hospitals, coupled with an excise tax for failures to meet certain of those requirements; (ii) requires mandatory IRS review of the hospitals' entitlement to exemption; (iii) sets forth new reporting requirements, including information related to community health needs assessments and audited financial statements; (iv) requires hospitals to adopt and publicize a financial assistance policy, limit charges to patients who qualify for financial assistance to the lowest amount charged to insured patients, and control the billing and collection processes; and (v) imposes further reporting requirements on the Secretary of the Treasury regarding charity care levels. Failure to satisfy these conditions may result in the imposition of fines and the loss of tax exempt status.

Some provisions of the Affordable Care Act may adversely affect the System's operations more significantly than others, or have no effect on the System at all. The demographics of the markets in which the System provides services, the mix of services that any hospital or other facility provides to its community and other factors that are unique to a hospital or other facility that are likely to affect operations, financial performance or financial conditions are described below. This listing is not intended to be, nor should it be considered to be comprehensive. The Affordable Care Act is complex and includes a myriad of new programs and initiatives, as well as changes to existing programs, policies, practices and laws.

Through September 30, 2019, payments under "Medicare Advantage" programs (Medicare managed care) will be reduced, which may result in increased premiums or out-of-pocket costs to Medicare beneficiaries enrolled in Medicare Advantage plans. Those beneficiaries may terminate their participation in such plans and opt for the traditional Medicare fee-for-service program. The reduction in payments to Medicare Advantage programs may also lead to decreased payments to providers by managed care companies operating Medicare Advantage programs. All or any of these outcomes will have a disproportionately negative effect upon those providers with relatively high dependence upon Medicare managed care revenues.

The Affordable Care Act provides for the expansion of Medicaid programs to a broader population with incomes up to 133% of federal poverty levels. In its decision in *National Federation of Independent Business v. Sebelius*, the U.S. Supreme Court determined that any expansion of Medicaid must be at the option of individual states, and not a mandatory obligation. The Court reasoned that permitting the federal government to condition the availability of current Medicaid funding on participation in the expanded Medicaid program equated to a mandate that States participate in the expanded Medicaid program. Although the federal government is expected to almost entirely fund the expanded Medicaid program through 2020, some state officials have expressed reluctance to participate, citing concerns that the administrative and other costs associated with enrolling and managing potentially millions of new individuals would add further stress to already depleted state resources. In the event a state chooses not to participate in the expanded Medicaid program, the net effect of the reforms contained in the Affordable Care Act could be significantly reduced. Illinois is currently participating in the expanded Medicaid program. Wisconsin has not decided to expand its Medicaid program. Providers operating in markets with large Medicaid and uninsured populations are anticipated to benefit from increased revenues resulting from increased utilization and reductions in bad debt or uncompensated care. However, the increase in utilization can also be expected to increase the cost of providing that care.

The Hospital Readmissions Reduction Program, which began in October 2012, reduces, by specified percentages, Medicare payments to hospitals that have a high rate of potentially preventable readmissions of Medicare patients with certain clinical conditions to account for such excessive and "preventable" costs associated with hospital readmissions within 30 days of discharge. The maximum penalty is 3%.

The Affordable Care Act also established a program which began in 2014 and imposes financial penalties on hospitals that perform poorly with regard to certain Hospital Acquired Conditions ("HACs"). Payment to certain hospitals discharging patients for HACs will be subject to a 1% reduction determined after any payment adjustment for other programs, such as the Hospital Readmissions Reduction Program and the value-based purchasing program.

The Affordable Care Act enhanced the ability to detect and reduce waste, fraud, and abuse in public programs through provider enrollment screening, enhanced oversight periods for new providers and suppliers, an enrollment moratoria in areas identified as being at elevated risk of fraud in all public programs, and by requiring Medicare and Medicaid program providers and suppliers to establish compliance programs. The Affordable Care Act required the development of a database to capture and share health care provider data across federal health care programs and provides for increased penalties for fraud and abuse violations and increased funding for anti-fraud activities.

The Affordable Care Act also created a Center for Medicare and Medicaid Innovation to test innovative payment and service delivery models and implement various demonstration programs and pilot projects designed to test, evaluate, encourage and expand new payment structures and methodologies to reduce health care expenditures while maintaining or improving quality of care. Such programs and projects include bundled payments under Medicare and Medicaid, as well as comparative effectiveness research programs that compare the clinical effectiveness of medical treatments and develop

recommendations concerning practice guidelines and coverage determinations. Other provisions encourage the creation of new health care delivery programs, such as accountable care organizations ("ACOs") or combinations of provider organizations, that voluntarily meet quality thresholds in order to either share in the cost savings they achieve for the Medicare program, or pay a penalty should quality of care decline or costs increase. The System was selected to participate in the Medicare Shared Savings Program ("Shared Savings Program") ACO, a multifaceted new program sponsored by CMS. The Shared Savings Program, one of three federal ACO programs, is intended to provide financial incentives for providers to better coordinate patient care through use of electronic medical records and performance metrics that lead to savings if patients' health outcomes, safety and care experience improve. The outcomes of these projects and programs, including the System's participation in the Shared Savings Program ACO, and their effect on payments to providers and financial performance, cannot be predicted.

The Affordable Care Act has made several changes to the Medicare program, ranging from changes to amounts payable to providers through imposition, directly or indirectly, of quality assurance measures. The Affordable Care Act also either amended or added certain provisions of the Federal False Claims Act regarding the timing of the obligation to reimburse overpayments. Further, the Affordable Care Act authorizes the Secretary of HHS to exclude a provider's participation in the Medicare, Medicaid and CHIP programs, as well as to suspend payments to a provider, pending an investigation of a credible allegation of fraud against the provider. The System expects that the level of review and audit to which it and other health care providers are subject will increase. To foster compliance with applicable laws, the System has a compliance program that is designed to detect and correct potential violations of laws and regulations related to its programs. The System 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 the System and its subsidiaries have either not yet been interpreted by regulators or the courts or have been subject to varying interpretations.

As a result, regulators may contend that they have broad authority to assert claims for noncompliance and assert claims or penalties based upon their interpretation of those requirements. It is not possible to determine the impact, if any, such claims or penalties would have upon the System and its subsidiaries.

Several attempts to amend and repeal provisions of the Affordable Care Act have been made since its passage. While previous attempts to amend and repeal the Affordable Care Act have not been successful, the future of the Affordable Care Act is uncertain. President Trump and certain Congressional leaders have included a repeal of all or a portion of the Affordable Care Act in their respective legislative agendas. In the last year, Congress has introduced several bills to repeal and replace the Affordable Care Act, but no full repeal bills have passed both the House and Senate. However, the Tax Cuts and Jobs Act discussed below, repeals the "individual mandate" provision of the Affordable Care Act beginning in 2019. It is not possible to predict whether the Affordable Care Act will be further modified in any significant respect or wholly repealed. Any legislative action that (i) reduces federal healthcare program spending, (ii) increases the number of individuals without health insurance, (iii) reduces the number of people seeking healthcare, or (iv) otherwise significantly alters the healthcare delivery system or insurance markets could have a material adverse effect on the System's businesses, results of operations, cash flow, capital resources, and liquidity.

Executive branch actions can also have a significant impact on the viability of the Affordable Care Act. In 2017, President Trump issued an executive order requiring all federal agencies with authorities and responsibilities under the Affordable Care Act to "exercise all authority and discretion available to them to waive, defer, grant exemption from, or delay" sections of the Affordable Care Act that impose "unwarranted economic and regulatory burdens" on states, individuals or healthcare providers. It is impossible to predict the effect of this executive order. In 2017, President Trump issued

another executive order, which directs the Labor Department to study how to make it easier for small businesses, and possibly individuals, to collectively buy health insurance through association health plans. The order also allows more consumers to purchase short-term health insurance plans and directs agencies to lengthen the coverage of these policies and permit renewals. That same day, President Trump stated that he plans to end the cost-sharing subsidies that the government currently pays insurance companies in order to reduce deductibles and co-pays for many low-income people. These executive orders have the potential to significantly impact the insurance exchange market by reducing the number of healthy individuals in the Affordable Care Act health insurance exchanges. Further, insurance companies may sustain financial losses and, as a result, increase insurance premiums for health plans offered in the exchange or cease to participate in the exchange. The exchanges have had increasing difficulty in attracting and retaining enough insurance companies to create a competitive insurance market, or even to participate at all. The reasons for withdrawal of many insurance companies from the exchanges are varied and disputed. In light of these challenges and recent executive branch actions, it is unclear whether the exchanges will continue to be a viable mechanism for the provision of health insurance in the future

Government efforts to repeal or modify the Affordable Care Act may have an adverse effect on the System's businesses, results of operations, cash flow, capital resources and liquidity. Also there can be no assurances that any current health care laws and regulations, in addition to the Affordable Care Act, will remain in the current form. There can be no assurances that any potential changes to the laws and regulations governing healthcare would not have a material adverse financial or operational impact on the System.

Future Not For Profit Legislation

Other legislative proposals that could have an adverse effect on the System include: (i) any changes in the taxation of not for profit organizations or in the scope of their exemption from income, sales or property taxes; (ii) limitations on the amount or availability of tax exempt financing for organizations recognized under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"); and (iii) regulatory limitations affecting the System's ability to undertake capital projects or develop new services.

Legislative bodies have considered proposed legislation on the charity care standards that not for profit, charitable hospitals must meet to maintain their federal income tax exempt status under the Code as well as legislation mandating that such hospitals have an open-door policy toward Medicare and Medicaid patients and offer qualified charity care and community benefits in a non-discriminatory manner. Not for profit, charitable hospitals that violate these charity care and community benefit requirements could be subject to excise tax penalties and revocation of tax exempt status under the Code. As described above, because of the complexity of health reform generally, legislation beyond the Affordable Care Act is likely to be considered and enacted over time. The scope and effect of any such legislation cannot be predicted. Enactment of any such legislation or similar legislation, if enacted, may have the effect of subjecting a portion of the System's income to federal or state income taxes, or other tax penalties.

Tax Reform

In December 2017, President Trump signed into law "H.R. 1 - An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018," (the "Tax Cuts and Jobs Act"). The Tax Cuts and Jobs Act lowered corporate and individual tax rates and eliminated certain tax preferences and other tax expenditures. The Tax Cuts and Jobs Act also repealed effective January 1, 2019, a key provision of the Affordable Care Act known as the "individual mandate", which imposes a tax on individuals who do not obtain health insurance. Such repeal of the individual mandate may result in a higher uninsured rate, which may adversely affect the financial condition of the

System. The Tax Cuts and Jobs Act also eliminates the issuance of tax-exempt bonds to advance refund outstanding tax-exempt bonds. This could materially impact the market price or marketability of outstanding tax-exempt bonds issued by and on behalf of the Obligated Group and/or availability of borrowed funds for the System, particularly for capital expenditures, as well as the operations, financial position and cash flows of the System.

Budget Control Act of 2011

The Budget Control Act of 2011 (the "Budget Control Act") mandates significant reductions in federal spending for fiscal years 2012–2021. Subsequent legislation enacted by Congress extended these reductions through 2025. There is a substantial risk that Congress could act to extend or increase these across-the-board reductions.

Provisions of the Budget Control Act, as modified by the Taxpayer Relief Act of 2012 (the "Taxpayer Relief Act"), set in place a protocol for the sequestration resulting in an automatic 2% reduction in Medicare program payments for all healthcare providers and Medicare Advantage insurers effective March 27, 2013. The Bipartisan Budget Act of 2015, among other things, extended the 2% reduction to Medicare providers and insurers to at least March 31, 2025.

The Taxpayer Relief Act continues a number of Medicare policies known as "extenders." Those extenders include a wide variety of policies, including special provisions for some low-volume hospitals and charges for ambulance and physical therapy costs. The $30 billion cost of these provisions is expected to be partially offset by a reduction of payments to hospitals over the next decade, including an estimated $10.5 billion reduction in the projected Medicare hospital payments over ten years for inpatient or overnight care (through a downward adjustment in annual base payment increases), and a reduction in the Medicaid disproportionate share payments to hospitals by an additional $4.2 billion over the same period. These cuts are in addition to those made with respect to hospitals as part of the Affordable Care Act.

Because Congress may make changes to the budget in the future, it is impossible to predict the impact any spending cuts that are approved may have on the System. Further, with no long-term resolution in place for federal deficit reduction, hospital and physician reimbursement are likely to continue to be targets for reductions with respect to any interim or long-term federal deficit reduction efforts. These and any additional reductions in Medicare spending could have a material adverse effect upon the financial condition or operations of the System.

21st Century Cures Act

The 21st Century Cures Act (the "Cures Act"), which was signed into law in 2016, is designed to help accelerate medical product development and bring new innovations to patients who need them faster and more efficiently. Among other things, the Cures Act aims to improve the provision of telehealth services in the Medicare program and will advance processes for determining which Medicare treatments are covered. As a result, Medicare beneficiaries will gain increased access to healthcare services. It also contains provisions that will enable Medicare beneficiaries to find the most cost-effective treatments available by comparing differences in out-of-pocket costs and total expenditures for certain services. In addition, the Cures Act contains provisions that affect reimbursement for hospital outpatient departments by expanding the categories of projects that would be exempt from the decrease in the outpatient prospective payment system ("OPPS") reimbursement payments.

Not For Profit Healthcare Environment

Certain System Affiliates, including the Members of the Obligated Group, are Illinois not for profit corporations and Wisconsin nonprofit corporations, exempt from federal income taxation as organizations described in the Code. As not for profit tax-exempt organizations, those System Affiliates 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 System, as a whole, conducts large scale complex business transactions and is a major employer in the geographic service areas in which it operates. 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.

An increasing number of the operations or practices of healthcare providers have been challenged or questioned in an effort to determine whether they are consistent with the regulatory requirements for not for profit 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 in many cases are instead examinations of core business practices of the healthcare organizations. Areas that have come under examination have included, but have not been limited to pricing practices, billing and collection practices, the volume and definition of charitable care, community benefit standards, executive compensation, and exemption of property from state real property and state sales taxation. 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 not for profit tax-exempt healthcare organizations. These hearings and investigations have included a nationwide investigation of hospital billing and collection practices, charity care and community benefit standards, prices charged to uninsured patients and possible reforms to the not for profit sector. These hearings and investigations may result in new legislation. The effect of any such legislation, if enacted, on either the not for profit health care sector or the System cannot be determined at this time.

Challenges to Real Property Tax Exemptions. The real property tax exemptions afforded to certain nonprofit healthcare providers by certain state and local taxing authorities have been challenged on the grounds that the healthcare providers were not engaged in charitable activities. These challenges have been based on a variety of grounds, including allegations of aggressive billing and collection practices and excessive financial margins. Several of these disputes have been determined in favor of the taxing authorities or have resulted in settlements.

Illinois. The status of real property and sales tax exemptions for not for profit health care providers has been under scrutiny in the State of Illinois for a number of years. As a result, in June 2012, the State of Illinois enacted legislation (the "Illinois Property and Sales Tax Act") creating standards for real property and sales tax exemptions for health care providers operating in Illinois.

The Illinois Property and Sales Tax Act provides that a hospital owner or hospital affiliate satisfies the conditions for an exemption from real property taxation if the value of "qualified services or activities" for the hospital year equals or exceeds the relevant hospital entity's estimated property tax liability for the calendar year in which exemption or renewal of exemption is sought. Not for profit hospitals that satisfy this test will also be exempt from the Illinois sales and use tax. The Illinois Property and Sales Tax Act includes a list of the items that are included within the definition of "qualified services

and activities," including charity care (free or discounted services pursuant to the hospital's financial assistance policy, measured at cost); health services to low-income or underserved individuals (including, without limitation, financial or in-kind support relating to the care and treatment of low-income or underserved individuals); subsidies provided to state or local governments for programs related to health care for low-income or underserved individuals; support for state health care programs for low-income individuals; and the portion of unreimbursed costs attributed to providing, paying for, or subsidizing goods, activities or services that relieve the burden of government relating to health care for low income individuals, including, without limitation, the provision of medical education and training of health care professionals as well as the provision of emergency, trauma, burn, neonatal, psychiatric, rehabilitation or other special services.

System management cannot predict whether the Illinois Property and Sales Tax Act will have a material impact on the results of operations and financial condition of the System.

Several lawsuits have been ongoing in Illinois related to property tax exemption for not for profit hospitals, including challenges to constitutionality of the Illinois Property and Sales Tax Act. System management cannot predict whether these lawsuits will be successful or not. Further, System management cannot predict whether the Illinois Property and Sales Tax Act will have a material impact on the results of operations and financial condition of the System in regards to future property or sales tax exemption if an adverse ruling(s) is received.

Management of the System believes it is in material compliance with the Illinois Property and Sales Tax Act. However, no assurance can be given that the Illinois Department of Revenue or the State of Illinois would not take a contrary position or that one or more Obligated Group Members with property located in Illinois will not be found to have violated the Illinois Property and Sales Tax Act.

Wisconsin. In 2011, the Wisconsin Supreme Court affirmed that off-campus hospital outpatient facilities qualify for Wisconsin property tax exemption. Specifically, the Wisconsin Supreme Court held that a hospital outpatient facility operated by Wheaton Franciscan Healthcare in Wauwatosa, Wisconsin is exempt from the property tax under the same statute that exempts hospitals. Although this decision will allow Wisconsin hospitals to maintain property tax exemption for off-campus facilities that provide hospital-based outpatient services, there can be no assurance that future disputes challenging property tax exemption of other healthcare facilities will not arise within the State. As a result, while the Obligated Group is not aware of any current challenge to the tax exemption afforded to any of its material real property located in the State of Wisconsin, there can be no assurance that these types of challenges will not occur in the future.

IRS Form 990 for Tax-Exempt Organizations. The IRS Form 990 is used by most 501(c)(3) not for profit organizations exempt from federal income taxation to submit information required by the federal government. The Form 990 requires detailed disclosure of compensation practices, corporate governance, loans to management and others, joint ventures and other types of transactions, political campaign activities, and other areas the IRS deems to be compliance risk areas. The Form 990 also requires the disclosure of information on community benefit as well as reporting of information related to tax-exempt bonds, including compliance with the arbitrage rules and rules limiting private-use of bond-financed facilities, including compliance with the safe harbor guidance in connection with management contracts and research contracts. The Form 990 is intended to provide enhanced transparency as to the operations of exempt organizations. It is likely that the IRS will use the detailed information to assist in its enhanced enforcement efforts.

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.

The Fair Patient Billing Act relates to Illinois hospitals' billing and collection procedures, and the Hospital Uninsured Patient Discount Act requires all hospitals to provide discounts to uninsured patients meeting certain eligibility requirements and to establish a maximum collectible amount of 25% of annual family income for eligible individuals.

In 2012, the Governor of Illinois signed into law Public Act 97-0690 (the "Uninsured Charity Care Act"). The Uninsured Charity Care Act amends the Fair Patient Billing Act and the Hospital Uninsured Patient Discount Act to require, among other things, (i) the Attorney General to develop standard provisions in applications for financial assistance, together with rules for determining presumptive eligibility, and (ii) hospitals, other than rural hospitals or critical access hospitals, to provide a charitable discount of 100% of its charges for all medically necessary health care services exceeding $300 to uninsured individuals who apply for such a discount and who have a family income of not more than 200% of the federal poverty guidelines and rural hospitals or critical access hospitals to provide medically necessary free care to individuals with family income of up to 125% of the federal poverty guidelines. In 2013, the Attorney General's office released rules, which became effective on January 1, 2014, requiring specific disclosures in financial assistance applications and limiting the information that a hospital may require on its forms used to determine eligibility for assistance. These rules also required each hospital to develop and implement a presumptive eligibility policy identifying specific eligibility criteria by which a patient may be deemed eligible for financial assistance as soon as possible after receiving health care services and prior to the issuance of any bill for such services. System management believes that the Members of the Obligated Group are in substantial compliance with these rules.

The foregoing are some examples of the challenges and examinations facing not for profit 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 System. 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 Obligated Group has entered into floating to fixed interest rate swaps relating to certain series of bonds with certain counterparties (collectively, the "Swap Providers") pursuant to ISDA Master Agreements (together with any amendments, schedules, credit support annexes and confirmations thereunder, collectively the "Swap Agreements").

The System utilizes the Swap Agreements to manage its exposure to interest rate fluctuations. These 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 the 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 a Swap Agreement when it 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, or (iii) the Obligated Group will be able to obtain a replacement swap agreement with comparable terms.

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.

The payment obligations of the Obligated Group under the Swap Agreements will not alter or affect the obligation of the Obligated Group to pay or make payments with respect to the principal or redemption price of, and interest on the existing bonds. The Swap Providers have no obligation to make any payments with respect to the principal or redemption price of, or interest on the existing bonds. Neither the holders of the existing bonds nor any other person (other than the Obligated Group and the applicable Swap Providers) shall have any rights under the Swap Agreements or against the Swap Providers.

See "FINANCIAL INFORMATION – Master Indenture Obligations - Interest Rate Swaps" in ***APPENDIX A*** and Note 7 in ***APPENDIX B-1*** for additional information on Advocate Network Corporation and subsidiaries outstanding swaps and the Obligations issued under the Master Indenture securing such swaps.

Payment for Health Care Services

Third-Party Payment Programs. Most of the net patient service revenues of the 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 System Affiliates at rates other than the direct charges of the System Affiliates, which rates may be determined other than on the basis of 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 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, while 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, certain physician services, medical supplies, durable medical equipment, and certain prescription drugs. Medicaid is designed to pay providers for care given to the indigent and others who receive federal aid. Medicaid is funded by federal and state appropriations and administered by state agencies. CMS administers the Medicare program and works with the states to administer both the Medicaid program and other health care programs.

Health care providers have been and will continue to be significantly affected by changes made in the last several years in federal and state health care laws and regulations, particularly those pertaining to Medicare and Medicaid. For example, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 generally increased reimbursement levels while the Deficit Reduction Act of 2005 (the "DRA") contained, among other things, a number of provisions aimed at slowing 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. Such focus was further reflected in the provisions of the Affordable Care Act and Taxpayer Relief Act. Diverse and complex statutory and regulatory mechanisms, the effect of which are 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 these laws and/or regulations have been implemented, and others may be implemented in the future. System management 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. On a pro forma consolidated basis, approximately 30% of the net patient service revenues of the System were derived from the Medicare program for each of the fiscal years ended December 31, 2016 and December 31, 2017. 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, inpatient capital-related costs and outpatient services.

Inpatient Operating Costs. Acute care hospitals, such as those owned by the 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, procedure and other factors for each particular inpatient stay. The amount paid for each DRG is established prospectively by CMS 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 which 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 also implemented a documentation and coding adjustment to account for changes in payments under the Medicare Severity Diagnosis Related Group, or MS-DRG system, that are not related to changes in case mix. CMS was given the authority to retrospectively determine if the documentation and coding adjustments were adequate to account for changes in payments not related to changes in case mix. The Taxpayer Relief Act extends that authority through federal fiscal year 2017 for CMS to recover $11 billion in order to recoup any overpayments that occurred during the transition to the MS-DRG system. In a report dated April 15, 2016, the CMS Office of the Actuary estimated that in order to meet the recovery mandate larger than expected adjustments were made for federal fiscal year 2017.

The Affordable Care Act reduces the annual Medicare market basket updates each federal fiscal year through federal fiscal year 2019. The Affordable Care Act also provides that annual Medicare

market basket updates will be subject to productivity adjustments, further reducing Medicare payments to hospitals. The reductions in market basket updates and the productivity adjustments will have a disproportionately negative effect upon those providers that rely more upon Medicare. The combination of reductions to the market basket updates and the imposition of the productivity adjustments may, in some cases and in some years, result in reductions in Medicare payments per discharge on a year-to-year basis. Changes in the payments received for all services, including specialty services, could have an adverse effect on the Obligated Group. For further information regarding the Affordable Care Act and its provisions, see "BONDHOLDERS' RISKS –Affordable Care Act" herein.

As required by the DRA, hospitals that do not participate in the Hospital Inpatient Quality Reporting Program (the "Hospital Quality Initiative") will receive the market basket update, less 2%. CMS continues to update quality measures that hospitals must report in order to qualify for the full market basket update. The Obligated Group's hospitals participate in the Hospital Quality Initiative.

For federal fiscal year 2018, CMS increased acute care hospital rates by approximately 1.2% for those acute care hospitals that successfully participate in the Hospital Inpatient Quality Reporting Program and are meaningful electronic health record users. This increase reflects: (i) a market basket increase of 2.7%; (ii) a multi-factor productivity reduction of 0.6%; (iii) an additional reduction of 0.6% to remove the one-time 0.6% adjustment to offset the costs of the "two-midnight" policy; (iv) an increase of 0.4588% required by the Cures Act and (v) 0.75% reduction required by the Affordable Care Act.

The Secretary of HHS is required to review annually the DRG categories to take into account any new procedures and 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. There is no assurance that the 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. Since the implementation of the MS-DRG system, CMS created new DRGs and revised or deleted others in order to better recognize the severity of illness for each patient. CMS may only adjust DRG weights on a budget-neutral basis.

Two-Midnight Rule. Effective October 1, 2013, CMS adopted a policy known as the Inpatient Hospital Prepayment Review "Probe & Educate" review process or the "Two-Midnight" rule. The "Two-Midnight" specifies that hospital stays spanning two or more midnights after the beneficiary is properly and formally admitted as an inpatient will be presumed to be "reasonable and necessary" for purposes of inpatient reimbursement. CMS adopted the policy due to growing concern with the overuse of the "observation" status at hospitals. CMS found that Medicare beneficiaries were spending extended periods of time in observation units without being admitted as inpatients. Enforcement of the "Two-Midnight" rule was ultimately delayed until the end of 2015. Effective October 1, 2015, responsibility for initial review of inpatient admissions shifted from Medicare administrative contractors to quality improvement organizations ("QIO"), and recovery audit contractors will only conduct reviews for providers that have been referred by the related QIO. The Outpatient PPS Final Rule, effective January 1, 2016, revised the "Two-Midnight" rule to allow an exception for Medicare Part A payment on a case-by-case basis for inpatient admissions that do not satisfy the two-midnight benchmark if documentation in the medical records supports that the patient required inpatient care.

Following ongoing industry criticism and a legal challenge, CMS announced it would not continue to impose an inpatient payment cut to hospitals under the "Two-Midnight" rule starting in 2017. In its 2017 Medicare IPPS final rule, CMS eliminated the inpatient pay cuts associated with the "Two-Midnight" rule. In addition, the final rule instituted a net increase of 0.6% in fiscal year 2017 to offset the estimated cost of the "Two-Midnight" rule policy in fiscal years 2014-2016. System management is unable to predict whether the inpatient pay cuts associated with the "Two-Midnight" rule will be

reinstated in the future or what effect, if any, the "Two-Midnight" rule will have on future hospital revenues.

Hospital Value-Based Purchasing. The Affordable Care Act established a value-based purchasing program to link payments to quality and efficiency. The program operates by first reducing participating hospitals' Medicare payments by a specified percentage, then using the estimated total amount of those payment reductions to fund value-based incentive payments to hospitals based on their performance under the program. To create a pool to fund the value-based purchasing incentives, CMS will reduce the inpatient PPS DRG payment amounts for all discharges by 2% for 2018. The total amount collected from these reductions will be pooled each federal fiscal year and used to fund payments to reward hospitals that meet certain quality performance standards established by HHS.

In federal fiscal year 2018, CMS estimated it would distribute approximately $1.9 billion to hospitals based on their overall performance on a set of quality measures that are linked to improved clinical processes of care and patient satisfaction. Hospitals are scored based on a weighted average of patient experience scores using the Hospital Consumer Assessment of Healthcare Providers and Systems ("HCAHPS") survey and clinical process-of-care measures. CMS scores each hospital based on achievement (relative to other hospitals) and improvement ranges (relative to the hospital's own past performance) for each applicable measure. The Affordable Care Act provides that the pool will be fully distributed so hospitals that meet or exceed the quality performance standards receive greater reimbursement under the value-based purchasing program than they would have otherwise. Hospitals that do not achieve the necessary quality performance receive reduced Medicare inpatient hospital payments. The inpatient PPS final rule for 2018 provides that value-based purchasing incentive payments for 2018 will be based on four domains: clinical care, efficiency and cost reduction, safety and patient and caregiver centered experience of care/care coordination. The System is unable to predict how value-based purchasing will affect its results of operations, however, it is possible the program could negatively impact the revenues of the System.

Inpatient Capital Costs. With limited exceptions, 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 System Affiliates allocable to Medicare patient stays or to provide adequate flexibility in meeting the future capital needs of the System Affiliates.

Disproportionate Share Adjustments. Under PPS, hospitals that serve a disproportionate share of low-income patients may receive an additional disproportionate share hospital ("DSH") adjustment. 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. On a pro forma consolidated basis, for the year ended December 31, 2017, the System received DSH payments totaling approximately $21.6 million, for 17 of the System's hospitals. Under the Affordable Care Act, in federal fiscal year 2014 DSH payments from Medicare were slated to be reduced significantly. This reduction potentially will be adjusted to add-back payments based on the volume of uninsured and uncompensated care provided by each such hospital, and is anticipated to be offset by a higher proportion of covered patients as other provisions of the Affordable Care Act go into effect. On a pro forma consolidated basis, for the year ended December 31, 2017, the System received

uncompensated care pool payments totaling approximately $44.3 million. On September 13, 2013, CMS issued a final rule confirming its methodology, which accounted for statewide reductions in uninsured and uncompensated care, and reduced Medicaid DSH allotments to each state. Under this final rule, the federal share of Medicaid DSH payments was reduced by $500 million in fiscal year 2014 and $600 million in fiscal year 2015. Such reductions have been delayed several times and most recently under the budget bill signed into law by President Trump in February 2018. The DSH reductions are further delayed by two years, through 2018 and 2019. The budget bill maintains a $4 billion reduction for 2020 (consistent with current law) and increases the annual DSH reduction to $8 billion per year from 2021 through 2025. This would result in a higher DSH reduction for 2021 through 2023 relative to current law. Each DSH hospital is then paid out of the reduced DSH payment pool an amount allocated based on its level of uncompensated care. It is difficult to predict the full impact of the Medicare DSH reductions and uncompensated care payments. There is no assurance that any of the System's hospitals will receive DSH and uncompensated care payments in the future.

Costs of Outpatient Services. Hospital outpatient services, including hospital operating and capital costs, are reimbursed on a PPS basis. Several Medicare 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.

The actual cost of care, including capital costs, may be more or less than the reimbursements. Generally, the payment rates are adjusted annually based on estimated cost increases and other factors, including productivity and budget neutrality adjustments. There is no guarantee that APC rates, as they change from time to time, will cover actual costs of providing services to Medicare patients.

Certain provisions of the Affordable Care Act relating to OPPS services have been implemented that may impact the reimbursement and operations of hospitals across the country. Some of the specific reforms that have the potential to impact hospitals are: (i) reduction of the OPPS market basket increase factor by a productivity adjustment (effective 2012) and an additional adjustment for payments to hospital outpatient departments (from 2010 through 2019); (ii) application of similar productivity adjustments for payment for ambulatory surgical center ("ASC") services, which began with calendar year 2011; (iii) new provisions relating to the prohibition against referrals to a hospital by a physician who has an ownership or investment interest in the hospital; (iv) adjustments to the area wage adjustment factor for outpatient department services; and (v) changes related to payment for graduate medical education and indirect medical education.

Medicare Audits. The 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 System Affiliates to civil or criminal sanctions. System management is not aware of any situation whereby a material Medicare payment is being withheld from System Affiliates.

The 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 payments in certain circumstances. Although System management 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. System management does not believe that any other type of open 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 has in place internal compliance and training programs designed to minimize the risks of non-compliance with such requirements.

RAC Audits. The Recovery Audit Contractor Program ("RAC Program") is a CMS program that began in 2003 as a pilot program and became permanent in 2006. The Affordable Care Act expanded the RAC Program to include Medicare Part C (Medicare Advantage plans), Medicare Part D (prescription drug coverage) and the Medicaid program. The goal of the RAC Program is to identify and correct improper payments made to providers. RAC Program activities are executed by contractors selected by CMS, who are compensated on a contingency basis. Contractors have three years from the time a claim is paid to review that claim. However, no claims paid prior to October 2007 can be reviewed.

The System manages the RAC Program through a system-wide regulatory response task force designed to track, address and coordinate responses to various RAC Program activities at the System's sites. On a pro forma consolidated basis, through December 31, 2017 the System has been alleged to have received acute care overpayments of approximately $55.3 million as a result of the RAC permanent program. On a pro forma consolidated basis, through December 31, 2017 the System has won appeals of approximately $12.7 million, of these alleged acute care overpayments. On a pro forma consolidated basis, as of December 31, 2017 an additional approximately $0.1 million in alleged acute care overpayments are currently being appealed by the System. System management cannot anticipate the amount or volume of the System's past Medicare claims that will be reviewed under the RAC program or what the results of any such audits may be or whether the RAC Program will have a material impact on the results of operations and financial condition of the System.

Medical Education Costs. Medicare pays for certain costs associated with both direct and indirect medical education, including portions of the salaries of residents and teachers and other overhead costs directly attributable to medical education programs for training residents, nurses and allied health

professionals. There can be no assurance that payments to the System Affiliates for providing medical education will be adequate to cover the costs attributable to medical education programs for training residents, nurses and allied health professionals.

Physician Payments. The sustainable growth rate ("SGR") formula, a limit on the growth of Medicare payments for physician services, was enacted in 1997 and linked to changes in the U.S. Gross Domestic Product over a ten-year period. Each year since 2003, Congress provided temporary relief from scheduled "negative" updates that would have reduced physician payments. In April of 2015, Congress enacted the Medicare Access and Children's Health Insurance Program Reauthorization Act ("MACRA"). Specifically, MACRA eliminated the cut to physician payments required by the SGR formula, and substituted annual 0.5% payment increases through 2019. Thereafter, payment rates will be frozen at 2019 levels through 2025.

Furthermore, MACRA moved Medicare physician reimbursement from a fee-for-service to a pay-for-performance model that will continue to control the growth of physician payments based on clinical outcomes and quality reporting. In addition to the base payment methodology, physicians can earn merit-based payments based on factors including compliance with meaningful use of certified electronic health records technology ("CEHRT") and demonstration of quality-based medicine.

Beginning January 1, 2019, and carrying through 2025, physician payment adjustments will occur through the Quality Payment Program's two reimbursement tracks – the Merit-based Incentive Payment System ("MIPS") or an Advanced Alternative Payment Model ("APM"). In calculating physician payment adjustments, MIPS streamlines existing quality and value programs, accounting for physician performance under the meaningful use of electronic health records incentive program, the value-based modifier, and physician quality reporting system. Payments to physicians participating in APMs similarly accounts for performance under such programs. Beginning January 1, 2026, and effective January 1 of each subsequent calendar year, physician payments will be increased 0.75% for physicians who adequately participate in APMs, and 0.25% for those in MIPS. CMS designated calendar year 2017 as the "transition year" during which physician reporting obligations for participation in these programs were substantially reduced. The 2018 Quality Payment Program final rule continues this transition during the second performance year and implements several policies to accommodate smaller practices (including several smaller "virtual groups" within a health care delivery system) and allow exemptions from all or part of MIPS upon meeting certain criteria. The outcomes of these programs, including the likelihood of being revised or expanded or their effect on health care organizations revenues or financial performance cannot be predicted, and it remains unclear what effect this legislation will have on the System.

Provider-Based Standards. Some health care providers bill for services as "provider-based entities" and as, such, are subject to CMS' provider-based regulations. As of January 1, 2017, off-campus hospital outpatient departments established on or after November 2, 2015 are not eligible for payment under the OPPS for non-emergency services. Instead, in fiscal year 2017, CMS paid for non-emergency services performed at these facilities under the physician fee schedule. In calendar year 2018, CMS stated that it will reimburse at 40% of the OPPS. The new payment methodology for these locations and services will likely result in lower payments in hospitals than in previous years for providing the same services, if the services are provided in a new off-campus outpatient department or a new service added to an existing off-campus outpatient department. A hospital outpatient department is considered to be "off-campus" if it is located more than 250 yards from a main provider hospital or a remote location of a hospital. Administrative and judicial review are unavailable for determinations relating to applicable payment systems or determinations of whether a provider department is considered an off-campus hospital outpatient department.

Medicare Advantage. Medicare beneficiaries may obtain Medicare coverage through a managed care Medicare Advantage 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. With the exception of an MSA plan, each Medicare Advantage plan is required to provide benefits approved by the Secretary of HHS. A Medicare Advantage plan receives a monthly capitated payment from HHS for each Medicare beneficiary who has elected coverage under the plan. Health care providers, such as the System Affiliates, must contract with Medicare Advantage plans to treat Medicare Advantage enrollees at agreed upon rates. Alternatively, they 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 Affordable Care Act provides that, through September 30, 2019, payments under the Medicare Advantage programs will be reduced, which may result in increased premiums or out-of-pocket costs to Medicare beneficiaries enrolled in Medicare Advantage plans. These beneficiaries may terminate their participation in such Medicare Advantage plans and opt instead for the traditional Medicare fee-for-service program. The reduction in payments to Medicare Advantage plans may also lead to decreased payments to providers by managed care companies operating Medicare Advantage plans. 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 System Affiliates. All or any of these outcomes will have a disproportionately negative effect upon those providers that rely more upon Medicare managed care revenues. For further information regarding the Affordable Care Act and its provisions, see "BONDHOLDERS' RISKS – Affordable Care Act" herein. The Taxpayer Relief Act provided for modifications to the Medicare Advantage coding intensity adjustment, which adjusts Medicare Advantage payments to account for differences between fee-for-service Medicare and Medicare Advantage. The Taxpayer Relief Act increased the 2014 Medicare Advantage coding intensity adjustment by setting it at a minimum of 4.91%, and mandated an incremental increase in the adjustment annually starting in 2015 which is expected to further reduce payments by 0.25% each year.

Medicaid. 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. It covers approximately fifty million people, including children, the aged, blind, and/or disabled, and individuals who are eligible to receive federally assisted income maintenance payments. Pursuant to broad federal guidelines, the states and the United States territories (Puerto Rico, Guam, the Virgin Islands, American Samoa, and the Northern Mariana Islands) each (i) establish their own eligibility standards; (ii) determine the type, amount, duration, and scope of services; (iii) set the payment rates for services; and (iv) administer their own programs. Some states operate certain Medicaid programs under a waiver of some of the basic Medicaid requirements. Pursuant to the Medicaid program, the federal government supplements funds provided by the various states for medical assistance to the medically indigent. Payment for such medical and health services is made to hospitals in an amount determined in accordance with procedures and standards established by state law under federal guidelines. In Illinois, Medicaid is administered by the Illinois Department of Healthcare and Family Services ("IDHFS"), and in Wisconsin, Medicaid is administered by the Wisconsin Department of Health Services (the "WDHS").

Fiscal considerations of both the federal and state governments in establishing their budgets will directly affect the funds available to providers for payment of services rendered to Medicaid beneficiaries. Currently, Medicaid nursing facility payments are generally made using a prospective per diem payment based on cost, adjusted for various factors, including acuity. In addition, Medicaid inpatient hospital payments are generally made under a DRG, prospective payment system on a per discharge basis. It is

important to note that although the payment systems can be categorized in general terms, the specific methodology varies from state to state.

Approximately 7% and 8% of the pro forma consolidated net patient service revenues of the System were derived from the Illinois Medicaid program for the fiscal years ended December 31, 2016 and December 31, 2017, respectively, and approximately 4% of the pro forma consolidated net patient service revenues of the System were derived from the Wisconsin Medicaid program for each of the fiscal years ended December 31, 2016 and December 31, 2017. Significant changes have been and may continue to be made in the Medicaid program that could have a material adverse impact on the financial condition of the System.

Medicaid eligibility is generally based on a combination of financial and categorical eligibility requirements. Most states determine threshold Medicaid eligibility levels by reference to other federal financial assistance programs, including Temporary Assistance to Needy Families ("TANF") and Supplemental Security Income ("SSI"). TANF is a low-income assistance program for families with children that was adopted to replace the Aid to Families with Dependent Children program. SSI is a federal program that provides assistance to low-income aged, blind or disabled individuals.

The following paragraphs discuss certain Medicaid reimbursement rules for Illinois and Wisconsin to which the System is subject.

Illinois Medicaid Program. The State of Illinois continues to be adversely affected by fiscal considerations that affect its budget for programs such as Medicaid. Historically, federal payments and amounts 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. Also, the State of Illinois has routinely failed to pay Medicaid claims on a timely basis. Public Act 97-0691 provides that the maximum amounts of unpaid Medicaid Assistance bills received and recorded by IDHFS on or before June 30 of a particular fiscal year that may be paid by IDHFS from future fiscal year Medicaid Assistance appropriations is $100 million for each fiscal year. In June 2017, a federal judge ordered Illinois to pay $586 million per month to Medicaid providers to ensure continued medical care for Medicaid beneficiaries. Further, Illinois was required to send $2 billion to Medicaid providers during the 2018 fiscal year to pay down a backlog of unpaid bills totaling approximately $3.1 billion. The reduction in Medicaid services and programs, as well as any failure by 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.

Since 2008, the State of Illinois has had in place a hospital assessment program (the "2008 Hospital Assessment Program") that was approved by CMS and, as such, qualifies for federal matching funds under the Illinois Medicaid program. The 2008 Hospital Assessment Program was set to expire on June 30, 2018. In March 2018, Governor Rauner signed into law legislation to continue and redesign the 2008 Hospital Assessment Program (the "2018 Hospital Assessment Program") which was subsequently approved by CMS in June 2018. The 2018 Hospital Assessment Program sunsets effective June 30, 2020 in order to evaluate the program's effectiveness. A vote of the General Assembly will be required for the 2018 Hospital Assessment Program to continue. Under the 2018 Hospital Assessment Program, 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 can be no assurance that the State of Illinois will extend, or that CMS will approve an extension of, the 2018 Hospital Assessment Program past the June 30, 2020 sunset date. See Note 2 in ***APPENDIX B-1*** hereto for information regarding the financial impact of the 2008 Hospital Assessment Program on the Legacy Advocate System for fiscal years ended December 31, 2017 and 2016.

In 2012, the Governor of Illinois signed into law Public Act 97-0688, which originally provided for an enhanced hospital assessment program until the end of the 2014 calendar year, but was subsequently extended through the year 2018. The program requires each privately-owned Illinois hospital to pay an assessment equal to 0.008766% of its outpatient gross revenue, and is expected to generate a total assessment of approximately $290 million per year. Of this amount, $240 million will be used to attract federal Medicaid matching funds, which will result in total new Medicaid payments to hospitals of about $480 million, representing a net improvement of approximately $190 million. Payments will be made according to formulae to preserve and improve access to perinatal services, complex emergent services, outpatient services, hospital emergency and psychiatric services, outpatient services at specialty hospitals, salaried physician services in high volume Medicaid hospitals, and to maintain access to hospitals that serve a high percentage of patients who are dually eligible for Medicare and Medicaid, hospitals that provide high volumes of inpatient services to Medicaid patients, and hospitals that have a disproportionate share of their outpatient volume within the emergency room setting. Assessments will not be due and any monies paid will be refunded if these hospital access improvement payments are not eligible for federal Medicaid matching funds. The use of provider assessments has been criticized in Congress and by various federal agencies and may be restricted or eliminated in the future.

In 2013, Illinois enacted Public Act 98-0104, which expanded Medicaid health coverage to adults under the age of 65 with incomes under 138% of the federal poverty level. By August 2016, total enrollments under the Medicaid expansion exceeded 646,000. The federal government paid 100% of the cost of the newly eligible Medicaid recipients in 2014, 2015 and 2016, with the matching level phasing down (beginning in 2017, by about 2% per year) to 90% by 2020 and subsequent years.

In 2014, the Illinois legislature passed and the State's Governor signed into law the Omnibus Medicaid Bill, Senate Bill 741, as Amended by House Amendment #1 ("SB 741"). Among its provisions, SB 741 authorized a new hospital payment system, extended both the existing Medicaid assessment system and enhanced Medicaid assessment system to July 1, 2018 (see discussion above regarding extension of Medicaid assessment to June 30, 2020), and provided that IDHFS request federal funding under the Affordable Care Act for newly eligible Medicaid patients. The new hospital payment system became effective July 1, 2014. The goal of the new payment system was to better align the payment for services rendered to Medicaid patients with the hospitals providing the services. Under the new hospital payment system, rates paid are based on more current utilization data with a greater emphasis on accurate coding of claims. Quarterly fixed payments are replaced with increased payments on a per claim basis. Outpatient rates were also increased. IDHFS requested, and in January 2015 CMS approved, federal funding for hospitals serving newly eligible Medicaid recipients under the Affordable Care Act, retroactive to March 1, 2014. The distribution of this new funding was designed to mirror the hospital assessment systems' distributions.

Illinois Budget. The State of Illinois continues to be adversely affected by fiscal considerations that affect its budget for programs such as Medicaid. Along with education and pensions, Medicaid is one of the key cost drivers in the State of Illinois budget. After several years of not passing complete budgets, in June 2018, Governor Rauner signed a fiscal 2019 balanced budget (the "2019 State Budget"). The 2019 State Budget maintains full funding for Medicaid with a $14.5 billion funding level that is intended to allow Medicaid bills to be processed on a timely basis.

Inpatient Hospital Services. Payment for inpatient hospital services is made under a PPS, rather than a cost reimbursement system, using Medicare DRG rates and is modified by the State of Illinois. 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 operated predominantly in Cook County, but was expanded in 2018 to cover all counties in Illinois. The expansion adds 550,000 clients in 72 counties. The IDPH contracts with HMOs and Managed Care Community Networks to provide health services to managed care enrollees. Five health plans will provide services for Medicaid clients.

Medicaid Disproportionate Share Payments. Aimed at maintaining access to hospital care for vulnerable patients, Medicaid DSH payments offer additional Medicaid payments to mitigate the financial pressure placed upon hospitals that serve disproportionately large populations of low-income patients. The total payments within a state have long been capped according to state-specific "allotments." Under the Affordable Care Act, however, a state's Medicaid DSH allotment from federal funds will be reduced. For further information regarding DSH reductions, see "BONDHOLDERS' RISKS – Payment for Health Care Services – Disproportionate Share Adjustments" herein.

Illinois Accountable Care Entities. In addition to expanding Medicaid health coverage, Public Act 098-0104 introduced a new form of coordinated care in Illinois with respect to new Medicaid enrollees known as the Accountable Care Entity ("ACE"). ACEs have the following elements: (i) ACEs will be organized by health care providers and will coordinate a network of Medicaid services; (ii) ACEs will initially enroll children and their family members, with an option to enroll "new eligible" adults under the Affordable Care Act; (iii) each ACE must be large enough to have an impact for a population of at least 40,000 clients in Cook County, 20,000 clients in collar counties, and 10,000 clients downstate; (iv) each ACE will include at minimum, primary care, specialty care, hospital and behavioral health services; (v) each ACE will have a governance structure that includes each type of health care provider; (vi) each ACE will build an infrastructure to support health care management functions among the health care providers in the network, such as health information technology, risk assessment tools, data analytics, and communication with Medicaid members; and (vii) each ACE will be on a three-year path to a payment structure other than fee-for-service (*e.g.* shared savings within eighteen months; partial risk after eighteen months, and full risk after three years).

Wisconsin Medicaid Program. Payments made to health care providers under the Medicaid program are subject to change as a result of federal or state legislative and administrative actions, including changes in the methods for calculating payments, the amount of payments that will be made for covered services and the types of services that will be covered under the program. Such changes have occurred in the past and may be expected to occur in the future, particularly in response to federal and state budgetary constraints. As described under the "BONDHOLDERS' RISKS – Affordable Care Act" above, one component of the Affordable Care Act is designed to incentivize states to expand their Medicaid programs to individuals earning up to 133% of the federal poverty level by offering additional Medicaid funding to participating states. The State of Wisconsin has decided not to expand its Medicaid programs to cover such individuals and thus has declined the additional federal funding tied to such

expansion. Instead, Wisconsin's Medicaid program is limited to individuals earning 100% of the federal poverty level.

Inpatient Hospital Services. Wisconsin Medicaid payments for inpatient services are based on a DRG system. While the Wisconsin Medicaid DRG system is similar to the Medicare DRG system, certain differences apply. Separate Medicaid base rates are paid for hospitals located in Milwaukee County and those located elsewhere in the state. The base rate is adjusted for a Medicaid DRG factor (different from the Medicare DRG factor) for each patient. As with the Medicare system, there is also an adjustment to the base rate for regional wage differences. There are also adjustments for indirect medical education, disproportionate share hospitals, rural hospitals, and cost outliers. There are additional payments for direct medical education and capital costs. A Wisconsin hospital with a total cost of treating Medicaid patients that exceeds the prospective payment rate will incur a loss on such services.

Outpatient Hospital Services. Under the Wisconsin Medicaid program, outpatient services are paid at an interim rate per visit, subject to a retrospective final settlement based on the hospital's audited cost report for that fiscal year as determined according to applicable Medicare and Medicaid standards and principles of reimbursement. The settlement amount is further limited by the lesser of the following amounts: (i) the hospital's customary outpatient charges; (ii) the sum of the allowable payment rates per outpatient visit effective for the settlement year (such rates are based on the hospital's 1987 costs, subject to an adjustment factor), multiplied by the number of Medicaid visits for the period; (iii) the sum of the interim clinical diagnostic laboratory reimbursement plus the lesser of (a) total outpatient charges for other services, or (b) total audited costs for other services; or (iv) allowable outpatient costs determined in accordance with Medicare and Medicaid principles. There is also an adjustment for rural hospitals.

Physician Payments. In Wisconsin, physicians are reimbursed for Medicaid covered services the lesser of the physician's usual and customary charge or the maximum allowable fee established by WDHS. The maximum allowable fees are based on various factors, including a review of the Wisconsin Legislature's medical expense budgetary constraints and other relevant economic information. Maximum allowable fees may be adjusted to reflect reimbursement limits on the availability of state and federal funding as specified in federal law.

Hospital Assessment Program. Since 2009, Wisconsin has assessed a fee on most Wisconsin hospitals (the "Hospital Tax"). In September 2017, the Governor signed into law the 2017-2019 Biennial Budget Act, which maintained the Hospital Tax at the same rate provided in the 2015-2017 state budget plan for the next two years. The 2017-2019 budget legislation also ended a similar tax that had been assessed on ambulatory surgical centers. The revenues from the Hospital Tax will be used to increase payments made to hospitals for services provided to Medicaid and other medically indigent patients. It is intended that these increased payments to hospitals will also result in increased revenues for the State of Wisconsin from the federal government's cost share for Medicaid services. See Note 4 in ***APPENDIX*** B-2 hereto for information regarding the financial impact of the Hospital Tax on the Legacy Aurora System for fiscal years ended December 31, 2017 and 2016. There can be no assurance that the Hospital Tax program will stay in effect as currently written.

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. There can be no assurance that patients will make payments of any such deficiencies.

Managed Care and Integrated Delivery System Development. 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 organizations ("MCOs"). 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.

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 System Affiliates have entered into contractual arrangements with PPOs, HMOs and other similar 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*** under the heading "INFORMATION CONCERNING THE SYSTEM – Sources of Net Patient Service Revenue; Managed Care."

Medicare law states that MCO and provider contracts may include a physician incentive plan only if (i) 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 (ii) 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. Alternatively, HHS, through the Office of Inspector General ("OIG"), may apply civil money penalties.

In general, MCOs 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 the cost of which will not be covered by the capitated rate paid by the MCO. See "Capitated Payments" below for more information.

Increased obligations on managed care payors imposed by the Affordable Care Act may negatively impact commercial managed care volumes and payment rates from managed care payors. Any material reductions in the contracted rates the System Affiliates receive for their services, coupled with any difficulties in collecting receivables from managed care payors, could have a material adverse effect on the System's financial condition.

State Laws. States also are increasingly regulating the delivery of health care services. Much of this increased regulation has centered on 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 MCOs 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 the system's effect 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 them. 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 specialists, 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 Corporation to meet its obligations under the Bond Indenture and the Members of the Obligated Group and the Restricted Affiliates to meet their respective obligations under the Master Indenture and the Taxable Bonds 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, as well as 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.

Licensing, Accreditation, Surveys, Audits and Investigations. Hospitals and health facilities, including those of the System, are subject to numerous legal, regulatory, professional and private licensing, certification and accreditation requirements. These include, but are not limited to, requirements relating to Medicare Conditions of Participation, requirements for participation in Medicaid, State licensing agencies, private payors and the accreditation standards of The Joint Commission, DNV-GL Healthcare or other nationally recognized accreditation agencies. Renewal and continuation of certain of these licenses, certifications and accreditations are based on inspections, surveys, audits, investigations or other reviews, some of which may require affirmative actions by the System. The System anticipates that it will be able to periodically renew currently-held licenses, certifications or accreditations when required. Nevertheless, adverse actions in any of these areas could occur and result in the loss of utilization, revenue or the ability of the System to operate all or a portion of its hospital and/or health facilities and, consequently, could have a material and adverse effect on the financial condition of the System.

Illinois Health Facilities Planning Act. The Members of the Obligated Group are 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 that (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 twenty 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 ("CON") or a certificate of exemption, from the Illinois Health Facilities and Services Review Board (the "HFSRB"), the issuance of which is governed by the provisions of the Planning Act. The Illinois Department of Public Health (the "IDPH"), with the prior approval of the HFSRB, prescribes rules, regulations, standards and criteria required to carry out the provisions and purposes of the Planning Act.

The Illinois General Assembly amended the Planning Act and established new capital expenditure minimum thresholds for hospital capital expenditures and for hospital major medical equipment acquisition, among other things, to be adjusted annually for inflation. Effective July 1, 2018, these thresholds are each $13,477,931. Capital projects exceeding these thresholds require a CON issued by the HFSRB. The Illinois General Assembly also extended the CON program until December 31, 2019.

***Wisconsin Regulation*.** Hospitals are subject to regulation and approval by WDHS. Generally, a hospital may have its approval suspended or revoked for substantial failure to comply with applicable regulatory requirements. However, a hospital may also have its approval suspended or revoked for mere failure to comply with certain regulatory requirements, including failure to pay taxes as certified by the Wisconsin Department of Revenue or acquisition of a hospital without obtaining required regulatory approvals. Hospitals in Wisconsin are not subject to a certificate of need requirement.

Federal Privacy Laws. The Health Insurance Portability and Accountability Act of 1996 ("HIPAA") added two prohibited practices, the commission of which may lead to civil monetary penalties: (i) 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 (ii) the practice of submitting claims for payment for medically unnecessary services. Violation of such

prohibited practices due to civil neglect could amount to civil monetary penalties ranging from $50,000 to $1.5 million for all identical violations in a calendar year and/or imprisonment. System management 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 ("Protected Health Information" or "PHI").

HHS promulgated privacy regulations under HIPAA (the "Privacy Rule") that protect the privacy of PHI maintained by health care providers (including hospitals), health plans, and health care clearinghouses (collectively, "Covered Entities") and provide individuals with certain rights regarding their PHI (including, for example, access to PHI, amending PHI, and receiving an accounting of disclosures of PHI). Security regulations have also been promulgated under HIPAA (the "Security Rule"). The Security Rule requires Covered Entities to have certain administrative, technical and physical safeguards in place to ensure the confidentiality, integrity and availability of all electronic PHI they create, receive, maintain or transmit. Additionally, HHS promulgated regulations to standardize the electronic transfer of information pursuant to certain enumerated transactions.

In 2015, the OIG released two reports that reviewed the Office of Civil Rights' ("OCR") enforcement of HIPAA. The first report (the "Privacy Report") suggests that OCR strengthen its oversight of Covered Entities' compliance with the Privacy Rule. The second report (the "Breach Enforcement Report") suggests that OCR strengthen its follow-up of reported HIPAA breaches. In response to the reports, there has been a dramatic increase in the number of HIPAA enforcement actions and settlements, and OCR announced plans to conduct random audits of covered entities and business associates beginning in 2016. Despite the implementation of network security measures by the System, its information technology systems may be vulnerable to breaches, ransom malware, hacker attacks, computer viruses, physical or electronic break-ins and other similar events or issues. Such events or issues could lead to the inadvertent disclosure of Protected Health Information or other confidential information which could have an adverse effect on the ability of the System to provide health care services, or could result in civil, criminal or monetary penalties.

The 2009 Health Information Technology for Economic and Clinical Health ("HITECH") Act significantly changed the landscape of federal privacy and security laws regarding PHI. The HITECH Act (i) extended the reach of HIPAA, certain provisions of the Privacy Rule, and the Security Rule; (ii) imposed a breach notification requirement on HIPAA Covered Entities and their business associates; (iii) limited certain uses and disclosures of PHI; (iv) increased individuals' rights with respect to PHI; and (v) increased enforcement of, and penalties for, violations of the privacy and security of PHI.

The HITECH Act also created a federal breach notification requirement that mirrors protections that many states have passed in recent years. This requirement provides that the System must notify patients of any unauthorized access, acquisition or disclosure of their unsecured PHI that poses significant risk of financial, reputational or other harm to a patient. In addition, a new breach notification requirement was established requiring reporting to the Secretary of HHS and, in some cases, local media outlets, of certain unauthorized access, acquisition or disclosure of unsecured PHI that poses significant risk of financial, reputational or other harm to a patient.

In 2013 HHS issued an omnibus final rule interpreting and implementing various provisions of the HITECH Act, including a final breach notification rule. In addition, the facilities of the System Affiliates are also subject to any state law that is related to the reporting of data breaches and more restrictive than the regulations and/or requirements issued under HIPAA and the HITECH Act.

Any violation of HIPAA, the HITECH Act or the regulations promulgated thereunder is subject to HIPAA civil and criminal penalties, including monetary penalties and/or imprisonment. The System believes that all of its health care facilities are in substantial compliance with HIPAA, the HITECH Act, and the rules promulgated thereunder. In 2013 four desktop computers were stolen during a burglary at one of the Legacy Advocate System's administrative support locations. The computers did not contain patient medical records but did contain certain confidential patient information. Affected patients were notified and offered free credit monitoring and identity theft protection. In July 2016, the Legacy Advocate System entered into a resolution agreement and a corrective action plan with the Department of Health and Human Services, Office of Civil Rights. Several class action cases relating to this matter have been dismissed, except for a class action negligence claim that is pending before the Circuit Court of Cook County (the "Circuit Court") and a class action breach of contract claim. The breach of contract claim was dismissed by the Circuit Court, but that dismissal is currently on appeal to the Illinois Appellate Court. Although the outcome of the litigation cannot be determined with certainty, management is not in possession of any information to suggest that the costs relating to the resolution of this incident will have a material adverse effect on the System's operations or financial condition.

Federal "Fraud and Abuse" Laws and Regulations. The federal health care program anti-kickback statute ("Anti-Kickback Statute") is a broad criminal statute that prohibits one person from "knowingly and willfully" giving (or offering to give) "remuneration" to another person if the payment is intended to "induce" the recipient to: (i) "refer" an individual to a person for the furnishing, or arranging for the furnishing, of any item or service for which payment may be made, in whole or in part, under a federal health care program (*i.e.*, a "covered item or service"); (ii) "purchase," "order," or "lease" any covered item or service; (iii) "arrange for" the purchase, order, or lease of any covered item or service; or (iv) "recommend" the purchase, order, or lease of any covered item or service. The Anti-Kickback Statute also prohibits the solicitation or receipt of remuneration for any of these purposes.

Because the Anti-Kickback Statute is so broad, it covers a variety of common and non-abusive arrangements. Recognizing this overbreadth, Congress and OIG – the lead enforcement agency with respect to the Anti-Kickback Statute – have established a large number of statutory exceptions and regulatory safe harbors (collectively, "safe harbors"). An arrangement that fits squarely into a safe harbor is immune from prosecution under the Anti-Kickback Statute. The safe harbors tend to be narrow, however, and OIG takes the position that immunity is afforded only to those arrangements that "precisely meet" all of the conditions of a safe harbor. Moreover, safe harbors do not exist for every type of arrangement that does (or may) implicate the Anti-Kickback Statute.

Where the Anti-Kickback Statute has been violated, the government may proceed criminally or civilly. If the government proceeds criminally, a violation of the Anti-Kickback Statute is a felony punishable by up to ten years imprisonment, a fine of up to $100,000 and mandatory exclusion from participation in all federal health care programs. If the government proceeds civilly, it may impose a civil monetary penalty (CMP) of $74,792 per violation (increased from $50,000 for penalties assessed after August 1, 2016 whose associated violations occurred after November 2, 2015) and an assessment of not more than three times the total amount of "remuneration" involved, and may even exclude the offering or receiving party from participation in all federal health care programs. Many states, including Illinois and Wisconsin, have enacted laws similar to, and in some cases broader than, the Anti-Kickback Statute.

System management 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 Statute.

However, in light of the narrowness of the safe harbors and the scarcity of case law interpreting the Anti-Kickback Statute, there can be no assurances that the System will not be found to have violated the Anti-Kickback Statute 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 civil False Claims Act ("FCA"), provides that any person who "knowingly presents, or causes to be presented" a "false or fraudulent claim for payment or approval" to the United States, and its agents and contractor is liable for a civil penalty ranging from $5,500 to $11,000 per claim, plus three times the amount of damages sustained by the government. These penalties increased to a maximum of $22,363 per claim for amounts assessed after January 29, 2018. Under the FCA's so-called "reverse false claims," liability also could arise for "using" a false record or statement to "conceal," "avoid" or "decrease" an "obligation to pay or transmit money or property to the Government." The FCA also empowers and provides incentives to private citizens (commonly referred to as *qui tam* relator or whistleblower) to file suit on the government's behalf. The *qui tam* relator's share of the recovery can be between 15% and 25% in cases in which the government intervenes, and 25% to 30% in cases in which the government does not intervene. The government may use the FCA to prosecute Medicare and other government program fraud in areas such as coding errors, billing for services not provided and submitting false cost reports.

Under the Affordable Care Act, the FCA has been expanded to include overpayments that are discovered by a health care provider and are not promptly refunded to the applicable federal health care program, even if the claims relating to the overpayment were initially submitted without any knowledge that they were false. The final rule which took effect in 2016 requires that providers report and return identified overpayments by the later of 60 days after identification, or the date the corresponding cost report is due, if applicable. If the overpayment is not so reported and returned, it becomes an "obligation" under the FCA. This expansion of the FCA exposes hospitals and other health care providers to liability under the FCA for a considerably broader range of claims than in the past. There was initially great uncertainty in the industry as to when an overpayment is technically "identified" and the ability of a provider to determine the total amount of an overpayment and satisfy its repayment obligation within the required time period. The 2016 final rule clarified that an overpayment is considered to have been identified when the person has or should have, through the exercise of reasonable diligence, determined that the person has received an overpayment and quantified the amount of the overpayment. That final rule also established a six year lookback period, meaning overpayments must be reported and returned only if a person identifies, or should have identified through the exercise of reasonable diligence, the overpayment within six years of the date the overpayment was received.

Restrictions on Referrals. The Health Care Worker Self-Referral Act (the "Referral Act") is an Illinois self-referral law that applies to Illinois licensed health care workers. The Referral Act prohibits a health care worker from referring a patient for health services to any entity outside the health care worker's office or group practice in which the health care worker is an investor, unless the health care worker directly provides health services within the entity and will be personally involved with the provision of care to the referred patient. The federal physician self-referral law and its implementing regulations (commonly referred to as the "Stark Law") prohibit a physician from referring patients to an entity for the furnishing of designated health services covered by Medicare if the physician (or one of his immediate family members) has a financial relationship with the entity, unless an exception applies. The Stark Law also prohibits the furnishing entity from submitting a claim for reimbursement or otherwise billing Medicare or any other person or entity for improperly referred designated health services.

An entity that submits a claim for reimbursement in violation of the Stark Law must refund any amounts collected and may be subject to civil penalties and exclusion from participation in federal health care programs. In addition, a physician or entity that has participated in a "scheme" to circumvent the operation of the Stark Law is subject to civil penalties and possible exclusion from participation in federal

health care programs. Notably, in June 2018 CMS issued a request for information seeking feedback from health care industry stakeholders on, among other things, the need for revisions to the Stark Law and its exceptions in order to accommodate APMs and other arrangements.

CMS has established a voluntary Self-Referral Disclosure Protocol ("SRDP") under which hospitals and other entities may report potential Stark Law violations and seek a reduction in potential refund obligations. The limited publicly available information with respect to the SRDP suggests that most voluntary self-disclosure submissions remain under consideration by CMS for an extended period of time, and that it is difficult to predict how CMS will react to any specific voluntary self-disclosure. The Obligated Group Members may make self-disclosures under this program as appropriate from time to time.

System management believes that the System is currently in material compliance with the Stark Law provisions. However, in light of the technical nature of the Stark Law, 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 repayment obligation or 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 ("Illinois Act") prohibits remuneration (in cash or kind) for patient referrals where ultimately an insurance company will pay claims. Penalties for violations of the Illinois 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 (the "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 IDPH, mandates initial and continuing nursing training and provides whistleblower protection for hospital employees who make good faith disclosures under the act. In addition, upon request, hospitals must share with consumers nurse staff schedules, nurse assignment rosters, methods to determine and adjust nurse staff schedules, and staff training information. The Report Card Act requires submission of quarterly and annual reports to the IDPH for subsequent public release following review by the IDPH's advisory committee. These reports must disclose information on topics including patient care levels and infection-related measures. The reporting and public disclosure requirements mandated by the Report Card Act have not had an adverse impact on operations of the System.

Compliance/OIG Investigations. Medicare requires that extensive coding, billing and other financial related 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 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 inaccurate processing of claims and potentially the receipt of inaccurate payment amounts from Medicare. Depending on the facts and circumstances of the situation giving rise to the incorrect payment amounts, this may subject hospitals in the System to overpayments, refunds, imposition of monetary penalties and other criminal or civil liability, which may include, for serious or repeated violations, exclusion from participation in the Medicare program.

HHS, through 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 System

makes every effort to be in compliance with Medicare billing requirements, there can be no assurance that the System will not be subject to an investigation.

As previously discussed, the FCA provides that an individual may bring a civil action for a violation. These actions are referred to as *qui tam* actions. In this way, a hospital employee would be able to sue on behalf of the U.S. government if he or she believes that the hospital has committed fraud. If the government intervenes and proceeds with an action brought by this individual, the employee could receive as much as 25% of any money recovered. Even if the government does not intervene and proceed with an action, the employee could still proceed and receive a portion of any money recovered.

Patient Transfers. In response to concerns regarding inappropriate hospital transfers of emergency patients based on a patient's inability to pay for the services provided, Congress 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 any patient that presents on hospital property and requests examination and treatment for an emergency medical condition, or has such 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.

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 (i) air and water quality control requirements; (ii) waste management requirements; (iii) specific regulatory requirements regarding asbestos, polychlorinated biphenyls and radioactive substances; (iv) requirements for providing notice to employees and members of the public about hazardous materials handled by or located at the hospital; and (v) requirements for training employees in the proper handling and management of hazardous materials and wastes.

In its role as the owner and operator of properties or facilities, the System Affiliates may be subject to liability for investigating and remedying any hazardous substances that may have migrated off its property. Typical hospital operations involve 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 (i) result in damage to individuals, property or the environment; (ii) interrupt operations and increase their cost; (iii) result in legal liability, damages, injunctions or fines; and (iv) result in investigations, administrative proceedings, penalties or other governmental agency actions. There is no assurance that the System 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, System management 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.

Section 340B Drug Pricing Program

Hospitals that participate as Covered Entities in the prescription drug discount program established under Section 340B of the federal Public Health Service Act (the "340B Program") are able to purchase certain outpatient prescription drugs for their patients at a reduced cost. In 2015 the Health

Resources and Services Administration ("HRSA") published proposed 340B Drug Pricing Program Omnibus Guidance in the Federal Register, 80 Fed. Reg. 52300 ("Proposed Guidance"). Under the Proposed Guidance, drug manufacturers would have been required to provide outpatient drugs to eligible health care organizations at significantly reduced prices. The Proposed Guidance included proposals to, among other things, (i) narrow the definition of patients who are eligible to receive 340B discounted drugs, (ii) exclude patients receiving infusion services from 340B eligibility if the only health care services received by the patient are infusion services, and (iii) change the definition of "covered outpatient drug" such that outpatient drugs that are part of a bundled payment for Medicaid reimbursement would not qualify for 340B drug discounted pricing. In 2017, HRSA withdrew its Proposed Guidance. In withdrawing that guidance, HRSA has indicated that the Proposed Guidance will not be adopted as originally proposed. If the Proposed Guidance had been enacted, it could have restricted the ability of the Obligated Group eligible for the 340B Program to purchase drugs under the 340B Program. Although HRSA could re-introduce similar guidance in the future, new guidance may also be introduced that materially differs from the original proposal. To the extent that HRSA adopts final guidance as proposed, such guidance could have a material negative financial impact on the System.

In the calendar year 2018 OPPS final rule effective January 1, CMS implemented significant Medicare Part B payment reductions for separately payable, non-pass-through drugs purchased through the 340B program that are provided in hospital outpatient settings. The rule reduces payment from the previous rate of average sales price ("ASP") plus 6% to ASP minus 22.5%. Drugs not purchased through the 340B program will continue to be paid for at the ASP plus 6% rate. Certain providers are exempted from the reduced payment policy for calendar year 2018, including children's hospitals and PPS-exempt cancer hospitals. CMS is implementing this policy in a budget neutral manner by offsetting the projected decrease in drug payments of $1.6 billion by redistributing an equal amount for non-drug items and services across the OPPS. Several hospital groups filed a lawsuit seeking to block implementation of the 340B Medicare payment cuts before they went into effect. After a dismissal of the lawsuit, the industry groups appealed to the U.S. Court of Appeals for the District of Columbia, which affirmed the district court's decision on the basis that the hospitals had failed to satisfy Medicare's requirement that a claim be presented before judicial review is warranted. It is expected that the lawsuit will be refiled in district court once the hospitals can satisfy the presentment requirement and receive substantive review of their legal claims.

The System Affiliates participate in the 340B Program. The rules and regulations applicable to participation in the 340B Program are technical, complex, numerous and may not fully be understood or implemented by billing or reporting personnel. Failure to comply with the 340B Program requirements or rules could result in the System's exclusion from the 340B Program thus significantly increasing the System's costs for drugs as well as creating a repayment obligation, which in either case would have a material adverse effect on the operations or financial condition of the System.

Corporate Compliance Program

Amendments to the Federal Sentencing Guidelines recommend an effective compliance and ethics program with knowledgeable and reasonable oversight by the governing authority of an organization. The System has developed and implemented a compliance program that includes a 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. See ***APPENDIX*** A under the heading "OTHER INFORMATION - Corporate Compliance" 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. While the application of federal and state antitrust laws to health care is still evolving, enforcement activities by federal and state agencies appear 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 liability by both federal and state agencies, as well as by private litigants.

The ability to consummate mergers, acquisitions or affiliations may also be subject to governmental reporting requirements and may be impaired by 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.

Cybersecurity

Healthcare providers and insurers are highly dependent upon integrated electronic medical record and other information technology systems to deliver high quality, coordinated and cost-effective healthcare. These systems necessarily hold large quantities of highly sensitive protected health information that is highly valued on the black market for such information. As a result, the electronic systems and networks of healthcare providers and insurers are considered likely targets for cyberattacks and other potential breaches of their systems. In addition to regulatory fines and penalties, the healthcare entities subject to the breaches may be liable for the costs of remediating the breaches, damages to individuals (or classes) whose information has been breached, reputational damage and business loss, and damage to the information technology infrastructure. The System has taken, and continues to take measures to protect its information technology system against such cyberattacks, but there can be no assurance that the System will not experience a significant breach. If such a breach occurs, the financial consequences of such a breach could have a materially adverse impact on the System.

Issues Related to the Health Care Market of the System

Affiliation, Merger, Acquisition and Divestiture. Significant numbers of affiliations, mergers, acquisitions, joint ventures and divestitures have recently occurred in the health care industry. As part of its ongoing activities, the System considers, and is currently evaluating, potential affiliations and acquisitions of operations or properties that may become affiliated with or part of the System in the future. As a result, it is possible that the organizations and assets that currently comprise the System Affiliates may change from time to time. The Obligated Group Agent may change Restricted Affiliates from time to time, in its sole discretion, as provided by the Master Indenture. See ***APPENDIX C*** hereto "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE" and ***APPENDIX A*** under the heading "INFORMATION CONCERNING THE SYSTEM."

In addition to relationships with other hospitals and physicians, the System actively considers investments, ventures, affiliations, development and acquisition of other health care-related entities. Any such initiative may involve significant capital commitments to non-Obligated Group entities and/or capital or operating risk, including insurance risk, in a business in which the System may have less expertise than in hospital operations. There can be no assurance that such projects, if pursued, would not lead to material adverse consequences to the System.

Possible Increased Competition. The System could face increased competition in the future from other hospitals, skilled nursing facilities and other forms of health care delivery that offer health care services to the populations that 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, skilled and specialized nursing facilities and private laboratories. 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 which may have specialty physicians as investors.

In addition, competition could result from forms of health care delivery that are able to offer lower priced services. These services could be substituted for some of the revenue-generating services currently offered by the System. These services could serve as substitutes for hospital services, including skilled and specialized nursing, diagnostics, home care, intermediate nursing home care, preventive care, and drug and alcohol abuse programs.

Risks Related to Tax Exempt Status

Tax Exemption for Not For Profit Hospitals. Loss of tax exempt status by any System Affiliate that currently has tax-exempt status could result in loss of tax exemption of tax exempt debt issued for the benefit of the System, as well as defaults in covenants regarding other related tax exempt debt. Such an event would have material adverse consequences on the financial condition of the System. System management is not aware of any transactions or activities currently ongoing that are likely to result in the revocation of the tax exempt status of any System Affiliate.

The maintenance of its status as an organization described in Section 501(c)(3) of the Code by each System Affiliate that has such status 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 permissible 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 the System conducts 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 that are in violation of the Anti-Kickback Statute may also be subject to revocation of their tax exempt status. See the information herein under the heading, "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 System Affiliates, that 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 (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 that apply to large multi-hospital systems, these liabilities are probable from time to time and could be substantial, and, in extreme cases, could be materially adverse to the System.

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 legislation 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. The System participates in activities that may generate unrelated business taxable income. System management believes they have properly accounted for and reported unrelated business taxable income. Nevertheless, an investigation or audit could lead to a challenge that could result in taxes, interest and penalties with respect to unreported unrelated business taxable income that, in some cases, could ultimately affect the tax-exempt status of the System Affiliates as well as the exclusion from gross income for federal income tax purposes of the interest payable on tax exempt debt of the System. In addition, legislation that 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 the System to federal or state income taxes.

The Coordinated Examination Program ("CEP"), of the IRS, through teams of revenue agents, conducts audits of tax-exempt health care organizations. 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 employment taxes, tax exempt bond financing, political contributions and unrelated business income.

System 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 a System Affiliate as well as the exclusion from gross income for federal income tax purposes of the interest payable with respect to tax exempt debt of the System.

It is not possible to predict the scope or effect of future legislative or regulatory actions with respect to taxation of not for profit corporations. There can be no assurance that future changes in the laws and regulations of federal, state or local governments will not materially adversely affect the operations and financial condition of the System by requiring any of 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. Increasingly, federal and state tax authorities are demanding that tax exempt hospitals justify their tax-exempt status by documenting their charitable care and other community benefits. See "BONDHOLDERS' RISKS – Not For Profit Healthcare Environment – State Legislative Initiatives" and "– Risks Related to Tax Exempt Status – Code Section 501(r)" herein.

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

Code Section 501(r)

The provisions of the Affordable Care Act provided for a new Code Section 501(r), which adds certain requirements that not for profit hospital organizations must meet in order to attain or to maintain Code Section 501(c)(3) tax-exempt status. Among other things, a hospital must: (i) conduct a community health needs assessment at least once every three years and adopt an implementation strategy to meet the identified community needs, (ii) adopt, implement and widely publicize a written financial assistance policy that contains the statutory and regulatory required minimums and a policy to provide emergency medical treatment without discrimination, (iii) limit charges to individuals who qualify for financial assistance under such tax-exempt hospital's financial assistance policy to no more than the amounts generally billed to individuals who have insurance covering such care and refrain from using "gross charges" when billing such individuals, and (iv) refrain from taking extraordinary collection actions without first making reasonable efforts to determine whether the individual is eligible for assistance under such tax-exempt hospital's financial assistance policy. System management believes that the System is currently in material compliance with the requirements of Section 501(r).

The Secretary of the Treasury issued final regulations that provide detailed and comprehensive guidance relating to requirements for community health needs assessments, financial assistance policies, emergency medical care policies, limitations on charges and billing and collection practices, and also provide guidance on consequences of failure to comply with Section 501(r) requirements. These final regulations are complex and administratively burdensome. A failure to comply with the provisions of Section 501(r) and the final regulations could result in a loss of Section 501(c)(3) tax-exempt status. For further information regarding the Affordable Care Act, see "BONDHOLDERS' RISKS - Affordable Care Act" herein.

Hospital Star Ratings

In 2016, CMS published its overall hospital quality star ratings. The ratings are a composite metric consisting of one to five stars (five being the best) and intended to convey the overall quality of nearly 4,000 hospitals in the U.S. Ratings are posted to the CMS website, Hospital Compare. Each rating summarizes up to 57 quality measures reflecting common conditions that hospitals treat, such as heart attacks or pneumonia. Along with the overall rating, Hospital Compare includes information on other aspects of quality, such as rates of infection and complications and patients' experiences. The overall rating shows how well each hospital performed, on average, compared to other hospitals in the U.S. CMS maintains its star ratings will provide consumers an important tool for comparing hospitals both locally and nationwide. In 2017, CMS evaluated and refined the methodology of the star ratings program. CMS announced that it will not update its overall star ratings in July 2018 to allow time for additional analysis of the impact of changes to some of the measures used in the rating and to address stakeholder concerns. System management is unable to determine at this time what impact, if any, such ratings may have on utilization rates of the System's hospitals and financial condition of the System.

Bond Audits

IRS officials have indicated that more resources will be invested in audits of tax-exempt bonds in the charitable organization sector. Tax-exempt bonds issued for the benefit of the System may be, from time to time, subject to audits by the IRS. System management believes that such bonds properly comply with the tax laws applicable to tax-exempt bonds. Bond counsel has previously rendered opinions with respect to the tax-exempt status of such bonds. No ruling with respect to the tax-exempt status of such 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 tax-exempt bonds issued for the benefit of the System will not adversely affect such bonds.

Risks Associated with Libor-Based Bonds and Loans

Certain outstanding indebtedness of the System bears interest at rates that are determined based on a LIBOR index. In 2017, the U.K. Financial Conduct Authority (the " UK FCA"), the body that regulates and supervises the publication of LIBOR, announced that it will no longer persuade or compel banks to submit rates for the calculation of LIBOR after 2021. It is not possible to predict the impact of the phase out of LIBOR or any future rule changes or benchmark rates adopted by the UK FCA or other regulatory body, if any, in replacement of LIBOR. If future uncertainty surrounding the calculation of LIBOR results in sudden increases in LIBOR rates, the interest payments on the System's LIBOR-based bonds and loans may be affected. Further, uncertainty as to the benchmark rate or mechanism that may succeed LIBOR after 2021 may adversely affect the System.

Termination of Managed Care Contracts

The System's managed care contracts accounted for approximately 56% of the net patient service revenue of the System for each of the year ended December 31, 2017 and for the three-month period ended March 31, 2018, each on a pro forma consolidated basis. 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 "INFORMATION CONCERNING THE SYSTEM – Sources of Net Patient Service Revenue; Managed Care" in ***APPENDIX A***.

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. On a pro forma consolidated basis, the System received approximately 11.2% of its total revenue from capitated contracts for the year ended December 31, 2017.

Labor Relations

Not for profit health care providers and their employees are under the jurisdiction of the National Labor Relations Board. As of the date of this Offering Memorandum, less than 0.3% of the System's employees are represented by collective bargaining units. Unionization of employees or a shortage of qualified professional personnel could cause an increase in payroll costs beyond those projected. 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*** under the heading "OTHER INFORMATION - Employees" 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 the Members of the Obligated Group or the other System Affiliates, including the Restricted Affiliates, nor does the Master Indenture require the 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 Taxable Bonds

See "SECURITY FOR THE TAXABLE 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 Taxable Bonds or the Taxable Bonds Obligation. Further, the Facilities of the System 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 that results in the acceleration of the Taxable Bonds, the Master Trustee may not realize an amount sufficient to pay in full the Obligations, including the Taxable Bonds Obligation, 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 50.1% in aggregate principal amount of the Taxable Bonds. Certain amendments to the Master Indenture may be made with the consent of the holders of Obligations other than the Taxable Bonds

Obligation, as described in ***APPENDIX C***. 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 Taxable Bonds Obligation.

Matters Relating to Enforceability of the Master Indenture

Effective upon the issuance of the Taxable Bonds, the Members of the Obligated Group will be those entities listed under "INTRODUCTION – The Obligated Group" herein. The ability of Restricted Affiliates and System Affiliates to make transfers to the Obligated Group with respect to the Taxable Bonds 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 the Members of the Obligated Group, Restricted Affiliates and System Affiliates 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. 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 a Controlling Member to cause its Restricted Affiliates or use reasonable efforts to cause System Affiliates (subject to contractual and organizational limitations) to make transfers to enable the Obligated Group to make payments of debt service on the Obligations may not be enforceable to the extent (i) enforceability may be limited by applicable bankruptcy, moratorium, reorganization or similar laws affecting the enforcement of creditors' rights and by general equitable principles; and (ii) such payments (1) are requested to make payments on any Obligations that are issued for a purpose that is not consistent with the charitable purposes of the Member, the Restricted Affiliate or the System Affiliate from which such payments are requested or which are issued for the benefit of any entity other than a tax exempt organization; (2) are requested to be made from any moneys or assets that are donor restricted or that are subject to a direct or express trust that does not permit the use of such moneys or assets for such a payment; (3) 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 (4) 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 entity to the extent that such payment or transfer would render the applicable entity insolvent or that would conflict with, not be permitted by or that is subject to recovery for the benefit of other creditors of such entity 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 such entity, or by third-party creditors in an action brought pursuant to state fraudulent transfer or fraudulent conveyance statutes. Under the U.S. 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, (i) the guarantor has not received fair consideration or reasonably equivalent value in exchange for the guaranty; and (ii) the guaranty renders the guarantor insolvent, as defined in the U.S. 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 exists, 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 not for profit 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 that 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 any Member of the Obligated Group, a Restricted Affiliate, or a System Affiliate were to file a petition for relief (or if a petition were filed against it) under the U.S. Bankruptcy Code, the filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against such entity, and its property. If the bankruptcy court so ordered any Member of the Obligated Group, a Restricted Affiliate, or a System Affiliate, such entity's property, including its accounts receivable and proceeds thereof, could be used for the benefit of such entity despite the claims of its creditors. Amounts received by Bondholders with respect to the payment of principal of, and interest on, the Taxable Bonds during an applicable preference period could be required to be disgorged by the Bondholders to a bankruptcy trustee.

In a bankruptcy proceeding, any Member of the Obligated Group, Restricted Affiliate or System Affiliate could file a plan for the adjustment of its debts that 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 Members of the Obligated Group) will not trigger an event of default under the Master Indenture or the Bond Indenture. See ***APPENDIX C*** – "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE" and ***APPENDIX D*** "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE – Events of Default" hereto.

If a System Affiliate or Restricted Affiliate has no contractual obligation to make payment to the Obligated Group or the Master Trustee in respect of the Taxable Bonds Obligation, none of the Members of the Obligated Group or 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 Taxable Bonds 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, as well as a 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 that 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, 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 epidemics, pandemics or natural or man-made disasters that could damage the facilities of the System, interrupt utility service to the facilities, result in abnormally high demand for health care services or workforce loss or otherwise impair the System's operation and the generation of revenues from the System's facilities

12) Laws requiring particular staffing levels at hospitals.

13) Competition from other hospitals and other competitive facilities now or hereafter located in the service areas of the facilities operated by the System may adversely affect revenues of the System. Development of health maintenance and other alternative health delivery programs could result in decreased usage of inpatient hospital facilities and other facilities operated by the System.

Nursing Shortage

The health care industry, including the System Affiliates, has experienced a shortage of nursing and other technical staff that 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 System currently incurs periodic agency nursing costs at its facilities. While agency costs are currently incurred, if the shortage continues, it could adversely affect the System's operations or financial condition.

Risks Related to Variable Rate Indebtedness

Immediately following the issuance of the Taxable Bonds, indebtedness outstanding under the Master Indenture in the principal amount of approximately $1.01 billion* will be subject to variable interest rate exposure, which amount does not include related bonds that 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 Taxable 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 Taxable Bonds. See "RATINGS" herein.

Market for Taxable Bonds

The Underwriters have advised that they intend to make a market in the Taxable 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 Taxable Bonds purchased should they need or wish to do so for emergency or other purposes.

LITIGATION

The System

The Parent Corporation has advised that there is no litigation or proceedings pending or threatened against it, the other Members of the Obligated Group 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 the System, (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 the Parent Corporation, threatened, against any Member of the Obligated Group or System Affiliate that in any manner question the right of any Member of the Obligated Group or any Restricted Affiliate to enter into the transactions described herein.

* Preliminary, subject to change.

CONTINUING DISCLOSURE

General

The Corporation has agreed that it will provide to the MSRB through EMMA the information required pursuant to continuing disclosure undertakings made in connection with tax-exempt revenue bonds issued from time to time for the benefit of the Obligated Group (collectively, the "Continuing Disclosure Undertakings"). The Corporation covenants in the Bond Indenture that, if no Continuing Disclosure Undertakings are in effect, the Corporation will provide the following information to the holders of the Taxable Bonds through a nationally recognized disclosure site selected by the Obligated Group Agent or through the System's website:

(i) each year, certain financial information and operating data relating to the System (the "Annual Report") by not later than the date 150 days after the last day of the fiscal year of the System; 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; 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.

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 first paragraph under the heading "INFORMATION CONCERNING THE SYSTEM — Medical Staff and Physician Strategy" in ***APPENDIX A***, in the first sentence of each of the first two paragraphs under the heading "OTHER INFORMATION — Employees" in ***APPENDIX A*** and in the tables entitled "Pro Forma Debt Service Coverage" (historical information only) and "Pro Forma Days Cash on Hand" (historical information only) under the heading "FINANCIAL INFORMATION" in ***APPENDIX A*** and in the tables under the headings "INFORMATION CONCERNING THE SYSTEM – Utilization Statistics" and "– Sources of Net Patient Service Revenue; Managed Care" in ***APPENDIX A***.

Any or all of the items listed above may be included by specific reference to other documents that previously have been provided to the repository described above or filed with the SEC. If the document included by reference is a final official statement, it must be available from the MSRB. The Obligated Group Agent shall clearly identify each such other document as included by reference.

Failure to Comply

In the event of a failure of to comply with any provision of the Continuing Disclosure Undertakings or the related covenant in the Bond Indenture, if applicable (collectively, the "Continuing Disclosure Obligations"), any Taxable Bondholder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Corporation or the Obligated Group Agent, as applicable, to comply with the Continuing Disclosure Obligations. A failure to comply with the Continuing Disclosure Obligations shall not be deemed an Event of Default under the Bond Indenture or the Master Indenture or any of the documents relating to the related bonds. The sole remedy under the Continuing Disclosure Undertakings or the Bond Indenture, as applicable, in the event of any failure to comply with the Continuing Disclosure Obligations shall be an action to compel performance, and no person or entity shall be entitled to recover monetary damage thereunder under any circumstances.

Permitted Amendments

The provisions of the Continuing Disclosure Undertakings and the related covenant in the Bond Indenture, 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 the Obligated Group Agent.

APPROVAL OF LEGALITY

Legal matters incident to the authorization and validity of the Taxable Bonds and certain other legal matter will be passed upon by Polsinelli PC, counsel for the Members of the Obligated Group. Certain legal matters will passed upon for the Underwriters by Dentons US LLP, their special counsel.

CERTAIN ERISA CONSIDERATIONS

The Employee Retirement Income Security Act of 1974, as amended ("ERISA"), imposes certain requirements on employee benefit plans subject to Title I of ERISA ("ERISA Plans"), and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including, but not limited to, the requirements of investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the Plan.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to Title I of ERISA but are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, "Plans")) and certain persons (referred to as "parties in interest" or "disqualified persons" (each a "Party in Interest")) having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. A Party in Interest who engages in a non-exempt prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and Section 4975 of the Code unless a statutory or administrative exemption is available.

In the event that the assets of the Corporation are deemed to be assets of a Plan due to the purchase or holding of Taxable Bonds then such purchase or holding could constitute a prohibited transaction. The U.S. Department of Labor has promulgated regulations at 29 C.F.R. Section 2510.3-101 describing what constitutes the assets of a Plan with respect to the Plan's investment in an entity for purposes of certain provisions of ERISA and Section 4975 of the Code (the "Plan Asset Regulation"). Under the Plan Asset Regulation, the assets of the Corporation would be treated as plan assets of a Plan for purposes of ERISA and the Code if the Plan acquires an "equity interest" in the Corporation and none of the exceptions contained in the Plan Asset Regulation are applicable. An equity interest is defined

under the Plan Asset Regulation as an interest in an entity other than an instrument which is treated as indebtedness under applicable local law and which has no substantial equity features.

The fiduciary of a Plan that proposes to purchase and hold any Taxable Bonds should consider, among other things, whether such purchase and holding may involve (i) the direct or indirect extension of credit to a Party in Interest, (ii) the sale or exchange of any property between a Plan and a Party in Interest and (iii) the transfer to, or use by or for the benefit of, a Party in Interest, of any Plan assets. Depending on the identity of the Plan fiduciary making the decision to acquire or hold Taxable Bonds on behalf of a Plan and other factors, U.S. Department of Labor Prohibited Transaction Class Exemption ("PTCE") 75-1 (relating to certain broker-dealer transactions), PTCE 84-14 (relating to transactions effected by "qualified professional asset managers"), PTCE 90-1 (relating to investments by insurance company pooled separate accounts), PTCE 91-38 (relating to investments by bank collective investment funds), PTCE 95-60 (relating to investments by an insurance company general account), or PTCE 96-23 (relating to transactions directed by "in-house asset managers") (collectively, the "Class Exemptions") could provide an exemption from the prohibited transaction provisions of ERISA and Section 4975 of the Code. In addition, Section 408(b)(7) of ERISA and Section 4975(d)(20) of the Code generally provide for a statutory exemption from the prohibitions of Section 406(a) of ERISA and Section 4975 of the Code for certain transactions between Plans and persons who are Parties in Interest solely by reason of providing services to such Plans or that are affiliated with such service providers, provided generally that such persons are not fiduciaries with respect to the "plan assets" of any Plan involved in the transaction and that certain other conditions are satisfied.

By its acceptance of a Taxable Bond, each purchaser will be deemed to have represented and warranted that either (i) no "plan assets" of any Plan have been used to purchase such Taxable Bond, or (ii) the Underwriter is not a Party in Interest with respect to the "plan assets" of any Plan used to purchase such Taxable Bond, or (iii) the purchase and holding of such Taxable Bonds is exempt from the prohibited transaction restrictions of ERISA and Section 4975 of the Code pursuant to a statutory exemption or an administrative class exemption.

Each Plan fiduciary (and each fiduciary for a governmental, church or other plan or arrangement subject to the rules similar to those imposed on Plans under ERISA and/or Section 4975 of the Code) should consult with its legal advisor concerning an investment in any of the Taxable Bonds.

CERTAIN FEDERAL INCOME TAX CONSIDERATIONS

The following summary of certain United States ("U.S.") federal income tax consequences of the purchase, ownership and disposition of the Taxable Bonds is based upon laws, regulations, rulings and decisions now in effect, all of which are subject to change (including changes in effective dates), which change may be retroactive, or possible differing interpretations. It deals only with Taxable Bonds held as capital assets within the meaning of Section 1221 of the Code. This summary does not purport to deal with the tax consequences applicable to any given investor, nor does it address persons in special tax situations, such as financial institutions, insurance companies, regulated investment companies, real estate investment trusts, partnerships or other pass-through entities, dealers in securities or currencies, persons holding Taxable Bonds as a hedge against currency risks or as a position in a "straddle" for tax purposes, tax-exempt organizations, certain U.S. expatriates, U.S. shareholders of controlled foreign corporations, passive foreign investment companies, personal holding companies or persons whose functional currency is not the U.S. dollar. Furthermore, this summary does not address alternative minimum tax consequences, estate and gift tax consequences, and state, local and non-U.S. tax laws. It also does not deal with Bondholders other than investors who purchase Taxable Bonds in the initial offering at the first price at which a substantial amount of such substantially identical Taxable Bonds are sold to the general public (except where otherwise specifically noted). Persons considering the purchase of the Taxable Bonds should consult with, and must rely upon, their own tax advisors concerning the application of U.S.

federal income tax laws to their particular situations as well as any consequences of the purchase, ownership and disposition of the Taxable Bonds arising under the laws of any other taxing jurisdiction.

As used herein, the term "U.S. Bondholder" means a beneficial owner of a Taxable Bond that is for U.S. federal income tax purposes (i) a citizen or resident of the United States, (ii) a corporation (including an entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia, (iii) an estate, the income of which is subject to U.S. federal income taxation regardless of its source or (iv) a trust if (a) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or (b) the trust was in existence on August 20, 1996 and properly elected to continue to be treated as a United States person. Moreover, as used herein, the term "U.S. Holder" includes any holder of a Taxable Bond whose income or gain in respect of its investment in a Taxable Bond is effectively connected with a U.S. trade or business.

For purposes of this summary, a "non-U.S. Bondholder" is a beneficial owner of a Taxable Bond other than a U.S. Bondholder.

If a partnership (including for this purpose any entity treated as a partnership for U.S. federal income tax purposes) is the beneficial owner of any Taxable Bond, the treatment of a partner in a partnership will generally depend on the status of such partner and the activities of such partnership. A partnership and any partner in a partnership holding Taxable Bonds should consult with, and must rely upon, its own tax advisor concerning the tax consequences of an investment in the Bonds (including their status as U.S. Bondholders or Non-U.S. Bondholders).

There are certain tax reform proposals currently being considered by Congress and the executive branch. While it is uncertain whether any such proposals will be enacted into law, if any such proposals were to become law, they could materially change the U.S. federal income tax consequences described below.

Prospective investors should consult their own tax advisors concerning the U.S. federal, state, local and non-U.S. tax consequences to them from the purchase, ownership and disposition of the Bonds in light of their particular circumstances.

U.S. Bondholders

Payments of Interest

Payments of interest on a Taxable Bond generally will be taxable to a U.S. Bondholder as ordinary interest income at the time such payments are accrued or are received (in accordance with the U.S. Holder's regular method of tax accounting), provided such interest is qualified stated interest.

Original Issue Discount

Original issue discount will arise for U.S. federal income tax purposes in respect to any Taxable Bond if its stated redemption price at maturity exceeds its issue price by more than a de minimis amount (as determined for tax purposes). For Taxable Bonds issued with original discount, the excess of the stated redemption price at maturity of that Taxable Bond over its issue price will constitute original issue discount for U.S. federal income tax purposes. The stated redemption price at maturity of a Taxable Bond is the sum of all scheduled amounts payable on such Taxable Bond other than qualified stated interest. U.S. Bondholders of Taxable Bonds generally will be required to include any original issue discount in income for U.S. federal income tax purposes as it accrues, in accordance with a constant yield method based on a compounding interest. Accordingly, U.S. Bondholders may be required to recognize original

issue discount income before they receive any cash payments attributable to such income. The amount of original issue discount as accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period and will increase the U.S. Bondholder's tax basis in such Taxable Bond.

Market Discount

If a U.S. Bondholder purchases a Taxable Bond, other than an original issue discount Taxable Bond ("OID Bond"), for an amount that is less than its issue price (or, in the case of a subsequent purchaser, its stated redemption price at maturity) or, in the case of an OID Bond, for an amount that is less than its adjusted issue price as of the purchase date, such U.S. Bondholder will be treated as having purchased such Taxable Bond at a "market discount," unless the amount of such market discount is less than the specified de minimis amount.

Under the market discount rules, a U.S. Bondholder will be required to treat any partial principal payment (or, in the case of an OID Bond, any payment that does not constitute qualified stated interest) on, or any gain realized on the sale, exchange, retirement or other disposition of, a Taxable Bond as ordinary income to the extent of the lesser of (i) the amount of such payment or realized gain or (ii) the market discount which has not previously been included in gross income and is treated as having accrued on such Taxable Bond at the time of such payment or disposition. Market discount will be considered to accrue ratably during the period from the date of acquisition to the maturity date of the Taxable Bonds, unless the U.S. Bondholder elects to accrue market discount on a constant interest basis.

A U.S. Bondholder may be required to defer the deduction of all or a portion of the interest paid or accrued on any indebtedness incurred or maintained to purchase or carry a Taxable Bond with market discount until the maturity of such Taxable Bond or certain earlier dispositions, because a current deduction is only allowed to the extent the net direct interest expense exceeds an allocable portion of market discount. The term "net direct interest expense" means the excess of interest paid or accrued on indebtedness that is incurred or continued to purchase or carry a market discount bond, over the interest (including OID) includible in gross income with respect to such bond. A U.S. Bondholder may elect to include market discount in income currently as it accrues (on either a ratable or constant interest basis), in which case the rules described above regarding the treatment as ordinary income of gain upon the disposition of the Taxable Bond and upon the receipt of certain cash payments and regarding the deferral of interest deductions will not apply. Generally, such currently included market discount is treated as ordinary income for U.S. federal income tax purposes. Such an election will apply to all debt instruments acquired by the U.S. Bondholder on or after the first day of the first taxable year to which such election applies and may be revoked only with the consent of the IRS.

Premium

If a U.S. Bondholder purchases a Taxable Bond for an amount that is greater than the sum of all amounts payable on the Taxable Bond after the purchase date, other than payments of qualified stated interest, such U.S. Bondholder will be considered to have purchased the Taxable Bond with "amortizable bond premium" equal in amount to such excess. A U.S. Bondholder may elect to amortize such premium using a constant yield method over the remaining term of the Taxable Bond and may offset interest otherwise required to be included in respect of the Taxable Bond during any taxable year by the amortized amount of the amortized premium for the taxable year. A U.S. Bondholder of a Taxable Bond is required to reduce such U.S. Bondholder's basis in such Taxable Bond by the amount of amortizable bond premium attributable to each taxable year. This will result in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes on the sale or disposition of the Taxable Bond prior to maturity. Any election to amortize bond premium applies to all taxable debt instruments held by the U.S. Bondholder on or after the first day of the first taxable year to which such election applies and may be revoked only with the consent of the IRS. A U.S. Bondholder that does not make the election to

amortize Taxable Bond premium will decrease the amount of the amount of gain (or increase the amount of loss) otherwise recognized on the disposition of such Taxable Bond by the amount of the Taxable Bond premium.

If the Taxable Bond may be optionally redeemed after the U.S. Bondholder acquires it at a price in excess of its stated redemption price at maturity, special rules would apply which could result in deferral of the amortization of some bond premium until later in the term of the Taxable Bond. Prospective purchasers are urged to consult with, and must rely upon, their own tax advisors regarding the application of the amortizable bond premium rules to their particular situation.

Disposition of a Taxable Bond

Unless a nonrecognition provision of the Code applies, upon the sale, exchange or retirement of a Taxable Bond, a U.S. Bondholder generally will recognize taxable gain or loss equal to the difference between the amount realized on the sale, exchange or retirement (other than amounts representing accrued and unpaid interest) and such U.S. Bondholder's adjusted tax basis in the Taxable Bond. A U.S. Holder's adjusted tax basis in a Taxable Bond generally will equal such U.S. Bondholder's initial investment in the Taxable Bond increased by any original issue discount included in income (and accrued market discount, if any, if the U.S. holder has included market discount in income) and decreased by the amount of payments, other than qualified stated interest payments, received and amortizable bond premium taken with respect to such Taxable Bond. Such gain or loss generally will be long-term capital gain or loss if the Taxable Bond has been held by the U.S. Bondholder at the time of disposition for more than one year. If the U.S. Bondholder is an individual, long-term capital gain will be subject to reduced rates of taxation. The deductibility of capital losses is subject to certain limitations.

A material modification of the terms of any of Taxable Bond may result in a deemed reissuance thereof, in which event the U.S. Bondholder generally will recognize taxable gain or loss equal to the difference between the amount realized from the sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and the U.S. Bondholder's adjusted tax basis in the Taxable Bonds.

Medicare Tax

For taxable years beginning after December 31, 2012, an additional 3.8% tax is imposed on the net investment income (which includes interest, original issue discount and gains from the sale or other disposition of a Taxable Bond) of certain individuals, trust and estates. Prospective investors in the Taxable Bonds should consult with, and must rely upon, their tax advisors regarding the possible applicability of this tax to an investment in the Taxable Bonds.

Backup Withholding

Backup withholding of U.S. federal income tax may apply to payments made in respect of the Taxable Bonds to registered owners who are not "exempt recipients" and who fail to provide certain identifying information (such as the registered owner's taxpayer identification number) in the required manner. Generally, individuals are not exempt recipients, whereas domestic corporations and certain other entities generally are exempt recipients. Payments made in respect of the Taxable Bonds to a U.S. Bondholder must be reported to the IRS, unless the U.S. Bondholder is an exempt recipient or establishes an exemption.

Any amounts withheld under the backup withholding rules from a payment to a beneficial owner would be allowed as a refund or a credit against such beneficial owner's U.S. federal income tax provided the required information is furnished to the IRS.

Non-U.S. Bondholders

Interest. Subject to the discussions below under the headings "Information Reporting and Backup Withholding" and "Foreign Account Tax Compliance," payments of interest on a Taxable Bond to a Non-U.S. Taxable Bondholder generally will generally not be subject to U.S. federal withholding tax under the portfolio interest exception, provided that (1) the Non-U.S. Bondholder is not a "10-percent shareholder" of the issuer, within the meaning of Section 871(h)(3) of the Code, a controlled foreign corporation, as such term is defined in the Code, which is related to the issuer through stock ownership or a bank which acquires a Taxable Bond in consideration of an extension of credit made pursuant to a loan agreement entered into in the ordinary course of business, (2) the beneficial owner of the Taxable Bond and regulatory requirements, (3) the right to principal and any interest payments on the Taxable Bonds is transferable only through a book entry system maintained by the issuer or its agent and (4) the Non-U.S. Bondholder provides certain identifying information to the issuer. If a Non-U.S. Bondholder does not qualify for the portfolio interest exception, the issuer or its agent will generally be required to withhold from the interest payments at a 30% rate, unless reduced by an applicable income tax treaty, No assurances can be given that any Non-U.S. Bondholder will qualify for the portfolio interest exception or for the benefits of any U.S. income tax treaty. Each Non-U.S. Bondholder should seek counsel from its own tax advisers, and must rely solely on its own tax advisers, as to the applicability of any exception from withholding.

Sale or Other Disposition of the Taxable Bonds. Subject to the discussions below under the headings "Information Reporting and Backup Withholding" and "Foreign Account Tax Compliance," any gain realized by a Non-U.S. Bondholder upon the sale, exchange, redemption, retirement (including pursuant to an offer by the Corporation) or other disposition of a Taxable Bond generally will not be subject to U.S. federal income tax, unless (1) such gain is effectively connected with the conduct by such Non-U.S. Taxable Bondholder of a trade or business within the United States or (2) the holder is a controlled foreign corporation, passive foreign investment company that has elected to be treated as a qualified electing fund, or a personal holding company, or (3) in the case of any gain realized by an individual Non-U.S. Taxable Bondholder, such holder is treated as a resident alien of the United States in the taxable year of such disposition and certain other conditions are met.

Information Reporting and Backup Withholding. Payments of principal and interest on any Taxable Bond to a Non-U.S. Taxable Bondholder will generally not be subject to any backup withholding tax requirements if the beneficial owner of the Taxable Bond is an exempt recipient or the beneficial owner of the Taxable Bond or a financial institution holding the Taxable Bond on behalf of the beneficial owner in the ordinary course of its trade or business provides an appropriate certification to the payer and the payer does not have actual knowledge that the certification is false. If a beneficial owner provides the certification, the certification must give the name and address of such owner, state that such owner is not a United States person, or, in the case of an individual, that such owner is neither a citizen nor a resident of the United States, and the owner must sign the certificate under penalties of perjury.

Foreign Account Tax Compliance. Sections 1471 through 1474 of the Code (commonly referred to as "FATCA") impose a reporting regime and potentially a 30% withholding tax on certain payments made to or through (i) a "foreign financial institution" (as specifically defined in the Code) that does not enter into an agreement with the IRS to provide the IRS with certain information in respect of its account holders and investors and (ii) a "non-financial foreign entity" (as specifically defined in the Code) that does not provide sufficient information with respect to its substantial U.S. owners, if any. The United States has entered into, and continues to negotiate, intergovernmental agreements (each, an "IGA") with a number of other jurisdictions to facilitate the implementation of FATCA. An IGA may significantly alter the application of FATCA and its information reporting and withholding requirements with respect to any particular investor.

Failure to comply with the additional certification, information reporting and other specified requirements imposed under FATCA could result in a 30% withholding tax being imposed on payments of interest and principal under the Taxable Bonds and on sales proceeds of Taxable Bonds held by or through a foreign entity. In general, withholding under FATCA currently applies to payments of U.S. source interest (including OID) and, under current guidance, will apply to (i) gross proceeds from the sale, exchange or retirement of debt obligations paid after December 31, 2018 and (ii) certain "passthru" payments no earlier than January 1, 2019. Prospective investors should consult their own tax advisors, and must rely upon them, regarding FATCA and its effect on them.

Effect of Defeasance or Material Modification. Defeasance or another material modification of the terms of any of the Taxable Bonds may result in a deemed exchange of the Taxable Bond for a new taxable bond for U.S. federal income tax purposes. Upon such an event, a Taxable Bondholder may recognize taxable gain or loss equal to the difference between the amount realized from the deemed sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and the Holder's adjusted tax basis in the Taxable Bonds. This could occur, for example, upon the replacement of the taxable bonds obligation with a substitute note or upon the modification or amendment of the Bond Indenture depending upon the terms of the substituted or modified obligation.

Summary for General Information Only

THE FOREGOING SUMMARY IS INCLUDED HEREIN FOR GENERAL INFORMATION PURPOSES ONLY AND DOES NOT DISCUSS ALL ASPECTS OF U.S. FEDERAL INCOME TAXATION THAT MAY BE RELEVANT TO A PARTICULAR BENEFICIAL OWNER OF TAXABLE BONDS IN LIGHT OF THE BENEFICIAL OWNER'S PARTICULAR CIRCUMSTANCES AND INCOME TAX SITUATION. PROSPECTIVE INVESTORS ARE URGED TO CONSULT WITH, AND MUST RELY ONLY UPON, THEIR OWN TAX ADVISORS AS TO ANY TAX CONSEQUENCES TO THEM FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAXABLE BONDS, INCLUDING THE APPLICATION AND EFFECT OF GIFT AND ESTATE, STATE, LOCAL, FOREIGN AND OTHER TAX LAWS.

RATINGS

Moody's Investors Service, Inc., S&P Global Ratings and Fitch Ratings Inc. have assigned the Taxable Bonds long-term ratings of Aa3 (stable), AA (stable) and AA(stable), respectively. 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 Taxable Bonds. A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

INDEPENDENT AUDITORS

The consolidated financial statements of Advocate Network Corporation and subsidiaries as of December 31, 2017 and 2016 and for the years then ended, included in ***APPENDIX B-1*** hereto, have been audited by Ernst & Young LLP, independent auditors, as stated in their report appearing therein.

The consolidated financial statements of AHC and affiliates as of December 31, 2017 and 2016 and for the years then ended, included in ***APPENDIX B-2*** hereto, have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing therein.

FINANCIAL STATEMENTS

The unaudited pro forma consolidated financial statements of the Parent Corporation and consolidated affiliates and subsidiaries as of December 31, 2017 and 2016 and for the years then ended, and as of March 31, 2018 and 2017 and for the three-months then ended, are included in ***APPENDIX A*** hereto. The unaudited pro forma financial information as of March 31, 2018 and for the three-months then ended is not necessarily indicative of full year performance ending December 31, 2018. For more information on the pro forma consolidated financial statements of the Parent Corporation and its consolidated subsidiaries, see the caption "FINANCIAL INFORMATION" in ***APPENDIX A*** hereto.

The audited consolidated financial statements included in ***APPENDIX B-1*** and ***APPENDIX B-2*** each include Excluded Affiliates, as described in ***APPENDIX A***. Excluded Affiliates represented approximately 5%, 6% and 6% of the unaudited pro forma consolidated total assets of the System as of March 31, 2018 and December 31, 2017 and 2016, respectively. The Excluded Affiliates represented approximately 22% and 16% of the unaudited pro forma consolidated total revenue of the System for the years ended December 31, 2017 and 2016, respectively. The Excluded Affiliates represented approximately 21% of the unaudited pro forma consolidated total revenue of the System for the three months ended March 31, 2018

VERIFICATION OF MATHEMATICAL COMPUTATIONS

At the time of delivery of the Taxable Bonds, Causey Demgen & Moore P.C., Certified Public Accountants, will deliver a report on the mathematical accuracy of the computations contained in schedules provided to them relating to (a) the sufficiency of the anticipated cash and maturing principal amounts and interest on the defeasance obligations to pay the principal of and accrued interest due and payable on certain Prior Debt to be refinanced on and prior to the applicable redemption date of such Prior Debt; and (b) the "yield" on the Taxable Bonds and on the defeasance obligations considered by Bond Counsel in connection with its bond opinions.

The money and the Defeasance Obligations and all interest or other income thereon, and any proceeds from the disposition thereof, will be used only to pay the principal of and accrued interest on the applicable Prior Debt to the applicable redemption date, and will not be available for payment of debt service on the Taxable Bonds.

RELATIONSHIP OF CERTAIN PARTIES

Polsinelli PC, special counsel to the Obligated Group, also represents J.P. Morgan Securities LLC from time to time in other matters unrelated to the Taxable Bonds.

Citigroup Global Markets Inc. acts as remarketing agent for certain bonds issued by or for the benefit of Members of the Obligated Group.

J.P. Morgan Securities LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated, both of whom are Underwriters for the Series 2018 Bonds, or their affiliates, currently provide liquidity support and lines of credit, act as remarketing agent for or have purchased certain bonds issued by or for the benefit of Members of the Obligated Group, including certain Prior Debt being refinanced with the proceeds of the Series 2018 Bonds. As a result, J.P. Morgan Securities LLC and its affiliates may receive in excess of 5%* of the proceeds of the Taxable Bonds and Merrill Lynch, Pierce, Fenner & Smith Incorporated and its affiliates may receive in excess of 20%* of the proceeds of the Taxable Bonds.

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* Preliminary, subject to change.

UNDERWRITING

The Taxable Bonds are being purchased by the Underwriters pursuant to a Bond Purchase Agreement (the "Bond Purchase Agreement") between the Members of the Obligated Group and J.P. Morgan Securities LLC as representative of the Underwriters. The Taxable Bonds are being purchased at an aggregate price of $_____, which represents the par amount of the Taxable Bonds, less an Underwriters' discount of $_____. The Bond Purchase Agreement provides that the Underwriters will purchase all of the Taxable Bonds if any are purchased.

The Underwriters intend to offer the Taxable Bonds to the public initially at the prices and yields set forth on the cover page of this Offering Memorandum, 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 Taxable Bonds to the public. The Underwriters may offer and sell the Taxable 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 Taxable 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 Taxable Bonds will be subject to various conditions of the Bond Purchase Agreement.

J.P. Morgan Securities LLC ("JPMS"), an Underwriter of the Taxable Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of Charles Schwab & Co., Inc. ("CS&Co.") and LPL Financial LLC ("LPL") for the retail distribution of certain securities offerings, including the Taxable Bonds, at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL will purchase Taxable Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Taxable Bonds that such firm sells.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Certain of the Underwriters and their respective affiliates have provided, and may in the future provide, a variety of these services to the Obligated Group and to persons and entities with relationships with the Obligated Group, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the Obligated Group (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the Obligated Group. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

FINANCIAL ADVISOR

The System has retained Kaufman, Hall & Associates, LLC, Skokie, Illinois, as financial advisor in connection with the issuance of the Taxable Bonds. Although Kaufman, Hall & Associates, LLC has assisted in the preparation of this Offering Memorandum, Kaufman, Hall & Associates, LLC was not and is not obligated to undertake, and has not undertaken to make, an independent verification and assumes no

responsibility for the accuracy, completeness or fairness of the information contained in this Offering Memorandum.

MISCELLANEOUS

The references herein to any applicable law, the Master Indenture, the Taxable Bonds Obligation and the Bond Indenture 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 Taxable Bonds Obligation and the Bond Indenture. Copies of such documents will be on file at the office of the Bond Trustee following the issuance of the Taxable Bonds. All estimates and other statements in this Offering Memorandum 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 Taxable Bonds, but neither the failure to print such numbers on any Taxable 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 Taxable Bonds.

The attached Appendices and those expressly incorporated herein by reference are integral parts of this Offering Memorandum and must be read together with all of the foregoing statements.

The Parent Corporation has reviewed the information contained herein that relates to the System, its property and operations and has approved all such information for use within this Offering Memorandum.

The execution and delivery of this Offering Memorandum has been approved on behalf of the Obligated Group by the Obligated Group Agent.

Approved:

ADVOCATE HEALTH CARE NETWORK, as Obligated Group Agent

By: _____
Chief Financial Officer

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APPENDIX A

INFORMATION CONCERNING

ADVOCATE AURORA HEALTH, INC.
and its affiliates and subsidiaries

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

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INTRODUCTION

Organizational Overview

Advocate Aurora Health, Inc., a Delaware nonprofit corporation (the "**Parent Corporation**"), on April 1, 2018 became the sole corporate member of Advocate Health Care Network, an Illinois not-for-profit corporation ("**Advocate Network Corporation**"), and Aurora Health Care, Inc., a Wisconsin nonstock not-for-profit corporation ("**Aurora Health Corporation**") (the "**Affiliation**"). The Parent Corporation, Advocate Network Corporation and Aurora Health Corporation and their subsidiaries and affiliates are collectively referred to herein as "**AAH**" or the "**System**").

AAH is the tenth largest not-for-profit, integrated health care system in the United States by total revenue, serving over two million unique patients each year. AAH is the largest health care provider in the State of Illinois and one of the largest providers of inpatient and outpatient health care in the State of Wisconsin.

AAH provides a continuum of care through its 25 acute care hospitals, an integrated children's hospital and a psychiatric hospital (which in total have 6,573 licensed beds), primary and specialty physician services, outpatient centers, physician office buildings, pharmacies, behavioral health care, rehabilitation and home health and hospice care in northern and central Illinois and eastern Wisconsin. The System has approximately 9,500 individuals on the medical staffs of its hospitals as of March 31, 2018.

AAH has more than 500 sites of care, as shown on the map on the inside front cover of this Official Statement, strategically placed to provide a continuum of health care services. AAH employs approximately 70,000 individuals, including approximately 3,500 physicians.

Prior to the Affiliation, Advocate Network Corporation and Aurora Health Corporation were each the direct or indirect parent corporation of separate groups of not-for-profit and for-profit entities that comprised the "**Legacy Advocate System**" and the "**Legacy Aurora System**", respectively and together the "**Legacy Systems**".[*] The System was formed on April 1, 2018 in furtherance of the parties' common and unifying charitable health care mission to promote and improve the quality and expand the scope and accessibility of affordable health care and health-care related services for the communities they serve.

In evaluating the Affiliation, management of the Legacy Systems identified numerous complementary capabilities of the two Legacy Systems, including their integrated medical groups and physician partnerships, population health management experience, distribution of assets throughout their respective service areas, and managed care and capitation experience. Prior to the Affiliation, the Legacy Systems had partnered to form a joint venture for shared lab services. With this foundational experience, management of the Legacy Systems identified their similar cultures, structure, history and strategies and considered this a significant strength in pursuing the Affiliation.

[*] These terms are used in this Appendix A for purposes of certain operating data and financial information presented for pre-Affiliation time periods and mean all of the entities that were consolidated in accordance with accounting principles generally accepted in the United States of America ("**GAAP**") with Advocate Network Corporation and Aurora Health Corporation, respectively. The terms "**Legacy System**" and "**Legacy Systems**" are used herein individually or collectively to refer to the Legacy Advocate System and/or the Legacy Aurora System, as applicable.

System Purpose and Core Values

Purpose **We help people live well.**

Core Values

EXCELLENCE: We are a top performer in all that we do

- Focus on safety, health outcomes and customer, physician and team member experience
- Continually find innovative ways to improve
- Demonstrate outstanding stewardship

COMPASSION: We unselfishly care for others

- Treat others with kindness and empathy
- Recognize patients and their families as partners in their care
- Build lifelong relationships with those we serve

RESPECT: We value the unique needs and preferences of all people

- Focus on diversity and inclusion
- Foster teamwork and partnership
- Demonstrate integrity

System Integration and Strategy

System Integration and Strengths

The Legacy Systems shared a common understanding and belief that health care is transforming from a transactional, acute-care orientation to a relationship-driven, value-based, consumer-centric, population health management orientation based on evidence-based practices and coordination of care for patients in the inpatient, outpatient, post-acute and home settings.

The System believes that, by bringing together their complementary offerings and strengths into a new integrated delivery system with a focus on safety and outcomes, enhanced access, proactively managing the health of populations and providing more value, the Affiliation will result in a wider possible scope and range of services for the people and communities it serves to further help them live well and be better positioned to achieve its goals and address the challenging financial and regulatory environment for health care providers.

In connection with the Affiliation, the System identified the following objectives, which are guiding the System's integration strategy:

<u>Physicians and Clinical Excellence</u>

- Strive for clinical excellence demonstrated by comprehensive and consistent high quality care through the development of a single standard of evidenced-based, patient-centered care and a culture of safety.

- Integrate and improve existing clinical programs and services and develop new programs and services.

- Strengthen physician and other clinician recruitment, retention, and integration initiatives with exemplary caregivers with international recognition in medicine and clinical sciences.

- Create a unified electronic health record system and information technology platform to seamlessly coordinate care and improve population health analytics in order to deliver higher quality care and provide more value.

- Work to enhance patient access to a broader continuum of services over an expanded service area, especially for those patients without the ability to pay.

Research and Education

- Invest in research and innovation with the goal of improving clinical outcomes and enhancing the patient experience.

- Enhance support of and participation in clinical research and education, and the provision of education to physicians, clinicians and other employees in a manner intended to address shortages of clinicians, by, among other things, continuing existing and entering into new affiliations with academic institutions.

Operational Efficiencies

- Develop joint resources to optimize the effective and efficient delivery of health services over the long term to an expanded service area.

- Share costs and effectively manage expenses while providing physicians and clinicians access to effective and efficient governance, management and related support services.

- Realize operational efficiencies through an infrastructure designed to reduce the cost of care while improving clinical outcomes, thereby freeing resources to better serve its charitable mission to the communities the System serves.

Values and Community

- Ensure that employees have opportunities to attain their personal goals in a workplace of choice, diversity and inclusion, and provide an employment destination of choice for physicians and caregivers.

- Act as an industry leader in matters of inclusiveness and reflect that core value internally and externally; pursue industry-leading practices and adopt metrics to assess performance across the organization.

- Support the System's charitable foundations to permit them to achieve their objectives in the most efficient and effective manner possible. Provide for responsible stewardship of charitable assets, ensuring long-term sustainability of charitable objectives.

- Continue leadership and a strong profile by investing in its communities' health, well-being, economic vitality and quality of life through creative and robust partnerships and stakeholder engagement.

Relationships with Insurers/Risk Strategy

- Leverage the Legacy Advocate System's experience in assuming risk in certain of its managed care contracts and government programs with the Legacy Aurora System's experience in operating a joint venture insurance company (Wisconsin Collaborative Insurance Company) with the clinical excellence demonstrated by both Legacy Systems.

To facilitate the integration of the two Legacy Systems and the achievement of these objectives, management, led by a Chief Integration Officer, developed a structured integration process. The goal of this process is to capitalize on the combined strengths of the Legacy Systems and the benefits that the combination of the two Legacy systems would yield. The Chief Integration Officer oversees an Integration Management Office including representatives from finance, human resources, information technology, project management, internal audit and other areas to oversee the integration process. Key integration initiatives have been developed and are being implemented by 24 functional teams representing all areas of the System. Over the next two years, the Integration Management Office will monitor, track and guide the execution of these initiatives.

Key initiatives driving value from the Affiliation, and being tracked and monitored by the Integration Management Office, include:

- Supply Chain – reviewing vendor relationships to determine which can provide the System with the most value.
- Information Technology – leading the effort to transition the Legacy Advocate System to Epic and to unify enterprise resource planning and other systems. The majority of Legacy Advocate System physicians are expected to be transitioned in 2018 and the remaining specialty clinics and home health (post-acute care) in 2019. Hospitals of the Legacy Advocate System are planned to begin to implement Epic in 2019, with all expected to be converted in early 2021.
- Core Operations Functional Team – developing standardized reporting and benchmarks and implementing best practices throughout the System.
- Human Resources – developing a unified organization design with common titling and benefit plans.
- Population Health – focused growth in expanding the System's post-acute network.
- Support Services – enhancing and expanding the pharmacy program and working with Supply Chain to enhance value in pharmacy contracts.

System Strategy

AAH has launched a comprehensive strategic planning process that is being led by its Chief Strategy Officer. In the coming months, AAH is developing long-range objectives, strategic priorities and an overall roadmap for the System that will guide capital investments and other resource allocation decisions. A broad set of stakeholders throughout the organization will be engaged in the process and the AAH Board of Directors will be deeply involved as well. A core planning team comprised of the 17 members of the executive leadership team and eight other members of the broader senior leadership team is meeting regularly, analyzing content provided by other System contributors and mapping out the priorities and direction for the System's strategic plan.

Some opportunities already identified by the System in furtherance of these goals include those around managed care, growth in the I-94 corridor, and population health management. The System recently purchased a 96-acre site along the I-94 corridor in Mount Pleasant (Racine County), Wisconsin, with plans to build a hospital and medical office building on the site. Specific plans are under development, but the System presently expects the hospital, medical office building and ancillary buildings to cost approximately $250 million, with construction estimated to begin in late 2018 and be completed in 2021. Financing for the project has not yet been determined.

In July 2018, the System and Foxconn Health Technology Business Group ("**Foxconn**"), a Taiwanese electronics company, announced a non-binding memorandum of understanding to develop a multi-faceted collaboration focused on technology innovations and integration. The System and FoxConn have initially identified three key focus areas for further discussion: enhancing preventative care and employer-based wellness programs; building a "smart-city" connectivity infrastructure; and investing in precision medicine and transformational training programs for a clinical team of the future.

One key focus of the System's strategy going forward is unification from the top down. As described in more detail under "**GOVERNANCE AND MANAGEMENT**" below, the Parent Corporation has the ultimate authority over the corporate actions of Advocate Network Corporation, Aurora Health Corporation and their direct and indirect subsidiaries, subject to only a few limitations. Further, the System is unified through the Office of the Co-CEO, led by Jim Skogsbergh and Dr. Nick Turkal, the Co-CEO's of the System. The Co-CEO's identified fifteen senior management team members, described below under "**GOVERNANCE AND MANAGEMENT**", each of whom has designated areas of responsibility and all of whom report directly into the Office of the Co-CEO. There is no present allocation of authority between the Co-CEO's over different areas of the System. Decisions are made jointly by the Co-CEO's, thus helping create a unified culture and alignment throughout the enterprise. In addition, the consistent messaging and synchronized communication has helped galvanize leadership from both Legacy Systems around the challenges and opportunities facing the newly merged entity.

Awards and Recognitions

The System is nationally recognized for quality, diversity and inclusion and sustainability. Recent awards and recognitions include:

- U.S. News and World Report (2017 Rankings):
  - Nationally Ranked:
    - Five adult specialties (Aurora St. Luke's Medical Center)
    - Two adult and one children's specialties (Advocate Christ Medical Center)
    - Two children's specialties (Advocate Children's – Park Ridge)
    - One children's specialty (Advocate Children's – Oak Lawn)
  - High Performing:
    - Six adult specialties (Advocate Christ Medical Center & Aurora St. Luke's Medical Center)
    - Two adult specialties (Aurora Medical Center Grafton)
  - Recognized #4 regionally in Illinois and Chicago Metro Area (Advocate Christ Medical Center)
  - Recognized #2 in Wisconsin, #1 in Milwaukee Metro Area and recognized regionally in Southeastern Wisconsin (Aurora St. Luke's Medical Center)
  - Recognized #6 in Wisconsin, #3 in Milwaukee Metro Area and regionally in Southeastern Wisconsin (Aurora Medical Center Grafton)
- IBM Watson Health f/k/a Truven Health Analytics:
  - Top 100 Hospitals in the Nation (Advocate Condell Medical Center, Advocate Illinois Masonic Medical Center and Advocate Sherman Hospital) (March 2018)
  - Top 100 Hospitals among small community hospitals (Aurora Medical Center Manitowoc County & Aurora Medical Center Oshkosh) (March 2017)
- Becker's Hospital Review (2017-2018)
  - 100 Great Community Hospitals: Advocate Good Samaritan & Aurora BayCare Medical Center
  - 100 Great Hospitals in America: Advocate Christ Medical Center & Aurora St. Luke's Medical Center
  - Named Among 52 Great Health Systems (Advocate Aurora Health)
- Magnet Recognition
  - Aurora St. Luke's Medical Center
  - Aurora West Allis Medical Center
  - Advocate Christ Medical Center
  - Advocate Condell Medical Center
  - Advocate BroMenn Medical Center
  - Advocate Good Samaritan Hospital
  - Advocate Good Shepherd Hospital
  - Advocate Illinois Masonic Medical Center
  - Advocate Lutheran General Hospital
  - Advocate Sherman Hospital

INFORMATION CONCERNING THE SYSTEM

Members of the Obligated Group

The Parent Corporation maintains direct or indirect control over the activities of Advocate Network Corporation, Aurora Health Corporation and the other Members of the Obligated Group, subject to only limited exceptions described below under "**GOVERNANCE AND MANAGEMENT**".

As described in the forepart of this Official Statement, upon the issuance of the Series 2018 Bonds and the application of the proceeds thereof, the following entities will be the Members of the Obligated Group under the Master Indenture.

- Advocate Aurora Health, Inc.
- Advocate Health Care Network
- Advocate Health and Hospitals Corporation
- Advocate Sherman Hospital
- Advocate North Side Health Network
- Advocate Condell Medical Center
- Aurora Health Care, Inc.
- Aurora Health Care Metro, Inc.
- Aurora Health Care Southern Lakes, Inc.
- Aurora Health Care Central, Inc. d/b/a Aurora Sheboygan Memorial Medical Center
- Aurora Medical Center of Washington County, Inc.
- Aurora Health Care North, Inc. d/b/a Aurora Medical Center Manitowoc County
- Aurora Medical Center of Oshkosh, Inc.
- Aurora Medical Group, Inc.
- Aurora Medical Center Grafton LLC

Restricted Affiliates

Certain of the Obligated Group's affiliates described herein are "**Restricted Affiliates**" under the Master Indenture. No Restricted Affiliate or other direct or indirect affiliate of any Member of the Obligated Group will be directly obligated to make any payments on any of the Obligations (as defined in the Master Indenture) issued under the Master Indenture, including the Obligations relating to the Series 2018 Bonds.

The following entities are Restricted Affiliates under the Master Indenture:

- Advocate Charitable Foundation
- Advocate Home Care Products, Inc.
- EHS Home Health Care Services, Inc. d/b/a Advocate at Home
- Evangelical Services Corporation
- High Technology, Inc.
- Hispano Care, Inc.
- Meridian Hospice d/b/a Advocate Hospice

Excluded Affiliates

The Restricted Affiliates and other affiliates controlled directly or indirectly by the Parent Corporation are collectively referred to herein as the "**System Affiliates**." Certain System Affiliates are not Restricted Affiliates under the Master Indenture, but their financial statements will be included in the System's consolidated financial statements. These System Affiliates are referred to as the "**Excluded Affiliates**." System Affiliates that are not Members of the Obligated Group or Restricted Affiliates are discussed in this Appendix A only to the extent they are viewed by management to be of particular operational or strategic importance.

The Excluded Affiliates are neither Restricted Affiliates nor Obligated Group Members under the Master Indenture. These Excluded Affiliates represented approximately 5%, 6% and 6% of the unaudited pro forma consolidated total assets of the System as of March 31, 2018 and December 31, 2017 and 2016, respectively. The Excluded Affiliates represented approximately 22% and 16% of the unaudited pro forma consolidated total revenue of the System for the years ended December 31, 2017 and 2016, respectively. The Excluded Affiliates represented approximately 21% of the unaudited pro forma consolidated total revenue of the System for the three months ended March 31, 2018.

System Facilities and Services

The System provides health care and related services at its sites of care throughout northern and central Illinois and eastern Wisconsin. These sites of care include the acute care hospitals described in more detail below, primary and specialty care clinics, retail clinics, urgent care clinics, ambulatory surgery centers, outpatient centers, physician office buildings, pharmacies, behavioral health care facilities, post-acute care facilities, and home health and hospice. Key clinical programs within the System include cardiovascular care, neurosciences, gynecology, oncology, pediatrics, primary care, neurology, geriatrics and trauma care.

Hospitals. The System operates 25 acute care hospitals, an integrated children's hospital and a psychiatric hospital, which in total have 6,573 licensed beds. The System is organized into five regions, which are described in more detail below.

Each System acute care hospital facility is licensed in the State of Illinois or Wisconsin, as applicable, is appropriately certified for Medicare and Medicaid reimbursement and each (as well as home health) is accredited by The Joint Commission or DNV GL - Healthcare.

A list of the System's acute care hospital facilities in each market and the number of licensed beds and available beds for each, as of December 31, 2017, is set forth in the table below. Unless otherwise noted, each of such facilities is owned by an Obligated Group Member.

List of Acute Care Hospital Facilities By Region

Region	Facility	Location(s)	Licensed Beds	Available Beds
North Wisconsin Region				
	Aurora BayCare Medical Center[1]	Green Bay, WI	167	149
	Aurora Medical Center Manitowoc County	Two Rivers, WI	69	62
	Aurora Medical Center Oshkosh	Oshkosh, WI	84	61
Central Wisconsin Region				
	Aurora Sheboygan Memorial Medical Center	Sheboygan, WI	185	130
	Aurora Medical Center Washington County	Hartford, WI	71	35
	Aurora Medical Center Grafton	Grafton, WI	127	116
	Aurora Medical Center Summit	Summit, WI	109	84
Greater Milwaukee South, Southern Wisconsin and Northern Illinois Region				
	Aurora St. Luke's Medical Center	Milwaukee, WI	938	607
	Aurora St. Luke's South Shore	Cudahy, WI	275	104
	Aurora West Allis Medical Center[2]	West Allis, WI	350	195
	Aurora Sinai Medical Center	Milwaukee, WI	386	159
	Aurora Medical Center Kenosha	Kenosha, WI	74	74
	Advocate Condell Medical Center	Libertyville, IL	273	273
	Advocate Good Shepherd Hospital	Barrington, IL	176	176
	Advocate Sherman Hospital	Elgin, IL	255	255
	Aurora Lakeland Medical Center	Elkhorn, WI	109	67
	Aurora Memorial Hospital of Burlington	Burlington, WI	123	55
Chicagoland Region				
	Advocate Good Samaritan Hospital	Downers Grove, IL	284	284
	Advocate Lutheran General Hospital and Advocate Children's Hospital, Park Ridge Campus	Park Ridge, IL	638	629
	Advocate Illinois Masonic Medical Center	Chicago, IL	408	327
	Advocate Christ Medical Center and Advocate Children's Hospital Oak Lawn Campus	Oak Lawn, IL	788	777
	Advocate South Suburban Hospital	Hazel Crest, IL	233	205
	Advocate Trinity Hospital	Chicago, IL	205	144
Central Illinois Region				
	Advocate Eureka Hospital[3]	Eureka, IL	25	18
	Advocate BroMenn Medical Center	Bloomington-Normal, IL	221	212
TOTAL			**6,573**	**5,198**

(1) Owned by BayCare Aurora LLC ("**Aurora BayCare**"), a for-profit Wisconsin limited liability company, that is not an Obligated Group Member. Aurora Medical Group, Inc. has a majority (approximately 62%) interest in Aurora BayCare. The financial results of Aurora BayCare are included in the consolidated financial statements of the Legacy Aurora System and AAH.

(2) Aurora West Allis Medical Center ("**AWAMC**") is located on real property leased from the City of West Allis, Wisconsin (the "**City**"). Under the terms of this lease, AWAMC has the right to operate the hospital, but the City has title to all assets and subsequent additions (excluding certain equipment used for lab services). AWAMC has the exclusive right to use the assets and the obligation to maintain and replace them. The lease expires in 2063.

(3) Critical access hospital

Region Information

The following sets forth information about each region within the System. Inpatient market share information set forth below is based on information available from the Illinois Hospital Association and the Wisconsin Hospital Association.

Northern Wisconsin Region

In the Northern Wisconsin Region, the System operates three acute care facilities, with a 17 percent inpatient market share in 2017, based on admissions. Its largest hospital in the market, Aurora BayCare Medical Center, is located in Green Bay, Wisconsin and is a joint venture with BayCare Clinic, a physician-owned provider in Green Bay, Wisconsin. Aurora Medical Group, Inc. owns a majority interest (approximately 62%) in the joint venture. The System also operates hospitals in Oshkosh and Two Rivers, Wisconsin. There are approximately 35 other sites of care operated by the System in this region, including primary and specialty care clinics and sports medicine and urgent care locations. Aurora Medical Group also has a 49% minority interest in Bay Area Medical Center, a general acute care hospital located in Marinette, Wisconsin, which is not included in the consolidated financial statements of the Legacy Aurora System or AAH.

Central Wisconsin Region

In the Central Wisconsin Region, the System operates four acute care facilities, with a 19 percent inpatient market share in 2017, based on admissions. Its largest hospital in the market, Aurora Sheboygan Memorial Medical Center, is located in Sheboygan, Wisconsin. The System also operates hospitals in Hartford, Grafton, and Summit, Wisconsin. There are approximately 47 other sites of care operated by the System in this region, including primary and specialty care clinics, urgent care locations and imaging and rehab centers. Aurora Psychiatric Hospital, with 105 beds, is also located in the region.

Greater Milwaukee South, Southern Wisconsin and Northern Illinois Region

In the Greater Milwaukee South, Southern Wisconsin and Northern Illinois Region, the System operates ten acute care facilities, with a 45 percent inpatient market share in 2017, based on admissions. The System's largest hospital, Aurora St. Luke's Medical Center (a quaternary medical center), is located in this region, along with six others in Wisconsin and three in Illinois. There are approximately 126 other sites of care operated by the System in this region, including primary and specialty care clinics, retail and immediate care clinics and imaging and therapy locations.

Chicagoland Region

The System operates six acute care hospitals in the Chicagoland Region, with a 16 percent inpatient market share in 2017, based on admissions. Three of the hospitals in this region, Advocate Illinois Masonic Medical Center, Advocate Lutheran General Hospital and Advocate Christ Medical Center, are teaching hospitals. The two campuses of Advocate Children's Hospital are also located in the Chicagoland Region, in Park Ridge and Oak Lawn, Illinois. There are approximately 147 other sites of care operated by the System in this region, including primary and specialty care clinics, retail and immediate care clinics and imaging and therapy locations.

Central Illinois Region

The System operates two acute care hospitals in the Central Illinois region, with a 46 percent inpatient market share in 2017, based on admissions. Advocate BroMenn Medical Center is located in Bloomington-Normal, Illinois and Advocate Eureka Hospital, the System's only critical access hospital, is located in Eureka, Illinois. There are approximately 16 other sites of care operated by the System in this region, including primary and specialty care clinics, immediate care clinics and mammography imaging.

Medical Staff and Physician Strategy

As of March 31, 2018, the combined System employed approximately 3,500 physicians (3,000 FTE's) and approximately 1,400 FTE advanced practice clinicians. As of March 31, 2018, there were approximately 9,500 individuals on the active staffs of the System hospitals. Approximately 90% of the members of the active medical staff are board certified specialists.

The Legacy Advocate System utilizes independent primary care and specialty physicians to augment its base of employed physicians through a large clinically integrated medical group model, APP, described below. The Legacy Aurora System manages care predominantly through employed clinicians with less use of independent physicians. Additional detail on their respective physician groups is set forth below.

Aurora Health Care Medical Group. Aurora Health Care Medical Group is the governing organization for the Legacy Aurora System's employed physicians, which numbered approximately 1,840 physicians as of March 31, 2018. Aurora Health Care Medical Group is a wholly-owned subsidiary of Aurora Health Corporation.

Advocate Medical Group. As of March 31, 2018, Advocate Medical Group employed approximately 1,670 physicians. Advocate Medical Group is an operating division of Advocate Health and Hospitals Corporation.

Advocate Health Partners (d/b/a Advocate Physician Partners) ("APP"). Advocate Network Corporation has a majority of voting board seats and certain reserved powers over APP. Accordingly, APP's results are included in the System's consolidated financial statements. APP brings together approximately 5,000 physicians who are committed to improving health care quality, safety and outcomes for patients across the Chicago metropolitan area and central Illinois. Formed as a care management collaboration with the Legacy Advocate System, APP's comprehensive approach coordinates patient care across the continuum. This structure is designed to result in more efficiency, improved health outcomes and significant cost savings for patients. APP also supports its physician members in managing the health of their practices with contracting, medical management, electronic medical records and services including group health and dental insurance and preferred pricing on vaccines, medical surgical supplies and office supplies. In February 2014, APP entered into a clinical affiliation agreement with New Lenox, Illinois based Silver Cross Hospital and Medical Centers ("**Silver Cross**"). Through this agreement Silver Cross became clinically integrated with APP and the Legacy Advocate System by adopting the APP Clinical Integration Program and becoming a member of the Legacy Advocate System's Health Outcomes Council. Silver Cross continues to retain its own board of directors and governance of its day-to-day operations as well as maintaining control of its own brand and marketing**.**

Dreyer Clinic, Inc. Dreyer Clinic, Inc. ("**Dreyer Clinic**"), which employs approximately 153 FTE physicians in a number of specialties, is based in Aurora, Illinois and serves residents of a five-county area at thirteen different locations throughout the far western suburbs of Chicago. Dreyer Clinic is an Illinois for-profit corporation that is controlled by Advocate Network Corporation and consolidated into the System's financial statements.

Utilization Statistics

A summary of certain combined utilization statistics for the System for the years ended December 31, 2016 and 2017, and the three months ended March 31, 2017 and 2018 are set forth in the table below, assuming for these purposes that the Affiliation was effective as of January 1, 2016.

	Year Ended December 31,		Three months ended March 31,	
	2016	2017	2017	2018
Discharges	272,644	275,469	68,779	69,602
Observation Cases	97,312	95,329	24,065	23,530
Hospital Outpatient Visits	4,277,371	4,405,106	1,086,185	1,123,725
Physician Visits	8,682,164	8,961,074	2,294,105	2,317,761
Home Care Visits	723,878	711,163	185,179	184,797
Capitated Member Lives*	335,136	320,504	349,067	322,363

*As of the date set forth in the column header

Sources of Net Patient Service Revenue; Managed Care

The System's net patient service revenue comes from a variety of sources, which differ among the individual facilities and service areas.

In the years ended December 31, 2016 and 2017 and the three months ended March 31, 2017 and 2018, the composition of the pro forma consolidated System's net patient service revenue by payor was as follows:

	Year Ended December 31,		Three Months Ended
	2016	2017	March 31, 2018
Medicare	30%	30%	30%
Medicaid –Wisconsin	4%	4%	4%
Medicaid – Illinois	7%	8%	7%
Managed Care	57%	56%	56%
Self-Pay and Other	2%	2%	3%
Total	100%	100%	100%

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.

Managed Care Contracts and Capitation. 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 health care. These payors include HMOs and PPOs, as well as similar entities ("**Managed Care Payors**"). These Managed Care Payors contract for care for their covered beneficiaries at rates different from the System's established billing rates. Managed care payors accounted for approximately 56% of the pro forma consolidated System's net patient service revenue for the three months ended March 31, 2018.

Contracts with managed care payors are subject to automatic renewal, renegotiation or termination at the end of their terms. Contract renewals are not guaranteed as they are subject to negotiation between the System and the managed care organization. The System cannot predict with any certainty the ultimate outcome of future negotiations with managed care payors as contracts expire. As of the date of this document, there are no managed care contracts under termination notice.

The System intends to work toward consolidating arrangements where possible with Managed Care Payors; however, each Legacy System is presently operating under pre-Affiliation contracts.

Legacy Advocate System

The Legacy Advocate System is party to a capitated physician provider agreement with Blue Cross and Blue Shield of Illinois, a division of Health Care Service Corporation, a Mutual Legal Reserve Company and an Independent Licensee of the Blue Cross and Blue Shield Association ("**Blue Cross**"). The commercial and Medicare HMO products of this capitated agreement are with APP and also include Blue Cross' Medicare PPO product, which is reimbursed fee-for-service. The Legacy Advocate System also has hospital agreements with Blue Cross for HMO and PPO products, including a three-year hospital contract for the period January 1, 2017 through December 31, 2019. All agreements automatically renew for one-year terms commencing on each January 1 unless either party provides a notice of termination or notice to renegotiate the rates. All the agreements were automatically renewed for 2018.

On January 1, 2016, the Legacy Advocate System, in collaboration with Blue Cross, launched a high-performance network exchange product, BlueCare Direct®. Capitation revenue received under this agreement amounted to 16% of pro forma consolidated total capitation revenue of the System for each of the quarters ended March 31, 2018 and 2017, and 19% of pro forma consolidated total capitation revenue of the System for the year ended December 31, 2017. BlueCare Direct® provides members with access to the Legacy Advocate System's hospitals, home health and hospice services and primary care and specialty physicians. Membership at March 31, 2018 approximated 38,000 lives. The BlueCare Direct® product incurred a gain of $0.3 million for the three months ended March 31, 2018, a loss of $5.2 million for the three months ended March 31, 2017 and a loss of $9.1 million for year ended December 31, 2017. The loss in 2017 resulted from the recognition of a risk transfer payment liability under the provisions of the ACA.

The Legacy Advocate System is a party to a capitated physician provider agreement with Humana Health Plan, Inc. and Humana Insurance Company and their affiliates ("**Humana**"). The commercial and Medicare HMO products of this capitated agreement are with the Legacy Advocate System's wholly owned medical groups and also include Humana's Medicare PPO product, which is reimbursed fee-for-service. The Legacy Advocate System also has hospital agreements with Humana for HMO, POS and PPO products. All agreements automatically renew for one-year terms commencing on each January 1 unless either party provides a notice of termination or notice to renegotiate the rates. All the agreements were automatically renewed for 2018. Capitation revenue received under the commercial and Medicare HMO agreements with Humana amounted to 22% and 20% of the pro forma consolidated System capitation revenue for the three months ended March 31, 2018 and 2017, respectively, and 20% of the pro forma consolidated System capitation revenue for the year ended December 31, 2017.

As of March 31, 2018, membership through shared savings and risk based contracts with commercial and governmental payors with the Legacy Advocate System amounted to approximately 987,000 covered and attributed lives. These contracts are designed to improve quality and reduce the total cost of care.

Legacy Aurora System

The Legacy Aurora System developed The Aurora Network, a network comprised of Legacy Aurora System hospitals and clinics, physicians employed by the Legacy Aurora System and certain other independent physicians, with the goal of improving quality, outcomes, and the patient experience. The Aurora Network was first offered on January 1, 2013 when the Legacy Aurora System joined with two major health insurers, Anthem and Aetna (the Aetna narrow network agreement has since been dissolved), to market The Aurora Network to Wisconsin employers. Effective January 1, 2015, the Legacy Aurora System added other narrow network partners, including Arise Health Plan, Humana and the Wisconsin Education Association Health. In addition, the network with Anthem was broadened to include additional health systems. Aurora also contracts with Common Ground Healthcare Cooperative and Molina Healthcare to market products that are offered on the health insurance exchange.

Wisconsin Collaborative Insurance Company. In April 2016, Anthem and Aurora Health Corporation formed a new, joint venture health insurance company, Wisconsin Collaborative Insurance Company ("**WCIC**"). WCIC offers a commercial health insurance product called Well Priority. Well Priority is a narrow network product that focuses on efficient care, effective care management and diverse wellness programs designed to deliver lower overall cost of care, healthier consumers and higher patient satisfaction. See Note 9 in **Appendix B-2** for the Legacy Aurora System's investments in WCIC through December 31, 2017.

Well Priority products utilize Anthem's Blue Priority network. Health systems participating in the Blue Priority network include: Aspirus, Bay Area Medical Center, Bellin Health, Children's Hospital of Wisconsin, Fort HealthCare, Gundersen Health System, Meriter, ProHealth Care, Sauk Prairie Healthcare, ThedaCare, University of Wisconsin Hospitals, Clinics and American Family Children's Hospital, and Watertown Regional Medical Center.

FINANCIAL INFORMATION

The unaudited pro forma consolidated financial information presented below of the System as of and for the years ended December 31, 2017 and 2016 have been derived by System management as a combination of the Legacy Advocate System's audited consolidated financial statements as of and for the years ended December 31, 2017 and 2016, and the Legacy Aurora System's audited consolidated financial statements as of and for the years ended December 31, 2017 and 2016. Pro forma adjustments have been made to consolidate the joint venture for lab services, eliminate intercompany balances and make certain adjustments to previously reported amounts to conform to accounting policies adopted by the System.

The unaudited pro forma consolidated financial information presented below of the System as of and for the three months ended March 31, 2018 and 2017, have been derived by System management as a combination of the Legacy Advocate System's unaudited consolidated financial statements as of and for the three months ended March 31, 2018 and 2017 and the Legacy Aurora System's unaudited consolidated financial statements as of and for the three months ended March 31, 2018 and 2017. Pro forma adjustments have been made to consolidate the joint venture for lab services, eliminate intercompany balances and make certain adjustments to previously reported amounts to conform to accounting policies adopted by the System.

This financial information should be read in conjunction with the audited consolidated financial statements of Advocate Health Care Network and Subsidiaries, including the notes thereto, and the report of Ernst & Young LLP independent auditors, thereon contained in APPENDIX B-1; and the audited consolidated financial statements of Aurora Health Care, Inc. and Affiliates, including the notes thereto, and the report of Deloitte & Touche LLP, independent auditors, thereon contained in APPENDIX B-2.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("**GAAP**") requires management to make assumptions, estimates and judgments that affect the amounts reported in the consolidated financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. System management considers critical accounting policies to be those that require the more significant judgments and estimates in the preparation of its financial statements, including the following: recognition of net patient service revenue, valuation of investments, and the valuation of the reserve for claims and expenses related to general and professional liability risks. Management relies on historical experience and on other assumptions believed to be reasonable under the circumstances in making its judgments and estimates. Actual results could differ materially from those estimates.

The Affiliation is expected to be accounted for as a merger in accordance with Financial Accounting Standards Board, Accounting Standards Codification 958-805, *Not-for-Profit Entities Business Combinations.* AAH will account for the merger by applying the carryover method which requires combining the assets and liabilities recognized in the separate financial statements of the Legacy Advocate System and the Legacy Aurora System as of the merger date, April 1, 2018, adjusted as necessary for the measurement of assets and liabilities under a consistent method of accounting. The consolidated financial statements of the merger period will only include information from the date of the merger, meaning that the first fiscal year of the System will begin on April 1, 2018 and end on December 31, 2018.

Additional information can be obtained from the Investor Relations section within the System's website found at https://www.advocateauroraheath.org/investor-relations; however, such reference is for informational purposes only and provided solely for the reader's convenience. Such website and the information or links contained therein are not incorporated into, and are not part of, this Official Statement.

Historical Financial Information

As of and for the years ended December 31, 2017 and 2016, the unaudited pro forma consolidated total revenue attributable to the Obligated Group and Restricted Affiliates were approximately 78% and 84%, respectively, of the System totals. As of and for the twelve month periods ended December 31, 2017 and 2016, the unaudited pro forma consolidated total assets attributable to the Obligated Group and Restricted Affiliates were 94% of the System totals.

As of and for the three months ended March 31, 2018, the unaudited pro forma consolidated total operating revenues attributable to the Obligated Group and Restricted Affiliates, and total assets attributable to the Obligated Group and Restricted Affiliates, were approximately 79% and 94% respectively, of the System totals.

The unaudited pro forma consolidated financial statements as of and for the years ended December 31, 2017 and 2016, and as of and for the three months ended March 31, 2018 and 2017 do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. The results of operations for the three months ended March 31, 2018 reflected in such tables may not be indicative of the operating results expected for the full year ending December 31, 2018.

Summary Unaudited Pro Forma Consolidated Statements of Operations
Advocate Aurora Health (System)
(in thousands)

	Years Ended December 31,		Three Months Ended March 31,	
	2016	**2017**	**2017**	**2018**
Net patient service revenue	$ 9,655,184	$ 9,585,583	$ 2,354,302	$ 2,440,216
Capitation revenue	487,796	1,317,839	318,554	320,925
Other operating revenue	759,186	846,306	197,337	181,431
Total revenue	10,902,166	11,749,728	2,870,193	2,942,572
Salaries, wages and benefits	5,984,562	6,304,968	1,551,878	1,602,219
Supplies and purchased services	2,318,553	2,343,990	608,473	639,332
Contract medical services	209,265	606,922	143,384	142,417
Depreciation and amortization	476,688	515,871	127,498	134,652
Interest	112,408	115,346	28,292	26,483
Other	1,158,308	1,238,859	268,885	264,733
Total expenses	10,259,784	11,125,956	2,728,410	2,809,836
Operating income before nonrecurring losses	642,382	623,772	141,783	132,736
Nonrecurring losses	-	53,134	1,440	19,449
Operating income	642,382	570,638	140,343	113,287
Investment income (loss), net	424,722	772,114	238,054	(9,154)
Other non-operating income (loss), net	(839)	(57,143)	2,554	18,362
Excess of revenue over expenses	1,066,265	1,285,609	380,951	122,495
Less noncontrolling interest	(48,950)	(52,298)	(11,961)	(10,176)
Excess of revenue over expenses – attributable to controlling interest	$ 1,017,315	$ 1,233,311	$ 368,990	$ 112,319

Summary Unaudited Pro Forma Consolidated Balance Sheets
Advocate Aurora Health (System)
(in thousands)

	December 31, 2016	December 31, 2017	March 31, 2018
ASSETS			
Current assets:			
Cash and cash equivalents	$ 260,533	$ 605,675	$ 408,107
Investments	1,637,680	1,861,798	1,450,102
Assets limited as to use	89,008	99,283	98,747
Patient accounts receivable, net	1,434,565	1,482,929	1,470,713
Other receivables	47,173	66,281	44,255
Prepaids, inventory and other current assets	437,860	421,982	439,287
Estimated third-party payor settlements	35,887	46,211	41,717
Collateral proceeds under securities lending program	19,953	19,577	6,110
Total current assets	3,962,659	4,603,736	3,959,038
Assets limited as to use	5,961,435	6,436,826	6,626,662
Property, plant, and equipment, net	5,011,572	5,088,751	5,433,497
Other assets:			
Intangible assets and goodwill, net	80,536	85,195	85,466
Investments in unconsolidated entities	208,063	211,641	209,450
Reinsurance receivable	97,603	76,376	75,036
Other non current assets	189,463	243,596	235,323
Total other assets	575,665	616,808	605,275
TOTAL ASSETS	**$ 15,511,331**	**$ 16,746,121**	**$ 16,624,472**
LIABILITIES			
Current liabilities:			
Current portion of long-term debt	$105,372	$174,564	$165,164
Long-term debt subject to short-term remarketing and other contractual arrangements	174,431	91,975	91,975
Accounts payable and accrued liabilities	1,640,525	1,695,743	1,451,857
Estimated third-party payor settlements	354,752	347,378	342,550
Current portion of accrued insurance & claim costs	100,225	104,593	104,593
Collateral under securities lending program	19,953	19,577	6,110
Total current liabilities	2,395,258	2,433,830	2,162,249
Noncurrent liabilities:			
Long-term debt, less current portion	2,956,010	2,862,201	2,805,175
Accrued insurance & claims cost less current portion	666,496	617,735	636,856
Accrued losses subject to insurance recovery	97,603	76,376	75,036
Obligations under swap agreements net of collateral	79,622	73,875	66,369
Other long-term liabilities	594,513	616,574	600,054
Total noncurrent liabilities	4,394,244	4,246,761	4,183,490
Total Liabilities	6,789,502	6,680,591	6,345,739
NET ASSETS			
Unrestricted:			
Controlling interest	8,396,308	9,714,917	9,942,719
Noncontrolling interest	101,617	116,225	104,168
Total unrestricted net assets	8,497,925	9,831,142	10,046,887
Temporarily restricted	152,185	161,973	159,267
Permanently restricted	71,719	72,415	72,579
Total net assets	8,721,829	10,065,530	10,278,733
TOTAL LIABILITIES AND NET ASSETS	$ 15,511,331	$ 16,746,121	$ 16,624,472

Management's Discussion of Financial Performance

For the discussion and analysis below, management has summarized the unaudited pro forma consolidated results of the System, assuming that the Affiliation was in effect during the years ended December 31, 2017 and 2016 as well as the three months ended March 31, 2018 and 2017. The following documents are incorporated herein by reference and are available for review on the Electronic Municipal Market Access ("**EMMA**") website of the Municipal Securities Rulemaking Board ("**MSRB**"):

Advocate Health Care Network

- Annual Report for Year Ended December 31, 2017
- Financial Report for Quarter Ended March 31, 2018

Aurora Health Care

- Annual Report for Year Ended December 31, 2017
- Financial Report for Quarter Ended March 31, 2018

Pro Forma Consolidated System Results of Operations – Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Operating income before nonrecurring losses was $623.8 million in 2017, resulting in an operating margin of 5.3%, as compared to operating income before nonrecurring losses of $642.4 million and an operating margin of 5.9% in 2016. The decrease in operating income before nonrecurring losses of $18.6 million period over period relates primarily to increases in salaries and wages and pharmaceutical costs offset by increases in capitation revenue. These trends are discussed in further detail below. Nonrecurring losses of $53.1 million were recorded for the year ended December 31, 2017 and consisted of $18.7 million of expenses for employees accepting an early retirement incentive plan offer due to initiatives undertaken by the Legacy Advocate System to reduce operating expenses in 2017, $24.1 million for costs incurred in connection with an abandoned information technology project, and $10.3 million of costs incurred in connection with the Affiliation.

Net patient service revenue decreased $69.6 million (0.7%) in the year ended December 31, 2017, compared to the same period in 2016. The decrease in net patient service revenue was due to the elimination of $333.8 million of revenue associated with members of APP capitated contracts cared for at Legacy Advocate System facilities. This was offset in part by an increase in volumes, as well as rate increases across the System.

Capitation revenue increased $830.0 million (170.2%) in the year ended December 31, 2017, compared to the same period in 2016. The increase in capitation revenue was primarily due to the consolidation of APP into the Legacy Advocate System effective January 1, 2017, which represented $688.1 million of the increase as well as an increase in membership participating in capitated plans.

Other operating revenue increased $87.1 million (11.5%) in the year ended December 31, 2017, compared to the same period in 2016. The increase in other operating revenue was primarily driven by the consolidation of APP into the Legacy Advocate System effective January 1, 2017, which represented a $75.9 million net increase due to an increase in clinical integration revenue offset by the reduction of revenue for services provided by the Legacy Advocate System to APP.

Salaries, wages and benefits expense increased $320.4 million (5.4%) for the year ended December 31, 2017, compared to the same period in 2016. This increase was driven by an increase in full time equivalents ("**FTE's**") year over year in response to an increase in volume over the same period and the annual merit increase.

Supplies and purchased services expense increased $25.4 million (1.1%) for the year ended December 31, 2017, compared to the same period in 2016. Supplies and purchased services expense as a percent of total

operating revenue excluding capitation revenue increased from 22.3% to 22.5% over the comparative period. The increase in supplies and purchased services expense as a percent of total operating revenue excluding capitation revenue is driven by inflationary increases in pharmaceutical costs.

Contract medical services expense increased $397.7 million (190.0%) for the year ended December 31, 2017, compared to the same period in 2016. This increase was due to the consolidation of APP into Legacy Advocate effective January 1, 2017, which represented $393.6 million of this increase, and an increase in membership participating in capitated plans.

Depreciation and amortization expense increased $39.2 million (8.2%) for the year ended December 31, 2017, compared to the same period in 2016. This increase was primarily driven by capital expenditures aligned with continued reinvestment in equipment and facilities as well as strategic growth. The System placed two new ambulatory surgery centers in Germantown and Burlington, Wisconsin in service late in 2016; therefore, depreciation on these facilities increased in 2017 as they were in service for the entirety of the year.

Non-operating income increased $291.1 million (68.7%) for the year ended December 31, 2017, compared to the same period in 2016. The increase in nonoperating income was due to stronger investment income due to improvement in market conditions. This was partially offset by a $13.4 million write-off of assets which no longer met the Legacy Aurora System's capitalization policy.

Pro Forma Consolidated System Results of Operations – Three Months Ended March 31, 2018 Compared to Three Months Ended March 31, 2017

Operating income before nonrecurring losses was $132.7 million for the three months ended March 31, 2018, resulting in an operating margin of 4.5%, as compared to operating income before nonrecurring losses of $141.8 million and an operating margin of 4.9% for the three months ended March 31, 2017. The decrease in operating income before nonrecurring losses of $9.0 million period over period relates primarily to increases in salaries, wages and benefits, and supplies and purchased services expense offset by increases in net patient service revenue. These trends are discussed in further detail below. Nonrecurring losses of $19.4 million for the three months ended March 31, 2018 consisted of $1.8 million of costs incurred to implement Epic at the Legacy Advocate System and $17.6 million of costs incurred in connection with the Affiliation.

Net patient service revenue increased $85.9 million (3.6%) in the three months ended March 31, 2018, compared to the same period in 2017. The increase in net patient service revenue was primarily due to increases in volumes.

Other operating revenue decreased $15.9 million (8.1%) in the three months ended March 31, 2018, compared to the same period in 2017. The decrease in other operating revenue was due to the timing of the recognition of the clinical integration distribution of $22.0 million in the first quarter of 2017. This was offset in part by favorable retail pharmacy sales and an increase in revenue from risk share, quality, and administrative revenue related to managed care arrangements.

Salaries, wages and benefits expense increased $50.3 million (3.2%) for the three months ended March 31, 2018, compared to the same period in 2017. This increase was driven by an increase in FTE's period over period in response to an increase in volume over the same period and the annual merit increase.

Supplies and purchased services expense increased $30.9 million (5.1%) for the three months ended March 31, 2018, compared to the same period in 2017. Supplies and purchased services expense as a percent of total operating revenue excluding capitation revenue increased from 23.8% to 24.4% over the comparative period. The increase in supplies and purchased services expense as a percent of total operating revenue excluding capitation revenue is driven by inflationary increases in general supplies and pharmaceutical costs, and the mix of services performed.

Depreciation and amortization expense increased $7.2 million (5.6%) for the three months ended March 31, 2018, compared to the same period in 2017. This increase was primarily driven by additional investments in facilities and equipment. This increase was also driven by the purchase of nineteen properties in January 2018 which were previously leased as discussed further under the heading "Other Indebtedness and Financial Arrangements".

Nonoperating income decreased $231.4 million (96.2%) for the three months ended March 31, 2018, compared to the same period in 2017. The decrease in nonoperating income from prior year was primarily due to deterioration in financial markets which resulted in a $247.2 million decrease in investment income over the comparative period. The decrease in nonoperating income was partially offset by the realization of deferred gains associated with the purchase of properties previously accounted for as capital leases and other financing arrangements, as well as the sale of two surgery centers.

Pro Forma Debt Service Coverage

The following table sets forth pro forma coverage of historical debt service on indebtedness of the System for the Fiscal Years ended December 31, 2016 and 2017, assuming for these purposes that the Affiliation was effective as of January 1, 2016.

Unaudited Pro Forma Debt Service Coverage
Advocate Aurora Health (System)
(in thousands)

	Years Ended December 31,	
	2016	**2017**
Income available for debt service:		
Excess of revenue over expenses	$1,017,315	$1,233,311
Adjustments:		
Depreciation and amortization expense	476,688	515,871
Interest expense	112,408	115,346
Unrealized (gains) losses on investments	(202,590)	(429,550)
Unrealized (gains) losses on interest rate swap obligation	(9,221)	(5,748)
Pension settlement loss	852	1,010
(Gain) loss on early extinguishment of debt	2,070	6,412
Asset impairment charges	(3,918)	11,572
Gain on sale of assets not in the ordinary course of business	(329)	(329)
Nonrecurring loss	0	42,750
Total income available for debt service	$1,393,275	$1,490,645
Debt service requirements	$219,335	$226,175
Historical debt service coverage ratio*	6.35	6.59
Pro forma debt service requirements†	$144,292	$144,292
Pro forma historical debt service coverage ratio†	9.66	10.33

*Calculated in accordance with the Master Indenture
† Preliminary, subject to change

Pro Forma Days Cash on Hand

The table below this caption includes the pro forma Days Cash on Hand calculations of the System at December 31, 2017 and 2016 and March 31, 2018 assuming for these purposes that the Affiliation was effective on January 1, 2016.

Unaudited Pro Forma Days Cash on Hand
Advocate Aurora Health (System)
(in thousands)

	December 31, 2016	December 31, 2017	March 31, 2018
Cash and cash equivalents	$ 260,533	$ 605,675	$ 408,107
Investments	1,637,680	1,861,798	1,450,102
Assets limited as to use, current	89,008	99,283	98,747
Assets limited as to use, non current	5,961,435	6,436,826	6,626,662
Less restricted funds	(1,021,333)	(1,122,086)	(1,123,889)
Unrestricted cash and investments	$ 6,927,323	$ 7,881,496	$ 7,459,729
Operating expenses*	10,259,784	11,179,090	2,829,285
Less depreciation and amortization	(476,688)	(515,871)	(134,652)
Adjusted operating expenses	9,783,096	10,663,219	2,694,633
Number of days in period	366	365	90
Operating expense per day	26,730	29,214	29,940
Days cash on hand	259.2	269.8	249.2^

*Operating expenses include nonrecurring losses

^ The System's unrestricted cash and investments decreased by $421.8 million or 5.4% from December 31, 2017 to March 31, 2018. The decrease in unrestricted cash and investments was primarily due to $433.0 million of cash used to purchase nineteen properties which were previously leased as discussed further under the heading "Other Indebtedness and Financial Arrangements".

Master Indenture Obligations

As of the date of issuance of the Series 2018 Bonds, the System has issued Obligations under the Master Indenture to secure certain of its debt obligations and obligations to swap counterparties.

Long-Term Indebtedness

The following table sets forth the Long-Term Indebtedness secured by Obligations issued under the Master Indenture that will be Outstanding as the date of issuance of the Series 2018 Bonds (assuming the application of the proceeds thereof to the refinancing of the Prior Debt as described in the forepart under "**PLAN OF FINANCE**" and scheduled principal payments on certain Prior Debt to be paid prior to the date of issuance of the Series 2018 Bonds).

Long-Term Master Indenture Indebtedness

Series	Par Outstanding (000's)	Final Maturity Date	Current Mandatory Tender Date or Liquidity Facility Expiration Date
Fixed Rate Long-Term Indebtedness			
IL 2003A&C	$ 25,345	11/15/22	n/a
IL 2008D	4,945	11/1/38	n/a
IL 2010D	14,975	4/1/38	n/a
IL 2011A-1	840	4/1/22	n/a
IL 2011A-2	32,085	4/1/41	n/a
IL 2012	145,620	6/1/47	n/a
IL 2013A	90,420	6/1/31	n/a
IL2014	304,770	8/1/38	n/a
IL 2015	100,000	5/1/45	n/a
IL 2015B	71,645	5/1/44	n/a
WI 2018A*	100,000*	8/15/38*	n/a
AAH 2018 Taxable*	730,000*	8/15/48*	n/a
Taxable Term Loan	115,000	9/27/24	n/a
Subtotal Fixed Rate	$ 1,735,645*	11/15/22	n/a
Variable Rate Long-Term Indebtedness			
Weekly Rate Bonds*			
IL 2008C-1	$ 127,900	11/1/38	8/31/20
IL 2008C-2A	49,230	11/1/38	8/1/19
IL 2008C-2B	57,525	11/1/38	8/15/21
IL 2008C-3A	86,640	11/1/38	8/15/21
Windows Variable Rate Bonds†			
IL 2011B	70,000	4/1/51	n/a
Long-Term Rate Bonds‡			
IL 2008A-1	42,045	11/1/30	1/15/20
IL 2008A-2	35,490	11/1/30	2/12/20
IL 2008A-3	42,795	11/1/30	5/1/19
WI 2018B*	200,000*	8/15/57*	_____
Indexed Floating Rate Bonds			
IL 2011C&D§	100,000	4/1/49	9/3/2024
WI 2018C*	200,000*	8/15/57*	_____
Subtotal Variable Rate	$ 1,011,625*		

**Preliminary, subject to change*

* These bonds are supported by separate standby bond purchase agreements ("**SBPAs**").

† These bonds are not supported by any dedicated liquidity facility. If tendered and not remarketed within 30 days, then these bonds become subject to mandatory tender on the date that is 210 days after the date of the original tender notice.

‡ Long-Term Rate Bonds bear interest at a fixed rate for a specified period and are subject to mandatory tender at the end of such period.

§ These bonds are placed directly with a single holder.

Bank Facilities

Dedicated Liquidity Facilities. The Weekly Rate Bonds described in the table above are supported by separate SBPAs. In the event of a failed remarketing of a Weekly Rate Bond upon its tender by an existing holder and subject to compliance with the terms of the SBPA, the standby bank would provide the funds for the purchase of such tendered bonds, and the Obligated Group would be obligated to repay the bank for the funds it provided for such bond purchase (if such bond is not subsequently remarketed), with the first installment of such repayment commencing on the date one year and one day after the bank purchases the bond. As of March 31, 2018, and December 31, 2017 and 2016, there were no bank purchased bonds outstanding.

Lines of Credit. As of the date of issuance of the Series 2018 Bonds, the System will have in place lines of credit with banks aggregating to $585.0 million in principal amount. $58.5 million was drawn on such lines of credit as of March 31, 2018. These lines of credit provide for various interest rates and payment terms and expire as follows: $100.0 million in August 2018, $60.0 million in December 2018, $100.0 million in December 2019, $275.0 million in August 2020, and $50.0 million in September 2020. These lines of credit may be used to redeem bonded indebtedness, to pay costs related to such redemptions, for capital expenditures, or for general working capital purposes.

Interest Rate Swaps

As described in Note 7 in Appendix B-1, Advocate Network Corporation entered into multiple floating-to-fixed interest rate swap arrangements with respect to the Series 2008C Bonds (collectively, the "**Series 2008C Swaps**") pursuant to ISDA Master Agreements. Pursuant to the Series 2008C Swaps, Wells Fargo Bank, National Association ("**Wells Fargo**") and PNC Bank, National Association ("**PNC**") pay Advocate Network Corporation the sum of a percentage of the one-month London Interbank Offered Rate ("**LIBOR**") plus a spread, and Advocate Network Corporation pays Wells Fargo and PNC amounts based on a fixed rate (approximately 3.605%). All Wells Fargo, PNC and Advocate Network Corporation payments are made on a same day net payment basis with reference to a notional amount that declines over the term of the Series 2008C Swaps. Unless terminated earlier in accordance with their terms, the Series 2008C Swaps' scheduled termination date is November 1, 2038. Under certain circumstances, however, the Series 2008C Swaps are subject to termination prior to the scheduled termination date.

See Note 4 and Note 7 in Appendix B-1 for the fair value and a description of the accounting treatment of Advocate Legacy System's interest rate swap arrangements.

Advocate Network Corporation's obligation to make regularly scheduled and any termination payments to Wells Fargo and PNC pursuant to the Series 2008C Swaps is secured by Obligations issued pursuant to the Master Indenture on a parity basis with all other Obligations issued under the Master Indenture.

Other Indebtedness and Financial Arrangements

Under regulatory rules of the State of Illinois, the System is required to post a letter of credit or a surety bond with a State agency to operate a self-insured workers' compensation program. At March 31, 2018 and December 31, 2017 and 2016, Advocate Network Corporation held a surety bond in the amount of $19.5 million, $19.5 million and $19.3 million, respectively. Advocate Sherman Hospital had letter of credit agreements totaling $0.8 million, $0.8 million, and $1.4 million at March 31, 2018 and December 31, 2017 and 2016, respectively, related to various construction projects. No amounts were drawn on these letters of credit as of December 31, 2017 and 2016 or March 31, 2018 or the date of this Official Statement.

As part of the management of the investment portfolio, the Legacy Advocate System has entered into an arrangement whereby securities owned by the Legacy Advocate System are loaned, primarily to brokers and investment banks. The loans are arranged through a bank. Borrowers are required to post collateral in the form of cash or highly rated securities for securities borrowed equal to approximately 102% to 105% of the value of the

security loaned on a daily basis. The bank is responsible for reviewing the credit-worthiness of the borrowers. The Legacy Advocate System has also entered into an arrangement whereby the bank is responsible for the risk of borrower bankruptcy and default. At March 31, 2018 and December 31, 2017 and 2016, the Legacy Advocate System loaned approximately $6.0 million, $19.0 million, and $19.6 million, respectively, in securities and accepted collateral for these loans in the amount of $6.1 million, $19.6 million, and $20.0 million, respectively, which represented cash and government securities. The collateral received under the securities lending program has been reflected as a current asset and a current obligation payable in the interim condensed consolidated balance sheets presented. The balance of securities loaned and accepted collateral fluctuates daily.

Legacy Aurora System entities are obligated under capital lease and financing arrangements entered into in connection with certain sale-leaseback transactions which are reflected as long-term debt in the consolidated financial statements of the Legacy Aurora System. These arrangements, which relate to various administrative and medical support buildings, had initial lease terms of 15 to 25 years. At March 31, 2018 and December 31, 2017 and 2016, the outstanding amount of capital lease obligations and financing arrangements was $122.2 million, $202.2 million and $220.8 million, respectively. The System is presently evaluating the exercise of its right of first refusal to purchase up to three properties that it currently leases under these arrangements, with an estimated aggregate appraised value of $73.5 million.

In January 2018, the Legacy Aurora System purchased nineteen properties that were previously leased for cash consideration of $433.0 million. The Legacy Aurora System was obligated under capital lease and financing arrangements entered into in connection with certain leasing and sale-leaseback transactions for eighteen of these properties. The transaction resulted in the realization of deferred gains related to these properties of $5.7 million. In connection with this transaction, the Legacy Aurora System derecognized $48.9 million of net capital lease assets and $78.4 million of capital lease liabilities. The net gain was recorded as a reduction to the carrying value of the properties acquired.

None of the indebtedness described under this caption is secured by the Master Indenture.

Investment Program

It is contemplated that the investment assets of the Legacy Advocate System and the Legacy Aurora System will be consolidated into a single investment portfolio by the end of calendar year 2018. As contemplated, the investments are expected to be combined at the asset allocation levels described below and continue to be managed by external investment professionals under the guidelines set out in an investment policy statement adopted by the Parent Board (defined below). The combined investment portfolio will be overseen by an Investment Subcommittee of the Finance Committee of the Parent Board. Until such consolidation is completed, the System's investments will continue to be managed by their existing external investment professionals in compliance with each Legacy System's existing investment policies.

The System's investment program's target asset allocation, excluding cash and cash equivalents maintained for operating purposes, provides for a commitment to equity securities (30%), fixed income investments (25%), and select alternative investment classes (45%). For each of the above categories, the policy establishes allocation targets, with specific ranges for each asset class, among the following investment styles: 15% domestic equities; 15% international equities; 25% fixed income; 10% private equity; 20% hedge funds; and 15% real assets. Further, 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.

Investment Allocations as of March 31, 2018

Investment Class	Approximate Percentage
Legacy Advocate System:	
Domestic and International Equities	27%
Fixed Income	19%
Private Equity	15%
Hedge Funds	33%
Cash & Cash Equivalents	6%
Legacy Aurora System:	
Domestic and International Equities	35%
Fixed Income	52%
Real Estate	3%
Cash & Cash Equivalents	10%

The overall yields on the Legacy Advocate System's investment portfolio for the three months ended March 31, 2018 and 2017 were 0.2% and 3.6%, respectively, and for the years ended December 31, 2017 and 2016 was 11.5% and 6.8%, respectively. The overall yields on the Legacy Aurora System's investment portfolio for the three months ended March 31, 2018 and 2017 were (0.5%) and 2.5%, respectively, and for the years ended December 31, 2017 and 2016 was 7.7% and 5.6%, respectively.

Investment income (including both realized and unrealized gains on investments) significantly impacts the System's financial results. Market fluctuations have affected and will likely continue to materially affect the value of those investments and those fluctuations may be and historically have been material. Reduction in investment income, or realized and unrealized losses, and the market value of its investments may have a negative impact on the System's financial condition, including its ability to provide its own liquidity for variable rate debt or to fund capital expenditures from cash and investments.

GOVERNANCE AND MANAGEMENT

Corporate Governance

The Parent Corporation serves as the parent and sole corporate member of, and has full operational control over, Advocate Network Corporation and Aurora Health Corporation, subject only to certain limitations described below. The Parent Corporation is currently seeking tax exemption under Section 501(c)(3) of the Internal Revenue Code.

Board of Directors

The Bylaws of the Parent Corporation (the "**Bylaws**") establish a Post-Closing Period expiring on December 31, 2021. During the Post-Closing Period: the Board of Directors of the Parent Corporation (the "**Parent Board**") is required to have 14 Directors through December 31, 2019 and 12 Directors for the remainder of the Post-Closing Period, split equally between "Advocate Directors" and "Aurora Directors". The Bylaws provide for mechanisms in the event of vacancies and other occurrences to ensure that for the duration of the Post-Closing Period the Parent Board is comprised of an equal number of Advocate Directors and Aurora Directors. The terms of the initial directors are staggered as set forth in the table below. For the duration of the Post-Closing Period, the Advocate Directors are required to include one representative from the United Church of Christ ("**UCC**") and one from the Evangelical Lutheran Church in America (the "**ELCA**"). The initial Chairperson of the Parent Board is a designated Aurora Director and the initial Chairperson-Elect is a designated Advocate Director. The Co-CEO's (described in more detail above under "**INTRODUCTION-System Integration and Strategy**") are *ex-officio* board members with a vote.

During the Post-Closing Period, acts and decisions of the Parent Board require the affirmative vote of a majority of the Advocate Directors present and a majority of the Aurora Directors present; provided that certain actions require the affirmative vote of three-fourths of the directors then serving. These actions include removal of a Chairperson, Chairperson-Elect, Co-CEO or CEO, changes to the name of the Parent Corporation or location of the corporate offices, substantial or complete exit from either Legacy System's market as of the Affiliation date, closure or relocation of a hospital owned or controlled by either Legacy System as of the Affiliation date, and certain other fundamental corporate changes.

Following the Post-Closing Period, the number of directors shall be established by the Parent Board, and be comprised of not less than nine nor more than sixteen directors. The Parent Board will be self-perpetuating, with directors being elected by the directors then in office and not based on maintaining equal representation between persons affiliated with the Legacy Advocate System and the Legacy Aurora System. Directors will hold office for three year terms (or shorter as necessary to provide for appropriate staggered terms) and may be re-elected to serve up to three consecutive terms. A director who has served three consecutive terms may be elected until one year has passed since the expiration of the last term.

Following the Post-Closing Period, acts and decisions of the Parent Board require the affirmative vote of a majority of directors present; provided that certain actions require the affirmative vote of three-fourths of the directors then serving. These actions include fundamental corporation changes and substantial or complete exit from either Legacy System's market as of the Affiliation date.

Parent Board members who are not employed by the System receive reasonable compensation for their services and are also entitled to reimbursement of reasonable expenses for fulfilling their duties as directors.

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

Name	Professional Affiliation	Term Expires	Term Limit
Joanne Disch, PhD, RN, FAAN, Chair	Profession ad Honorem, University of Minnesota School of Nursing	12/31/2021	12/31/2026
Michele Baker-Richardson, JD Chair Elect	President and CEO, Higher Education Advocates, LLC	12/31/2021	12/31/2027
David Anderson, JD	Founder & CEO, Great Lakes Regional Center, LLC and HCE INTL, LLC	3/31/2020	3/31/2020
Joanne Bauer	Retired President, Kimberly-Clark Health Care	12/31/2020	12/31/2026
Thomas Bolger	Retired President & CEO, Johnson Financial Group	3/31/2020	12/31/2025
Lynn Crump-Caine	Founder and CEO, Outsidein Consulting	12/31/2021	12/31/2027
John Daniels, Jr.	Chairman Emeritus, Quarles & Brady, LLP	12/31/2021	12/31/2027
Mark Harris	Senior Counsel, Law Department, The Boeing Company	3/31/2020	12/31/2025
Charles Harvey	Retired Chief Diversity Officer and Vice President of Community Affairs, Johnson Controls, Inc.	12/31/2020	12/31/2026
Richard Jakle, CSP	Retired President and CEO, WRMN, WBIG, KSHP, The Radio Shopping Show, Colorado Broadcasting Company and a Las Vegas land company	12/31/2020	12/31/2026
Jim Skogsbergh	President and CEO, Advocate Aurora Health, Inc.	*ex officio*	*ex officio*
John Timmer	Retired Senior Vice President and Chief Credit Officer, First National Bank of Brookfield	12/31/2020	12/31/2026
Nick Turkal, MD	President and CEO, Advocate Aurora Health, Inc.	*ex officio*	*ex officio*
Richard Weiss	Retired Partner, Foley & Lardner, LLP	3/31/2020	3/31/2020

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 Parent Board are affiliated. System management believes 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 the System and a summary of their resumes are as follows:

Jim Skogsbergh – President and CEO. Mr. Skogsbergh serves as President and CEO of the System alongside Dr. Nick Turkal. Mr. Skogsbergh joined the Legacy Advocate 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 Legacy Advocate 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 serves as a member of the American Hospital Association's Board of Trustees. Mr. Skogsbergh is a member of World Business Chicago Board of Directors, as well as Chicago United. Additionally, he serves as co-chair of the American Cancer Society's CEOs, as well as a member of the World Presidents Organization. He is a fellow with the American College of Healthcare Executives and the past chair of the Illinois Hospital Association's Board of Directors. 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.

Nick Turkal, MD – President and CEO. Dr. Nick Turkal serves as President and CEO of the System alongside Mr. Skogsbergh. Dr. Turkal joined the Legacy Aurora System in 1990 and was named its president and chief executive officer in 2006. During the course of his career, he has cared for patients in rural private practice while holding a variety of leadership positions. Dr. Turkal continues to be board certified in family practice, holds memberships in a number of professional organizations and sees patients on a regular basis. Dr. Turkal is a member of the Creighton University Board of Trustees; board chair of AboutHealth, a Wisconsin network of integrated health care systems; a board member of StartUp Health, a health care transformation company; member of the American Hospital Association Governing Council for Health Care Systems; and a board member for TPG Medical Solutions. He is a past chair of the Wisconsin Hospital Association Board of Directors. He has also served on the board of Premier and the Greater Milwaukee Committee, a coalition of businesses based in Milwaukee. Dr. Turkal received his bachelor's degree from Creighton University and his medical degree from the Creighton University School of Medicine.

Jeff Bahr, MD, FACP – Chief Aurora Medical Group Officer. As the System's Chief Aurora Medical Group Officer, Dr. Bahr's accountabilities include medical group operations, physician recruitment, service lines and clinical access. Dr. Jeff Bahr joined the Legacy Aurora System in 2002 and served as its Chief Clinical Officer as and President of Aurora Health Care Medical Group. Dr. Bahr is a practicing internist and previously served as vice president of the Primary Care Clinical Program within the Legacy Aurora System. In addition to his departmental leadership role, Dr. Bahr served as medical director for medical group operations and practice optimization. Dr. Bahr became a member of Alpha Omega Alpha in 2001, and in 2012 was awarded fellowship status in the American College of Physicians. He is board certified in internal medicine, having completed his residency in internal medicine at the Medical College of Wisconsin Affiliated Hospitals where he also served as chief resident and instructor in the Department of Medicine. Dr. Bahr received his bachelor's degree from Marquette University and his medical degree from the Medical College of Wisconsin in Milwaukee.

Rev. Kathy Bender Schwich – Chief Spiritual Officer. As the System's Chief Spiritual Officer, Rev. Bender Schwich's accountabilities include chaplaincy, pastoral care, church affiliations and ethics. Rev. Bender Schwich served as Senior Vice President, Mission and Spiritual Care of the Legacy Advocate System from 2011, prior to that as Vice President, Mission and Spiritual Care at Advocate Lutheran General Hospital from 2009 2011 and as a member of Lutheran General's Governing Council from 2001 to 2009, while serving as assistant to the presiding bishop and executive for synodical relations of the Evangelical Lutheran Church in America. Rev. Bender Schwich was ordained in the Lutheran Church in America in 1986, and since then has served as parish pastor, director of church relations for Stephen Ministries in St. Louis, MO, and bishop's associate in the Metropolitan Chicago Synod of the Evangelical Lutheran Church in America ("**ELCA**"). Rev. Bender Schwich

received undergraduate degrees from the University of Michigan and Saginaw Valley State University and a Master of Divinity degree from Luther Seminary in St. Paul, Minnesota. She received her Graduate Certificate in Healthcare Management from Saint Leo University. She is a 2003 graduate of the Women in Power and Leadership program of Harvard University's Kennedy School. Rev. Bender Schwich is an active member of the American College of Healthcare Executives and its Institute for Diversity. She also serves on the Nominating Committee of the ELCA nationally, on the bishop's Consultation Committee of the Metropolitan Chicago Synod of the ELCA, and the Board of Concordia Place Ministries in Chicago and the Lutheran Theological Seminary in Philadelphia, Pennsylvania.

Kevin Brady – Chief Human Resources Officer. As the System's Chief Human Resources Officer, Kevin Brady's accountabilities include employee relationship, compensation and benefits, talent management and acquisition and leadership development. Mr. Brady previously served as Senior Vice President, Chief Human Resources Officer of the Legacy Advocate System since January 1, 2012 and from 2005 to 2012 as the Vice President of Compensation and Benefits. Prior to that position, he was the Vice President, Human Resources at Advocate Christ Medical Center and Hope Children's Hospital (2003 to 2005), System Vice President of Organizational Development (1995 to 2003) and System Vice President/Director of Human Resource Systems and Recruitment (1991 to 1995). Prior to joining Advocate, Mr. Brady was a Management Assessment Consultant at London House and a Manager of Human Resources at Telaction Corporation, a wholly owned subsidiary of JCPenney. He received his Bachelor's degree in psychology from Marquette University and his Master's and Doctorate degrees in Industrial/Organizational Psychology from DePaul University.

Vincent Bufalino, MD – Chief Advocate Medical Group Officer. As the System's Chief Advocate Medical Group Officer, Dr. Bufalino's accountabilities include medical group operations, physician recruitment, service lines and clinical access. Dr. Bufalino joined the Legacy Advocate System in 2012, most recently serving as the Senior Vice President of the Advocate Heart Institute and Director of Clinical Service Lines. Prior to that, he served as Chief Executive Officer of Midwest Heart Specialists and Chairman of the Midwest Heart Foundation. Dr. Bufalino has more than 30 years of experience as a practicing cardiologist and health care administrator. Dr. Bufalino is a former member of the Board of Directors of the DuPage County Medical Society, is a fellow of the American College of Cardiology and has been a member of its Quality Committee and chaired its Advocacy Committee. In 2015, he became a member of the newly created American Board of Internal Medicine's Cardiology Board and was appointed to the Illinois State Board of Health. Dr. Bufalino received his Bachelor's degree from Loyola University of Chicago and his medical degree from Loyola University's Stritch School of Medicine.

Bobbie Byrne, MD – Chief Information Officer. As the System's Chief Information Officer, Bobbie Byrne's accountabilities include clinical and business applications, computing services, the data center, information security and technical services. Dr. Byrne joined the Legacy Advocate System in July 2017 as its Senior Vice President and Chief Information Officer. Prior to that, Dr. Byrne most recently worked at Edward-Elmhurst Healthcare, serving as its vice president and senior information officer since 2009 before being named its executive vice president – system chief medical and quality officer. Dr. Byrne received her Bachelor's degree in history and a medical doctorate from Northwestern University. She also has an MBA from the Kellogg School of Management at Northwestern University.

Cristy Garcia-Thomas – Chief External Affairs Officer. As the System's Chief External Affairs Officer, Cristy Garcia-Thomas's accountabilities include the foundation, diversity and inclusion, government and community relations and community health. Ms. Garcia-Thomas joined the Legacy Aurora System in 2011 as its chief experience officer and as president of the Aurora Health Care Foundation. Prior to joining the Legacy Aurora System, Cristy served as the president of the United Performing Arts Fund. Ms. Garcia-Thomas currently serves on the board of directors for Delta Dental, Greater Milwaukee Committee, the United Community Center and the Wisconsin Club. She is campaign co-chair for the 2018 United Way of Greater Milwaukee and Waukesha County. She is a member of the Greater Milwaukee Committee, the United Way of Greater Milwaukee Women's Leadership Council, the National Forum for Latino Healthcare Executives and TEMPO Milwaukee. Ms. Garcia-Thomas has served on the boards of Aurora Health Corporation and Girl Scouts and is a past board chair of

TEMPO Milwaukee. Cristy holds a bachelor's degree from Kansas State University and completed executive-level programs at Northwestern University and Harvard Business School.

Kelly Jo Golson – Chief Marketing Officer. As the System's Chief Marketing Officer, Kelly Jo Golson's accountabilities include consumerism, brand, advertising, digital marketing and experience, public affairs and internal communications. Ms. Golson joined the Legacy Advocate System in July 2007 and most recently served as its Senior Vice President and Chief Marketing Officer. She has more than 20 years of industry experience including leadership roles with Methodist Healthcare System, St. Luke's Episcopal Healthcare and Memorial Hermann Healthcare, all in Houston, Texas. Ms. Golson received her Masters of Business Administration from Our Lady of the Lake University in San Antonio, Texas and her Bachelor of Arts in Journalism from Texas A&M University in College Station, Texas. Ms. Golson is an active member of the American College of Healthcare Executives, the American Marketing Association and the Society for Healthcare Strategy and Market Development. Ms. Golson serves in a variety of leadership roles with the American Heart Association including the 2014 Metro Chicago Heart Walk Chair and the Heart Ball Executive Leadership Team. She volunteers with a number of other community organizations including the American Cancer Society and the March of Dimes.

Michael Grebe – Chief Legal Officer. As the System's Chief Legal Officer, Michael Grebe's accountabilities include legal services. Mr. Grebe joined Aurora Health Corporation in 2017 as its chief legal officer. Prior to that, he served as executive vice president and general counsel at HUSCO International, Inc. Prior to joining HUSCO, Mr. Grebe practiced for more than 20 years at Quarles & Brady LLP law firm. He has also served as a key strategic advisor to numerous corporations and businesses. Mr. Grebe has served on the board of directors of multiple organizations and is currently a member of the University of Wisconsin Board of Regents. Mr. Grebe earned his bachelors' degree from Dartmouth College and his law degree from the University of Wisconsin-Madison.

Mary Beth Kingston, MSN, RN, NEA-BC – Chief Nursing Officer. As the System's Chief Nursing Officer, Mary Beth Kingston's accountabilities include nursing business operations, ambulatory nursing, staffing practices, practice innovation and the Center for Nursing Research. Ms. Kingston joined the Legacy Aurora System in 2012 and most recently served as its executive vice president and chief nursing officer. Prior to that, Ms. Kingston was vice president and chief nurse executive at Einstein Healthcare Network in Philadelphia. During her 35-year career, Ms. Kingston served in a variety of other nursing and administrative roles, including chief nursing officer at Graduate Hospital in Philadelphia; president of Bates and Associates, a health care consulting firm; vice president of operations and chief nursing officer at Delaware County Memorial Hospital in the Crozer Keystone Health System; and associate director of emergency services at the Hospital of the University of Pennsylvania. Ms. Kingston also serves on the boards of the Milwaukee Urban League, and Mount Mary University, both in Milwaukee. She was a Robert Wood Johnson Executive Nurse Fellow from 2009-2012 and a 2007 recipient of the Pennsylvania Nightingale Award for Nursing Administration. Ms. Kingston served on the board of the American Organization of Nurse Executives from 2014-2016 and currently serves in the role of President-Elect. She earned a bachelor's degree at West Chester University, a master's degree at the University of Pennsylvania, and is currently pursuing her PhD.

Rick Klein – Chief Business Development Officer. As the System's Chief Business Development Officer, Rick Klein's accountabilities include business development, managed care contracting, growth and affiliations. Mr. Klein joined the Legacy Aurora System in 1986 and most recently served as its chief of business strategy and payor relations. Previously, Mr. Klein served the Aurora Health Corporation as executive vice president, Enterprise Business Group; senior vice president and vice president of business development; as well as vice president of marketing. Prior to joining the Legacy Aurora System, Mr. Klein was the assistant vice president of marketing for the former Firstar Corp., Wisconsin's largest bank. He is on the leadership council of United Way of Greater Milwaukee and Waukesha County and is a past board member of the Georgetown Scholarship Society. Mr. Klein holds a bachelor's degree from Georgetown University and a master's degree from Northwestern University's Kellogg School of Management.

Mike Lappin – Chief Integration Officer. As the System's Chief Integration Officer, Mr. Lappin's accountabilities include System integration, compliance and privacy. Mr. Lappin also serves as the Secretary of the Parent Board. Mr. Lappin joined the Legacy Aurora System in 2009 as its first general counsel and most recently served as its chief administrative officer. Prior to joining the Legacy Aurora System, Mike practiced law for more than 16 years at Quarles & Brady LLP. Mr. Lappin has served on the board of directors of numerous organizations, including the Wisconsin Health Insurance Risk Sharing Plan, Juvenile Diabetes Research Foundation, Milwaukee Jewish Federation, Jewish Family Services, Visiting Nurse Association, United Way of Greater Milwaukee, Boys & Girls Club, the Mequon-Thiensville Education Foundation and the Mequon-Thiensville Basketball Association. Mr. Lappin received his bachelor's degree from Duke University and a law degree and master's degree from the University of Wisconsin-Madison.

Dominic J. Nakis - Chief Financial Officer. As the System's Chief Financial Officer, Mr. Nakis' accountabilities include all financial operations, investments, internal audit and enterprise risk management. Mr. Nakis also serves as the Treasurer of the Parent Board. Mr. Nakis served as the Chief Financial Officer of the Legacy Advocate System since 2006 and prior to that as Vice President of Finance and Corporate Controller. Prior to joining a predecessor organization of the Legacy Advocate System in 1986, Mr. Nakis was with the former Ernst & Ernst (now Ernst & Young) in Chicago, Illinois. Mr. Nakis has earned a Masters of Business Administration with a concentration in finance from the Kellstadt Graduate School of Business of DePaul University in Chicago, Illinois and a Bachelor of Science degree in Accounting from the University of Illinois at Chicago. In 2011, Mr. Nakis was recognized as the Chicago CFO of the Year among not-for-profit organizations in the inaugural award program established by the Financial Executives International, Chicago Chapter. Mr. Nakis is a member of the American Institute of Certified Public Accountants, Finance Executives International, Healthcare Financial Management Association and Illinois State Society of CPAs. Mr. Nakis currently serves on the Board of Directors of the Make-A-Wish Illinois Foundation and is actively involved with the American Heart Association as the 2015 Metro Chicago Heart Walk Chair. He has been a past member of the Healthcare Financial Management Association's National Principles and Practices Board and the Board of Directors of the Illinois Division of the American Cancer Society.

Scott Powder – Chief Strategy Officer. As the System's Chief Strategy Officer, Mr. Powder's accountabilities include strategy and innovation. Mr. Powder joined the Legacy Advocate System in 1993 and most recently served as Senior Vice President, Chief Strategy Officer. Prior to that, he was the manager of strategy and international marketing for a medical equipment manufacturer. Mr. Powder received a Masters of Business Administration 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.

Lee Sacks, MD – Chief Medical Officer (Retiring). As the System's Chief Medical Officer, Dr. Lee Sacks' accountabilities include safety, health outcomes, medical staff services, research, clinical integration and APP-CIN leadership. Dr. Sacks joined the Lutheran General Health System (a predecessor to the Legacy Advocate System) (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. Dr. Sacks was appointed Chief Executive Officer of Advocate Physician Partners in 1995, 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. Dr. Sacks has announced his retirement effective August 31, 2018.

Dr. Gary Stuck, DO, FAAFP – Incoming Chief Medical Officer. Effective September 1, 2018, Dr. Gary Stuck will assume the position of Chief Medical Officer for the System. In this role, Dr. Stuck will be responsible for safety, health outcomes, clinical integration, population health, medical staff services/credentialing, insurance/risk management, and executive leadership of APP and the clinically integrated network. Dr. Stuck is been a family medicine physician for the last 32 years and was a founding member of the APP Board of Directors, where he served as Chair for 13 years. Dr. Stuck was also a member of the medical staff of Advocate Christ Medical Center since 1986, served as president of their physician health organization for 22 years and a member of their governing council for more than two decades. Dr. Stuck was recognized in 2014 by the Illinois Academy of Family Physicians as Illinois Family Physician of the Year and was named to Chicago Magazine's Top Doctors list in 2018. Dr. Stuck is also a fellow of the American Academy of Family Physicians. Dr. Stuck received his Bachelor's degree in biology and psychology at Morningside College and his Doctor of Osteopathic Medicine at Des Moines University.

William P. Santulli – Chief Operating Officer. As the System's Chief Operating Officer, William Santulli's accountabilities include all hospital, post-acute, home health and ancillary operations. Mr. Santulli joined the Legacy Advocate System in 2001 and most recently served as its Executive Vice President and Chief Operating Officer. Prior to that, he served as Chief Executive at Good Samaritan Hospital. Previously, Mr. Santulli served as the chief operating officer of the New England Medical Center ("**NEMC**") in Boston, Massachusetts. 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 in Puyallup, Washington. He serves on the Illinois Hospital Association Board of Directors and is a Fellow with the American College of Healthcare Executives. He holds a Masters in Health Care Administration from the University of Minnesota and a Master's 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.

Subsidiary Governance

The Parent Corporation has the power to approve the proposal, initiation and approval of any corporate action of its direct and indirect subsidiaries, with only limited exceptions. Such power is limited only with respect to certain specified matters relating to UCC and ELCA board representation, the structure or composition of the Legacy Advocate System nominating committee, mission and spiritual care committee or, to the governing councils, the health missions of the Legacy Systems and specified actions relating to dissolution and distribution of assets upon dissolution.

OTHER INFORMATION

General and Professional Liability Insurance

The System is developing a comprehensive insurance program designed to conserve and protect its assets. Certain consolidation efforts began prior to the Affiliation date and the current status of coverages and expected remaining steps to integration are described below.

The System's directors and officers, fiduciary, crime and employment practices liabilities coverage, automobile and aviation liability and cyber insurance policies have all been combined. Property, pollution and travel policies are expected to be combined later in 2018. Insurance brokerage services have also been consolidated.

The System expects to fully integrate professional and general liability coverage effective January 1, 2019. Under each Legacy System's current program, certain components, including professional and general liability risks, are self-insured on a claims-made basis. Each Legacy System presently maintains excess liability insurance in amounts the System deems necessary to cover losses that may exceed its self-insured portion. Limits of excess liability insurance are commensurate with health care industry standards and are placed with insurance carriers that the System believes are currently financially sound.

For the Legacy Advocate System, accruals for general and professional liability claims are actuarially determined based on experience as well as other considerations, including the nature of each claim or incident and relevant trend factors. The Legacy Advocate System program funds its accrued self-insured general and professional liabilities into an irrevocable trust that is administered by a bank trustee.

All professional and general liability obligations over a $12.5 million attachment are reinsured by the Legacy Advocate System's Captive, Advocate Insurance Segregated Portfolio Company. Certain employed physicians are also offered a $1.0 million primary limit via the captive.

The Legacy Aurora System has the benefit of the Wisconsin Injured Patients and Families Compensation Fund (the "**Fund**"), created under Section 655.26 of the Wisconsin Statutes, to cover professional liability claims above statutory thresholds against certain Wisconsin health care providers, including hospitals and physicians. Required primary liability insurance coverage for each of its eligible health care affiliates and each individual employed physician is provided through Continental Casualty Company.

The Legacy Aurora System also has professional liability coverage for its providers and affiliates that do not qualify for Fund coverage, as well as general liability for all of its entities. These coverages provide a number of shared professional liability limits and shared general liability limits for most providers.

As of December 31, 2017, all of the Legacy Aurora System's primary liability insurance policies for general and professional liability are reinsured by Aurora Liability Assurance, Ltd. ("**ALA**"), a captive insurance company wholly-owned by the Corporation. ALA maintains a reinsurance trust account, which in total represents security required by the reinsurance agreement between ALA and the Continental Casualty Company.

Laws, Regulations and Litigation

Pending Litigation and Proceedings. The System operates in a highly litigious industry. As a result, various lawsuits, claims and proceedings have been instituted or asserted against it from time to time. The System has knowledge of certain pending suits against certain of its entities that have arisen in the ordinary course of business. In the opinion of management, the System maintains adequate insurance and/or other financial reserves to cover the estimated potential liability for damages in these cases, or, to the extent such liability is uninsured, adverse decisions will not have a material adverse effect on the financial position or operations of the System.

Governmental Regulation of Health Care Providers. As a health care provider, the System entities are subject to extensive and frequently changing federal, state and local laws and regulations governing various aspects of our business. In particular, the System entities provide 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 System entities undertake are subject to significant governmental certification and licensing regulations, as well as federal and state laws.

AAH, like all major health care systems, periodically may be subject to investigations or audits by federal, state and local agencies involving compliance with a variety of laws and regulations. These investigations seek to determine compliance with, among other things, laws and regulations relating to Medicare and Medicaid reimbursement, including billing practices for certain services. Violation of such laws could result in substantial monetary fines, civil and/or criminal penalties and exclusion from participation in Medicare, Medicaid or similar programs.

Employees

As of March 31, 2018, the System employed approximately 70,000 individuals (approximately 61,000 FTE's). System management believes that the salary levels and benefits packages for its employees are competitive and that the System's managers generally have good relationships with their employees. The operations of the System's facilities are dependent on having the right number of qualified employees, including leaders, nurses, therapists, pharmacists and technicians, as well as employed physicians. The System competes with other health care providers in recruiting and retaining employees, and, like others in the health care industry, the System experience shortages of specially trained employees in certain disciplines and geographic areas over time. As a result, from time to time, the System may be required to enhance wages, benefits and other programs to recruit and retain experienced employees, make greater investments in education and training for new graduates, or use overtime and hire more expensive temporary or contract employees to fill gaps in staffing. In general, the System's failure to recruit and retain qualified employees, or to control labor costs, could have a material adverse effect on execution of the System's strategy, financial condition, results of operations or cash flows.

Less than 0.3% of System employees are represented by collective bargaining groups. The System, along with other health care providers, has been the target of unions attempting to organize employees and should such organizing efforts be successful, collective bargaining agreements have the potential to adversely affect labor costs. Unions have employed various tactics to either directly attract associates or engage in corporate campaign strategies that are designed to undermine the credibility and integrity of the targeted health care providers.

On September 27, 2016, AHCN was notified that the Regional National Labor Relations Board ("**RNLRB**") issued a complaint against Advocate Medical Group ("**AMG**"). In its complaint, the RNLRB supported the claim of the Illinois Nurses Association ("**INA**") that AMG improperly refused to recognize and bargain with the INA relative to a group of approximately 150 AMG Advanced Practice Nurses, who represent approximately five-tenths of one percent (0.5%) of all Legacy Advocate System employees. On August 24, 2017, the United States District Court for the Northern District of Illinois Eastern Division ruled the Legacy Advocate System was a successor employer by virtue of its acquisition of Advocate Clinic at Walgreens. Consistent with this ruling, the Legacy Advocate System has commenced contract negotiations with the INA.

Management cannot predict with any certainty whether this complaint or any union organizing related activities will have any material adverse effect on the financial condition or operations of the System.

Community Benefit

Consistent with its purpose and core values, the System makes a major commitment to patients in need, regardless of their ability to pay. The System is in the process of developing a comprehensive financial assistance policy and, until that is implemented, each Legacy System will continue to operate under its existing policy. Under such policies, the System provides services to patients who meet the criteria of such policy.

Charity care services are not reported as net patient service revenue because payment is not anticipated while the related costs to provide the health care are included in operating expenses. The amount of charity care provided, determined on the basis of cost, is estimated based on entity-specific cost-to-charge ratios. In addition to charity care, the System provides services to Medicaid and other public programs, primarily Tricare, for financially needy patients, for which the payments received are less than the cost of providing services. The unpaid costs attributed to providing services under these programs are considered a community benefit.

A summary of the pro forma cost of uncompensated care for the System for the years ended December 31, 2017 and 2016, is as follows:

	Year Ended December 31, (dollars in thousands)	
	2017	**2016**
Cost of charity care provided	$ 115,559	$ 104,473
Unpaid cost of Medicaid	545,687	552,673
Unpaid cost of other public Programs	12,417	9,513
Total cost of uncompensated care	$673,663	$666,659

The System is involved in numerous activities and programs reaching beyond the walls of its hospitals and into the community. These activities are wide-ranging and include providing community health education, immunizations for children and seniors, support groups, health screenings, health fairs, pastoral care and parish nursing, home-delivered meals, transportation services, seminars and speakers, community meeting space, crisis lines, spirituality newsletters, newspaper and magazine articles regarding current health issues, medical residency and internships, education to other health professionals such as nurses and pharmacy technicians, research and language assistance, dental van for special needs patients, counseling for hospice patients and their families, free or low-cost clinics, health promotion and wellness programs and many other subsidized health services. The cost of these programs and activities are provided either free of charge or for a fee less than the cost of providing them.

Educational Programs and Affiliations

The System has a history of both commitment and new initiatives in medical education. The System has developed academic affiliations with numerous colleges and universities, including all major universities in the Chicago metropolitan area. Through these affiliations, the System participates in and supports the clinical education of medical students, Residents/Fellows, nursing students and allied health personnel. Approximately 750 residents and fellows receive training at System facilities annually.

Pension and Post-Retirement Benefits

The Legacy Aurora System has a defined benefit pension plan (the "**Legacy Aurora Plan**") covering substantially all of its employees who began their employment with the Legacy Aurora System prior to December 31, 2012. The Legacy Aurora Plan was frozen on December 31, 2012 to all participants and liability driven investing was adopted in 2013 to mitigate the impact of interest rate volatility on funded status. The hedge ratio is currently 80% and the Legacy Aurora Plan's funded status at December 31, 2017 was 92.8% and the unfunded liability was $116.0 million.

The Legacy Advocate System maintains two defined benefit pension plans, the Advocate Health Care Network Pension Plan (the "**Legacy Advocate Plan**") and the Condell Health Network Retirement Plan (the "**Legacy Condell Plan**"), which cover a majority of its employees. The Legacy Advocate Plan is a cash balance church plan whose funded status was 105.6% at December 31, 2017.

The Legacy Condell Plan was frozen effective January 1, 2008, to new participants and participants ceased to accrue additional pension benefits. Liability driven investing has been adopted to mitigate the impact of interest rate volatility on funded status. At December 31, 2017, this plan's funded status was 93.9% and the unfunded liability was $4.3 million.

Total combined unfunded pension liability of the Legacy Aurora Plan and the Legacy Condell Plan at December 31, 2017 was an aggregate of $120.4 million.

Corporate Compliance

AAH is working to integrate the corporate compliance programs of the Legacy Systems and develop a system-wide Compliance and Integrity Program. Until the AAH Compliance and Integrity Program has been fully implemented, each Legacy System is operating under its current compliance program, both of which are overseen by the AAH Chief Compliance Officer. The AAH Chief Compliance Officer reports functionally to the AAH Chief Integration Officer, who is a direct report to the Co-CEOs, and administratively to the Audit and Compliance Committee of the Parent Board. Each Legacy System Program (each, a "**Program**") is modeled after the seven essential elements of an effective compliance program, as set forth in the U.S. Health and Human Services, Office of Inspector General Compliance Program Guidance and further interpreted by the Federal Sentencing Guidelines and the U.S. Department of Justice Guidelines for the Federal Prosecution of Corporations. Each Program includes mandatory annual education of all employees regarding specific legal and regulatory requirements applicable to health care organizations, including requirements related to patient confidentiality, information privacy, information systems security, conflicts of interest, licensure and certification, federal fraud and abuse laws, billing, coding and documentation, civil rights and non-retaliation. Each Program is based on a Code of Conduct and includes an anonymous hotline available to report violations or seek guidance on compliance issues. The work conducted by each Program is risk-intelligent and intended to address specific risk areas identified through an annual risk assessment process. Work plan items include, but are not limited to, the adoption of policies designed to address specific risk areas and the institution of processes intended to correct problems identified through the risk assessment process, hotline or other compliance activities.

APPENDIX B-1

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF ADVOCATE HEALTH CARE NETWORK AND SUBSIDIARIES AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Advocate Health Care Network and Subsidiaries
Years Ended December 31, 2017 and 2016
With Reports of Independent Auditors

Advocate Health Care Network and Subsidiaries

Consolidated Financial Statements and Supplementary Information

Years Ended December 31, 2017 and 2016

Contents

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Building a better working world

Report of Independent Auditors

The Board of Directors
Advocate Health Care Network and Subsidiaries

We have audited the accompanying consolidated financial statements of Advocate Health Care Network and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Building a better working world

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Advocate Health Care Network and Subsidiaries at December 31, 2017 and 2016, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

March 9, 2018

Advocate Health Care Network and Subsidiaries

Consolidated Balance Sheets

(Dollars in Thousands)

	December 31	
	2017	**2016**
Assets		
Current assets:		
Cash and cash equivalents	**$ 411,133**	$ 151,588
Short-term investments	**27,748**	22,837
Assets limited as to use	**94,224**	83,524
Patient accounts receivable, less allowances for uncollectible accounts of $216,555 in 2017 and $242,973 in 2016	**746,392**	680,979
Amounts due from primary third-party payors	**32,301**	25,898
Prepaid expenses, inventories and other current assets	**295,369**	319,803
Collateral proceeds received under securities lending program	**19,577**	19,953
Total current assets	**1,626,744**	1,304,582
Assets limited as to use:		
Internally and externally designated investments limited as to use	**5,973,730**	5,543,823
Investments under securities lending program	**18,975**	19,564
	5,992,705	5,563,387
Prepaid pension expense and other noncurrent assets	**276,277**	210,027
Interest in health care and related entities	**151,968**	144,282
Reinsurance receivable	**76,376**	97,603
	6,497,326	6,015,299
Property and equipment – at cost:		
Land and land improvements	**301,964**	291,894
Buildings	**3,727,467**	3,415,558
Movable equipment	**1,808,122**	1,720,602
Construction-in-progress	**137,072**	283,515
	5,974,625	5,711,569
Less allowances for depreciation	**2,992,201**	2,766,283
	2,982,424	2,945,286
Total assets	**$ 11,106,494**	$ 10,265,167

	December 31	
	2017	**2016**
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt	**$ 28,120**	$ 25,892
Long-term debt subject to short-term remarketing arrangements	**91,975**	91,975
Accounts payable and accrued expenses	**540,786**	508,413
Accrued salaries and employee benefits	**459,774**	431,333
Amounts due to primary third-party payors	**319,020**	320,711
Current portion of accrued insurance and claims costs	**104,593**	100,225
Obligations to return collateral under securities lending program	**19,577**	19,953
Total current liabilities	**1,563,845**	1,498,502
Noncurrent liabilities:		
Long-term debt, less current portion	**1,527,016**	1,552,919
Pension plan liability	**4,345**	20,202
Accrued insurance and claims cost, less current portion	**617,735**	666,496
Accrued losses subject to reinsurance recovery	**76,376**	97,603
Obligations under swap agreements, net of collateral posted	**73,875**	79,622
Other noncurrent liabilities	**213,240**	221,574
	2,512,587	2,638,416
Total liabilities	**4,076,432**	4,136,918
Net assets:		
Unrestricted	**6,860,328**	5,964,762
Temporarily restricted	**115,114**	109,014
Permanently restricted	**53,446**	52,975
	7,028,888	6,126,751
Noncontrolling interest	**1,174**	1,498
Total net assets	**7,030,062**	6,128,249
Total liabilities and net assets	**$ 11,106,494**	$ 10,265,167

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	
	2017	**2016**
Unrestricted revenues, gains and other support		
Net patient service revenue	**$ 4,752,539**	$ 5,062,334
Provision for uncollectible accounts	**(237,310)**	(269,463)
	4,515,229	4,792,871
Capitation revenue	**1,317,839**	487,796
Other revenue	**400,345**	306,753
	6,233,413	5,587,420
Expenses		
Salaries, wages and employee benefits	**3,125,883**	2,963,613
Purchased services and operating supplies	**1,414,485**	1,395,329
Contracted medical services	**606,922**	209,265
Other	**470,494**	432,042
Depreciation and amortization	**294,280**	268,846
Interest	**58,900**	54,721
	5,970,964	5,323,816
Operating income before nonrecurring losses	**262,449**	263,604
Nonrecurring losses	**42,750**	–
Operating income	**219,699**	263,604
Nonoperating income (loss)		
Investment income	**621,236**	329,119
Change in fair value of interest rate swaps	**5,748**	9,221
Loss on refinancing of debt	**(5,971)**	–
Other nonoperating items, net	**(29,369)**	(4,340)
	591,644	334,000
Revenues in excess of expenses	**811,343**	597,604

Advocate Health Care Network and Subsidiaries

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

	Year Ended December 31	
	2017	**2016**
Unrestricted net assets		
Revenues in excess of expenses	**$ 811,343**	$ 597,604
Net assets released from restrictions and used for capital purchases	**6,450**	9,430
Postretirement benefit plan adjustments	**77,773**	6,044
Increase in unrestricted net assets	**895,566**	613,078
Temporarily restricted net assets		
Contributions for medical education programs, capital purchases and other purposes	**17,001**	14,633
Realized gains on investments	**3,586**	1,031
Unrealized gains on investments	**7,239**	3,837
Net assets released from restrictions and used for operations, medical education programs, capital purchases and other purposes	**(21,726)**	(22,070)
Increase (decrease) in temporarily restricted net assets	**6,100**	(2,569)
Permanently restricted net assets		
Contributions for medical education programs, capital purchases and other purposes	**471**	4,358
Increase in permanently restricted net assets	**471**	4,358
Increase in net assets	**902,137**	614,867
Change in noncontrolling interest	**(324)**	136
Net assets at beginning of year	**6,128,249**	5,513,246
Net assets at end of year	**$ 7,030,062**	$ 6,128,249

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	
	2017	**2016**
Operating activities		
Increase in net assets	**$ 901,813**	$ 615,003
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation, amortization and accretion	**288,932**	263,387
Provision for uncollectible accounts	**237,310**	269,463
Change in deferred income taxes	**(823)**	(13,685)
Losses on disposal of property and equipment	**20,390**	942
Loss on refinancing of debt	**5,971**	–
Change in fair value of interest rate swaps	**(5,748)**	(9,221)
Postretirement benefit plan adjustments	**(77,773)**	(6,044)
Restricted contributions and gains on investments, net of assets released from restrictions used for operations	**(15,276)**	(12,640)
Changes in operating assets and liabilities:		
Trading securities	**(457,919)**	(437,653)
Patient accounts receivable	**(302,691)**	(346,819)
Amounts due to/from primary third-party payors	**(8,094)**	(8,703)
Accounts payable, accrued salaries and employee benefits, accrued expenses and other noncurrent liabilities	**(69,946)**	137,150
Other assets	**55,370**	(57,948)
Accrued insurance and claims cost	**(44,393)**	(49,859)
Net cash provided by operating activities	**527,123**	343,373
Investing activities		
Purchases of property and equipment	**(343,626)**	(401,868)
Proceeds from sale of property and equipment	**7,063**	8,273
Cash and investments acquired in the acquistion of Advocate Physician Partners	**157,286**	–
Purchases of investments designated as non-trading	**(69,867)**	(70,493)
Sales of investments designated as non-trading	**69,835**	102,419
Other	**(90,321)**	(33,387)
Net cash used in investing activities	**(269,630)**	(395,056)
Financing activities		
Proceeds from issuance of debt	**115,000**	–
Payments of long-term debt	**(140,894)**	(25,210)
Collateral returned under swap agreements	**–**	830
Proceeds from restricted contributions and gains on investments	**28,297**	23,859
Other	**(351)**	–
Net cash provided by (used in) financing activities	**2,052**	(521)
Increase (decrease) in cash and cash equivalents	**259,545**	(52,204)
Cash and cash equivalents at beginning of year	**151,588**	203,792
Cash and cash equivalents at end of year	**$ 411,133**	$ 151,588

See accompanying notes to consolidated financial statements.

1. Organization and Summary of Significant Accounting Policies

Organization

Advocate Health Care Network (the System) is a nonprofit, faith-based health care organization dedicated to providing comprehensive health care services, including inpatient acute and non-acute care, primary and specialty physician services and various outpatient services to communities in northern and central Illinois. Additionally, through long-term academic and teaching affiliations, the System trains resident physicians. The System is affiliated with the United Church of Christ and the Evangelical Lutheran Church of America. Substantially all expenses of the System are related to providing health care services.

To better align the System's and Advocate Health Partner's (d/b/a Advocate Physician Partners) (APP) resources related to capitated and other risk arrangements, the APP bylaws were amended effective January 1, 2017. The amendment resulted in the System obtaining a majority of voting board seats and certain reserve powers. Accordingly, APP's results are included in the System's consolidated financial statements beginning January 1, 2017.

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. The System's core values of compassion, equality, excellence, partnership and stewardship guide its actions to provide health care services to sustain and improve the health of the individuals and communities it serves.

Consistent with the values of compassion and stewardship, the System makes a major commitment to patients in need, regardless of their ability to pay. Charity care is provided to patients who meet the criteria established under the System's financial assistance policy. Patients eligible for consideration can earn up to 600% of the federal poverty level. Qualifying patients can receive up to 100% discounts from charges and extended payment plans. Charity care services are not reported as net patient service revenue because payment is not anticipated while the related costs to provide the health care are included in operating expenses. The System's cost of providing charity care in 2017 and 2016, as determined using the 2016 Medicare cost-to-charge ratio, was $56,296 and $56,996, respectively.

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

The System files the Annual Non-Profit Hospital Community Benefits Plan Report with the Illinois Attorney General. The total community benefit amount reported on this report for the year ended December 31, 2016, the latest filed, was $612,786 (including $56,996 of charity care at cost) (unaudited). The information needed to prepare the 2017 report, which is anticipated to be filed in June 2018, is being compiled. This report summarizes the significant financial support that the System provides to its communities to sustain and improve health care services. In addition to the charity care provided, this report includes:

- The unreimbursed cost of providing care to patients covered by the Medicare and Medicaid programs.

- The cost of providing services which are not self-sustaining, for which net patient service revenues are less than the costs required to provide the services. Such services benefit uninsured and low-income patients, as well as the broader community, but are not expected to be financially self-supporting.

- Other community benefits include the unreimbursed costs of community benefits programs and services for the general community, not solely for those demonstrating financial need, including the unreimbursed cost of medical education, health education, immunizations for children, support groups, health screenings and fairs.

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 consolidated 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 consolidated financial statements at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period.

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

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.

Investments

The System has designated substantially all of its investments as trading. Investments in debt and equity securities with readily determinable fair values are measured at fair value using quoted market prices or other observable inputs. Certain debt-related investments are designated as non-trading. The non-trading portfolio consists mainly of cash equivalents, money market and commercial paper. 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 with ownership percentages of 5% or greater are recorded on the equity method of accounting, while those with ownership percentages of 5% or less are recorded on the cost method of accounting. Commingled funds are carried at fair value based on other observable inputs. 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 that 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 other health care programs. The Board of Directors 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.

(Dollars in Thousands)

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

Patient Service Revenue and Accounts Receivable

Patient accounts receivable are stated at net realizable value. The System evaluates the collectability of its accounts receivable based on the length of time the receivable is outstanding, major payor sources of revenue, historical collection experience and trends in health care insurance programs to estimate the appropriate allowance and provision for uncollectible accounts. For receivables associated with self-pay patients, the System records an allowance for uncollectible accounts in the period of service on the basis of its past experience. These adjustments are accrued on an estimated basis and are adjusted as needed in future periods.

The allowance for uncollectible accounts as a percentage of accounts receivable decreased from 26% in 2016 to 22% in 2017 primarily due to improved collection experience.

The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for service 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 as needed in future periods.

Net patient service revenue recognized in the period from these major payor sources is as follows for the years ended December 31:

	2017	2016
Third-party payors	**$ 4,481,872**	$ 4,794,914
Self-pay	**270,667**	267,420
Total all payors	**$ 4,752,539**	$ 5,062,334

Inventories

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

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

Reinsurance Receivables

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

Goodwill and Intangible Assets

Goodwill of $55,093 and $49,304 and intangible assets of $2,609 and $2,996 at December 31, 2017 and 2016, respectively, are included in other noncurrent assets on the consolidated balance sheets. Goodwill is not amortized and is evaluated for impairment at least annually. Intangible assets with expected useful lives are amortized over that period.

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 80 years using the straight-line method.

Asset Retirement Obligations

The System recognizes its legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development or normal operations of long-lived assets when these obligations are incurred. The obligations are recorded as a noncurrent liability and are accreted to present value at the end of each period. When the obligation is incurred, an amount equal to the present value of the liability is added to the cost of the related asset and is accreted over the life of the related asset. The obligations at December 31, 2017 and 2016, were $22,855 and $24,704, respectively.

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

Derivative Financial Instruments

The System has entered into transactions to manage its interest rate, credit risks, and market risks. Derivative instruments, including exchange-traded and over-the counter derivative contracts and interest rate swaps, are recorded as either assets or liabilities at fair value. Subsequent changes in a derivative's fair value are recognized in nonoperating income (loss).

Bond Issuance Costs, Discounts and Premiums

Bond issuance costs, discounts and premiums are amortized over the term of the bonds using the effective interest method.

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, and to fund medical education or other health care programs.

Assets released from restrictions 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)

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 the net expenses of the Advocate Charitable Foundation, contributions to charitable organizations, valuation adjustments for investments on the equity method of accounting and income taxes.

Revenues in Excess of Expenses and Changes in Net Assets

The consolidated statements of operations and changes in net assets include revenues in excess of expenses as the performance indicator. 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 postretirement benefit adjustments.

Nonrecurring Losses

The System incurred salary, purchased services and other expenses associated with developing an information technology system. This project was abandoned late in 2017; therefore, expenses of $24,092 related to this project are recorded as nonrecurring expenses.

The System undertook initiatives to reduce operating expenses during 2017 and, as part of the process, offered an early retirement incentive and eliminated other positions. The System recorded nonrecurring expenses of $18,658 related to these initiatives.

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

Other Revenue

Other revenue primarily consist of nonpatient service revenues, clinical integration funds and investment income in operations.

Accounting Pronouncements Not Yet Adopted

In March 2017, the Financial Accounting Standards Board (FASB) issued guidance related to the presentation of net periodic pension cost. This new guidance requires that the service cost component be reported in the same line item as compensation costs arising from services rendered by the pertinent employees during the period. The other components of net pension benefit costs are required to be presented separately from the service cost component and outside a subtotal of income from operations. This new guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The System has evaluated the effect of this guidance on the consolidated financial statements and has determined that this guidance will reduce operating income but will have no effect on revenues in excess of expenses. This guidance will not have an effect on the measurement of pension cost nor presentation of prepaid pension expense or pension plan liabilities on the consolidated balance sheets. The System is early adopting the standard effective January 1, 2018.

In November 2016, the FASB issued guidance related to the statements of cash flow. The guidance will require restricted cash and restricted cash equivalents to be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This guidance is effective for the fiscal years and interim periods within those fiscal years beginning after December 15, 2018.

In August 2016, the FASB issued guidance related to the presentation of financial statements of not-for-profit entities. The guidance will require net assets to be categorized either as net assets with donor restrictions or net assets without donor restrictions rather than the currently required three classes of net assets. The guidance also requires additional quantitative and qualitative disclosures and expenses to be disclosed by both their natural and functional classifications. This guidance is effective for fiscal years beginning after December 15, 2017, but for interim periods beginning after December 15, 2018. The System is evaluating the effect this guidance will have on its consolidated financial statements; however, the guidance is not expected to have an effect on revenues in excess of expenses on the consolidated statements of operations and changes in net assets.

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

In February 2016, the FASB issued guidance related to lease accounting. The guidance will require leases that are currently classified as operating leases under current guidance to be recognized on the balance sheet as lease assets and liabilities by lessees. This new guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2018. The System is evaluating the effect this guidance will have on its consolidated financial statements.

In January 2016, the FASB issued guidance requiring financial instruments accounted for on the equity method to be measured at fair value, with changes in fair value recognized in net income. This new guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2018. As of January 1, 2018, the System will elect to measure its investments in private equity limited partnerships, currently carried at cost, at fair value. The System will record a cumulative-effect adjustment of approximately $110,000 due to this election.

In May 2014, the FASB issued guidance related to recognizing revenue from contracts with customers. The guidance outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance, and requires significantly expanded disclosures about revenue recognition. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The requirements of the guidance will result in changes to the presentation and disclosure of revenue from services to patients. Currently, a significant portion of the System's provision for doubtful accounts relates to uninsured patients as well as deductibles and co-pays due from patients with insurance. Under the new guidance, the uncollectible amounts due from patients will generally be reported as a direct reduction to net patient service revenue and will result in a significant reduction in the amounts presented separately as provision for doubtful accounts.

Although the adoption of the new guidance will have a significant impact on the amounts presented in certain categories of the System's consolidated statements of operations and changes in net assets, it is not expected to materially impact the System's financial position, results of operations or cash flows. The System adopted this guidance using the full retrospective method, as of January 1, 2018, there was no material cumulative adjustment recorded.

(Dollars in Thousands)

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

Reclassifications in the Consolidated Financial Statements

Certain reclassifications were made to the 2016 consolidated financial statements to conform to the classifications used in 2017. There was no impact on previously reported 2016 net assets or revenues in excess of expenses.

2. Contractual Arrangements With Third-Party Payors

The System provides care to certain patients under payment arrangements with Medicare, Medicaid, Health Care Service Corporation, d/b/a Blue Cross and Blue Shield of Illinois (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 net patient service revenue.

Amounts earned from the above payment arrangements accounted for 95% and 96% of the System's net patient service revenue, net of the provision for uncollectible accounts, in 2017 and 2016, respectively. The System's net patient service revenue net of the provision for uncollectible accounts by payor for the years ended December 31 is as follows:

	2017	**2016**
Blue Cross	**22%**	31%
Medicare and Medicare Managed Care	**29**	29
Medicaid and Medicaid Managed Care	**16**	15
Other	**33**	25
	100%	100%

The reduction in the percentage of net patient service revenues related to Blue Cross is due to the consolidation of APP and the increase in patients covered under capitated risk contracts.

(Dollars in Thousands)

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

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 decreases in net patient service revenue of $2,445 and an increase of $12,886 for the years ended December 31, 2017 and 2016, respectively.

In connection with the State of Illinois' Hospital Assessment Program, including the enhanced Medicaid assessment system, the System recognized $280,024 and $275,740 of net patient service revenue and $162,457 and $149,609 of program assessment expense in other expense in 2017 and 2016, respectively.

The System's concentration of credit risk related 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. The System has established guidelines for placing patient balances with collection agencies, subject to terms of certain restrictions on collection efforts as determined by the System. Significant concentrations of accounts receivable, less allowance for uncollectible accounts at December 31 is as follows:

	2017	2016
Blue Cross	**15%**	13%
Medicare and Medicare Managed Care	**17**	18
Medicaid and Medicaid Managed Care	**25**	27
Other	**43**	42
	100%	100%

(Dollars in Thousands)

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

The System has entered into various capitated provider agreements. Capitation revenue by payor for the years ended December 31 is as follows:

	2017	2016
Humana Health Plan, Inc. and Humana Insurance Company and their affiliates	**19%**	37%
Blue Cross	**66**	37
Cigna-HealthSpring	**4**	12
WellCare Health Plans, Inc.	**4**	10
Other	**7**	4
	100%	100%

Provision has been made in the consolidated financial statements for the estimated cost of providing certain medical services under the aforementioned capitated arrangements. The System accrues a liability for reported, as well as an estimate for incurred but not reported (IBNR), contracted medical services. The liability represents the expected ultimate cost of all reported and unreported claims unpaid at year-end. The System uses the services of a consulting actuary to determine the estimated cost of the IBNR claims. Adjustments to the estimates are reflected in current year operations. At December 31, 2017 and 2016, the liabilities for unpaid medical claims amounted to $26,039 and $22,353, respectively, and are included in accounts payable and accrued expenses in the consolidated balance sheets.

(Dollars in Thousands)

3. Cash and Cash Equivalents and Investments (Including Assets Limited as to Use)

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

	2017	2016
Assets limited as to use:		
Designated for self-insurance programs	**$ 785,912**	$ 717,988
Internally and externally designated for capital improvements, medical education and health care programs	**5,275,958**	4,903,306
Externally designated under debt agreements	**6,084**	6,053
Investments under securities lending program	**18,975**	19,564
	6,086,929	5,646,911
Other financial instruments:		
Cash and cash equivalents and short-term investments	**438,881**	174,425
	$ 6,525,810	$ 5,821,336

The composition and carrying value of assets limited as to use, short-term investments and cash and cash equivalents at December 31 are set forth in the following table:

	2017	2016
Cash and short-term investments	**$ 753,399**	$ 322,650
Corporate bonds and other debt securities	**347,290**	489,400
United States government obligations	**378,051**	489,937
Non-government fixed-income obligations	**21,145**	–
Bond and other debt security funds	**430,581**	272,136
Hedge funds	**1,958,788**	1,961,320
Private equity limited partnerships	**826,278**	651,587
Equity securities	**962,123**	933,478
Equity funds	**848,155**	700,828
	$ 6,525,810	$ 5,821,336

(Dollars in Thousands)

3. Cash and Cash Equivalents and Investments (Including Assets Limited as to Use) (continued)

For private equity limited partnership investments carried at cost, the System regularly compares the net asset value (NAV), which is a proxy for the fair value, to the recorded cost of these investments for potential other-than-temporary impairment. The cost of these investments is $610,525 and $523,328, and the NAV of these based on estimates determined by the investments' management was $719,645 and $603,795 at December 31, 2017 and 2016, respectively. In 2017 and 2016, the System identified and recorded $2,551 and $1,313, respectively, of impairment losses that are included in investment income in the consolidated statements of operations and changes in net assets.

At December 31, 2017, the System had additional commitments to fund private equity limited partnership investments, including recallable distributions, an additional $877,451 over the next seven years.

Receivables and payables for investment trades not settled are presented with prepaid expenses, inventories and other current assets and accounts payable and accrued expenses. Unsettled sales resulted in receivables due from brokers of $29,465 and $16,740 at December 31, 2017 and 2016, respectively. Unsettled purchases resulted in payables of $76,784 and $94,088 at December 31, 2017 and 2016, respectively.

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

	2017	2016
Interest and dividend income	**$ 51,142**	$ 56,703
Equity income from alternative investments	**179,441**	189,615
Net realized gains (losses)	**103,030**	(20,969)
Net unrealized gains	**345,319**	148,457
	$ 678,932	$ 373,806

(Dollars in Thousands)

3. Cash and Cash Equivalents and Investments (Including Assets Limited as to Use) (continued)

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

	2017	2016
Other revenue	**$ 46,871**	$ 39,819
Investment income	**621,236**	329,119
Realized and unrealized gains on investments – temporarily restricted net assets	**10,825**	4,868
	$ 678,932	$ 373,806

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 banks. The loans are arranged through a bank. Borrowers are required to post collateral for securities borrowed equal to no less than 102% in 2017 and 2016 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 default. At December 31, 2017 and 2016, the System loaned $18,975 and $19,564, respectively, in securities and accepted collateral for these loans in the amount of $19,577 and $19,953, respectively, which represents cash and government securities and are included in current liabilities and current assets, respectively, in the accompanying consolidated balance sheets.

4. Fair Value Measurements

The System accounts for certain assets and liabilities at fair value. The hierarchy below lists three levels of fair value based on the extent to which inputs used in measuring fair value are observable in active markets. The System categorizes each of its fair value measurements in one of the three levels based on the highest level of input that is significant to the fair value measurement in its entirety. These levels are:

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

Level 2: Inputs, other than quoted prices 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 section describes the valuation methodologies the System uses to measure financial assets and liabilities at fair value. In general, where applicable, the System uses quoted prices in active markets for identical assets and liabilities to determine fair value. This pricing methodology applies to Level 1 investments, such as domestic and international equities, United States Treasuries, exchange-traded mutual funds and agency securities. If quoted prices in active markets for identical assets and liabilities are not available to determine fair value, then quoted prices for similar assets and liabilities or inputs other than quoted prices that are observable either directly or indirectly are used. These investments are included in Level 2 and consist primarily of corporate notes and bonds, foreign government bonds, mortgage-backed securities, commercial paper and certain agency securities. The fair value for the obligations under swap agreements included in Level 2 is estimated using industry standard valuation models. These models project future cash flows and discount the future amounts to a present value using market-based observable inputs, including interest rate curves. The fair values of the obligation under swap agreements include fair value adjustments related to the System's credit risk.

4. Fair Value Measurements (continued)

The System's investments are exposed to various kinds and levels of risk. Equity securities and equity mutual funds expose the System to market risk, performance risk and liquidity risk for both domestic and international investments. Market risk is the risk associated with major movements of the equity markets. Performance risk is the risk associated with a company's operating performance. Fixed-income securities and fixed-income mutual funds expose the System to interest rate risk, credit risk and liquidity risk. As interest rates change, the value of many fixed-income securities is affected, including those with fixed interest rates. Credit risk is the risk that the obligor of the security will not fulfill its obligations. Liquidity risk is affected by the willingness of market participants to buy and sell particular securities. Liquidity risk tends to be higher for equities related to small capitalization companies and certain alternative investments. Due to the volatility in the capital markets, there is a reasonable possibility of subsequent changes in fair value resulting in additional gains and losses in the near term.

In the normal course of operations and within established investment policy guidelines, the System may enter into various exchange-traded and over-the-counter derivative contracts for trading purposes, including futures, options and forward contracts. These instruments are used primarily to maintain the System's strategic asset allocation, adjust the portfolio duration, modify term structure exposure, change sector exposure and arbitrage market inefficiencies. These instruments require the System to deposit cash collateral with the broker or custodian. At December 31, 2017 and 2016, the collateral provided was $11,328 and $13,143, respectively.

At December 31, 2017 and 2016, the notional value of the derivatives in long positions was $160,072 and $37,562, respectively, and those in a short position was $(2,851) and $(4,009), respectively.

By using derivative financial instruments, the System exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contracts. When the fair value of a derivative contract is positive, the counterparty owes the System, which creates credit risk for the System. When the fair value of a derivative contract is negative, the System owes the counterparty, and therefore, it does not possess credit risk. The System minimizes the credit risk in derivative instruments by entering into transactions that may require the counterparty to post collateral for the benefit of the System based on the credit rating of the counterparty and the fair value of the derivative contract. Market risk is the adverse effect on the value of a financial instrument that results from a change in the underlying reference security. The market risk associated with market changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

(Dollars in Thousands)

4. Fair Value Measurements (continued)

The following are assets and liabilities measured at fair value on a recurring basis at December 31, 2017:

Description	2017	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash and short-term investments	**$ 753,399**	**$ 685,370**	**$ 68,029**	**$ –**
Corporate bonds and other debt securities	**347,290**	**–**	**347,290**	**–**
United States government obligations	**378,051**	**–**	**378,051**	**–**
Bond and other debt security funds	**430,581**	**99,974**	**330,607**	**–**
Non-government fixed-income obligations	**21,145**	**–**	**21,145**	**–**
Equity securities	**962,123**	**962,123**	**–**	**–**
Equity funds	**848,155**	**92,452**	**755,703**	**–**
Assets at equity method or cost:				
Hedge funds	**1,958,788**			
Private equity limited partnerships	**826,278**			
Total investments	**$ 6,525,810**			
Collateral proceeds received under securities lending program	**$ 19,577**		**$ 19,577**	
Liabilities				
Obligations under swap agreements *(see Note 7)*	**$ (73,875)**		**$ (73,875)**	
Obligations to return collateral under securities lending program	**$ (19,577)**		**$ (19,577)**	

(Dollars in Thousands)

4. Fair Value Measurements (continued)

The following are assets and liabilities measured at fair value on a recurring basis at December 31, 2016:

Description	2016	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash and short-term investments	$ 322,650	$ 306,598	$ 16,052	$ –
Corporate bonds and other debt securities	489,400	–	489,400	–
United States government obligations	489,937	–	489,937	–
Bond and other debt security funds	272,136	115,207	156,929	–
Equity securities	933,478	933,478	–	–
Equity funds	700,828	73,138	627,690	–
Assets at equity method or cost:				
Hedge funds	1,961,320			
Private equity limited partnerships	651,587			
Total investments	$ 5,821,336			
Collateral proceeds received under securities lending program	$ 19,953		$ 19,953	
Liabilities				
Obligations under swap agreements *(see Note 7)*	$ (79,622)		$ (79,622)	
Obligations to return collateral under securities lending program	$ (19,953)		$ (19,953)	

4. Fair Value Measurements (continued)

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

5. 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, annually, 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 $88,394 and $84,554 as of December 31, 2017 and 2016, respectively, which is reflected in interest in health care and related entities in the consolidated balance sheets. The System's interest in the investment yield is reflected in the consolidated statements of operations and changes in net assets and amounted to $11,606 and $4,268 for the years ended December 31, 2017 and 2016, respectively. Cash distributions received by the System from the Foundation under terms of the Agreement amounted to $3,218 and $3,812 during the years ended December 31, 2017 and 2016, respectively. In addition to the amounts distributed under the Agreement, the Foundation contributed $562 and $454 to the System for program support of one of its medical facilities during the years ended December 31, 2017 and 2016, respectively.

At December 31, 2017 and 2016, the System has a 49.5% ownership interest in RML Health Providers, L.P. (RML) that is accounted for on an equity basis. RML is an Illinois not-for-profit limited partnership that operates a 115-bed licensed long-term acute care hospital in Hinsdale, IL and an 86-bed licensed long-term acute care hospital in Chicago, IL. The System's carrying value of this interest was $29,032 and $25,036 at December 31, 2017 and 2016, respectively.

RML leases the Chicago, IL facility from the System. The lease has a fixed term through June 30, 2020 with four five-year renewal terms remaining executable at the option of RML. The System recorded rental income of $1,091 and $1,059 at December 31, 2017 and 2016, respectively.

(Dollars in Thousands)

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

In December 2016, in order to better align the System and APP resources related to capitated and other risk arrangements, the APP bylaws were amended effective January 1, 2017. The amendment resulted in the System obtaining a majority of voting board seats and certain reserve powers. At December 31, 2017, the System has a 50% membership interest in APP. Accordingly, APP's financial results are consolidated in the System's financial statements in 2017.

Prior to the amendment, the interest in APP was accounted for on an equity basis. The System's carrying value, which approximated the fair value in this interest was $0 at December 31, 2016. APP's carrying value of assets and liabilities were reasonable estimates of their fair value due to the short-term nature of these items.

Financial information relating to this interest as of and for the year ended December 31, 2016, was as follows:

	2016
Assets	$ 182,506
Liabilities	183,907
Revenues in excess of expenses	–

The System contracted with APP for certain operational and administrative services. Total expenses incurred for these services were $29,281 in 2016, which was included in purchased services and operating supplies and other in the consolidated statements of operations and changes in net assets. At December 31, 2016, the System had an accrued liability to APP for those services for $250, which was included in accounts payable and accrued expenses in the consolidated balance sheets.

(Dollars in Thousands)

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

APP purchased claims processing and certain management services from the System in the amount of $9,436 in 2016, which is included in other revenue in the consolidated statements of operations and changes in net assets. Under the terms of an agreement with the System, APP reimburses the System for salaries, benefits and other expenses that are incurred by the System on APP's behalf. The amount billed for these services in 2016 was $30,988, which is included in other revenue in the consolidated statements of operations and changes in net assets. The System had a receivable from APP at December 31, 2016, for claims processing and management services of $4,776, which is included in prepaid expenses, inventories and other current assets in the consolidated balance sheets.

6. Long-Term Debt

Long-term debt, net of unamortized original issue discount or premium and unamortized deferred bond issuance costs, consisted of the following at December 31:

	2017	2016
Revenue bonds and revenue refunding bonds, Illinois Finance Authority Series:		
1993C, 6.00%, principal payable in varying annual installments through April 2018	**$ 8,462**	$ 11,547
2003A (weighted average rate of 1.38% and 0.81% during 2017 and 2016, respectively), principal payable in varying annual installments through November 2022; interest based on prevailing market conditions at time of remarketing	**12,551**	14,911
2003C (weighted average rate of 1.60% and 1.15% during 2017 and 2016, respectively), principal payable in varying annual installments through November 2022; interest based on prevailing market conditions at time of remarketing	**12,589**	14,225
2008A (weighted average rate of 5.00% during 2017 and 2016), principal payable in varying annual installments through November 2030; interest based on prevailing market conditions at time of remarketing	**126,562**	130,047

(Dollars in Thousands)

6. Long-Term Debt (continued)

	2017	2016
Revenue bonds and revenue refunding bonds, Illinois Finance Authority Series (continued):		
2008C (weighted average rate of 0.85% and 0.43% during 2017 and 2016, respectively), principal payable in varying annual installments through November 2038; interest based on prevailing market conditions at time of remarketing	**$ 342,614**	$ 342,574
2008D, 5.50%, principal payable in varying annual installments through November 2038	**4,892**	9,529
2010A, 5.50%, principal payable in varying annual installments through April 2044	–	19,502
2010B, 5.38%, principal payable in varying annual installments through April 2044	–	27,334
2010C, 5.38%, principal payable in varying annual installments through April 2044	–	13,379
2010D, 4.00% to 5.00%, principal payable in varying annual installments through April 2038	**17,485**	73,045
2011A, 4.00% to 5.00%, principal payable in varying annual installments through April 2041	**35,861**	36,750
2011B (weighted average rate of 1.14% and 0.67% during 2017 and 2016, respectively), principal payable in varying annual installments through April 2051, subject to a put provision that provides for a cumulative seven-month notice and remarketing period; interest tied to a market index plus a spread	**69,251**	69,228
2011C (weighted average rate of 1.37% and 1.04% during 2017 and 2016, respectively), principal payable in varying annual installments through April 2049, subject to a put provision on September 3, 2024; interest tied to a market index plus a spread	**49,689**	49,861

(Dollars in Thousands)

6. Long-Term Debt (continued)

	2017	2016
Revenue bonds and revenue refunding bonds, Illinois Finance Authority Series (continued):		
2011D (weighted average rate of 1.44% and 1.14% during 2017 and 2016, respectively), principal payable in varying annual installments through April 2049, subject to a put provision on September 3, 2024; interest tied to a market index plus a spread	**$ 49,689**	$ 49,861
2012, 4.00% to 5.00%, principal payable in varying annual installments through June 2047	**147,913**	148,000
2013A, 5.00%, principal payable in varying annual installments through June 2031	**95,095**	96,775
2014, 4.00% to 5.00%, principal payable in varying annual installments through August 2038	**332,727**	334,768
2015, 4.13% to 5.00%, principal payable in varying annual installments through May 2045	**102,819**	102,935
2015B, 4.00% to 5.00%, principal payable in varying annual installments through May 2044	**72,469**	72,511
Taxable Term Loan, 2.58%, principal payable in varying annual installments through September 2024	**114,813**	–
Capital lease obligations	**50,880**	53,124
Other	**750**	880
	1,646,111	1,670,786
Less current portion of long-term debt	**28,120**	25,892
Less long-term debt subject to short-term remarketing arrangements	**91,975**	91,975
	$ 1,526,016	$ 1,552,919

Maturities of long-term debt, capital leases, and sinking fund requirements, assuming remarketing of the variable rate demand revenue refunding bonds, for the five years ending December 31, 2022, are as follows: 2018 – $28,120; 2019 – $33,691; 2020 – $36,352; 2021 – $37,456; and 2022 – $39,337.

6. Long-Term Debt (continued)

The System's outstanding bonds are secured by obligations issued under the Amended and Restated Master Trust Indenture dated as of September 1, 2011 and subsequently amended, with Advocate Health Care Network, Advocate Health and Hospitals Corporation, Advocate Condell, Advocate North Side and Advocate Sherman (the Obligated Group or Restricted Affiliates) and U.S. Bank National Association, as master trustee (the System Master Indenture). Under the terms of the bond indentures 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 System 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.

The System's unsecured variable rate revenue bonds, Series 2008C-3B of $21,975, and Series 2011B of $70,000, 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 a maximum of 12 months after December 31, 2017, 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, the System has taken steps to provide various sources of liquidity, including assessing alternate sources of financing, including lines of credit and/or unrestricted assets as a source of self-liquidity.

The System has standby bond purchase agreements with banks to provide liquidity support for substantially all of the Series 2008C Bonds. In the event of a failed remarketing of the supported Series 2008C Bonds upon its tender by an existing holder and subject to compliance with the terms of the standby bond purchase agreement, the standby bank would provide the funds for the purchase of such tendered bonds, and the System would be obligated to repay the bank for the funds it provided for such bond purchase (if such bond is not subsequently remarketed), with the first installment of such repayment commencing on the date one year and one day after the bank purchases the bond. As of December 31, 2017 and 2016, there were no bank-purchased bonds outstanding. The agreements expire as follows: $49,829 in August 2019; $129,456 in August 2020; and $145,919 in August 2021.

6. Long-Term Debt (continued)

In September 2017, the System entered into a taxable term loan in the amount of $115,000. The proceeds of the loan were used to advance refund a portion of the Series 2010 Bonds and to pay certain financing costs.

The System maintains an interest rate swap program on certain of its variable rate debt as described in Note 7.

Interest paid, net of capitalized interest, amounted to $62,536 and $57,514 in 2017 and 2016, respectively. The System capitalized interest of $2,676 and $7,325 in 2017 and 2016, respectively.

At December 31, 2017, the System had lines of credit with banks aggregating to $325,000. These lines of credit provide for various interest rates and payment terms and expire as follows: $100,000 in March 2018, $100,000 in August 2018, $100,000 in December 2019 and $25,000 in August 2020. These lines of credit may be used to redeem bonded indebtedness, to pay costs related to such redemptions, for capital expenditures, or for general working capital purposes. At December 31, 2017, no amounts were outstanding on these lines of credit.

7. Interest Rate Swap Program

The System has interest rate-related derivative instruments to manage exposure of its variable rate debt instruments and does not enter into derivative instruments for any purpose other than risk management. By using derivative financial instruments to manage the risk of changes in interest rates, the System exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contracts. When the fair value of a derivative contract is positive, the counterparty owes the System, which creates credit risk for the System. When the fair value of a derivative contract is negative, the System owes the counterparty, and therefore, it does not possess credit risk. The System minimizes the credit risk in derivative instruments by entering into transactions that may require the counterparty to post collateral for the benefit of the System based on the credit rating of the counterparty and the fair value of the derivative contract. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. The System also mitigates risk through periodic reviews of its derivative positions in the context of its total blended cost of capital.

(Dollars in Thousands)

7. Interest Rate Swap Program (continued)

At December 31, 2017, the System maintains an interest rate swap program on its Series 2008C variable rate demand revenue bonds. These bonds expose the System to variability in interest payments due to changes in interest rates. The System believes that it is prudent to limit the variability of its interest payments. To meet this objective and to take advantage of low interest rates, the System entered into various interest rate swap agreements to manage fluctuations in cash flows resulting from interest rate risk. These swaps convert the variable rate cash flow exposure on the variable rate demand revenue bonds to synthetically fixed cash flows. The notional amount under each interest rate swap agreement is reduced over the term of the respective agreement to correspond with reductions in the principal outstanding under various bond series. The following is a summary of the outstanding positions under these interest rate swap agreements at December 31, 2017 and 2016:

Bond Series	Notional Amount	Maturity Date	Rate Received	Rate Paid
2008C-1	$ 129,900	November 1, 2038	61.7% of LIBOR + 26 bps	3.60%
2008C-2	108,425	November 1, 2038	61.7% of LIBOR + 26 bps	3.60
2008C-3	88,000	November 1, 2038	61.7% of LIBOR + 26 bps	3.60

The swaps are not designated as hedging instruments, and therefore, hedge accounting has not been applied. As such, unrealized changes in fair value of the swaps are included as a component of nonoperating income (loss) in the consolidated statements of operations and changes in net assets as changes in the fair value of interest rate swaps. The net cash settlement payments, representing the realized changes in fair value of the swaps, are included as interest expense in the consolidated statements of operations and changes in net assets.

(Dollars in Thousands)

7. Interest Rate Swap Program (continued)

The fair value of derivative instruments is as follows:

	December 31 2017	2016
Consolidated balance sheet location		
Obligations under swap agreements	**$ (73,875)**	$ (79,622)
Collateral posted under swap agreements	**–**	–
Obligations under swap agreements, net	**$ (73,875)**	$ (79,622)

Amounts recorded in the consolidated statements of operations and changes in net assets for the derivatives are as follows:

	Year Ended December 31 2017	2016
Consolidated statement of operations and changes in net assets location		
Net cash payments on interest rate swap agreements (interest expense)	**$ 8,613**	$ 9,831
Change in the fair value of interest rate swaps (nonoperating)	**$ 5,748**	$ 9,221

The swap instruments contain provisions that require the System's debt to maintain an investment grade credit rating from certain major credit rating agencies. If the System's debt were to fall below investment grade on the valuation date, it would be in violation of these provisions and the counterparty to the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. If the credit risk-related contingent features underlying these swap agreeents were triggered on December 31, 2017, the System would be required to post $73,875 in collateral with the counterparties.

(Dollars in Thousands)

8. Restricted Net Assets

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

	2017	2016
Purchases of property and equipment	**$ 23,723**	$ 22,702
Medical education and other health care programs	**91,391**	86,312
	$ 115,114	$ 109,014

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

	2017	2016
Purchases of property and equipment	**$ 1,000**	$ 1,000
Medical education and other health care programs	**52,446**	51,975
	$ 53,446	$ 52,975

9. Retirement Plans

The System maintains defined benefit pension plans, the Advocate Health Care Network Pension Plan (Advocate Plan) and Condell Health Network Retirement Plan (Condell Plan) (collectively, the Plans), which cover a majority of its employees (associates). The Condell Plan was frozen effective January 1, 2008, to new participants and participants ceased to accrue additional pension benefits. The System may elect to terminate the Condell Plan in the future subject to the provisions set forth in Employee Retirement Income Security Act of 1974.

(Dollars in Thousands)

9. Retirement Plans (continued)

A summary of changes in the plan assets, projected benefit obligation, and the resulting funded status of the Advocate Plan is as follows:

	2017	2016
Change in plan assets:		
Plan assets at fair value at beginning of year	**$ 917,901**	$ 857,529
Actual return on plan assets	**122,799**	70,999
Employer contributions	**24,375**	31,200
Benefits paid	**(54,338)**	(41,827)
Plan assets at fair value at end of year	**$ 1,010,737**	$ 917,901
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	**$ 932,032**	$ 878,083
Service cost	**54,107**	49,413
Interest cost	**38,737**	38,649
Actuarial (gain) loss	**(13,618)**	7,714
Benefits paid	**(54,338)**	(41,827)
Projected benefit obligation at end of year	**$ 956,920**	$ 932,032
Plan assets greater (less) than projected benefit obligation	**$ 53,817**	$ (14,131)
Accumulated benefit obligation at end of year	**$ 878,477**	$ 850,736

(Dollars in Thousands)

9. Retirement Plans (continued)

A summary of changes in the plan assets, projected benefit obligation, and the resulting funded status of the Condell Plan is as follows:

	2017	2016
Change in plan assets:		
Plan assets at fair value at beginning of year	**$ 60,784**	$ 58,548
Actual return on plan assets	**8,334**	2,549
Employer contributions	**3,400**	4,400
Benefits paid	**(5,640)**	(4,713)
Plan assets at fair value at end of year	**$ 66,878**	$ 60,784
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	**$ 66,855**	$ 67,348
Interest cost	**2,604**	2,792
Actuarial loss	**7,404**	1,428
Benefits paid	**(5,640)**	(4,713)
Projected benefit obligation at end of year	**$ 71,223**	$ 66,855
Plan assets less than projected benefit obligation	**$ (4,345)**	$ (6,071)
Accumulated benefit obligation at end of year	**$ 71,223**	$ 66,855

(Dollars in Thousands)

9. Retirement Plans (continued)

The Condell Plan paid lump sums totaling $4,085 and $2,891 in 2017 and 2016, respectively. The amount in 2017 was greater than the sum of the Condell Plan's service cost and interest cost resulting in a settlement charge in the amount of $1,010.

	2017	2016
Plans' net pension expense consists of the following for the years ended December 31:		
Service cost	**$ 54,108**	$ 49,413
Interest cost	**41,341**	41,440
Expected return on plan assets	**(68,177)**	(66,388)
Amortization of:		
Prior service credit	**(4,823)**	(4,823)
Recognized actuarial loss	**10,639**	11,690
Settlement/curtailment	**1,010**	852
Plans' net pension expense	**$ 34,098**	$ 32,184

The amounts of actuarial loss and prior service cost (credit) included in other changes in unrestricted net assets expected to be recognized in net periodic pension cost during the year ending December 31, 2018, are $6,978 and $(3,983), respectively.

For the defined benefit plans previously described, changes in plans' assets and benefit obligations recognized in unrestricted net assets during 2017 and 2016 include an actuarial gain of $80,820 and $10,309, respectively, and net prior service credit of $4,823 in both years.

Included in unrestricted net assets at December 31 are the following amounts that have not yet been recognized in net pension expense:

	2017	2016
Unrecognized prior credit	**$ (4,126)**	$ (8,949)
Unrecognized actuarial loss	**147,982**	228,802
	$ 143,856	$ 219,853

(Dollars in Thousands)

9. Retirement Plans (continued)

Employer contributions were paid from employer assets. No plan assets are expected to be returned to the employer. All benefits paid under the Plans were paid from the Plans' assets. The System anticipates making no contributions to the Plans' assets during 2018. Expected associate benefit payments are 2018 – $77,510; 2019 – $67,960; 2020 – $73,510; 2021 – $77,540; 2022 – $79,720; and 2023 through 2027 – $416,270.

The Plans' 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. The System 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. The System regularly monitors manager performance and compliance with investment guidelines.

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

		2017	2016
Asset Category – Advocate Plan	**Target**	**Actual**	**Actual**
Domestic and international equity securities	**35%**	**35%**	36%
Alternative investments	**45**	**45**	46
Cash and fixed-income securities	**20**	**20**	18
	100%	**100%**	100%

		2017	2016
Asset Category – Condell Plan	**Target**	**Actual**	**Actual**
Domestic and international equity securities	**15%**	**15%**	31%
Cash and fixed-income securities	**85**	**85**	69
	100%	**100%**	100%

9. Retirement Plans (continued)

Fair value methodologies for Level 1 and Level 2 are consistent with the inputs described in Note 4. Real estate commingled funds for which an active market exists are included in Level 2. The System opted to use the NAV per share, or its equivalent, as a practical expedient for fair value of the Plans' interest in hedge funds, private equity limited partnerships and real estate commingled funds. There is inherent uncertainty in such valuations and the estimated fair values may differ from the values that would have been used had a ready market for these investments existed. Private equity limited partnerships and real estate commingled funds typically have finite lives ranging from five to ten years, at the end of which all invested capital is returned. For hedge funds, the typical lockup period is one year, after which invested capital can be redeemed on a quarterly basis with at least 30 days' but no more than 90 days' notice. The Plans' investment assets are exposed to the same kinds and levels of risk as described in Note 4.

At December 31, 2017, the Advocate Plan had commitments to fund private equity limited partnerships, including recallable distributions, an additional $137,972 over the next seven years.

In the normal course of operations and within established investment policy guidelines, the Plan may enter into various exchange-traded and over-the-counter derivative contracts for trading purposes, including futures, options and forward contracts. These instruments are used primarily to maintain the Plan's strategic asset allocation, adjust the portfolio duration, modify term structure exposure, change sector exposure and arbitrage market inefficiencies. These instruments require the Plan to deposit cash collateral with the broker or custodian. At December 31, 2017 and 2016, the collateral provided was $5,454 and $3,739, respectively.

At December 31, 2017 and 2016, the notional value of the derivatives in long positions was $48,822 and $30,499, respectively, and those in a short position was $(22,618) and $(271), respectively.

9. Retirement Plans (continued)

By using derivative financial instruments, the System exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contracts. When the fair value of a derivative contract is positive, the counterparty owes the System, which creates credit risk for the System. When the fair value of a derivative contract is negative, the System owes the counterparty, and therefore, it does not possess credit risk. The System minimizes the credit risk in derivative instruments by entering into transactions that may require the counterparty to post collateral for the benefit of the System based on the credit rating of the counterparty and the fair value of the derivative contract. Market risk is the adverse effect on the value of a financial instrument that results from a change in the underlying reference security. The market risk associated with market changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

Receivables and payables for investment trades not settled are presented within Plan assets. Unsettled sales resulted in receivables due from brokers of $11,976 and $10,012 at December 31, 2017 and 2016, respectively. Unsettled purchases resulted in payables of $32,163 and $17,284 at December 31, 2017 and 2016, respectively.

(Dollars in Thousands)

9. Retirement Plans (continued)

The following are the Plans' financial instruments at December 31, 2017, measured at fair value on a recurring basis by the valuation hierarchy defined in Note 4:

	Fair Value Measurements at Reporting Date Using			
Description	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Cash and short-term investments	**$ 35,504**	**$ 33,067**	**$ 2,437**	**$ –**
Corporate bonds and other debt securities	**38,837**	**–**	**38,837**	**–**
United States government obligations	**55,107**	**–**	**55,107**	**–**
Non-government fixed-income obligations	**517**	**–**	**517**	**–**
Bond and other debt security mutual funds	**130,444**	**43,885**	**86,559**	**–**
Equity securities	**142,509**	**142,509**	**–**	**–**
Equity funds	**216,367**	**42,047**	**174,320**	**–**
Real estate funds	**15,606**	**–**	**15,606**	**–**
Assets at net asset value:				
Hedge funds	**270,823**			
Private equity limited partnerships and real estate funds	**171,901**			
Total	**$ 1,077,615**			

(Dollars in Thousands)

9. Retirement Plans (continued)

The following are the Plans' financial instruments at December 31, 2016, measured at fair value on a recurring basis by the valuation hierarchy defined in Note 4:

	Fair Value Measurements at Reporting Date Using			
Description	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Cash and short-term investments	$ 13,126	$ 11,694	$ 1,432	$ –
Corporate bonds and other debt securities	15,600	–	15,600	–
United States government obligations	62,790	–	62,790	–
Government mutual funds	14,825	–	14,825	–
Bond and other debt security funds	99,281	30,145	69,136	–
Equity securities	124,862	124,862	–	–
Equity funds	218,001	35,202	182,799	–
Real estate funds	14,558	–	14,558	–
Assets at net asset value:				
Hedge funds	261,288			
Private equity limited partnerships and real estate funds	154,354			
Total	$ 978,685			

(Dollars in Thousands)

9. Retirement Plans (continued)

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

	2017	2016
Discount rate – both plans	**3.60%**	4.05%
Assumed rate of return on assets – Advocate Plan	**7.00**	7.25
Assumed rate of return on assets – Condell Plan	**5.00**	5.00
Weighted average rate of increase in future compensation (age-based table) – Advocate Plan	**3.61**	4.00

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

	2017	2016
Discount rate – both plans	**4.05%**	4.30%
Assumed rate of return on assets – Advocate Plan	**7.00**	7.25
Assumed rate of return on assets – Condell Plan	**5.00**	5.00
Weighted average rate of increase in future compensation (age-based table) – Advocate Plan	**4.00**	4.03

The assumed rate of return on plan assets is based on historical and projected rates of return for asset classes in which the portfolio is invested. The expected return for each asset class was then weighted based on the target asset allocation to develop the overall expected rate of return on assets for the portfolio.

The 2017 mortality assumption for the Plans was the RP-2014 no-collar adjustment scale MP-2017 generational projection scale. The 2016 mortality assumption for the Plans was the RP-2014 no-collar adjustment scale MP-2016 generational projection scale.

In addition to the defined benefit pension plans, the System sponsors various defined contribution plans. The System contributed to the defined contribution plans $50,933 and $51,682 in 2017 and 2016, respectively, which are included in salaries, wages and employee benefits expense in the consolidated statements of operations and changes in net assets.

10. 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. Revocable 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 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 trust were determined using a discount rate of 3.00% for 2017 and 2016. Accrued insurance liabilities for the System's captive insurance company were determined using a discount rate of 3.00% for 2017 and 2016. Total accrued insurance liabilities would have been $32,310 and $38,058 greater at December 31, 2017 and 2016, respectively, 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.

11. Legal, Regulatory and Other Contingencies and Commitments

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. During the last few years, as a result of nationwide investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, exclusion from the Medicare and Medicaid programs and revocation of federal or state tax-exempt status. Moreover, the System expects that the level of review and audit to which it and other health care providers are subject will increase.

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

Various federal and state agencies have initiated investigations, which are in various stages of discovery, relating to reimbursement, billing practices and other matters of the System. There can be no assurance that regulatory authorities will not challenge the System's compliance with these laws and regulations, and it is not possible to determine the impact, if any, such claims or penalties would have on the System. As a result, there is a reasonable possibility that recorded amounts will change by a material amount in the near term. To foster compliance with applicable laws and regulations, the System maintains a compliance program designed to detect and correct potential violations of laws and regulations related to its programs.

In March 2014, the System and certain of its subsidiaries were named as defendants to litigation surrounding the church plan status of the Advocate Plan. In December 2014, the United States District Court for the Northern District of Illinois issued its Decision and Order denying the Defendants' Motion to Dismiss. The System filed a Motion for Interlocutory Appeal, which was granted in January 2015, and subsequently filed its Petition for Appeal with the Seventh Circuit in January 2015. In March 2016, the Seventh Circuit affirmed the Northern District of Illinois decision. In July 2016, the System filed a petition with the Supreme Court of the United States seeking review of the lower courts' ruling. In December 2016, the Supreme Court agreed to hear the System's appeal as part of a consolidated case. Oral arguments were heard in March 2017. In June 2017, the Supreme Court of the United States ruled a pension plan maintained by a principal-purpose organization qualified as a church plan, regardless of who establishes the plan, and the case was remanded to the Seventh Circuit. In August 2017, the Seventh Circuit entered an order reversing the District Court's judgment and remanding the case to the District Court for further proceedings. The System executed a non-binding settlement that was filed with the District Court in February 2018. In order for the settlement to become final, the District Court must grant approval. A final approval hearing is expected to take place in June 2018. The System does not believe that this matter will have a material adverse effect on the System's financial position or results of operations.

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

The System is committed to constructing additions and renovations to its medical facilities that are expected to be completed in future years. The estimated cost of these commitments is $785,122, of which $723,536 has been incurred as of December 31, 2017.

The System entered into agreements for information technology services provided by a third party. The maximum amount of future payments that the System could be required to make under these agreements is approximately $250,000 over the next seven years. The System has also entered into various other agreements. The future commitments under these agreements is $36,624 over the next eight years.

Future minimum rental commitments at December 31, 2017, for all noncancelable leases with original terms of more than one year are $42,234, $35,621, $31,041, $26,370 and $24,093 for the years ending December 31, 2018 through 2022, respectively, and $81,534 thereafter.

Rent expense, which is included in other expenses, amounted to $73,925 and $70,745 in 2017 and 2016, respectively.

(Dollars in Thousands)

12. 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:

	2017	2016
Deferred tax assets		
Allowance for uncollectible accounts	**$ 2,013**	$ 3,476
Other accrued expenses	**5,996**	5,214
Accrued insurance	**4,640**	4,393
Accrued compensation and employee benefits	**2,850**	2,288
Third-party settlements	**214**	226
Deferred gain on acquisition	**–**	895
Prepaid and other assets	**343**	520
Net operating losses	**17,384**	19,635
Total deferred tax assets	**33,440**	36,647
Less valuation allowance	**13,551**	18,376
Net deferred tax assets	**19,889**	18,271
Deferred tax liabilities		
Property and equipment	**(2,135)**	(3,576)
Other accrued expenses	**(4,304)**	(3,348)
Accrued insurance	**(859)**	(172)
Total deferred tax liabilities	**(7,298)**	(7,096)
Net deferred tax asset, included in other noncurrent assets	**$ 12,591**	$ 11,175

As of December 31, 2017, the for-profit corporations had $50,835 of federal and $67,995 of state net operating loss carryforwards with unutilized amounts expiring between 2019 and 2037.

In compliance with the Tax Cuts and Jobs Act of 2017, the federal components of the deferred tax assets (liabilities) were revalued from 35% to 21%. The valuation allowance related to these deferred tax assets (liabilities) was reduced accordingly. The valuation allowance at December 31, 2017, primarily consist of net operating losses that are unlikely to be utilized.

(Dollars in Thousands)

12. Income Taxes and Tax Status (continued)

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

	2017	2016
Current:		
Federal	**$ 1,072**	$ 687
State	**–**	176
Deferred	**(1,416)**	(13,157)
	$ (344)	$ (12,294)

Federal and state income taxes paid relating to the System's for-profit corporations were $(32) and $115 in 2017 and 2016, respectively.

The System 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 that generate unrelated business income. The current tax provision recorded on this income was $884 and $911 for the years ended December 31, 2017 and 2016, respectively.

As of January 1, 2017, APP was merged into the System. APP is a nonstock organization that is taxed as a property and casualty insurance company under Internal Revenue Code Section 831, as well as Illinois State corporate income taxes. APP's tax components are not included in the above tables. At December 31, 2017, APP had a deferred asset totaling $1,003 and a deferred tax liability of $68. A valuation allowance of $934 has been recorded as of December 31, 2017. APP has no net operating loss carryforwards available to offset future taxable income. During 2017, APP paid net income taxes of $680.

13. Affiliation and Merger

In December 2017, the System and Aurora Health Care, Inc. (Aurora) entered into a definitive affiliation agreement (the Agreement) to form Advocate Aurora Health, Inc. The completion of the transaction is conditioned upon the satisfaction of certain conditions precedent, including required regulatory approval of the Federal Trade Commission (FTC). The FTC did not challenge the Agreement and the only remaining regulatory approval required is from the Wisconsin Office of the Commissioner of Insurance. Though the System can provide no assurances the transaction will, or will not, occur, the System anticipates closing the transaction on or about April 1, 2018.

(Dollars in Thousands)

13. Affiliation and Merger (continued)

Prior to January 1, 2017, the System had a 50% membership and governance interest in APP, which had been accounted for on an equity basis. The System's carrying value, which approximated the fair value in this interest was $0 at December 31, 2016. To better align the System's and APP resources related to capitated and other risk arrangements, the APP bylaws were amended effective January 1, 2017. The amendment resulted in the System obtaining a majority of voting board seats and certain reserve powers. Accordingly, APP's results were consolidated in the System's consolidated financial statements beginning January 1, 2017. There was no consideration transferred with this transaction.

The fair value of assets and liabilities of APP on January 1, 2017, consisted of the following:

Cash and cash equivalents	$ 157,286
Other current assets	28,580
Total assets	$ 185,866
Current liabilities	$ 185,866

Total operating revenue and operating loss from the date of consolidation for APP of $857,024 and $1, respectively, have been included in the accompanying consolidated statements of operations and changes in net assets.

Following are the unaudited pro forma results for the year ended December 31, 2016, as if the consolidation had occurred on January 1, 2016:

Total operating revenue	$ 6,072,672
Operating income	263,960
Revenues in excess of expenses	597,604

The pro forma information provided should not be construed to be indicative of the System's results of operations had the consolidation been consummated on January 1, 2016, and is not intended to project the System's results of operations for any future period.

14. Subsequent Events

The System evaluated events occurring between January 1, 2018 and March 9, 2018, which is the date when the consolidated financial statements were issued.

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APPENDIX B-2

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF AURORA HEALTH CARE, INC. AND AFFILIATES AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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Aurora Health Care, Inc. and Affiliates

Consolidated Financial Statements as of and for the Years Ended December 31, 2017 and 2016, and Independent Auditors' Report

AURORA HEALTH CARE, INC. AND AFFILIATES

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Aurora Health Care, Inc.:

We have audited the accompanying consolidated financial statements of Aurora Health Care, Inc. and Affiliates ("Aurora"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations and changes in unrestricted net assets, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Aurora Health Care, Inc. and Affiliates as of December 31, 2017 and 2016, and the results of their operations, changes in their net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

March 29, 2018

AURORA HEALTH CARE, INC. AND AFFILIATES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2017 AND 2016
(In thousands)

	2017	2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 192,883	$ 107,664
Investments	1,834,050	1,614,843
Assets whose use is limited or restricted	5,059	5,484
Patient accounts receivable — net of allowance for doubtful accounts of $105,128 and $97,349 in 2017 and 2016, respectively	715,431	731,746
Other receivables	84,939	102,791
Inventory	69,583	70,031
Prepaids and other current assets	57,030	48,026
Estimated third-party payor settlements	13,910	9,989
Total current assets	2,972,885	2,690,574
ASSETS WHOSE USE IS LIMITED OR RESTRICTED:		
Board-designated and other	184,087	164,168
Contractually-restricted	179,841	154,267
Donor restricted	61,104	53,821
Debt service reserve	19,089	25,792
Total assets whose use is limited or restricted	444,121	398,048
PROPERTY, PLANT, AND EQUIPMENT — Net	2,106,327	2,066,286
OTHER ASSETS:		
Intangible assets — net	14,219	15,786
Investments in unconsolidated entities	69,822	72,313
Other	53,230	56,835
Total other assets	137,271	144,934
TOTAL	$ 5,660,604	$ 5,299,842

(Continued)

AURORA HEALTH CARE, INC. AND AFFILIATES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2017 AND 2016
(In thousands)

	2017	2016
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current installments of long-term debt	$ 146,444	$ 161,936
Accounts payable	242,734	222,528
Accrued salaries and wages	246,774	259,225
Other accrued expenses	192,252	213,684
Estimated third-party payor settlements	28,358	34,041
Total current liabilities	856,562	891,414
LONG-TERM DEBT — Less current installments	1,335,185	1,403,091
OTHER LIABILITIES:		
Pension and other employee benefit liabilities	270,833	243,574
Self-insured liabilities	58,770	61,592
Deferred gain	31,161	36,662
Other	64,887	61,822
Total other liabilities	425,651	403,650
Total liabilities	2,617,398	2,698,155
NET ASSETS:		
Unrestricted:		
Controlling interest	2,862,327	2,439,653
Noncontrolling interest in subsidiaries	115,051	100,119
Total unrestricted net assets	2,977,378	2,539,772
Temporarily restricted	46,859	43,171
Permanently restricted	18,969	18,744
Total net assets	3,043,206	2,601,687
TOTAL	$ 5,660,604	$ 5,299,842

See accompanying notes to consolidated financial statements. (Concluded)

AURORA HEALTH CARE, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In thousands)

	2017	2016
REVENUE:		
Patient service revenue (net of contractual allowances and discounts)	$ 5,069,034	$ 4,837,262
Less provision for bad debts	170,262	140,151
Net patient service revenue less provision for bad debts	4,898,772	4,697,111
Other revenue	435,332	427,702
Total revenue	5,334,104	5,124,813
EXPENSES:		
Salaries, wages and fringe benefits	2,972,910	2,805,198
Professional fees	94,285	82,707
Supplies	1,018,328	987,058
Depreciation and amortization	221,591	207,842
Interest	56,446	57,687
Maintenance and service contracts	124,103	119,659
Building and equipment rental	67,115	65,850
Hospital tax assessment	96,794	97,201
Utilities	48,174	48,751
Purchased services	136,055	137,940
Other expenses	159,251	141,582
Total expenses	4,995,052	4,751,475
OPERATING INCOME	339,052	373,338
NONOPERATING INCOME:		
Investment income — net	150,878	95,603
Other nonoperating (loss) income — net	(16,033)	202
Total nonoperating income — net	134,845	95,805
EXCESS OF REVENUE OVER EXPENSES	473,897	469,143
Pension-related changes other than periodic pension cost	(508)	(49,680)
Net assets released from restriction for purchase of property and equipment	1,595	3,292
Distributions to noncontrolling interests	(37,366)	(37,277)
Other - net	(12)	(378)
INCREASE IN UNRESTRICTED NET ASSETS	$ 437,606	$ 385,100

See accompanying notes to consolidated financial statements.

AURORA HEALTH CARE, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In thousands)

	Controlling Interest Unrestricted	Noncontrolling Interest Unrestricted	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
NET ASSETS — DECEMBER 31, 2015	$ 2,066,225	$ 88,447	$ 2,154,672	$ 43,779	$ 18,733	$ 2,217,184
Excess of revenue over expenses	420,194	48,949	469,143	—	—	469,143
Pension-related changes other than net periodic pension costs	(49,680)	—	(49,680)	—	—	(49,680)
Contributions	—	—	—	10,453	11	10,464
Investment income	—	—	—	2,685	—	2,685
Net assets released from restrictions for operations	—	—	—	(10,431)	—	(10,431)
Net assets released from restrictions for purchase of property and equipment	3,292	—	3,292	(3,292)	—	—
Distributions to noncontrolling interest	—	(37,277)	(37,277)	—	—	(37,277)
Other — net	(378)	—	(378)	(23)	—	(401)
Increase (decrease) in net assets	373,428	11,672	385,100	(608)	11	384,503
NET ASSETS — DECEMBER 31, 2016	2,439,653	100,119	2,539,772	43,171	18,744	2,601,687
Excess of revenue over expenses	421,599	52,298	473,897	—	—	473,897
Pension-related changes other than net periodic pension costs	(508)	—	(508)	—	—	(508)
Contributions	—	—	—	9,204	237	9,441
Investment income	—	—	—	6,756	—	6,756
Net assets released from restrictions for operations	—	—	—	(8,014)	—	(8,014)
Net assets released from restrictions for purchase of property and equipment	1,595	—	1,595	(1,595)	—	—
Distributions to noncontrolling interest	—	(37,366)	(37,366)	—	—	(37,366)
Other — net	(12)	—	(12)	(2,663)	(12)	(2,687)
Increase in net assets	422,674	14,932	437,606	3,688	225	441,519
NET ASSETS — DECEMBER 31, 2017	$ 2,862,327	$ 115,051	$ 2,977,378	$ 46,859	$ 18,969	3,043,206

See accompanying notes to consolidated financial statements.

AURORA HEALTH CARE, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In thousands)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 441,519	$ 384,503
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Pension-related changes other than net periodic pension cost	508	49,680
Realized and unrealized gains on investments, net	(123,135)	(62,374)
Loss (gain) on disposition of property, plant, and equipment	11,140	(1,511)
Loss on early extinguishment of debt	441	2,070
Impairment of long-lived assets	9,021	—
Amortization of intangible assets and other items	3,906	3,955
Amortization of deferred gains	(5,500)	(5,501)
Depreciation and amortization	221,591	207,842
Provision for bad debts	170,262	140,151
Distribution to noncontrolling interest	34,716	39,294
Increase in accounts receivable	(153,947)	(111,839)
(Decrease) increase in accounts payable and accrued expenses	(10,691)	17,972
(Decrease) increase in estimated third-party payor settlements — net	(9,604)	9,485
Increase (decrease) in pension and other employee benefit liabilities	26,751	(31,534)
Decrease in self-insured liabilities	(2,822)	(3,306)
Other changes in assets and liabilities — net	16,366	(18,382)
Net cash provided by operating activities	630,522	620,505
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(277,457)	(346,664)
Proceeds from sales of property, plant, and equipment	1,929	2,151
Investment in unconsolidated entities	(13,112)	(17,171)
Distributions from unconsolidated entities	6,518	6,719
Purchases of investments	(967,839)	(436,517)
Sales of investments	826,119	138,969
Net cash used in investing activities	(423,842)	(652,513)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt and financing arrangements	58,715	218,000
Repayments of long-term debt, capital leases, and financing arrangements	(145,460)	(215,660)
Distribution to noncontrolling interest	(34,716)	(39,294)
Net cash used in financing activities	(121,461)	(36,954)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	85,219	(68,962)
CASH AND CASH EQUIVALENTS:		
Beginning of year	107,664	176,626
End of year	$ 192,883	$ 107,664

(Continued)

AURORA HEALTH CARE, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In thousands)

	2017	2016
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest-net of capitalized interest	$ 56,342	$ 59,636
Cash paid for income taxes	$ 530	$ 1,275
SUPPLEMENTAL DISCLOSURES OF NONCASH INFORMATION:		
Capital expenditures funded through accounts payable	$ 2,986	$ 31,293
Capital expenditures funded through assumption of long-term debt	$ 3,209	$ 3,410

See notes to accompanying consolidated financial statements. (Concluded)

1. ORGANIZATION AND BASIS OF CONSOLIDATION

Aurora Health Care, Inc. and its affiliates (Aurora) constitute an integrated health care system providing health care services to communities throughout eastern Wisconsin, northern Illinois, and the upper peninsula of Michigan. Aurora provides a variety of health care related activities, education, philanthropic, medical research and other benefits to the communities in which they operate. Health care services include primary and specialty care, pharmacies, behavioral health care, emergency care, rehabilitation, home care, and end-of-life care.

Aurora Health Care, Inc. (the Corporation) is a Wisconsin nonstock, not-for-profit corporation. The Corporation is the parent corporation of a group of nonprofit and for profit corporations and other organizations that own and operate 14 acute-care hospital campuses, one psychiatric hospital, a network of approximately 158 physician clinic facilities, home health services, approximately 67 retail pharmacies, and other health care and related service organizations.

The accompanying consolidated financial statements include the Corporation and its wholly-owned or controlled affiliates, as disclosed in Note 18. All intercompany accounts and transactions have been eliminated in the preparation of the consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses as of the date and period of the consolidated financial statements. Actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents include highly liquid investments purchased with an original maturity or maturity at the date of purchase of three months or less, except for any cash and money market funds included in assets whose use is limited or restricted.

Investments and Investment Income - Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value based upon quoted market prices in active markets or other observable inputs and are classified as trading securities. Investments in a real estate investment trust and an international equity limited partnership are reported at net asset value (NAV) reported by the fund, which approximates fair value. Certain investments considered available to support current operations are classified as current.

Investment income or loss on funds held for professional liability coverage and certain employee benefit investments are included in other operating revenue. All other investment income or loss (including realized gains and losses, unrealized gains and losses, interest income, and dividends) is included in other nonoperating (loss) income — net, unless the income or loss is restricted by donor or law.

Assets Whose Use Is Limited or Restricted - Assets whose use is limited or restricted include investments and other assets set aside by the board of directors at their discretion for future capital improvements or for other purposes, assets held in trust under bond indenture for debt service reserve

funds, contractually restricted funds for certain defined contribution plans and assets held in reinsurance trust accounts, and donor-restricted funds.

Patient Accounts Receivable - Patient accounts receivable are stated at net realizable value. Patient accounts receivable are reduced by an allowance for contractual adjustments and also by an allowance for doubtful accounts. In evaluating the collectability of patient accounts receivable, Aurora analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for contractual adjustments and allowance for doubtful accounts. Management regularly reviews data about these major payor sources in evaluating the sufficiency of the allowance for contractual adjustments and allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, Aurora analyzes contractually due amounts and provides an allowance for contractual adjustments, as well as an allowance for doubtful accounts, if necessary. For receivables associated with self-pay patients, Aurora records a significant provision for bad debts and charity care in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates, if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts in the period they are determined to be uncollectible.

Aurora does not maintain a material allowance for doubtful accounts for the amount due from third-party payors and did not have significant write-offs from third-party payors.

Inventories - Medical supplies, durable medical equipment held-for-sale, and other inventories are stated at the lower of cost (primarily first-in, first-out) or market. Retail pharmaceutical inventories are stated at replacement cost.

Property, Plant, and Equipment - Property, plant, and equipment acquisitions are recorded at cost. Donated property, plant, and equipment are recorded at fair value at the date of donation, which is then treated as cost. Costs of computer software developed or obtained for internal use, including external direct costs of materials and services and payroll and payroll-related costs for employees directly associated with internal-use software development projects, are capitalized and included in property, plant, and equipment in the accompanying consolidated balance sheets and included in capital expenditures in the accompanying consolidated statements of cash flows. Interest expense incurred during the period of construction of significant capital projects is capitalized as a component of the cost of the asset.

Property, plant, and equipment assets are depreciated on the straight-line method over the following estimated useful lives:

Buildings	40 years
Fixed equipment	10-25 years
Movable equipment	3-15 years
Computer software	3-10 years

Property, plant, and equipment capitalized under capital leases are recorded at the net present value of future minimum lease payments and are amortized on the straight-line method over the shorter of the related lease term or the estimated useful life of the asset. Amortization of property, plant, and equipment under capital leases is included in the accompanying consolidated statements of operations and changes in unrestricted net assets in depreciation and amortization expense.

Costs incurred for the use of cloud-based software for which Aurora does not own a license are expensed as incurred.

Assets Held for Sale - A long-lived asset or disposal group of assets and liabilities that is expected to be sold within one year is classified as held for sale and depreciation ceases to be recorded. For long-lived assets held for sale, an impairment charge is recorded if the carrying amount of the asset exceeds its fair value less costs to sell. Such valuations include estimates of fair values generally based upon discounted cash flows and incremental direct costs to transact a sale. As of December 31, 2017, Aurora has no properties which are being actively marketed for sale. As of December 31, 2016, assets held for sale of $5.5 million, were recorded in the accompanying consolidated balance sheets in prepaids and other current assets.

Pledges Receivable - Unconditional pledges receivable are reported at fair value as contribution revenue at the date the pledge is received. Conditional pledges receivable and indications of intentions to give are reported as contribution revenue and receivables at fair value when the conditions are substantially met. Conditional pledge revenue may be net of allowances where applicable, and is reflected as an increase in temporarily restricted contributions when the conditions are substantially met, and the related receivables are reported as other current or noncurrent assets based on the estimated time of collection.

Deferred Financing Costs and Original Issue Discounts/Premiums on Bond Indebtedness - Long-term debt issuance costs are deferred and amortized over the term of the debt. Long-term debt issuance costs and original issue discounts/premiums on bond indebtedness are amortized using methods that approximate the effective interest rate method over the estimated average period the related bonds will be outstanding. Deferred financing costs and original issue discounts/premiums are recorded as a reduction to or increase in the related debt in the accompanying consolidated balance sheets.

Intangible Assets - Intangible assets are amortized on a straight-line basis over periods ranging from 1 to 15 years. Amortization of intangible assets, other than non-compete agreements, is included in other expense in the accompanying consolidated statements of operations and changes in unrestricted net assets. The amortization of non-compete agreements is included in salaries, wages and fringe benefits expense in the accompanying consolidated statements of operations and changes in unrestricted net assets.

Asset Impairment - Aurora periodically assesses the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets may not be recoverable. Recoverability of an asset or group of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset, a quoted market price, or prices for similar assets. Management considers such factors as current results, trends, and future prospects, in addition to other economic factors, in determining the impairment of an asset. In 2017, $9.0 million of impairment charges were recorded related to the impairment of construction in progress on an abandoned project, impairment of an investment in an unconsolidated entity, and impairment of a retail pharmacy prescription list intangible. See additional discussion of these impairments in Note 8 and Note 9. There were no impairment charges recorded for the year ended December 31, 2016.

Goodwill is evaluated for impairment annually at November 30, or more frequently if events or changes occur that suggest the carrying value may not be recoverable. If, after assessing events and circumstances, it is concluded that it is more likely than not that the asset is impaired, the fair value is determined and is compared to the carrying value. If the carrying value exceeds the fair value, an

impairment charge is recognized. There were no impairment charges to goodwill recorded for the years ended December 31, 2017 or 2016.

Investments in Unconsolidated Entities - Investments in unconsolidated entities are accounted for using the cost or equity method. Aurora applies the equity method of accounting for joint ventures and for investments with ownership interests of 50% or less, if Aurora has the ability to exercise significant influence over the operating and financial policies of the investee. All other investees are accounted for using the cost method. The income (loss) on health-related unconsolidated entities is included in other operating revenue. All other income (loss) on unconsolidated entities is included within other nonoperating (loss) income — net.

Deferred Gain - Aurora has entered into various sale-leaseback transactions. Certain sale-leaseback transactions resulted in deferred gains, which are amortized over the term of the lease, ranging from 10 to 25 years.

Income Taxes - Aurora evaluates its uncertain tax positions on an annual basis. A tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits.

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are classified as non-current in the accompanying consolidated balance sheets.

Aurora assesses the realization of its deferred tax assets to determine whether an income tax valuation allowance is required. Based on all available evidence, both positive and negative, and the weight of that evidence to the extent such evidence can be objectively verified, Aurora determines whether it is more likely than not that all or a portion of the deferred tax assets will be realized.

Restricted Net Assets - Restricted net assets are used to differentiate resources, the use of which is limited by the donor or grantor, from unrestricted net assets on which the donor or grantor places no restriction or which arise as a result of the operations of Aurora. Restricted gifts and other restricted resources are recorded as additions to restricted net assets.

Restricted net assets consist of specific purpose funds, which are temporarily restricted, and endowment funds, which are permanently restricted. Temporarily restricted net assets comprise donations restricted to various specific purposes by donors and investment earnings of temporarily and permanently restricted net assets. Permanently restricted net assets are used to account for the principal amounts of gifts and bequests accepted by Aurora with donor stipulations that the principal remain intact in perpetuity and only the income from investment of the principal be expended.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the accompanying consolidated statements of operations and changes in unrestricted net assets as either other revenue or as net assets released from restrictions used for the purchase of property and equipment. Unrestricted contributions and donor-restricted contributions for operating purposes whose restrictions are met in the same year as received are reported as other revenue.

Patient Service Revenue (net of contractual allowances and discounts) - Patient service revenue is reported at the net realizable amounts from patients, third-party payors, and others for services rendered. Aurora has agreements with payors that provide for payments at amounts different from established

rates. The basis for payment under these agreements includes prospectively determined rates, per diem payments, negotiated discounts from established charges, and retroactive settlements under reimbursement agreements with third-party payors.

Charity Care and Uninsured Care - Aurora provides care to patients who meet certain criteria under its Helping Hands program without charge. Because Aurora does not pursue collection of amounts determined to qualify as charity care under this program, they are not reported as revenue. Aurora also provides care to uninsured patients who do not meet the criteria of the Helping Hands program at amounts less than its established rates.

Provision for Bad Debts - Aurora recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy) at the time services are rendered, prior to assessing the patient's ability to pay. As such, the entire provision for bad debts is presented as a reduction from patient service revenue. On the basis of its historical experience, a significant portion of Aurora's uninsured patients will be unwilling or unable to pay for the services provided. In addition, a portion of Aurora's insured patients will be unwilling or unable to pay the portion of their bill for which they are financially responsible. Aurora records a provision for bad debts related to uninsured patients, and insured patients for the portion of their bill for which they are financially responsible in the period services were provided.

Other Revenue - Other revenue primarily comprises revenues from retail pharmacy sales, which are reported at the estimated net realizable amounts from third-party payors at the time the prescription is filled. Retail pharmacy sales were $223.3 million and $229.6 million for the years ended December 31, 2017 and 2016, respectively.

Other Expenses - Other expense primarily consists of taxes, media purchases, insurance, professional education, and banking fees.

Other Nonoperating (Loss) Income — Net - Revenues and expenses from delivering health care services and other activities that are consistent with Aurora's ongoing major or central purposes are reported in operations. Income and losses that arise from transactions that are peripheral or incidental to Aurora's main purpose, such as certain investment income; income and losses attributable to sale or disposal of property, plant, and equipment; income or loss attributable to extinguishment of debt; and equity income from non-health related joint ventures, are included in other nonoperating income (loss), net.

Excess of Revenue over Expenses - The performance indicator is the excess of revenue over expenses. Excess of revenue over expenses includes all changes in unrestricted net assets except for permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets (including assets acquired using contributions, which by donor restriction were to be used for the purpose of acquiring such assets), distributions to noncontrolling interests, and pension-related changes other than net periodic pension costs.

New Accounting Pronouncements - In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry specific guidance, and requires significantly expanded disclosures about revenue recognition. The core principal of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The guidance may be adopted using either a full retrospective or modified retrospective approach.

Management of Aurora has evaluated the requirements of the new standard to ensure that processes, systems and internal controls are in place to collect the necessary information to implement the standard, which will be effective for Aurora as of January 1, 2018. Management of Aurora will use the modified retrospective approach to adopt this standard.

Management of Aurora utilized the portfolio practical expedient approach to analyze contracts within Aurora's core health care service lines. This practical expedient approach allows Aurora to evaluate the criteria for revenue recognition over a portfolio of similar contracts as opposed to evaluating each individual contract. Portfolios of similar characteristics must result in materially consistent revenue when compared to the revenue that would have been recognized if each patient account or contract was evaluated individually.

Management of Aurora reviewed revenue from various programs including those with variable consideration including: payments from Wisconsin's Medicaid taxation program, disproportionate share payments and settlements with third party payers. Based on this review, Management of Aurora has determined that there will not be a significant impact to revenue recognized under these programs upon the adoption of this guidance.

Management of Aurora has also considered the timing of revenue recognition under the new standard as either occurring at the time services are rendered or as services are transferred over time. Based on this review, Management of Aurora has determined that there will not be a significant impact to the timing of revenue recognition upon the adoption of this guidance.

The adoption of this ASU will result in significant changes to the presentation of financial information within the consolidated statements of operations and changes in unrestricted net assets, as well as, expanded disclosures within the notes to the consolidated financial statements. The primary change will be a change in the presentation of the provision for bad debts which relates to self-pay patients and amounts due from patients with insurance for co-pays and deductibles. Under the standard, these amounts will be a direct reduction to patient service revenue.

While the adoption of ASU 2014-09 will have a material effect on the presentation of patient service revenue in our consolidated statements of operations and changes in unrestricted net assets and on certain disclosures, this guidance will not materially impact our financial position, results of operations, or cash flows.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. This ASU introduces a lessee model that brings most leases on to the balance sheet. The standard also aligns certain of the underlying principles of the new lessor model with those in ASU No. 2014-09, the new revenue recognition standard. This standard is effective for Aurora as of January 1, 2019. Management of Aurora is currently in the process of evaluating the impact of this guidance on its consolidated financial position, results of operations and cash flows.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which is intended to simplify how a not-for-profit presents net assets and other information in the financial statements. This ASU reduces the three current net asset categories to two categories. The standard also provides for enhanced disclosures on liquidity and financial performance. This ASU is effective for annual reporting periods after December 31, 2017. Aurora will adopt this standard for annual reporting as of December 31, 2018. Management of Aurora does not believe this standard will have a significant impact on its consolidated financial position, results of operations and cash flows.

In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*, which amends guidance in Accounting Standards Codification (ASC) 230 on the

classification of certain cash receipts and payments in the statement of cash flows. The primary purpose of the ASU is to reduce the diversity of practice that has resulted from the lack of consistent principles on this topic. This standard is effective for Aurora beginning January 1, 2019. Management of Aurora anticipates that this ASU will not have a material impact on its statements of cash flows, with the primary change being the movement of certain distributions from equity method investees from cash used in investing activities to cash flows from operations.

In November 2016, the FASB issued ASU 2016-18, *Restricted Cash,* which amends guidance in ASC 230 on the presentation and activity presented within the statement of cash flows. The primary purpose of the ASU is to reduce the diversity of practice that has resulted from the lack of consistent principles on this topic. This standard is effective for Aurora beginning January 1, 2019. Management of Aurora anticipates that that this ASU will not have a material impact on its statements of cash flows, with the primary change being the inclusion of restricted cash and cash equivalents in the balances included and reconciled to within the statements of cash flows.

In March 2017, the FASB issued ASU 2017-07, *Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This ASU requires the service cost component of net periodic benefit cost related to defined benefit pension and post-retirement benefit plans to be reported in the same financial statement line as other compensation costs arising from services rendered during the period. The other components of net periodic benefit cost are required to be presented separately from service costs and outside of operating income in the statement of operations. Only the service cost component of net periodic benefit cost will be eligible for capitalization in assets. This ASU is effective for Aurora beginning January 1, 2019. Aurora will early adopt this standard as of January 1, 2018. This guidance will not have a significant impact on Aurora's consolidated statements of operations and changes in unrestricted net assets.

3. COMMUNITY BENEFIT

Aurora provides health care services without charge to patients who meet the criteria of its charity care policy. The amount of charity care provided, determined on the basis of cost, is estimated based on entity-specific cost-to-charge ratios. In addition to charity care, Aurora provides services to Medicaid and other public programs, primarily Tricare, for financially needy patients, for which the payments received are less than the cost of providing services. The unpaid costs attributed to providing services under these programs are considered a community benefit. A summary of these unpaid costs are as follows for the years ended December 31, 2017 and 2016 (in thousands):

	2017	2016
Cost of charity care provided	$ 58,298	$ 47,477
Unpaid cost of Medicaid	332,098	335,431
Unpaid cost of other public programs	12,205	9,254
Total cost of uncompensated care	402,601	392,162
Unpaid cost of Medicare	746,485	645,988
Total cost of uncompensated care and unpaid cost of Medicare	$ 1,149,086	$ 1,038,150

In addition, Aurora is also involved in numerous other wide-ranging community benefit activities that include community health education and outreach in the form of free or low-cost clinics, health

education, health promotion and wellness programs, such as health screenings and immunizations, and various community projects, transportation services, and support groups.

4. PATIENT SERVICE REVENUE AND PATIENT RECEIVABLES

Aurora has agreements with third-party payors that provide for payments to Aurora at amounts different from its established rates. A summary of the payment arrangements with major third-party payors is as follows:

- *Medicare* - Inpatient acute, most hospital outpatient services, and inpatient rehabilitation services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Certain inpatient nonacute and outpatient services, defined capital costs, medical education costs, select drugs, and devices related to Medicare beneficiaries are paid based on cost-reimbursement methodologies. Aurora is compensated for cost-reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by Aurora and audits thereof by the Medicare fiscal intermediary.

- *Medicaid* - Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed primarily based upon prospectively determined rates.

- *Other Third-Party Payors* - Services rendered to patients insured by other third-party payors are reimbursed based on a discount from customary charges, prospectively determined rates per discharge, or negotiated fee schedules.

Wisconsin assesses a fee or tax on gross patient service revenue. The revenues from this assessment are used to increase payments made to hospitals for services provided to Medicaid and other medically indigent patients. Aurora's patient service revenue reflects this increase in payment for services to Medicaid and other medically indigent patients, and hospital tax assessment expense reflects the fees assessed by the State. For the years ended December 31, 2017 and 2016, patient service revenue includes $115.3 million and $116.2 million, respectively, related to this program, and expenses include $96.8 million and $97.2 million, respectively, of tax assessment fees.

The composition of patient service revenue, net of contractual allowances and discounts (before the provision for bad debts), by payor is as follows for the years ended December 31, 2017 and 2016:

	2017	2016
Managed care and all other	64%	65%
Medicare	27	26
Medicaid	8	8
Self-pay	1	1
	100%	100%

The self-pay revenue above includes only revenue from patients without insurance. The revenue related to amounts due from patients for co-insurance and deductibles is included with the primary insurance coverage.

Laws and regulations governing government and other payment programs are complex and subject to interpretation. As a result, there is a reasonable possibility that recorded estimated third-party settlements could change by a material amount. Changes in estimates relating to prior years increased patient service revenue by $10.5 million and decreased patient service revenue by $10.4 million for the years ended December 31, 2017 and 2016, respectively.

Aurora has filed formal appeals relating to the settlement of certain prior-year Medicare cost reports. The outcome of these appeals cannot be determined at this time.

The composition of patient accounts receivable, net of contractual allowances (before the allowance for doubtful accounts) is summarized as follows as of December 31, 2017 and 2016:

	2017	**2016**
Managed care and all other	50%	51%
Medicare	16	16
Medicaid	5	4
Self-pay	29	29
	100%	100%

The self-pay patient accounts receivable above includes amounts due from patients for co-insurance, deductibles, and amounts due from patients without insurance.

Aurora's allowance for doubtful accounts increased from 11.7% of gross receivable less contractual allowances for December 31, 2016 to 12.8% of gross accounts receivable less contractual allowances at December 31, 2017.

5. INVESTMENTS AND ASSETS WHOSE USE IS LIMITED OR RESTRICTED

Investments and assets whose use is limited or restricted consist of the following instruments, which were measured at fair value, as of December 31, 2017 and 2016 (in thousands):

	2017	2016
Cash and cash equivalents	$ 425,750	$ 24,995
Fixed-income securities:		
U.S. Treasury	65,532	94,596
Corporate bonds and other debt securities	148,453	194,651
Federal agency	57,763	97,665
Fixed income mutual funds	791,695	990,518
Domestic equity securities:		
Large-cap	19,175	17,961
Mid-cap	20,472	19,257
Small-cap	23,803	22,106
Real estate	31,734	470
Equity mutual funds and exchange-traded funds	493,325	384,410
Real estate investment trust	35,174	13,953
International equity securities	150,419	142,192
International equity limited partnerships	10,871	8,497
Accrued investment income and other	9,064	7,104
Total	$ 2,283,230	$ 2,018,375
Assets whose use is limited or restricted:		
Current	$ 5,059	$ 5,484
Non-current	444,121	398,048
Short-term investments	1,834,050	1,614,843
Total	$ 2,283,230	$ 2,018,375

The current portion of assets whose use is limited or restricted includes the amount of assets available to meet current obligations for claims payments under the professional liability program.

Investment income for the years ended December 31, 2017 and 2016, consisted of the following (in thousands):

	2017	2016
Interest income and dividends	$ 55,445	$ 47,454
Net realized gains on securities	26,549	2,547
Changes in unrealized gains on investments	96,586	59,827
Total	$ 178,580	$ 109,828

Investment income for the years ended December 31, 2017 and 2016, were classified in the consolidated statements of operations and changes in unrestricted net assets and consolidated statements of changes in net assets as follows (in thousands):

	2017	2016
Other operating revenue	$ 20,946	$ 11,540
Investment income - net	150,878	95,603
Temporarily restricted net assets	6,756	2,685
Total	$ 178,580	$ 109,828

6. FAIR VALUE

Financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, estimated third-party settlements, and long-term debt. Except for long-term debt, the fair values of these instruments approximate their carrying amounts, due to their short-term maturities, at December 31, 2017 and 2016. The estimated fair value of long-term debt, based on discounted cash flows at estimated current borrowing rates, was $1,323.0 million and $1,394.0 million at December 31, 2017 and 2016, respectively, and is categorized as Level 2 within the fair value hierarchy.

The fair values of financial assets and liabilities that are measured by the level of significant input as of December 31, 2017 and 2016 are as follows (in thousands):

Assets	December 31, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring fair value measurements:				
Cash equivalents	$ 424,731	$ 415,554	$ 9,177	$ —
Fixed-income securities:				
U.S. Treasury	65,532	—	65,532	—
Corporate bonds and other debt securities	148,453	—	148,453	—
Federal agency	57,763	—	57,763	—
Fixed income mutual funds	791,695	791,695	—	—
Domestic equity securities:				
Large-cap	19,175	19,175	—	—
Mid-cap	20,472	20,472	—	—
Small-cap	23,803	23,803	—	—
Real estate	31,734	31,734	—	—
Equity mutual funds and exchange-traded funds	493,325	493,325	—	—
International equity securities	150,419	150,419	—	—
Other	9,064	8,957	—	107
Total recurring fair value measurements	$ 2,236,166	$ 1,955,134	$ 280,925	$ 107
Cash	193,902			
Assets valued at net asset value	46,045			
Total cash and cash equivalents, investments and assets whose use is limited	$ 2,476,113			

Assets	December 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring fair value measurements:				
Cash equivalents	$ 26,006	$ 22,037	$ 3,969	$ —
Fixed-income securities:				
U.S. Treasury	94,596	—	94,596	—
Corporate bonds and other debt securities	194,651	—	194,651	—
Federal agency	97,665	—	97,665	—
Fixed income mutual funds	990,518	990,518		—
Domestic equity securities:				
Large-cap	17,961	17,961	—	—
Mid-cap	19,257	19,257	—	—
Small-cap	22,106	22,106	—	—
Real estate	470	470	—	—
Equity mutual funds and exchange-traded funds	384,410	384,410	—	—
International equity securities	142,192	142,192	—	—
Other	7,104	6,853	—	251
Total recurring fair value measurements	$ 1,996,936	$ 1,605,804	$ 390,881	$ 251
Cash	106,653			
Assets valued at net asset value	22,450			
Total cash and cash equivalents, investments and assets whose use is limited	$ 2,126,039			
Nonrecurring fair value measurements:				
Long-lived assets held for sale	5,467	—	5,467	—
Total nonrecurring fair value measurements	$ 5,467	$ —	$ 5,467	$ —

Aurora categorizes assets and liabilities measured at fair value in the consolidated financial statements based upon whether the inputs used to determine their fair values are observable or unobservable. Observable inputs are inputs which are based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about pricing the asset or liability, based on the best information available under the circumstances.

The fair value of all assets and liabilities recognized or disclosed at fair value are classified based on the lowest level of significant inputs. Assets and liabilities that are measured at fair value are disclosed and classified in one of three categories. Category inputs are defined as follows:

Level 1 — Quoted prices (unadjusted) in active markets for identical assets or liabilities on the reporting date. Investments in this level generally include exchange-traded equity securities, futures, pooled short-term investment funds, options, and exchange-traded mutual funds.

Level 2 — Inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Investments in this level

generally include fixed income securities, including fixed income government obligations; asset-backed securities; certificates of deposit; derivatives; as well as certain U.S. and international equities, which are not traded on an active exchange.

Level 3 — Inputs that are unobservable for the asset or liability.

Aurora believes its valuation methods and classification in fair value levels are appropriate and consistent with other market participants based on information readily available from its service providers. Transfers between fair value levels are only done when new or additional information regarding the observability of pricing inputs is received that could result in a different classification as of the reporting date. Aurora measures the transfer between fair value levels as of the end of the reporting period, December 31. There were no significant transfers between fair value levels during the twelve months ended December 31, 2017 or 2016.

The Level 2 and 3 instruments listed in the fair value tables above utilize the following valuation techniques and inputs:

Cash Equivalents — Cash equivalents are comprised primarily of money market funds, which are valued based upon a net asset value of $1.

Fixed-Income Securities — The fair value of fixed-income securities is primarily determined with techniques consistent with the market approach. Significant observable inputs include benchmark yields, reported trades, observable broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including market research publications.

Aurora holds interests in a real estate investment trust and an international equity limited partnership where the fair value of the investment held is estimated based on the net asset value of the fund. The following table summarizes the attributes relating to the nature and risk of such investments at December 31, 2017 and 2016 (dollars in thousands):

	Fair Value		Unfunded Commitments			
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016	Redemption Frequency	Redemption Notice Period
Real estate investment trust	$ 35,174	$ 13,953	$ 30,000	$ —	Quarterly	90 days
International equity limited partnership	10,871	8,497	—	—	Monthly	15 days
Total	$ 46,045	$ 22,450	$ 30,000	$ —		

The real estate investment trust is a core return, fully specified, open-end commingled equity real estate fund diversified by property type and location designed to provide stable, income-driven rate of return over the long term with potential for growth of net investment income and appreciation of value. The objective of the real estate investment trust is to achieve long-term aggregate annual return on invested equity of 8% to 10%, gross of fees, by investing in real estate and real estate-related investments, broadly defined, with the majority of the return being realized from income, with modest appreciation, and using leverage when appropriate.

The fair value of the real estate investment trust is determined using the calculated net asset value provided by the fund. The fair value of the underlying real estate properties held in the trust is determined giving consideration to the income, cost and sales comparison approaches of estimating property value.

The international equity limited partnership's investment objective is long-term total return. The fund pursues its investment objective primarily by investing in equity securities of non-U.S. emerging market companies. The fair value of this fund is determined using the calculated net asset value provided by the fund.

7. PROPERTY, PLANT, AND EQUIPMENT

The components of property, plant, and equipment at December 31, 2017 and 2016, were summarized as follows (in thousands):

	2017	2016
Land and improvements	$ 124,379	$ 109,260
Buildings and fixed equipment	2,773,665	2,726,168
Movable equipment	934,434	1,107,958
Computer software	70,241	65,530
Construction-in-progress	98,033	109,973
Total property, plant, and equipment	4,000,752	4,118,889
Accumulated depreciation and amortization	(1,894,425)	(2,052,603)
Property, plant, and equipment-net	$ 2,106,327	$ 2,066,286

Property, plant, and equipment includes net assets under capitalized leases and other financing arrangements totaling $129.4 million (gross of $280.8 million, accumulated amortization of $151.4 million) and $140.9 million (gross of $277.6 million, accumulated amortization of $136.7 million) at December 31, 2017 and 2016, respectively.

Construction-in-progress at December 31, 2017 primarily consisted of costs incurred related to the expansion of Aurora BayCare's surgery center in Green Bay, Wisconsin, the expansion and renovation of the Aurora Psychiatric Hospital in Wauwatosa, Wisconsin, and design and pre-construction costs related to the replacement hospital and new outpatient surgery center and medical office building in Sheboygan, Wisconsin. Costs associated with the expansion of the Women's Center at Aurora Lakeland Medical Center in Elkhorn, Wisconsin and various other hospital and clinic renovation and expansion projects, were also included in construction-in-progress as of December 31, 2017.

Construction-in-progress at December 31, 2016 primarily consisted of costs incurred related to the expansion of Aurora BayCare Medical Center and the Vince Lombardi Cancer Clinic in Green Bay, Wisconsin, construction of a parking structure in West Allis, Wisconsin, and various other hospital and clinic renovation and expansion projects.

During the year ended December 31, 2017, Aurora completed a write-off of fully depreciated property, plant, and equipment, which had an original cost of $317.8 million. Additionally, during the year, Aurora wrote-off assets which no longer met Aurora's capitalization policy. These assets had an original cost of $65.0 million and resulted in a loss of $13.4 million included in other nonoperating (loss) income — net.

8. INTANGIBLE ASSETS

A summary of intangible assets and goodwill is as follows as of December 31, 2017 and 2016 (in thousands):

	2017	2016
Non-compete agreements	$ 9,617	$ 11,961
Prescription lists	—	6,632
Other	9,075	9,075
Total intangible assets	18,692	27,668
Accumulated amortization	(13,019)	(20,428)
Net intangible assets	5,673	7,240
Goodwill	8,546	8,546
Total intangible assets-net	$ 14,219	$ 15,786

During 2017, Aurora sold several of its retail pharmacy locations and subsequently recorded an impairment charge of $1.0 million related to the retail pharmacy lists. These assets were written-off in 2017, which resulted in an impairment charge of $1.0 million.

9. INVESTMENTS IN UNCONSOLIDATED ENTITIES AND NONCONTROLLING INTEREST IN SUBSIDIARIES

In April 2016, Aurora partnered with Anthem Blue Cross and Blue Shield of Wisconsin (Anthem) to form a new joint venture, Wisconsin Collaborative Insurance Company (WCIC). WCIC is a health insurance company. Aurora acquired a 50% interest in the joint venture for cash consideration of $5.0 million and accounts for this investment under the equity method of accounting within investments in unconsolidated entities in the accompanying consolidated balance sheets. In 2017, Aurora made an additional capital contribution to WCIC of $5.1 million. Aurora's investment in WCIC as of December 31, 2017 and 2016 was $6.0 million and $1.8 million, respectively.

Aurora has a 6.25% interest in StartUp Health Holdings, Inc., (StartUp Health), a global health innovation company with more than 100 digital health portfolio companies. Aurora's goal in investing in StartUp Health is to help accelerate the review and adoption of innovations aimed at transforming the delivery of care. Aurora's investment in StartUp Health is accounted for under the equity method of accounting and is presented within investments in unconsolidated entities in the accompanying consolidated balance sheets. Aurora’s investment in StartUp Health was $5.0 million as of December 31, 2016. In 2017, Aurora fully impaired its investment in Startup Health based upon a review of the company's historic performance and cash position. This impairment charge of $5.0 million was recorded to other nonoperating (loss) income - net in the accompanying consolidated statement of operations and changes in unrestricted net assets.

Aurora has a 49% interest in Bay Area Medical Center (BAMC), a 99 bed general acute care hospital located in Marinette, Wisconsin. Aurora’s investment in BAMC is accounted for under the equity method of accounting and is presented within investments in unconsolidated entities in the accompanying consolidated balance sheets. Aurora's investment in BAMC as of December 31, 2017 and

2016 was $28.8 million and $36.3 million, respectively. The carrying amount of Aurora's investment in BAMC is $34.8 million and $33.0 million less than the underlying equity in the net assets of BAMC as of December 31, 2017 and 2016, respectively. This difference represents a contingent gain which would be recognized in the event of dissolution of BAMC or if Aurora's interest in BAMC were to increase requiring BAMC to be included in the consolidated financial statements of Aurora.

Aurora has a 27% interest in Aurora Bay Area Medical Group (ABAMG), which provides inpatient, outpatient and other necessary professional medical services in Marinette, Wisconsin and its surrounding communities. BAMC owns the remaining 73% of ABAMG. Aurora's investment in ABAMG is accounted for under the equity method and is presented within investments in unconsolidated entities in the accompanying consolidated balance sheets. Aurora leases employees and buildings to ABAMG and recognized $19.2 million and $22.1 million of other revenue for the years ended December 31, 2017 and 2016, respectively, under the leasing agreements. Aurora made additional capital contributions to ABAMG of $5.8 million and $6.0 million for the years ended December 31, 2017 and 2016, respectively. Aurora's investment in ABAMG was $0.5 million and $0.8 million as of December 31, 2017 and 2016, respectively.

Aurora has a 50% investment in the Menomonee Falls Ambulatory Surgery Center, LLC, and a 20% investment in Froedtert Surgery Center, LLC (collectively, the Surgery Centers). The Surgery Centers provide various types of outpatient surgical procedures. Aurora's investment in the Surgery Centers of $5.8 million and $5.7 million as of December 31, 2017 and 2016, respectively, is accounted for under the equity method of accounting and is presented within investments in unconsolidated entities in the accompanying consolidated balance sheets. The carrying amount of Aurora's investment in the Surgery Centers is different from the underlying equity in the net assets of the investees due to goodwill recorded upon the initial investment in the Surgery Centers. The Surgery Centers were sold in February 2018 as disclosed in Note 20.

The summarized financial position and results of operations for the entities accounted for under the equity method as of and for the year ended December 31, 2017 and 2016, is as follows (in thousands):

	2017				
	Bay Area Medical Center [1]	ABAMG	Surgery Centers	Other Investees	Total
Total assets	$ 233,180	$ 6,150	$ 13,754	$ 37,032	$ 290,116
Total liabilities	105,407	4,169	1,804	24,581	135,961
Equity	127,773	1,981	11,950	12,451	154,155
Total revenue	96,759	24,032	13,611	180,248	314,650
Net income (loss)	3,598	(22,251)	1,020	4,568	(13,065)

	2016				
	Bay Area Medical Center [1]	ABAMG	Surgery Centers	Other Investees	Total
Total assets	$ 198,957	$ 6,896	$ 13,109	$ 28,800	$ 247,762
Total liabilities	60,441	4,004	2,143	62,461	129,049
Equity	138,516	2,892	10,966	(33,661)	118,713
Total revenue	86,666	30,958	15,682	73,174	206,480
Net (loss) income	(3,902)	(21,928)	1,764	5,978	(18,088)

[1] ABAMG is included in the consolidated financial results of Bay Area Medical Center.

Aurora Medical Group has a majority interest in BayCare Aurora, LLC (Aurora BayCare), a Wisconsin limited liability company established for the purpose of owning and operating a hospital and other medical care facilities in Green Bay, Wisconsin. Under certain circumstances, the operating agreements of Aurora BayCare may require additional contributions from the members and permit distributions of their equity. Aurora BayCare is included in the accompanying consolidated financial statements. At December 31, 2017 and 2016, the noncontrolling interest in Aurora BayCare totaled $110.5 million and $96.0 million, respectively, and was included in noncontrolling interest in subsidiaries' unrestricted net assets. During 2017 and 2016, distributions totaling $31.8 million and $32.5 million, respectively, were made to the minority shareholders.

Aurora has a controlling financial interest in three surgery centers. The financial position and results of operations of the surgery centers are included in the consolidated financial statements. At December 31, 2017 and 2016, the noncontrolling interest in the surgery centers totaled $4.6 million and $4.1 million, respectively, and was included in noncontrolling interest in subsidiaries' unrestricted net assets. During 2017 and 2016, distributions totaling $5.5 million and $4.8 million, respectively, were made to the minority shareholders.

10. INCOME TAXES

The Corporation and certain of its affiliates are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and have been recognized as tax exempt on related income pursuant to Section 501(a) of the Code.

Aurora Health Care Ventures, Inc. (Ventures) and its subsidiaries are taxable entities. Ventures is a subsidiary of the Corporation.

Aurora BayCare is treated as a partnership for income tax purposes. Income and losses of Aurora BayCare are passed through to its members. Aurora BayCare income passed through to Aurora is not considered taxable income to Aurora unless it is considered unrelated business income.

Aurora Liability Assurance, Ltd. has elected to be treated as a disregarded entity for income tax purposes.

The provision for income taxes for the years ended December 31, 2017 and 2016, consists of the following (in thousands):

	2017	2016
Current tax expense:		
Federal	$ 3,022	$ 2,228
State	7	332
Deferred tax expense	2,790	626
Total tax expense	$ 5,819	$ 3,186

Income tax expense is included within other operating expenses in the accompanying consolidated statements of operations and changes in unrestricted net assets.

In December 2017, the President signed into law the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act reduced the corporate federal tax rate from 35% to 21%, which resulted in a decrease in our net deferred tax asset and a corresponding increase in tax expense.

The following table discloses those significant components of deferred tax assets, including any valuation allowance, at December 31, 2017 and 2016 (in thousands):

	2017		2016
	Assets	Liabilities	Assets
Depreciation and fixed-asset differences	$ —	$ (240)	$ 237
Receivables (doubtful accounts and adjustments)	12	—	260
Accruals for retained insurance risks	—	—	342
Investments and other assets	1,284	—	1,176
Other accrued liabilities	310	—	799
Benefit plans	3,712	—	6,222
Net operating loss carryforwards	1,562	—	2,174
Subtotal deferred tax assets	6,880	(240)	11,210
Valuation allowance	(648)	—	(1,080)
Total deferred income taxes	$ 6,232	$ (240)	$ 10,130

The valuation allowance of $0.6 million and $1.1 million as of December 31, 2017 and 2016, respectively, are primarily attributable to certain federal and state net operating loss carryovers that, more likely than not, will expire unutilized.

At December 31, 2017, federal net operating loss carryforwards totaled $5.3 million, which expire from 2018 to 2037. At December 31, 2017, state operating loss carryforwards totaled $8.8 million, which expire from 2024 to 2037.

There have been no uncertain tax positions recorded in 2017 or 2016.

11. LONG-TERM DEBT

Long-term debt at December 31, 2017 and 2016, is summarized as follows (in thousands):

	2017	2016
Wisconsin Health and Educational Facilities Authority (WHEFA) fixed-rate bonds:		
Series 2009A (5.15% weighted average coupon for 2017 and 5.12% for 2016)	22,500	22,750
Series 2009B (1.25% weighted average coupon for 2017 and 3.22% for 2016)	—	65,000
Series 2010A (5.45% weighted average coupon for 2017 and 5.43% for 2016)	157,750	162,375
Series 2010B (5.00% weighted average coupon for 2017 and 2016)	41,620	61,895
Series 2012A (4.77% weighted average coupon for 2017 and 2016)	203,885	208,120
Series 2013A (5.19% weighted average coupon for 2017 and 2016)	115,750	115,750
Total fixed-rate bonds	541,505	635,890
WHEFA variable-rate bonds:		
Series 1999C (0.85% effective rate for 2017 and 0.43% for 2016)	$ 50,000	$ 50,000
Series 2008A (0.97% effective rate for 2017 and 0.49% for 2016)	80,000	80,000
Series 2008B (0.91% effective rate for 2017 and 0.43% for 2016)	79,470	79,470
Series 2010C (0.94% effective rate for 2017 and 0.36% for 2016)	102,465	102,690
Series 2012B (0.79% effective rate for 2017 and 0.36% for 2016)	36,000	37,700
Series 2012C (0.79% effective rate for 2017 and 0.36% for 2016)	36,000	37,700
Series 2012D (0.83% effective rate for 2017 and 0.41% for 2016)	53,115	55,930
Total variable-rate bonds	437,050	443,490
Unamortized original issue, premium, net	10,016	11,786
Total WHEFA debt	988,571	1,091,166
Taxable bonds:		
Series 2015A (1.48% effective rate for 2017 and 0.88% for 2016)	40,000	40,000
Series 2016A (1.97% effective rate for 2017 and 2016)	112,250	125,000
Series 2016B (1.99% effective rate for 2017 and 2016)	83,510	93,000
Total taxable bonds	235,760	258,000
Capital lease obligations and financing arrangements	202,205	220,829
Line of credit (1.87% effective rate for 2017)	58,500	—
Notes payable	5,595	5,943
Deferred financing costs — net	(9,002)	(10,911)
Total long-term debt	1,481,629	1,565,027
Less amounts classified as current:		
Current installments	(146,444)	(144,480)
Long-term debt classified as current due to contractual requirements	—	(17,456)
Total amounts classified as current	(146,444)	(161,936)
Long-term debt — net of current portion	$ 1,335,185	$ 1,403,091

Pursuant to loan agreements with WHEFA, Aurora system entities have borrowed the proceeds of the revenue bonds listed above from WHEFA (WHEFA Bonds). Aurora's obligation to repay WHEFA is secured by Obligations issued under a Master Trust Indenture (the Aurora Indenture). All outstanding

debt under the Aurora Indenture represents joint and several obligations of the members of the Obligated Group and are secured by a pledge of unrestricted receivables and a mortgage on Aurora St. Luke's Medical Center. Of the total fixed-rate WHEFA bonds, $47.4 million is collateralized by bond insurance. Additionally, certain of the WHEFA variable-rate bonds are secured by letters of credit, as described below.

The variable-rate demand bonds (VRDBs) are collateralized by $454.1 million of irrevocable direct-pay letters of credit issued by commercial banks. Under certain circumstances, the VRDBs are subject to mandatory purchase by Aurora. The letters of credit provide interim financing to Aurora in the event Aurora is unable to remarket tendered bonds. The letters of credit expire at various dates through 2021 and have various repayment terms. For $327.1 million of the letters of credit, principal payments are due quarterly, beginning the earlier of one year from the date of the advance or two months after the expiration date of the letter of credit and shall amortize over a three-year period, not to exceed three years from the letter of credit's stated expiration date. For the remaining $127.0 million letters of credit, principal payments are due quarterly, beginning the earlier of one year from the date of the advance or two months after the expiration date of the letter of credit and shall amortize over a two-year period, not to exceed two years from the letter of credit's stated expiration date. At December 31, 2017 and 2016, no draws were outstanding under the letters of credit. Aurora's repayment obligations to the commercial banks that provide the letters of credit are secured by Obligations issued under the Aurora Indenture.

On August 15, 2016, Aurora issued $218.0 million of Series 2016A and 2016B fixed rate taxable bonds which were directly placed with two commercial banks. The proceeds of the 2016A and 2016B Bonds were used to redeem $81.2 million of the Series 1993 Fixed Rate Revenue Bonds, $67.5 million of the Series 2009B-2 Fixed Rate Revenue Bonds and pay off the balance on the Term Note of $9.8 million. The remaining proceeds were used primarily to fund various capital projects. Aurora had a fixed-to-variable interest rate swap which was terminated in connection with this transaction. The financing resulted in a loss on early extinguishment of debt of $2.0 million, included in nonoperating income (loss), net, in the accompanying consolidated statement of operations and changes in unrestricted net assets. Aurora's repayment obligations for Taxable Bonds are secured by Obligations issued under the Aurora Indenture.

Aurora has three series of taxable bonds outstanding, which were issued directly by Aurora and placed with multiple commercial banks (the Taxable Bonds). The outstanding principal amount of the Taxable Bonds is $235.8 million and $258.0 million at December 31, 2017 and 2016, respectively. The Series 2015A Taxable Bonds are subject to a mandatory tender on April 15, 2021.

At December 31, 2017 and 2016, Aurora is obligated under capital lease and financing arrangements entered into in connection with certain leasing and sale-leaseback transactions. These arrangements, which relate to various administrative and medical support buildings, had initial lease terms of 15 to 25 years. In certain cases, the lease terms for these arrangements include renewal options, purchase options, expansion rights, and rent escalation clauses. The buyer-lessors for such transactions are unrelated special purpose entities. Aurora has excluded the unrelated special purpose entities' assets, liabilities, results of operations, and cash flows from its consolidated financial statements because the residual risks and rewards of the leased assets, as well as the obligations imposed by the underlying debt, reside with the lessors, not Aurora. In January 2018, Aurora purchased certain properties which were previously leased as disclosed in Note 20.

In August 2017, Aurora entered into a $250.0 million line of credit with a syndicate of commercial banks. The credit facility bears interest at a base rate plus margin based on Aurora's current bond ratings. Proceeds of a $58.5 million draw in August 2017 and $6.5 million of debt reserve funds were used to refund a mandatory tender of $65.0 million on the 2009B bonds. The $58.5 million draw remains

outstanding as of December 31, 2017. Aurora's repayment obligations under the credit agreement are secured by Obligations issued under the Aurora Indenture.

At December 31, 2017 and 2016, Aurora had a $60.0 million line of credit with a commercial bank, bearing interest at either the commercial bank floating rate or LIBOR plus 0.50%, based upon the option of Aurora. As of December 31, 2017 and 2016, three letters of credit issued under the line of credit totaling $40.5 million and $38.8 million, respectively, were outstanding. There were no outstanding draws on the line of credit or letters of credit as of December 31, 2017 or 2016. Aurora's repayment obligations under the line of credit are secured by Obligations issued under the Aurora Indenture.

Scheduled maturities on long-term debt (excluding amortization of remaining net unamortized original issue premiums of $10.0 million and deferred financing costs of $9.0 million), capital lease obligations, and financing arrangements, and related sublease rental income, at December 31, 2017, were as follows (in thousands):

	Long-Term Debt	Capital Lease Obligations and Financing Arrangements	Sublease Rental Income
2018	$ 123,479	$ 35,254	$ 5,176
2019	67,365	37,166	1,709
2020	70,010	37,098	1,582
2021	72,309	35,155	564
2022	74,611	43,482	256
Thereafter	870,636	74,887	138
Total long-term debt	$ 1,278,410		
Total minimum lease payments and sublease rental income		263,042	$ 9,425
Less amount representing interest		(60,837)	
Net present value of minimum lease payments for capital lease obligations and financing arrangements		$ 202,205	

Certain borrowing agreements require sinking fund deposits with a trustee sufficient to pay principal and interest when due. Further, certain of the borrowing agreements contain various covenants regarding maintenance of property, continuation of operations, issuance of additional debt, and maintenance of certain financial ratios and indicators. Aurora was in compliance with all of its financial covenants as of December 31, 2017.

12. EMPLOYEES' BENEFIT PLANS

Aurora has a defined benefit pension plan (the Pension Plan) covering substantially all of its employees hired before January 1, 2013, with at least 1,000 hours of work in a calendar year. The Pension Plan was frozen on December 31, 2012. Benefits are based on years of service and the employees' final average earnings, as defined. Aurora funds the Pension Plan based on the amount calculated by the Pension Plan's actuaries to meet the minimum Employee Retirement Income Security Act (ERISA) funding requirements. The Pension Plan assets and obligations are measured at December 31. Employer contributions were $50.0 million during the year ended December 31, 2016. There were no employer

contributions made to the plan during the year ended December 31, 2017. The actuarial cost method used to compute Pension Plan liabilities and expenses is the projected unit credit method.

A summary of the changes in the projected benefit obligation, fair value of plan assets and funded status of the Pension Plan as of December 31, 2017 and 2016, is as follows (in thousands):

	2017	2016
Accumulated benefit obligation	$ 1,623,512	$ 1,473,113
Change in projected benefit obligation:		
Projected benefit obligation at beginning of measurement period	$ 1,473,113	$ 1,367,641
Interest cost	64,187	63,291
Plan amendments	—	111
Net actuarial loss	138,055	88,151
Benefits paid	(51,843)	(46,081)
Projected benefit obligation at end of year	1,623,512	1,473,113
Change in plan assets:		
Fair value of plan assets at beginning of measurement period	1,356,085	1,249,653
Actual income on plan assets	203,229	102,513
Employer contributions	—	50,000
Benefits paid	(51,843)	(46,081)
Fair value of plan assets at end of year	1,507,471	1,356,085
Unfunded status at end of year	$ (116,041)	$ (117,028)
Net periodic pension income is composed of the following:		
Interest cost on projected benefit obligation	$ 64,187	$ 63,291
Expected return on plan assets	(74,092)	(70,098)
Net amortization and deferral	8,410	6,166
Net periodic pension income	$ (1,495)	$ (641)

The unfunded status of the Pension Plan is recorded in the accompanying consolidated balance sheets in non-current pension and other employee benefit liabilities.

The net actuarial loss not yet recognized as a component of net periodic pension cost was $444.3 million and $443.7 million as of December 31, 2017 and 2016, respectively and is included in unrestricted net assets in the accompanying consolidated balance sheets.

The net actuarial gain or loss recognized as a component of pension-related changes other than net periodic pension cost was a loss of $0.5 million and $49.7 million for the years ended December 31, 2017 and 2016, respectively. The expected amortization amount to be included in the net periodic pension cost in 2018 is a net actuarial loss of $11.6 million.

Assumptions used to determine the benefit obligation at the measurement date and the net periodic pension cost as of December 31, 2017 and 2016, were as follows:

	2017	2016
Discount rate-pension expense	4.42%	4.70%
Discount rate-projected benefit obligation	3.79	4.42
Expected long-term rate of return on assets-pension expense	5.50	5.50

The discount rate used by Aurora is based on a hypothetical portfolio of high-quality bonds with cash flows matching the Pension Plan's expected benefit payments.

The expected long-term rate of return is based on the asset allocation of the total portfolio considering capital return assumptions from various sources. Aurora's investment objective is to achieve its targeted long-term rate of return while avoiding excessive risk. Risk is effectively managed through diversifying the asset allocation across a broad spectrum of assets including domestic and international equities and fixed income securities with varying correlations to movements in interest rates along the yield curve. These investments are readily marketable and can be sold to fund benefit payment obligations as they become payable. Overall funded status risk of the Pension Plan is managed by matching the duration of plan assets to plan liabilities to mitigate the impact of changes in interest rates on funded status.

The fair market value of the Pension Plan assets at December 31, 2017 and 2016, is as follows (in thousands):

	December 31, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 49,424	$ —	$ 49,424	$ —
Fixed-income securities:				
U.S. Treasury	172,266	—	172,266	—
Corporate bonds and other debt securities	646,051	—	646,051	—
Federal agency	880	—	880	—
Fixed-income mutual funds	56,993	56,993	—	—
Domestic equity securities:				
Large-cap	56,033	56,033	—	—
Mid-cap	34,402	34,402	—	—
Small-cap	63,656	63,656	—	—
Real estate	8,451	8,451	—	—
Equity mutual funds and exchange traded funds	147,893	147,893	—	—
International equity securities	144,628	144,628	—	—
Total recurring fair value measurements	1,380,677	$ 512,056	$ 868,621	$ —
Assets valued at net asset value	128,426			
Total Pension Plan Assets	$ 1,509,103			

	December 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 28,838	$ —	$ 28,838	$ —
Fixed-income securities:				
U.S. Treasury	139,500	—	139,500	—
Corporate bonds and other debt securities	596,518	—	596,518	—
Federal agency	1,434	—	1,434	—
Fixed-income mutual funds	53,520	53,520	—	—
Domestic equity securities:				
Large-cap	51,224	51,224	—	—
Mid-cap	31,184	31,184	—	—
Small-cap	63,972	63,972	—	—
Real estate	8,833	8,833	—	—
Equity mutual funds and exchange traded funds	137,349	137,349	—	—
International equity securities	127,374	127,374	—	—
Total recurring fair value measurements	1,239,746	$ 473,456	$ 766,290	$ —
Assets valued at net asset value	117,704			
Total Pension Plan Assets	$ 1,357,450			

There were no significant transfers between fair value levels during 2017 or 2016.

The Pension Plan holds shares or interests in investment funds where the fair value of the investment held is estimated based on the net asset value of the investment funds. The following table summarizes the attributes relating to the nature and risk of these investments at December 31, 2017 and 2016 (in thousands):

	Fair Value		Unfunded Commitments			
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016	Redemption Frequency	Redemption Notice Period
Real estate investment trust	$ 37,167	$ 34,176	$ 5,000	$ —	Quarterly	90 Days
Commingled funds	41,133	44,351	—	—	Daily	0 Days
International equity limited partnership	50,126	39,177	—	—	Monthly	15 Days
Total	$ 128,426	$ 117,704	$ 5,000	$ —		

The real estate investment trust is a core return, fully specified, open-end commingled equity real estate fund diversified by property type and location designed to provide stable, income-driven rate of return over the long term with potential for growth of net investment income and appreciation of value. The objective of the real estate investment trust is to achieve long term aggregate annual return on invested equity of 8% to 10%, gross of fees, by investing in real estate and real estate-related investments,

broadly defined, with the majority of the return being realized from income, with modest appreciation, and using leverage when appropriate.

The commingled funds include investments held with two separate funds. The objectives of one of the commingled funds is to maximize total return and outperform the Barclays U.S. Long Government/ Credit index, gross of fees, over a market cycle, while maintaining total return risk similar to that of the benchmark. This fund primarily invests in corporate bonds, U.S. Treasury obligations and other U.S. government and agency securities, debt securities of foreign governments and supranational organizations, municipal obligations, and asset-backed, mortgage related and mortgage backed securities. The objectives of the other commingled fund is to maximize the total return and outperform the Barclays Long Credit Index, while maintaining total return risk similar to that of the benchmark over a market cycle. This fund invests primarily in investment grade fixed income securities.

The international equity limited partnership's investment objective is long-term total return. The fund pursues its investment objective primarily by investing in equity securities of non-U.S. emerging market companies. The fair value of this fund is determined using the calculated net asset value provided by the fund.

A reconciliation of the fair value of Pension Plan assets, as presented above, to the fair value of plan assets utilized in determining the unfunded status of the Pension Plan as of December 31, 2017 and 2016, is as follows (in thousands):

	2017	2016
Fair value of plan assets	$ 1,509,103	$ 1,357,450
Payable for pending trades-net	(1,632)	(1,365)
Fair value of plan assets at end of measurement period	$ 1,507,471	$ 1,356,085

The asset allocation of Aurora's Pension Plan assets at December 31, 2017 and 2016, is as follows:

	2017		2016	
	Strategic Target	Actual	Strategic Target	Actual
Equity securities	33%	33%	33%	33%
Fixed-income securities	64	61	64	62
Real estate	3	3	3	3
Cash and cash equivalents	—	3	—	2
Total	100%	100%	100%	100%

Aurora expects to make the following contributions to and estimated benefit payments from its Pension Plan (in thousands):

Expected contributions in 2018	$	22,200
Estimated benefit payments:		
2018	$	61,631
2019		66,238
2020		70,176
2021		73,637
2022		76,541
2023 through 2026		418,741
Total	$	766,964

Aurora and certain affiliates sponsor defined contribution and retirement savings plans (the Defined Contribution Plans), whereby Aurora contributes a percentage of participants' qualifying compensation up to certain limits as outlined in the Defined Contribution Plans or other amounts as designated by the affiliates' board of directors. Included in salaries, wages and fringe benefits expense in the accompanying consolidated statements of operations and changes in unrestricted net assets for the years ended December 31, 2017 and 2016, is $152.1 million and $144.9 million, respectively, for contributions to the Defined Contribution Plans.

Aurora also sponsors a noncontributory Section 457(b) defined contribution plan (the 457(b) Plan) covering select employees, where participants may contribute a percentage of qualifying compensation up to certain limits as defined by the 457(b) Plan. The 457(b) Plan assets and liabilities, each totaling $130.6 million and $102.6 million at December 31, 2017 and 2016, respectively, are included in long-term assets whose use is limited or restricted and pension and other employee benefit liabilities, in the accompanying consolidated balance sheets. The assets of this 457(b) Plan are subject to the claims of the general creditors of Aurora. Net investment income from the 457(b) Plan was $17.8 million and $8.7 million for the years ended December 31, 2017 and 2016, respectively. Net investment income (loss) from the 457(b) Plan is included in other operating revenue with an equal offsetting expense in salaries, wages and fringe benefits in the accompanying consolidated statements of operations and changes in unrestricted net assets.

13. SELF-FUNDED HEALTH, DENTAL, AND OTHER BENEFITS

Aurora sponsors self-funded health and dental insurance plans covering substantially all of their employees and their dependents. Health and dental insurance expense under the plans is based upon actual claims paid, administration fees, and provisions for unpaid and unreported claims at year-end. At December 31, 2017 and 2016, the estimated liability for unpaid and unreported claims of $9.4 million and $10.6 million, respectively, was included in accrued liabilities. Costs of Aurora's self-funded health and dental insurance program of $28.2 million and $31.7 million for the years ended December 31, 2017 and 2016, respectively, for services provided by non-affiliated providers were included in salaries, wages and fringe benefits expense.

Aurora also provides salary continuation payments to current and inactive employees who are eligible to receive long-term disability and workers' compensation, under self-funded arrangements. Aurora measures the cost of its unfunded obligations under such programs based upon actuarial calculations and records a liability on a discounted basis. At December 31, 2017 and 2016, Aurora had accrued estimated

benefit obligations of $9.0 million and $9.2 million, respectively, included in accrued liabilities, and $27.9 million and $27.4 million, respectively, included in self-insured liabilities.

14. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily and permanently restricted net assets were available for the following purposes at December 31, 2017 and 2016 (in thousands):

	Temporarily Restricted		Permanently Restricted	
	2017	2016	2017	2016
Health education	$ 6,601	$ 7,467	$ 10,316	$ 10,082
Specific program services	29,525	24,494	6,933	6,941
Research	8,038	9,115	1,506	1,507
Purchase of building and equipment	1,779	1,209	—	—
Indigent care	916	886	214	214
Total restricted net assets	$ 46,859	$ 43,171	$ 18,969	$ 18,744

At December 31, 2017 and 2016, permanently restricted net assets represent the principal amount of gifts that are to be held in perpetuity. Investment income on the related assets is expendable to support health care and other services and is reported as temporarily restricted investment income.

Aurora's endowment consists of 49 individual funds, including donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation Board has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit stipulations to the contrary. As a result of this interpretation, Aurora classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulation to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Aurora. Aurora considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the organization and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of Aurora, and (7) the investment policies of Aurora.

Aurora has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Aurora's investment objective is to achieve its targeted long-term rate of return while avoiding excessive risk. Risk is effectively managed through diversification, which is achieved by employing various investment managers and mutual funds to direct investments over a broad spectrum of assets, including equities and fixed-income securities.

Aurora has a spending policy that at least 5% of the funds available for expenditure held by the Foundation at the beginning of the fiscal year will be expended on an annual basis. The amount available

for expenditure would exclude the corpus of permanently restricted and term donor-restricted endowment funds.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires Aurora to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2017 and 2016.

Information regarding the composition of the endowment investments and activity as of and for the years ended December 31, 2017 and 2016, is as follows (in thousands):

	Donor-Restricted Temporarily Restricted	Permanently Restricted	Total
Endowment net assets-December 31, 2015	$ 10,235	$ 18,733	$ 28,968
Investment return:			
Investment income	736	—	736
Net change in unrealized gains	53	—	53
Total investment return	789	—	789
Contributions	10	11	21
Appropriation of endowment assets for expenditure	(1,825)	—	(1,825)
Endowment net assets-December 31, 2016	9,209	18,744	27,953
Investment return:			
Investment income	1,470	—	1,470
Net change in unrealized gains	310	—	310
Total investment return	1,780	—	1,780
Contributions	—	237	237
Appropriation of endowment assets for expenditure	(1,615)	—	(1,615)
Other changes-transfers between funds	12	(12)	—
Endowment net assets-December 31, 2017	$ 9,386	$ 18,969	$ 28,355

15. FUNCTIONAL EXPENSES

Aurora provides health care services to residents within its geographic areas. Expenses related to providing these services for the years ended December 31, 2017 and 2016, are as follows (in thousands):

	2017	2016
Health care services	$ 4,212,503	$ 4,006,594
General and administrative	782,549	744,881
Total	$ 4,995,052	$ 4,751,475

General and administrative expenses primarily include information technology, legal, finance, purchasing, patient billing, and human resources.

16. COMMITMENTS AND CONTINGENCIES

Operating Lease Agreements - Aurora has various noncancelable operating lease agreements, primarily for medical support buildings and equipment, which have remaining fixed terms ranging from one to 20 years at December 31, 2017. Some leases contain renewal options, fair value purchase options, and escalation clauses. Aurora subleases certain of its medical support buildings.

Net future minimum lease payments under non-cancelable operating leases with initial or remaining lease terms in excess of one year at December 31, 2017, are as follows (in thousands):

	Lease Payments	Sublease Income	Net Future Minimum Lease Payments
2018	$ 55,389	$ (686)	$ 54,703
2019	53,989	(250)	53,739
2020	51,097	(212)	50,885
2021	48,554	(76)	48,478
2022	41,507	(78)	41,429
Thereafter	93,055	—	93,055
Total	$ 343,591	$ (1,302)	$ 342,289

Aurora West Allis Medical Center has the right to operate the hospital under the terms of a lease agreement with the City of West Allis (the City). In accordance with the lease agreement, the City has title to all assets and any subsequent additions (with the exception of certain equipment used by Aurora for laboratory services). Aurora West Allis Medical Center has exclusive right to the use of the assets and the obligation to maintain and replace them. The historical cost to Aurora of the leased facilities is included within Aurora's property, plant, and equipment. The agreement provides for annual payments of less than $0.1 million in lieu of annual lease payments, and includes payment escalations each subsequent year. The lease expires in 2063.

Litigation - Aurora is subject to various regulatory investigations, legal proceedings, and claims which are incidental to its normal business activities.

Aurora believes it has made adequate provision for potential exposures relating to its legal matters. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the consolidated results of operations or net assets of Aurora.

Vendor Arrangements - Aurora routinely enters into long-term arrangements covering volume purchases of medical supplies and equipment. Certain of the agreements, which are generally cancelable without penalty, require Aurora to meet targeted levels of expenditures in order to maintain favorable pricing terms.

Insurance Coverage - Aurora is commercially insured for workers' compensation stop-loss, auto, property, boiler and machinery, umbrella/excess liability, directors' and officers' liability, and other customary business liabilities.

17. GENERAL AND PROFESSIONAL LIABILITY INSURANCE

Commercial insurance companies have issued policies covering Aurora's primary professional, general and managed care errors and omission liability risks. Aurora's professional and general liability insurance is on an occurrence basis, while managed care errors and omissions liability risks are written on a claims-made basis.

Aurora's hospitals, clinics, surgery centers, physicians, and certified registered nurse anesthetist providers that provide health care in Wisconsin are qualified health care providers as defined by Wisconsin state statute, and have separate professional liability limits of $1.0 million per claim and $3.0 million annual aggregate applied to each qualified provider. Losses in excess of these amounts are fully covered through mandatory participation in the State of Wisconsin Injured Patients and Families Compensation Fund (the Fund).

Aurora also has professional liability coverage for its providers and affiliates that do not qualify for the Fund coverage, as well as general liability for all of its entities. These coverages provide a number of shared professional liability limits and shared general liability limits totaling $2.0 million per occurrence and $4.0 million annual aggregate for most providers. Losses in excess of these amounts are covered by Aurora's umbrella/excess insurance.

The professional, general and managed care liabilities discussed above have been ceded back to Aurora Liability Assurance, Ltd. (ALA), a wholly-owned subsidiary of Aurora, through reinsurance agreements. Independent actuaries evaluate the required provision for outstanding losses related to these risks. At December 31, 2017 and 2016, Aurora has recorded a liability for outstanding losses, including incurred but not reported, discounted at 4.0% totaling $32.0 million and $35.2 million, respectively. Of this amount, a portion of the liability for outstanding losses was included in accrued expenses and a portion was included in self-insured liabilities in the accompanying consolidated balance sheets. In the opinion of management, the ultimate disposition of claims incurred to date could change; however, we do not expect that these changes would have a material effect on Aurora's consolidated financial position or results of operations. ALA maintains a reinsurance trust account, which in total represents security required by the reinsurance agreement between ALA and the insurance companies. At December 31, 2017 and 2016, assets held in the trust account were $49.7 million and $53.8 million, respectively.

18. AURORA HEALTH CARE, INC., AND AFFILIATES

Following is a list of corporations and subsidiaries that are included in the accompanying consolidated financial statements. The Obligated Group Members are denoted by an asterisk (*).

- Aurora Health Care, Inc.*
- Aurora Health Care Metro, Inc.* (d/b/a Aurora St. Luke's Medical Center, Aurora St. Luke's South Shore and Aurora Sinai Medical Center)
- West Allis Memorial Hospital, Inc. (d/b/a Aurora West Allis Medical Center)
- Aurora Medical Center of Washington County, Inc.* (d/b/a Aurora Medical Center Washington County)
- Aurora Medical Center Grafton, LLC* (d/b/a Aurora Medical Center Grafton)
- BayCare Aurora, LLC (d/b/a Aurora BayCare Medical Center)
- Aurora Health Care North, Inc.* (d/b/a Aurora Medical Center Manitowoc County)
- Aurora Health Care Central, Inc.* (d/b/a Aurora Sheboygan Memorial Medical Center)
- Aurora Medical Center of Oshkosh, Inc.* (d/b/a Aurora Medical Center Oshkosh)
- Aurora Health Care Southern Lakes, Inc.* (d/b/a Aurora Lakeland Medical Center, Aurora Memorial Hospital of Burlington, Aurora Medical Center Kenosha, and Aurora Medical Center Summit)
- Aurora Psychiatric Hospital, Inc. (d/b/a Aurora Psychiatric Hospital)
- Kradwell School, Inc.
- Aurora Medical Group, Inc.*
- Midwest Area Physicians, LLC
- AMG Illinois, Ltd.
- Aurora Quick Care, LLC
- Aurora Advanced Healthcare, Inc.
- Visiting Nurse Association of Wisconsin, Inc. (d/b/a Aurora At Home)
- Aurora UW Academic Medical Group, Inc.
- Aurora Family Service, Inc.
- Aurora Health Care Ventures, Inc.
- Lakeshore Medical Clinic, LLC
- Aurora Pharmacy, Inc.
- Diversified Care, Inc.
- Aurora Retail Stores, Inc.
- Advanced Healthcare, Inc.
- East Mequon Surgery Center, LLC
- North Shore Surgical Center
- Aurora Consolidated Laboratories, a Co-Tenancy
- Aurora Research Institute, LLC
- Aurora Health Network, Inc.
- Aurora Accountable Care Organization, LLC
- Aurora Health Care Foundation, Inc.
- Aurora Health Foundation, Inc.
- Vince Lombardi Cancer Foundation, Inc.
- Aurora Liability Assurance, Ltd. (Cayman Island corporation)
- Health Care Re, Ltd. (Cayman Island corporation)
- LMC, Inc.
- Wisconsin Surgery Center, LLC
- The Surgery Center, LLC
- Aurora Surgery Centers, LLC
- Aurora Clinically Integrated Network, LLC

19. AFFILIATION

In December 2017, Aurora and Advocate Health Care Network ("Advocate") entered into a definitive affiliation agreement (the Agreement) to form Advocate Aurora Health, Inc. The completion of the transaction is conditioned upon the satisfaction of certain conditions precedent. Though Aurora can provide no assurances the transaction will, or will not, occur, Aurora anticipates closing the transaction on or about April 1, 2018.

20. SUBSEQUENT EVENTS

Aurora evaluated events and transactions subsequent to December 31, 2017 through March 29, 2018, the date of financial statement issuance.

In January 2018, Aurora purchased nineteen properties that were previously leased for cash consideration of $433.0 million. Aurora was obligated under capital lease and financing arrangements entered into in connection with certain leasing and sale-leaseback transactions for eighteen of these properties. The transaction resulted in the realization of deferred gains related to these properties of $5.7 million. In connection with this transaction, Aurora derecognized $48.9 million of net capital lease assets and $78.4 million of capital lease liabilities. The net gain was recorded as a reduction to the carrying value of the properties acquired.

In February 2018, Aurora sold its 50% ownership interest in the Menomonee Falls Ambulatory Surgery Center and its 20% ownership interest in the Froedtert Surgery Center for cash consideration of $5.0 million and $2.0 million, respectively. Aurora's investments in the surgery centers were accounted for under the equity method of accounting. Aurora's carrying value in the surgery centers totaled $5.8 million as of December 31, 2017.

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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE

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CONTENTS

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APPENDIX C

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 summary of the Master Indenture included in this Appendix D reflects certain amendments to the terms of the Existing Master Indenture that will become effective upon receipt of the consent of (a) the holders of not less than 51% in aggregate principal amount of the Obligations then Outstanding under the Existing Master Indenture for all provisions therein other than the references herein to 50.1% and (b) not less than 100% in aggregate principal amount of the Obligations then Outstanding under the Existing Master Indenture for the references therein to 50.1% (the "**Required Consent**").

As described in the forepart, purchasers of the Series 2018 Bonds are deemed to have consented to the amendments to the terms of the Existing Master Indenture that are included in the Second Amended and Restated Master Indenture. Certain of those amendments are reflected in this **Appendix D** with italics and underscoring.

DEFINITIONS OF CERTAIN TERMS IN THE MASTER INDENTURE

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

"*Affiliate*" shall mean a corporation, *limited liability company,* partnership, joint venture, association, business trust or similar entity organized under the laws of the United States of America or a state thereof that is directly or indirectly controlled by any Member. For purposes of this definition, control means the power to direct the management and policies of a Person through the ownership of at least a majority of its voting securities, or the right to designate or elect at least a majority of the members of its Governing Body by contract or otherwise.

"*Authorized Representative*" shall mean, with respect to any Member, the Chairman of its Governing Body, its chief executive officer, its chief financial officer or any vice-president (in each case, regardless of the individual's specific formal title), or such other Person or persons designated an Authorized Representative by action of an Authorized Representative of such Member or such Member's Governing Body.

"*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.

"*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 that have been prepared in accordance with

GAAP, 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.

"*Capitalized Lease*" means any lease of real or personal property that, in accordance with GAAP, is required to be capitalized on the balance sheet of the lessee.

"*Code*" shall mean the Internal Revenue Code of 1986, as amended, and regulations promulgated thereunder.

"*Consultant*" shall mean a firm that is not, and no member, stockholder, director, officer or employee of which is, an officer or employee of any Member or any Affiliate, and that is a professional consultant having the skill and experience necessary to render the particular report required by the provision of the Master Indenture in which such requirement appears.

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

"*Corporate Trust Office*" shall mean the office of the Master Trustee designated by it as its corporate trust office for purposes of the Master Indenture.

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

"*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 GAAP.

"*Debt Service Requirement*" shall mean, for any period of time for which such determination is made, the aggregate of the regularly scheduled payments made expressly for principal (or mandatory sinking fund or installment purchase price or Capitalized Lease rental or similar payments) and interest expense on Outstanding Long-Term Indebtedness of a Person during such period. In calculating the Debt Service Requirement, the following assumptions shall apply:

(a) if moneys or Government Obligations have been deposited with a trustee or escrow agent in an amount, together with earnings thereon, sufficient to pay all or a portion of the principal of or interest on Long-Term Indebtedness as it comes due, such principal or interest, as the case may be, to the extent provided for, shall not be included in computations of the Debt Service Requirement;

(b) if a Person has entered into a Financial Products Agreement with respect to Long-Term Indebtedness, payments made by or paid to such Person under its terms shall be included in computations of the Debt Service Requirement;

(c) Principal or interest shall be excluded from the determination of the Debt Service Requirement to the extent that escrowed or trustee-held funds are exclusively available to pay such principal or interest;

(d) Principal of and interest on Long-Term Indebtedness shall be excluded from the determination of Debt Service Requirements to the extent that such interest and/or principal is payable from Debt Service Subsidies; and

(e) for any Long-Indebtedness refunded or refinanced by new Indebtedness, the amount of principal taken into account during such period shall be assumed to equal only the principal and interest, if any, not paid from the proceeds of such new Indebtedness.

"*Debt Service Subsidy*" means direct subsidy payments payable to or for the benefit of a System Affiliate pursuant to Section 54AA of the Code, with respect to Indebtedness of the System Affiliate, or any similar federal or state program providing for payment or reimbursement to or for the benefit of a System Affiliate of all or a portion of debt service of Indebtedness of a System Affiliate.

"*Effective Date*" means the date upon which the Required Consent to the amendment and restatement of applicable provisions of the Existing Master Indenture in the form of the Master Indenture has been obtained, evidenced as set forth in a certificate of the Obligated Group Agent delivered to the Master Trustee.

"*Existing Master Indenture*" means the Amended and Restated Master Trust Indenture dated as of September 1, 2011, as supplemented and amended, which amended and restated the 1996 Master Indenture.

"*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.

"*Fair Market Value*," shall mean, when used in connection with Property, the Fair Market Value of such Property as determined by either:

(a) an appraisal of the portion of such Property that is real property made within five years of the date of determination by a member of the Appraisal Institute (or similar organization) and by an appraisal of the portion of such Property that is not real property made within three years of the date of determination by any expert qualified in relation to the subject matter, provided that any such appraisal shall be performed by a Consultant, adjusted for the period, not in excess of three years, from the date of the last such appraisal for changes in the implicit price deflator for the gross national product as reported by the United States Department of Commerce or its successor agency, or if such index is no longer published, such other index certified to be comparable and appropriate in a certificate delivered to the Master Trustee;

(b) a bona fide offer for the purchase of such Property made on an arm's-length basis within six months of the date of determination, as established by an Officer's Certificate; or

(c) an Authorized Representative of the Obligated Group Agent (whose determination shall be made in good faith and set forth in an Officer's Certificate filed with the Master Trustee) if the fair market value (as determined by such Authorized Representative of the Obligated Group Agent) of such Property is less than or equal to the greater of $5,000,000 or 5%

of cash and equivalents as shown on the most recent System financial statements delivered pursuant to the Master Indenture.

"*Financial Product Agreement*" shall mean an interest rate swap, cap, collar, option, floor, forward or other hedging agreement, arrangement or security, however denominated.

"*Financial Product Extraordinary Payments*" shall mean any payments required to be paid to a counterparty by a System Affiliate pursuant to a Financial Product Agreement in connection with the termination thereof, tax gross-up payments, expenses, default interest, and any other payments or indemnification obligations to be paid to a counterparty by a System Affiliate under a Financial Product Agreement, which payments are not Financial Product Payments.

"*Financial Product Payments*" shall mean regularly scheduled payments required to be paid to a counterparty by a System Affiliate pursuant to a Financial Product Agreement.

"*Financial Product Receipts*" shall mean regularly scheduled payments required to be paid to a System Affiliate by a counterparty pursuant to a Financial Product Agreement.

"*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.

"*GAAP*" shall mean accounting principles generally accepted in the United States of America consistently applied.

"*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.

"*Government Obligations*" shall mean:

(a) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America and including certificates or other instruments evidencing ownership interests in such direct obligations of the United States of America such as Treasury Receipts, Stripped Treasury Coupons and other similar instruments) or obligations the timely payment of the principal of and interest of which are unconditionally guaranteed by the full faith and credit of the United States of America;

(b) obligations, the interest on which is exempt from federal income taxation under Section 103 of the Code and the timely payment of the principal of and interest on which is fully provided for by the irrevocable deposit in trust or escrow of cash or obligations described in clause (a) above; and

(c) obligations (including participation certificates) issued or guaranteed by an agency of the United States of America or Person controlled or supervised by and acting as an instrumentality of the United States of America pursuant to authority granted by the Congress.

"*Guaranty*" shall mean all loan commitments or other obligations of any Member, guaranteeing in any manner whatever, whether directly or indirectly, any obligation of any other Person (other than any other Member), which obligation of such other Person would constitute Indebtedness or a Financial Product Agreement if such obligation were the obligation of the Member.

"*Historical Debt Service Coverage Ratio*" means, for any period of time, the ratio determined by dividing Income Available for Debt Service for that period by the Debt Service Requirement for such period; 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*" shall mean, unless the context provides otherwise, with respect to the System as to any period of time, net income, or excess of revenues over expenses (excluding income from all Irrevocable Deposits) before depreciation, amortization, and interest expense on Long-Term Indebtedness (which reflects Financial Product Payments made and any Financial Product Receipts received pursuant to a Financial Product Agreement with respect to any such Long-Term Indebtedness), as determined in accordance with GAAP; provided, that no determination thereof shall take into account:

(a) any gain or loss resulting from either the early extinguishment or refinancing of Indebtedness;

(b) any gain or loss resulting from the sale, exchange or other disposition of capital assets not made in the ordinary course of business;

(c) any gain or loss resulting from pension terminations, settlements or curtailments;

(d) any unusual charges for employee severance;

(e) the net proceeds of insurance (other than business interruption insurance) and condemnation awards;

(f) any gain or loss resulting from any discontinued operations;

(g) any Financial Product Extraordinary Payment or similar payment;

(h) extraordinary non-cash items;

(i) adjustments to the value of assets or liabilities resulting from changes in GAAP;

(j) unrealized gains or losses on investments, including "other than temporary" declines in Book Value;

(k) asset impairment charges;

(l) unrealized gains or losses of any kind;

(m) any expenses resulting from a forgiveness of or the establishment of reserves against Indebtedness of an Affiliate that 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;

(n) unrealized gains or losses resulting from changes in valuation of any Financial Product Agreement; and

(o) any nonrecurring item that does not involve the receipt, expenditure or transfer of cash or other assets.

and provided further, however, at the option of the Obligated Group Agent, net realized gains and losses from the sale of investments may be included in the computation of Income Available for Debt Service on the basis of the average annual amount of those gains and losses for the three Fiscal Years preceding the computation date, rather than including the actual amount of net realized gains and losses from the sale of investments for the period for which a computation is being made.

"*Indebtedness*" shall mean all obligations (a) for repayment of borrowed money, (b) under Capitalized Leases (provided, however, if the distinction between capital (financing) leases and operating leases is eliminated under GAAP, lease obligations shall not be deemed to be Indebtedness notwithstanding their treatment as a liability on the financial statements of a Person pursuant to GAAP) or (c) under installment sale agreements, incurred or assumed by any Member, including Guaranties (other than any Guaranty by any Member of Indebtedness of any other Member), in each case as determined in accordance with GAAP, except obligations of a System Affiliate to another Member; provided, however, if more than one Member shall have incurred or assumed a Guaranty of a Person other than a System Affiliate, or if more than one Member shall be obligated to pay any obligation, for purposes of any computations or calculations under the Master Indenture, such Guaranty shall be included only one time. Financial Product Agreements, purchase cards, accounts payable (or programs to facilitate collection of payables) and physician income guaranties shall not constitute Indebtedness.

"*Irrevocable Deposit*" shall mean the irrevocable deposit in trust of cash in an amount, or Government Obligations, or other securities permitted for such purpose pursuant to the terms of the documents governing the payment of or discharge of Indebtedness, the principal of and interest on which will be an amount and under terms sufficient to pay all or a portion of the principal of, premium, if any, and/or interest on, as the same shall become due, any such Indebtedness that would otherwise be considered Outstanding. The trustee of such deposit may be the Master Trustee, a related bond trustee, or any other trustee authorized to act in such capacity.

"*Lien*" shall mean any mortgage or pledge of, security interest in or lien on any Property of the Person involved that secures any Obligation, Indebtedness or Financial Product Agreement to any Person other than any System Affiliate.

"*Long-Term Indebtedness*" shall mean all (unless the context provides otherwise) Indebtedness incurred or assumed by a Person involving any of the following:

(a) Payments of principal and interest with respect to money borrowed for an original term, or renewable at the option of a System Affiliate for a period from the date originally incurred, longer than one year;

(b) Payments under Capitalized Lease having an original term, or renewable at the option of the lessee for a period from the date originally incurred, longer than one year;

(c) Payments under Guaranties having an original term longer than one year; and

(d) Payments under installment purchase contracts having an original term in excess of one year,

notwithstanding the fact that payments in respect of clauses (a) through (c) above (whether installment, serial maturity or sinking fund or otherwise) are required to be made less than one year after the date of creation thereof, and excluding any Short-Term Indebtedness.

"*Master Indenture*" means the Existing Master Indenture, as amended and restated by the Second Amended and Restated Master Trust Indenture, as the same may be supplemented and amended in accordance with its terms.

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

"*Member*" or "*Member of the Obligated Group*" means any Person who is listed on Exhibit A of the Master Indenture after designation as a Member of the Obligated Group pursuant to the terms of the Master Indenture.

"1996 Master Indenture" means the Master Trust Indenture (Amended and Restated) dated as of December 1, 1996, between the Members of the Obligated Group identified therein and LaSalle National Bank, as master trustee, as heretofore amended and supplemented through the Twentieth Supplemental Master Trust Indenture, dated as of September 1, 2011.

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

"*Obligated Group*" means *any* Person that has fulfilled the requirements for entry into the Obligated Group described below under "ENTRANCE INTO THE OBLIGATED GROUP" and that has not ceased such status pursuant to the provisions of the Master Indenture described below under "CESSATION OF STATUS AS A MEMBER OF THE OBLIGATED GROUP."

"*Obligated Group Agent*" means the Member as may be designated from time to time pursuant to written notice to the Master Trustee executed each Member of the Obligated Group.

"*Obligation*" means (i) any Obligation, as defined in and issued and Outstanding under *the 1996 Master Indenture* and (ii) any Obligation issued pursuant to the provisions of the Master Indenture and authenticated by the Master Trustee in accordance with the Master Indenture.

"*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 by the president, the chief executive officer, the chief financial officer or any other vice president or other officer authorized to sign by resolution of a Member.

"*Opinion of Bond Counsel*" means an opinion of Counsel nationally recognized as having expertise in connection with the exclusion of interest on obligations of states and local governmental units from the gross income of the holders thereof for federal income tax purposes and the validity of those obligations.

"*Opinion of Counsel*" means an opinion in writing signed by a Counsel.

"*Outstanding*" shall mean, when used with reference to Obligations and other obligations constituting Indebtedness, as of any date of determination, all Obligations and Indebtedness theretofore issued or incurred and not paid and discharged other than:

(a) Obligations cancelled by the Master Trustee or delivered to the Master Trustee for cancellation,

(b) Obligations in lieu of which other Obligations have been authenticated and delivered unless proof satisfactory to the Master Trustee has been received that any such Obligations are held by a bona fide purchaser,

(c) Obligations owned by any System Affiliate,

(d) Indebtedness deemed paid and no longer outstanding pursuant to the terms thereof, whether by payment, prepayment, defeasance or otherwise, and

(e) Indebtedness for which there has been made an Irrevocable Deposit, but only to the extent that payment of debt service on such Indebtedness is payable from such Irrevocable Deposit;

provided, however, that if two or more Obligations that constitute Indebtedness represent the same underlying obligation (as when an Obligation secures an issue of Indebtedness and another Obligation secures current repayment obligations to a bank under a letter of credit or line of credit that secures such Indebtedness) for purposes of the various financial covenants contained in the Master Indenture, but only for such purposes, only one of such obligations shall be deemed Outstanding and the Obligation so deemed to be Outstanding shall be that one that produces the

greater amount to be included in the Debt Service Requirement to be included in the calculation of such covenants.

"*Permitted Encumbrances*" shall mean Liens, if any, created by the Master Indenture, any Related Loan Document and, as of any particular time, any Lien:

(a) on Property existing on the Effective Date securing the Outstanding Obligations, provided that the principal amount of Indebtedness secured thereby may not be increased and that such Liens may not be extended, renewed or modified to any Property not subject to such Lien on the Effective Date unless such Lien as so extended, renewed or modified is otherwise permitted under the Master Indenture;

(b) 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) 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;

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

(d) on Property if such Lien equally and ratably secures all of the Obligations;

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

(f) on proceeds of Indebtedness (or on income from the investment of such proceeds) that secure payment of such Indebtedness or the provider of any liquidity or credit support for Indebtedness and any security interest in any rebate fund, any depreciation reserve fund, debt service fund or interest reserve fund, debt service reserve fund or any similar fund established pursuant to the terms of any Related Loan Document;

(g) Government Obligations deposited with a trustee or escrow agent to pay all or a portion of the principal of or interest on Long-Term Indebtedness as it comes due;

(h) on 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 Indebtedness;

(i) on accounts receivable arising as a result of the sale of such accounts receivable with recourse;

(j) on any Property 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;

(k) 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 the System Affiliate that becomes part of Property that secures Indebtedness that is assumed by the 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 the 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;

(l) that secure Non-Recourse Indebtedness;

(m) arising out of Capitalized Leases;

(n) any Lien representing rights of setoff and banker's liens arising in the ordinary course of business with respect to funds on deposit in a financial institution;

(o) any Lien on Property that may be required from time to time to satisfy any collateralization requirements relating to any Financial Product Agreement; and

(p) on Property securing Indebtedness, in addition to those described in clauses (a) through (o) of this definition of Permitted Encumbrances, if the total aggregate Book Value (or at the option of the Obligated Group Agent, Fair Market Value) of the Property subject to a Lien of the type described in this subsection (p) does not exceed 15% of the Value of the total assets of the System Affiliates.

"*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.

"*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.

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

"*Required Payments*" shall mean any payment obligation, whether at maturity, by acceleration, upon proceeding for prepayment or redemption or otherwise, including without limitation, Financial Product Payments, Financial Product Extraordinary Payments and the purchase price of Indebtedness tendered or deemed tendered for purchase pursuant to its terms, required to be made by any Obligated Group Member under the Master Indenture, any Supplemental Master Indenture or any Obligation.

"*Restricted Affiliate*" means any Person that 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. The Restricted Affiliates, as of the date of the Master Indenture, are listed on *Exhibit B* to the Master Indenture.

"Second Amended and Restated Master Trust Indenture" means the Second Amended and Restated Master Trust Indenture dated as of August 1, 2018 between the Members of the Obligated Group identified therein and the Master Trustee.

"*Short-Term Indebtedness*" shall mean all Indebtedness incurred or assumed by a Person involving any of the following:

(a) Payments of principal and interest with respect to money borrowed for an original term, or renewable at the option of a System Affiliate for a period from the date originally incurred, of one year or less or which pursuant to the terms of a revolving credit or similar agreement or otherwise is renewable or extendable at the option of the borrower to a date or for a period or periods from the date originally incurred of less than one year;

(b) Payments under Capitalized Leases having an original term, or renewable at the option of the lessee for a period from the date originally incurred, of one year or less;

(c) Payments under Guaranties having an original term less than one year;

(d) Payments under installment purchase contracts having an original term of one year or less; and

(e) Payments with respect to any other Indebtedness that appear on the balance sheet of any System Affiliate and that does not exceed one year in duration;

provided, however, that (i) the current portion of Long-Term Indebtedness shall not be considered Short-Term Indebtedness and (ii) only the stated maturity of Indebtedness (and not any tender or put right of the holder of such Indebtedness) shall be taken into account in determining if such Indebtedness constitutes Short-Term Indebtedness.

"*SIFMA Swap Index*" shall mean, on any date, a rate determined on the basis of the seven-day high grade market index of tax-exempt variable rate demand obligations, as produced by Municipal Market Data and published or made available by the Securities Industry & Financial Markets Association (formerly the Bond Market Association) or any Person acting in cooperation with or under the sponsorship of such association and effective from such date, or if such index is no longer available "SIFMA Swap Index" shall refer to an index recommended in writing by a banking or investment banking institution knowledgeable in matters of health care finance and acceptable to the Obligated Group Agent.

"*Supplemental Master Indenture*" means an indenture amending or supplementing the Master Indenture.

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

"System Affiliate" means each Obligated Group Member and each Person, the Financial Statements of which are required, under GAAP, to be consolidated or combined into the Financial Statements of any Obligated Group Member or Restricted Affiliate.

"*Tax-Exempt Organization*" means a Person organized under the laws of the United States of America or any state thereof that is an organization described in Section 501(c)(3) of the Code, which is exempt from federal income taxation under Section 501(a) of the Code, or corresponding provisions of federal income tax laws from time to time in effect.

"*Value*" shall mean when used with respect to Property, the aggregate value of all such Property, with each component of such Property valued, at the option of the Obligated Group Agent, at either its Fair Market Value or its Book Value.

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 number of series of Obligations that may be created under the Master Indenture is not limited. The aggregate Required Payments on Obligations that may be issued, authenticated and delivered under the Master Indenture is not limited except as limited by law, by the provisions of the Master Indenture or of any Supplemental Master Indenture. Obligations shall be subject to optional and mandatory prepayment or redemption in whole or in part and may be prepaid or redeemed prior to maturity as provided in the Supplemental Master Indenture or the Related Loan Document pertaining to the series of Obligations to be prepaid or redeemed.

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.

Each Member jointly and severally covenants and agrees in the Master Indenture promptly to pay or cause to be paid the Required Payments at the place, on the dates and in the manner provided in the Master Indenture, in the Supplemental Master Indenture or Obligation.

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 Controlling Member such amounts as are necessary to enable the Members to comply with the provisions of the Master Indenture; provided, however, that a Controlling Member is not required to cause its Restricted Affiliate to pay, loan or otherwise transfer to the Obligated Group Agent any amounts that constitute proceeds of any grant, gift, bequest, contribution or other donation specifically restricted to an object or purpose inconsistent with their use for payment of Required Payments.

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. *The*

Obligated Group Agent *may designate*, 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 management of the Obligated Group Agent*, 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 *tax-exempt* Indebtedness has been issued for the benefit of such Person until there is delivered to the Master Trustee an Opinion of 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 Indebtedness or any exemption from federal or state income taxation of interest payable thereon to which such Indebtedness would otherwise be entitled.

Notwithstanding anything to the contrary in any Swap Obligation, the obligations under such Swap Obligation shall be deemed to exclude any and all Excluded Swap Obligations, and no Person, including the Master Trustee and the holder of such Swap Obligation shall exercise any right to enforce such Swap Obligation with respect to any Excluded Swap Obligation, which rights are hereby relinquished, waived and released. As used in the Master Trust Indenture, the following terms shall have the following meanings:

"CEA" means the Commodity Exchange Act (7 U.S.C. §1 et seq.), as amended from time to time, and any successor statute, including any rule or regulation promulgated thereunder, any order of the CFTC relating thereto, or the application or official interpretation of any of the foregoing.

"CFTC" means the U.S. Commodity Futures Trading Commission.

"ECP" means an "eligible contract participant" as defined in the CEA.

"Eligibility Date" means, with respect to any Member, the date the obligations of such Member become effective with respect to the related Transaction. For the avoidance of doubt, the Eligibility Date with respect to any Swap Obligation shall be determined as follows: (i) the

date on which the applicable Swap Obligation becomes effective if the relevant Transaction was executed prior to such effective date, the relevant Member is a Member, on such effective date and the relevant Member is an ECP on such effective date, (ii) the date of the execution of the relevant Transaction if the applicable Swap Obligation is then in effect (or becomes effective on such date of execution) and such Member is a Member, and an ECP on such date of execution, (iii) the date on which such Member becomes a Member if the Member is an ECP and the date on which such Obligated Entity becomes an Obligated Entity if the Obligated Entity is an ECP, as applicable, and the relevant Transaction was executed prior to such date and the applicable Swap Obligation is then in effect or (iv) the date on which any Member or any Obligated Entity becomes an ECP if the relevant Transaction was executed prior to such date and the applicable Obligation is then in effect (or becomes effective on such date of execution). For the avoidance of doubt, the Eligibility Date with respect to obligations of Party B under this Agreement shall be determined as follows: (i) the date of the execution of the relevant Transaction if such Member is a Member or such Obligated Entity is an Obligated Entity, as applicable, and an ECP on the date of such execution, (ii) the date on which such Member becomes a Member or such Obligated Entity becomes an Obligated Entity, as applicable, if the Member is an ECP and the relevant Transaction was executed prior to such date or (iii) the date on which any Member or any Obligated Entity becomes an ECP if the relevant Transaction was executed prior to such date.

"Excluded Swap Obligation" means, with respect to any Member, any obligation under this Agreement and/or any Swap Obligation if, and to the extent that, the performance by such Member of all or a portion of such obligation or Swap Obligation is illegal under the CEA because no Eligibility Date has yet occurred with respect to such Obligated Group Member and such obligation or Swap Obligation. The foregoing exclusion shall apply only to the portion of such obligation under this Agreement or under the Swap Obligation that is attributable to Transactions for which such performance is illegal.

"Swap Obligation" means any Obligation issued to evidence the Obligated Group's obligations under a Financial Products Agreement.

"Transaction" means a transaction that is governed by a Financial Products Agreement.

SECURITY FOR OBLIGATIONS

When there is no longer Outstanding any Obligation that was issued and Outstanding prior to the Effective Date, other than Obligations the holders of which have consented expressly to the section of the Master Indenture described in this paragraph, any one or more series of Obligations issued under the Master Indenture (a) may be secured and payable from sources or by Property and instruments not applicable to any one or more other series of Obligations or (b) may not be secured or payable from sources or by Property or instruments applicable to one or more other series of Obligations, including without limitation, letters or lines of credit, guarantees or insurance, Liens that constitute Permitted Encumbrances, or security interests in a debt service reserve or debt service or similar fund, and the Supplemental Master Indenture pursuant to which any one or more series of Obligations is issued may provide for such supplements or amendments to the Master Indenture as may be necessary or desirable to provide

for different security and to permit realization upon any separate security provided solely for the benefit of the holders of the Obligations entitled thereto.

The Obligations will be general, unsecured obligations of the Members 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, any Restricted Affiliate or System Affiliate except for the additional security that 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

In the Master Indenture, each Obligated Group Member, respectively, covenants and agrees that Persons that are not Obligated Group Members may become an Obligated Group Member from time to time, provided that prior to such addition, the Master Trustee receives:

(a) A Supplemental Master Indenture containing the agreement of such Person:

(i) to become an Obligated Group Member under the Master Indenture and thereby become subject to compliance with all provisions of the Master Indenture pertaining to an Obligated Group Member, including the performance and observance of all covenants and obligations of an Obligated Group Member under the Master Indenture, and

(ii) that irrevocably appoints the Obligated Group Agent as its agent and attorney-in-fact as provided in the Master Indenture;

(b) An Officer's Certificate to the effect that immediately upon any Person becoming an Obligated Group Member, the Obligated Group will not be in default in the performance or observance of any covenant or condition to be performed or observed by it under the Master Indenture and no Event of Default shall have occurred and shall be continuing under the Master Indenture;

(c) An Opinion of Counsel to the effect that:

(i) the conditions contained in the Master Indenture relating to membership in the Obligated Group have been satisfied;

(ii) the Supplemental Master Indenture described in section (a) above has been duly authorized, executed and delivered by such Person and constitutes a legal, valid and binding obligation of such Person enforceable in accordance with its terms, with such exceptions and limitations as are customary; and

(iii) under then existing law such Person becoming an Obligated Group Member will not subject any Obligations Outstanding under the Master Indenture to the registration provision of the Securities Act of 1933, as amended (or that such Obligations have been so registered if registration is required).

(d) an Opinion of Bond Counsel to the effect that under then existing law the consummation of such transaction would not adversely affect the exemption from federal income taxation of interest payable on any Indebtedness secured by Obligations, if applicable;

(e) the written consent of the Obligated Group Agent on behalf of the existing Obligated Group Members to the addition of such Person to the Obligated Group; and

(f) *Exhibit A* to the Master Indenture is amended to add such Person as a Member.

Each successor, assignee, surviving, resulting or transferee 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

In the Master Indenture, each Member covenants and agrees that it will not withdraw from the Obligated Group and be released from further liability or obligation under the provisions of the Master Indenture unless prior to such withdrawal, the Master Trustee receives:

(a) An Officer's Certificate to the effect that the Obligated Group Agent has approved the withdrawal;

(b) an Opinion of Counsel in form and substance reasonably satisfactory to the Master Trustee to the effect that the withdrawal will not adversely affect the validity of any Obligation Outstanding or cause the Master Indenture or any Obligations to be subject to registration under federal or state securities laws or the Trust Indenture Act of 1939, as amended (or, that any such registration, if required, has occurred);

(c) an Opinion of Bond Counsel to the effect that under then existing law the consummation of such transaction would not adversely affect the exemption from federal income taxation of interest payable on any Indebtedness secured by Obligations, if applicable; and

(d) an Officer's Certificate to the effect that immediately after the withdrawal of such Obligated Group Member, the Obligated Group will not be in default in the performance or observance of any covenant or condition to be performed under the Master Indenture and no Event of Default shall have occurred and shall be continuing under the Master Indenture.

Upon compliance with the conditions described in clauses (a)-(d) above, the Master Trustee shall execute any documents, and file such termination statements, reasonably requested by the withdrawing Obligated Group Member to evidence the termination of such Obligated Group Member's obligations under the Master Indenture, under all Supplemental Master Indentures and under all Obligations. In addition, *Exhibit A* to the Master Indenture shall be amended to delete therefrom the name of such Person.

LIENS ON PROPERTY

No System Affiliate shall create or incur or permit to be created or incurred or to exist any Lien on any Property of any System Affiliate securing Obligations, other Indebtedness or Financial Product Agreements, except Permitted Encumbrances.

RATES AND CHARGES; HISTORICAL DEBT SERVICE COVERAGE RATIO

In the Master Indenture, 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 in the Master Indenture 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 following provisions:

The Obligated Group Agent shall calculate the Income Available for Debt Service of the System for each Fiscal Year and calculate the Historical Debt Service Coverage Ratio of the System 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 *the Obligated Group Agent* and the Master Trustee. 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 *management* of such Member) and permitted by law. The Obligated Group Agent shall, or shall cause the Controlling Member to 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 a written report addressed to them of a Consultant that 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 Counsel 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 an opinion of Counsel 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 in the Master Indenture to cause each of its Restricted Affiliates to, maintain or cause to be maintained at its sole cost and expense, insurance (which may be self 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 corporate entities engaged in the same or similar activities and similarly situated or as is adequate to protect its Property and operations.

MERGER, CONSOLIDATION, SALE OR CONVEYANCE

(a) Each Member agrees in the Master Indenture that it will not merge into, or consolidate with, one or more corporate entities that are not Members, or allow one or more of such corporate entities 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 corporate entity 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) an Opinion of Bond Counsel to the effect that under then existing law the consummation of such merger, consolidation, sale or conveyance would not adversely affect the exemption from federal income taxation of interest payable on any Indebtedness secured by Obligations, if any.

(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.

FINANCIAL STATEMENTS

Each Member covenants in the Master Indenture that it will, and will cause each System Affiliate that it controls to, keep adequate records and books of account in which complete and correct entries and:

(a) Deliver to the Master Trustee within 150 days of the last day of each Fiscal Year, one or more financial statements that in the aggregate include all System Affiliates. Such financial statements:

(i) consists of (1) consolidated or combined financial results including one or more System Affiliates and one or more other Persons required to be consolidated or combined with such Member(s) under GAAP or (2) special purpose financial statements including only System Affiliates;

(ii) shall be audited by an Accountant as having been prepared in accordance with GAAP;

(iii) shall include a consolidated or combined balance sheet, statement of operations and changes in net assets; and

(iv) if the total operating revenues of the Members and Restricted Affiliates represent less than *seventy-five percent (75%)* of the consolidated total operating revenues of the System for any Fiscal Year, the financial statements delivered for that Fiscal Year shall include the consolidating schedules from which the financial information of the Members and the Restricted Affiliates may be derived.

(b) Deliver an Officer's Certificate to the Master Trustee within 150 days after the end of each Fiscal Year stating whether or not to the best knowledge of the signers the System or any Member is in default in the performance of any covenant contained in the Master Indenture and, if so, specifying each such default of which the signers may have knowledge.

(c) If an Event of Default shall have occurred and be continuing,

(i) deliver prompt notice to the Master Trustee of such Event of Default,

(ii) deliver to the Master Trustee such other financial statements and information concerning the defaulted Member as it reasonably requests from time to time (or of any consolidated or combined group of companies, including the Obligated Group Agent and its consolidated or combined Affiliates, including any other Member) other than donor records, patient records, personnel records, medical staff records, privileged communications between each Member and counsel, litigation records, malpractice and claims records, records that are or become confidential by virtue of government action; and any agreement that contains a confidentiality clause (to the extent the failure to comply with such clause would have a materially adverse effect on the financial condition or operations of the Obligated Group), and

(iii) provide access to the defaulted Member's facilities for the purpose of inspection by the Master Trustee during regular business hours or at such other times as the Master Trustee may reasonably request.

(d) Deliver the Master Trustee a copy of any Consultant's report within 10 days of receipt.

The Master Trustee has no duty to review, verify or analyze such financial statements *(including making any calculations with respect to Section 409(a)(iv) above)* and holds such financial statements solely as a repository for the benefit of the Holders. The Master Trustee shall not be deemed to have notice of any information contained in any financial statements delivered to it or any event of default that may be disclosed in such financial statements in any manner.

OTHER COVENANTS OF THE MEMBERS

In the Master Indenture, each Member covenants to, and each Controlling Member covenants to cause each of its Restricted Affiliates to:

(a) Except as otherwise expressly provided in the Master Indenture, (i) preserve its corporate or other separate legal existence, (ii) preserve all its *material* rights and licenses to the extent necessary or desirable in the operation of its business and affairs as then conducted and (iii) be qualified to do business and conduct its affairs in each jurisdiction where its ownership of Property or the conduct of its business or affairs requires such qualification; provided, however, such Member or Restricted Affiliate is not obligated to retain, preserve or keep in effect the rights, licenses or qualifications no longer used or, in the *judgment of management*, useful or desirable in the conduct of its business.

(b) Promptly pay or otherwise satisfy and discharge all of its obligations and Indebtedness and all demands and claims against it as and when the same become due and payable that if not so paid, satisfied or discharged would constitute a default or an event of default under the Master Indenture.

(c) At all times comply with all terms, covenants and provisions of any *material* Liens at such time existing upon its Property or any part thereof or securing any of its Indebtedness.

(d) Procure and maintain all necessary *and material* 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 that its *management* determines are appropriate.

(e) In the case any Member that is a Tax-Exempt Organization at the time it becomes a Member, so long as the Master Indenture shall remain in force and effect and so long as all amounts due or to become due on all related Indebtedness have not been fully paid to the holders thereof or provision for such payment has not been made, to take no action or suffer any action to be taken by others, including any action that would result in the alteration or loss of its status as a Tax-Exempt Organization, which could result in any such related Indebtedness being declared invalid or result in the interest on any related Indebtedness, which is otherwise exempt from federal or state income taxation, becoming subject to such taxation.

(f) At its sole cost and expense, promptly comply with all *material* 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 that may be applicable to it or any of its affairs, business, operations and Property, any part thereof, any of the streets, alleys, passageways, sidewalks, curbs, gutters, vaults and vault spaces adjoining any of its Property or any part thereof or to the use or manner of use, occupancy or condition of any of its Property or any part thereof.

The foregoing notwithstanding, any System Affiliate may (i) cease to be a not for profit corporation or (ii) take actions that could result in the alteration or loss of its status as a Tax-Exempt Organization *(if it currently has such status)* if prior thereto there is delivered to the Master Trustee an Opinion of Bond Counsel (which counsel and opinion, including without limitation the scope, form and other aspects thereof, are not unacceptable to the Master Trustee)

to the effect that such actions would not adversely affect the validity of any related Indebtedness, the exemption from federal or state income taxation of interest payable on any related Indebtedness otherwise entitled to such exemption or adversely affect the enforceability in accordance with its terms of the Master Indenture against any Person.

No System Affiliate shall be required to remove any Lien, pay or otherwise satisfy and discharge its obligations. Indebtedness (other than any Obligations), demands and claims against it or to comply with any Lien, law, ordinance, rule, order, decree, decision, regulation or requirement, so long as such System Affiliate shall contest, in good faith and at its cost and expense, in its own name and behalf, the amount or validity thereof in an appropriate manner or by appropriate proceedings that shall operate during the pendency thereof to prevent the collection of or other realization upon the obligation. Indebtedness, demand, claim or Lien so contested, and the sale, forfeiture, or loss of its Property or any part thereof, provided, that no such contest shall subject any Obligation holder or the Master Trustee to the risk of any liability. While any such matters are pending, such System Affiliate shall not be required to pay, remove or cause to be discharged the obligation, Indebtedness, demand, claim or Lien being contested unless such System Affiliate agrees to settle such contest. Each such contest shall be promptly prosecuted to final conclusion (subject to the right of such System Affiliate engaging in such a contest to settle such contest), and in any event the System Affiliate will save all Obligation holders and the Master Trustee harmless from and against all losses, judgments, decrees and costs (including attorneys' fees and expenses in connection therewith) as a result of such contest and will, promptly after the final determination of such contest or settlement thereof; pay and discharge the amounts that shall be determined to be payable therein, together with all penalties, fines, interests, costs and expenses thereon or incurred in connection therewith. The System Affiliate engaging in such a contest shall give the Master Trustee prompt written notice of any such contest. Each System Affiliate hereby waives and each Controlling Member agrees to cause its Restricted Affiliate to waive, to the extent permitted by law, any right that it may have to contest (i) any Obligation issued for the benefit of another Member or (ii) any Obligation issued to secure or in connection with related Indebtedness.

If the Master Trustee shall notify such Member that, in the opinion of Counsel, by nonpayment of any of the foregoing items the Property of such Member or any substantial part thereof will be subject to imminent loss or forfeiture, then such Member shall promptly pay all such unpaid items and cause them to be satisfied and discharged.

DEFAULTS AND REMEDIES

Extension of Payment; Penalty. In case the time for the payment of any Obligation shall be extended, whether or not such extension be by or with the consent of the Master Trustee, such principal or such interest so extended shall not be entitled in case of default under the Master Indenture to the benefit or security of the Master Indenture except subject to the prior payment in full of the principal of all Obligations then outstanding and of all interest thereon, the time for the payment of which shall not have been extended.

Events of Default. Each of the following events is declared an "event of default" under the Master Indenture:

(a) failure of the Obligated Group to make any Required Payments, 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 60 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 60 days but can be wholly cured, the failure of the Member to remedy such default within such 60-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 hereto 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 60 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 Indebtedness (other than Non-Recourse Indebtedness or Indebtedness governed by (a) above) of any Member, including without limitation any Indebtedness created by any Related Loan Document, as and when the same shall become due (taking into consideration any related grace period), 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 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 60 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 60 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.

Notice to Obligation Holders if Default Occurs. If a default occurs of which the Master Trustee is by the Master Indenture required to take notice or if notice of default be given as so provided, then the Master Trustee shall give written notice thereof by mail to the last known owners of all Obligations then outstanding shown by the list of Obligation holders required by the terms of the Master Indenture to be kept at the office of the Master Trustee.

Acceleration. If an event of default has occurred and is continuing, the Master Trustee may, and if requested by the holders of not less than 25% in aggregate principal amount of Outstanding Obligations 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 described below under "WAIVER OF EVENTS OF DEFAULT."

Remedies; Rights of Obligation Holders. 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.

If an event of default shall have occurred, and if it shall have been requested so to do by the holders of 25% or more in aggregate principal amount of Obligations outstanding, the Master Trustee shall be obligated to exercise such one or more of the rights and powers conferred by the Master Indenture as the Master Trustee shall deem most expedient in the interests of the holders of Obligations; provided, however, 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 requested 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 Obligations not parties to such request.

Remedies Vested in Master Trustee. All rights of action including the right to file proof of claims under the Master Indenture or under any of the Obligations may be enforced by the Master Trustee without the possession of any of the Obligations or the production thereof in any trial or other proceedings relating thereto and any such suit or proceeding instituted by the Master Trustee shall be brought in its name as Master Trustee without the necessity of joining as plaintiffs or defendants any holders of the Obligations, and any recovery of judgment shall be for the equal benefit of the holders of the Outstanding Obligations. Upon the occurrence of an Event of Default, the Master Trustee shall, in addition to any other remedies available hereunder or under applicable law, have the right to enforce the covenants of each Controlling Member to cause its Restricted Affiliates to comply, and to enforce the covenant of the Obligated Group Agent to cause each System Affiliate to comply, with the covenants applicable thereto as provided in the Master Indenture.

Rights and Remedies of Obligation Holders. No holder of any Obligation shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Master Indenture or for the execution of any trust of the Master Indenture or for the appointment of a receiver or any other remedy under the Master Indenture, unless a default shall have become an event of default and the holders of 25% or more in aggregate principal amount (i) of the Obligations that have become due and payable in accordance with their terms or have been declared due and payable pursuant to the Master Indenture and have not been paid in full in the case of powers exercised to enforce such payment or (ii) the Obligations then outstanding in the case of any other exercise of power, shall have made Written Request to the Master Trustee and shall have offered it reasonable opportunity either to proceed to exercise the powers granted in the Master Indenture or to institute such action, suit or proceeding in its own name, and unless also, in each case, such holders have offered to the Master Trustee indemnity as provided in the Master Indenture, and unless the Master Trustee shall thereafter fail or refuse to exercise the powers granted in the Master Indenture, or to institute such action, suit or proceeding in its own name; and such notification, request and offer of indemnity are declared in every case at the option of the Master Trustee to be conditions precedent to the execution of the powers and trusts of the Master Indenture and to any action or cause of action for the enforcement of the Master Indenture, or for the appointment of a receiver or for any other remedy under the Master Indenture; it being understood and intended that no one or more holders of the Obligations shall have any right in any manner whatsoever to affect, disturb or prejudice the lien of the Master Indenture by its, his or their action or to enforce any right under the Master Indenture except in the manner provided in the Master Indenture, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner provided in the Master Indenture and for the equal benefit of the holders of all Obligations outstanding. Nothing in the Master Indenture contained shall, however, affect or impair the right of any holder to enforce the payment of the principal of, premium, if any, and interest on any Obligation at and after the maturity thereof, or the obligation of the Members to pay the principal, premium, if any, and interest on each of the Obligations issued under the Master Indenture to the respective holders thereof at the time and place, from the source and in the manner in said Obligations expressed.

DIRECTION OF PROCEEDINGS

The holders of *50.1%*[1] in aggregate principal amount of the Obligations then outstanding that have become due and payable in accordance with their terms or have been declared due and payable pursuant to the Master Indenture and have not been paid in full in the case of remedies exercised to enforce such payment, or the holders of *50.1%*[1] in aggregate principal amount of the Obligations then outstanding in the case of any other remedy, shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Master 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 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 of 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.

The foregoing notwithstanding, the holders of *50.1%*[2] in aggregate principal amount of the Obligations then outstanding that are entitled to the exclusive benefit of certain security in addition to that intended to secure all or other Obligations shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Master 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 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.

APPLICATION OF PROCEEDS

During the continuance of an Event of Default all moneys received by the Master Trustee pursuant to any right given or action taken under the provisions of the Master Indenture related to events of default (after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses and advances incurred or made by the Master Trustee with respect thereto and all other fees and expenses of the Master Trustee under the Master Indenture) shall be applied as follows:

(a) If the Required Payments of all Outstanding Obligations issued under the Master Indenture have not become or have not yet been declared due and payable:

First: To the payment to the Persons entitled thereto of all installments of interest then due on the Obligations issued under the Master Indenture (including Financial Product Payments authenticated as an Obligation or evidenced by an Obligation) in the order of the maturity of such installments, and, if the amount available shall not be sufficient to

[1] Effective upon receipt of 100% of Obligation Holders.

[2] Effective upon receipt of 100% of Obligation Holders.

pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the Persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the Persons entitled thereto of the unpaid principal installments of or other current payment obligation on, any Obligations that shall have become due (other than Obligations called for redemption or payment for payment of which moneys are held pursuant to the provisions of the Master Indenture and including Financial Product Extraordinary Payments authenticated as an Obligation or evidenced by an Obligation), whether at maturity or by call for redemption, in the order of their due dates, and if the amounts available shall not be sufficient to pay in full all the Obligations issued under the Master Indenture due on any date, then to the payment thereof ratably, according to the amounts of principal installments or other current payment obligations due on such date, to the Persons entitled thereto, without any discrimination or preference.

(b) If the Required Payments of all Outstanding Obligations issued under the Master Indenture shall have become or have been declared due and payable to the payment of the principal or other current payment obligations and interest then due and unpaid upon the Obligations (and specifically including Financial Product Payments and Financial Product Extraordinary Payments, in each case if authenticated as an Obligation or evidenced by an Obligation) without preference or priority of principal or other current payment obligations over interest or of interest over principal or other current payment obligations, or of any installment of interest over any other installment of interest, or of any Obligation issued under the Master Indenture over any other Obligation issued under the Master Indenture, *ratably*, according to the amounts due respectively for principal or other current payment obligations and interest (and specifically including Financial Product Payments and Financial Product Extraordinary Payments, in each case if authenticated as an Obligation or evidenced by an Obligation), to the Persons entitled thereto without any discrimination or preference; and

(c) If the principal of or other current payment obligation on, all Outstanding Obligations issued under the Master Indenture shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provisions described under this heading, then, subject to the provisions of subsection (b) above in the event that the principal of all Outstanding Obligations issued under the Master Indenture shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions described under subsection (a) above.

Whenever moneys are to be applied by the Master Trustee pursuant to the provisions described under this heading, such moneys shall be applied by it at such times, and from time to time, as the Master Trustee shall determine, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Master Trustee shall apply such moneys, it shall fix the date upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such dates shall cease to accrue. The Master Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and shall not be required to make payment to the Holder of any unpaid Obligation

issued under the Master Indenture until such Obligation issued under the Master Indenture shall be presented to the Master Trustee for appropriate endorsement of any partial payment or for cancellation if fully paid.

Whenever all Obligations issued under the Master Indenture and interest thereon have been paid under the provisions described under this heading and all expenses and charges of the Master Trustee have been paid, any balance remaining shall be paid to the Person entitled to receive the same; if no other Person shall be entitled thereto, then the balance shall be paid to the Members, their successors, or as a court of competent jurisdiction may direct.

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 as provided in the Master Indenture and before the acceleration of any Indebtedness, 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 *50.1%*[3] in aggregate principal amount of all Obligations then outstanding, 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

(a) *Supplemental Master Indentures Not Requiring Consent of Obligation Holders*. Subject to the limitations described in subsection (b) below with respect to the provisions described in this subsection (a), 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:

(i) To cure any ambiguity or formal defect or omission in the Master Indenture that does not materially and adversely affect the interests of the Holders;

(ii) To correct or supplement any provision in the Master Indenture that may be inconsistent with any other provision in the Master Indenture, or to make any other provisions with respect to matters or questions arising under the Master Indenture and that shall not materially and adversely affect the interests of the Holders;

[3] Effective upon receipt of 100% of Obligation Holders.

(iii) To grant to or confer 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;

(iv) 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;

(v) 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;

(vi) To create and provide for the issuance of a series of Obligations as permitted under the Master Indenture, and to supply certain terms that may apply to such Obligations while such Obligations are Outstanding;

(vii) To reflect the addition to or withdrawal of a Member from the Obligated Group;

(viii) Subject to the provisions of the Master Indenture summarized above in the first paragraph under the heading "SECURITY FOR OBLIGATIONS," to permit an Obligation to be secured by security that is not extended to all Obligation holders;

(ix) 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 that, in its opinion, may not afford adequate protection to the Master Trustee when the same becomes operative.

(b) *Supplemental Master Indentures Requiring Consent of Obligation Holders*. In addition to Supplemental Master Indentures described in subsection (a) above and subject to the terms and provisions contained in this subsection (b), and not otherwise, the holders of not less than *50.1%*[4] in aggregate principal amount of the Obligations that 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 *50.1%*[4] in aggregate principal amount of the Obligations of each series affected thereby that are

[4] Effective upon receipt of 100% of Obligation Holders.

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 this subsection (b) or in subsection (a) shall permit, or be construed as permitting, (i) 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, (ii) 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 that would be affected by the action to be taken, (iii) 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 hereto or terminate the lien of the Master Indenture on any Property at any time subject hereto or deprive the holder of any Obligation of the security afforded by the lien of the Master Indenture, or (iv) modification of the rights, duties or immunities of the Master Trustee, without the written consent of the Master Trustee.

If at any time the Obligated Group Agent shall request the Master Trustee to enter into any such Supplemental Master Indenture for any of the purposes set forth in the previous paragraph, the Master Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed execution of such Supplemental Master Indenture to be mailed by first class mail postage prepaid to each holder of an Obligation or, in case less than all of the series of Obligations are affected thereby, of an Obligation of the series affected thereby. Such notice shall briefly set forth the nature of the proposed Supplemental Master Indenture and shall state that copies thereof are on file at the principal corporate trust office of the Master Trustee for inspection by all Obligation holders. The Master Trustee shall not, however, be subject to any liability to any Obligation holder by reason of its failure to mail such notice, and any such failure shall not affect the validity of such Supplemental Master Indenture when consented to and approved as provided in the provisions of the Master Indenture described under this heading if the holders of not less than *50.1%*[5] in aggregate principal amount of the Obligations or the Obligations of each series affected thereby, as the case may be, which are outstanding under the Master Indenture at the time of the execution of any such Supplemental Master Indenture shall have consented to and approved the execution thereof as provided in the Master Indenture, no holder of any Obligation 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 Master Trustee or the Members from executing the same or from taking any action pursuant to the provisions thereof.

For the purpose of obtaining the foregoing consents, the determination of who is deemed the holder of an Obligation held by a related trustee shall be made in the manner provided in the related bond indenture or other related agreement.

[5] Effective upon receipt of 100% of Obligation Holders.

(c) Release and Substitution of Obligations Upon Delivery of Replacement Master Indenture. Any Obligation issued under the Master Indenture shall be subject to mandatory surrender by the Holder and cancellation by the Master Trustee, upon presentation to the Master Trustee prior to such surrender of the following: (i) An original executed counterpart of a master trust indenture or similar instrument (the "Replacement Master Indenture" executed by or on behalf of a different obligated group or credit group, as applicable (collectively, the "New Group") and an independent corporate trustee (the "Replacement Master Trustee");

(ii) Original replacement Obligations or similar instruments issued by, or on behalf of the New Group (the "Substitute Obligations") issued under and pursuant to the Replacement Master Indenture, which Substitute Obligations have been duly authenticated by the Replacement Trustee;

(iii) An Opinion of Counsel addressed to the Master Trustee (in form and substance not unacceptable to the Master Trustee) to the effect that: (1) the Replacement Master Indenture and the Substitute Obligations have been duly authorized, executed and delivered by or on behalf of the New Group and are each a legal, valid and binding obligation of the New Group, subject in each case to customary exceptions for bankruptcy, insolvency and other laws generally affecting the enforcement of creditors' right and the application of general principles of equity and such other customary exceptions for similar transactions; (2) all requirements and conditions to the issuance of the Substitute Obligations set forth in the Replacement Master Indenture have been complied with and satisfied; and (3) registration of the Replacement Obligations under the Securities Act of 1933, as amended, is not required or, if registration is required, the Substitute Obligations have been so registered;

(iv) An Opinion of Bond Counsel to the effect that under then existing law the implementation of the provision of this Section 703 and the execution of the amendments, supplements, restatements, replacements or substitutions contemplated in this Section, in and of themselves, would not adversely affect the validity of any bonds or other obligations secured by the Obligations (the "Related Bonds") or the exclusion from federal income taxation of interest payable on the Related Bonds; and

(v) Such other opinions and certificates as the Master Trustee may reasonably require, together with such reasonable indemnities as the Master Trustee may request;

provided, however, that nothing contained in the Master Trust 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 that 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 hereto or terminate the lien of the Master Indenture on any Property at any time subject hereto 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.

APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE

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SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE

The following is a summary of certain provisions of the Bond Indenture. These summaries do not purport to be and are not a complete description of the terms of the Bond Indenture, and, accordingly, are qualified by reference thereto and are subject to the full text thereof. Copies of the Bond Indenture may be obtained from the Bond Trustee or the Underwriters.

Definitions

"**Accountant**" means any independent certified public accountant or firm of such accountants selected by the Corporation.

"**Additional Bonds**" means bonds issued under the Bond Indenture subsequent to the initial issuance of the Advocate Health and Hospitals Corporation Taxable Bonds, Series 2018 (Advocate Aurora Health Credit Group) that are consolidated with such bonds for all purposes.

"Authorized Denomination" means $1,000 or any integral multiple thereof.

"**Authorized Representative**" means the Chairperson of the Corporation's Governing Body or the Parent's Governing Body, or their respective chief executive officers or chief financial officers, or any other person or persons designated as an Authorized Representative of the Corporation by resolution of the Corporation's Governing Body or the Parent's Governing Body, or by a Certificate of the Corporation or the Parent signed by the Chairperson of its Governing Body or its chief executive officer or chief financial officer, and filed with the Bond Trustee.

"**Bond Fund**" means the fund by that name established pursuant to the Bond Indenture.

"**Bond Indenture**" means the Bond Trust Indenture dated August 1, 2018 between the Corporation and the Bond Trustee, as originally executed and as it may from time to time be supplemented, modified or amended by any Supplemental Indenture.

"**Bond Trustee**" means U.S. Bank National Association, a national banking association organized and existing under the laws of the United States of America, acting in its capacity as Bond Trustee under the Bond Indenture, having a Corporate Trust Office in Milwaukee, Wisconsin, or its successor as trustee as provided in the Bond Indenture.

"**Bonds**" means the Advocate Health and Hospitals Corporation Taxable Bonds, Series 2018 (Advocate Aurora Health Credit Group) authorized by and at any time Outstanding pursuant to, the Bond Indenture, including any Additional Bonds.

"**Business Day**," when used with respect to all matters pertaining to the Bonds, means a day that is not (a) a Saturday, Sunday or legal holiday on which banking institutions in the states where the principal corporate office of the Corporation or the Corporate Trust Office of the Bond Trustee is located are authorized by law to close or (b) a day on which the New York Stock Exchange or the Federal Reserve Bank is closed.

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

"**Credit Group**" means, collectively, the Members of the Obligated Group and the Restricted Affiliates.

"**Code**" means the Internal Revenue Code of 1986, as amended from time to time. Each reference to a section of the Code shall be deemed to include the United States Treasury Regulations, including temporary and proposed regulations, promulgated thereunder.

"**Comparable Treasury Issue**" means, with respect to the Bonds of a particular maturity, the United States Treasury security selected by a Designated Investment Banker as having an actual maturity comparable to the remaining average life of the Bonds of such maturity to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining average life of such Bonds of such maturity to be redeemed.

"**Comparable Treasury Price**" means, with respect to any redemption date, for the Bonds of a particular maturity, (A) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or, (B) if the Designated Investment Banker obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such Reference Treasury Dealer Quotations.

"**Consultant**" means a firm selected by the Corporation that is not, and no member, stockholder, director, officer or employee of which is, an officer or employee of the Corporation, and that is a professional consultant having the skill and experience necessary to render the particular report required by the provision hereof in which such requirement appears.

"**Corporate Trust Office**" means the designated office or offices of the Bond Trustee at which the corporate trust services relating to the Bonds shall be administered, which on the date hereof is located in Milwaukee, Wisconsin as specified in the Bond Indenture; provided, however, for transfer, registration, exchange, payment or surrender of Bonds, means the office or agency of the Bond Trustee, in St. Paul, Minnesota, or such other office or offices designated by the Bond Trustee from time to time.

"**Corporation**" means Advocate Health and Hospitals Corporation, a not for profit corporation duly organized and existing under the laws of the State of Illinois, any entity that is the surviving, resulting or transferee entity in any merger, consolidation or transfer of assets permitted under the Master Indenture, or any assignee thereof permitted pursuant to the Bond Indenture.

"**Date of Issue**" means August __, 2018.

"Defeasance Securities" means (a) direct obligations of (including obligations issued or held in book-entry form on the books of the Department of Treasury of), or obligations the timely payment of the principal of and interest on which is fully guaranteed by, the United States of America, (b) obligations (including participation certificates) issued or guaranteed by an agency of the United States of America or Person controlled or supervised by and acting as an instrumentality of the United States of America pursuant to authority granted by the Congress, including but not limited to Senior Obligations of the Federal Home Loan Mortgage Corporation, Federal Home Loan Banks, the Farm Credit System and the Federal National Mortgage Association, and (c) any Investment Securities that, as of the date of their deposit pursuant to the Bond Indenture, (i) may be used for the defeasance of the Bonds in accordance with State law and (ii) are approved by the Rating Agencies then providing ratings on the Bonds for defeasance escrow deposits for bonds that upon being so defeased shall have highest ratings given by such Rating Agencies.

"**Designated Investment Banker**" means the Reference Treasury Dealers selected as such and appointed by the Corporation.

"Electronic Notice" means a notice transmitted through email (via a pdf attachment), facsimile or other similar electronic means of communication providing evidence of transmission (with an automatic "read receipt" or similar notice not constituting evidence of transmission), including a telephone communication confirmed by any other method set forth in this definition.

"**Escheat Period**," when used with respect to the Bond Indenture, means the period of time commencing on the date fixed for purchase, payment or redemption of any Bonds and ending on the date that is six months prior to the period of time set forth under the governing statute regarding escheatment of funds.

"**Event of Default**" means any of the events specified in the Bond Indenture.

"**Fitch**" means Fitch, Inc., a corporation organized and existing under the laws of the State of New York, and its successors and assigns.

"**Governing Body**" means the Corporation's board of directors, its board of trustees or a 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 such board to which the relevant powers of such board have been lawfully delegated.

"**Holder**" means, whenever used with respect to a Bond, the Person in whose name such Bond is registered.

"**Interest Payment Date**" means February 15 and August 15 of each year, commencing February 15, 2019, and with respect to any Additional Bonds, February 15 and August 15 of each year, commencing on the date set forth in the Supplemental Indenture authorizing their issuance.

"Investment Securities" means any of the following that at the time are legal investments under the laws of the State for moneys held under the Bond Indenture and then proposed to be invested therein provided that, unless higher ratings are specified in a particular subsection of this definition, if such Investment Securities have a maturity of more than one year, have a long term rating at the time of purchase equal to or higher than the ratings on the Bonds from Standard & Poor's and Moody's or, if such Investment Securities have a maturity of less than one year, have a short-term rating at the time of purchase of at least "A-1+" by Standard & Poor's and "P-1" by Moody's:

(a) direct obligations (including obligations issued or held in book-entry form on the books of the Department of Treasury) of, or obligations the timely payment of the principal of and interest on which is fully guaranteed by, the United States of America;

(b) bonds, debentures, notes or other evidences of indebtedness issued by any of the following agencies or any other like governmental or government-sponsored agencies that are created after the date of the Bond Indenture: Federal Farm Credit Bank; Federal Intermediate Credit Banks; Federal Financing Bank; Federal Home Loan Bank System; Federal Home Loan Mortgage Corporation; Federal National Mortgage Association; Tennessee Valley Authority; Student Loan Marketing Association; Export-Import Bank of the United States; Farmers Home Administration; Small Business Administration; Inter-American Development Bank; International Bank for Reconstruction and Development; Federal Land Banks; and Government National Mortgage Association;

(c) direct and general obligations of any state of the United States of America or any municipality or political subdivision of such state, or obligations of any corporation, if such obligations are rated at the time of purchase in one of the two highest Rating Categories by each Rating Agency then rating both the Bonds and such obligations (but in all cases by at least one Rating Agency then rating the Bonds);

(d) commercial paper rated at the time of purchase in the highest Rating Category by each Rating Agency then rating both the Bonds and such commercial paper (but in all cases by at least one Rating Agency then rating the Bonds);

(e) negotiable or non-negotiable certificates of deposit, time deposits, or other similar banking arrangements, issued by any bank or trust company or any savings and loan association, and either (i) the long-term obligations of such bank or trust company are rated at the time of purchase in the highest Rating Category by each Rating Agency then rating both the Bonds and such obligations (but in all events by at least one Rating Agency then rating the Bonds), or (ii) the deposits or other arrangements are continuously secured as to principal, but only to the extent not insured by the Federal Deposit Insurance Corporation or similar corporation chartered by the United States of America, (A) by depositing with a bank or trust company, as collateral security, obligations described in paragraph (a) or (b) above in an aggregate principal amount equal to at least 105% of the amount so deposited or, with the approval of the Bond Trustee, other marketable securities eligible as securities for the deposit of trust funds under applicable regulations of the Comptroller of the Currency of the United States or applicable state law or regulations, having a market value (exclusive of accrued interest) not less than the amount of such deposit, or (B) if the furnishing of security as provided in clause (A) of this paragraph is not permitted by applicable law, in such other manner as may then be required or permitted by applicable state or federal laws and regulations regarding the security for, or granting a preference in the case of, the deposit of trust funds;

(f) repurchase agreements with respect to obligations listed in paragraph (a) or (b) above if entered into with a bank, a trust company or a broker or dealer (as defined by the Securities Exchange Act of 1934, as amended) that is a dealer in government bonds, that reports to, trades with and is recognized as a primary dealer by a Federal Reserve Bank, if such obligations that are the subject of such repurchase agreement are delivered to the Bond Trustee or are supported by a safekeeping receipt issued by a depository (other than the Bond Trustee) satisfactory to the Bond Trustee, provided that such repurchase agreement must provide that the value of the underlying obligations shall be maintained at a current market value, calculated no less frequently than monthly, of not less than the repurchase price;

(g) shares or certificates in any short-term investment fund that is maintained or utilized by the Bond Trustee and which fund invests solely in other Investment Securities;

(h) investment agreements with any financial institution that at the time of execution of the investment agreement has long-term obligations rated in one of the three highest Rating Categories by each Rating Agency then rating both the Bonds and such obligations (but in all cases by at least one Rating Agency then rating the Bonds);

(i) shares or certificates in any mutual fund invested solely in Investment Securities described in clauses (a) through (h) of this definition, including those of the Bond Trustee or its affiliates;

(j) obligations of any corporation, partnership, trust or other entity that are rated at the time of purchase in one of the two highest Rating Categories by each Rating Agency then rating both the Bonds and such obligations (but in all cases by at least one Rating Agency then rating the Bonds); and

(k) any other securities, investments, investment agreements or other obligations specified by the Corporation to the Bond Trustee in writing.

Ratings of Investment Securities referred to in the Bond Indenture shall be determined at the time of purchase of such Investment Securities and without regard to ratings subcategories. The Bond Trustee shall have no responsibility to monitor the ratings of Investment Securities after the initial purchase of such Investment Securities including at the time of reinvestment of earnings thereof.

"**Make-Whole Redemption Price**" means the greater of (a) 100% of the principal amount of any Bonds being redeemed; or (b) the sum of the present values of the remaining scheduled payments of principal of and interest on any Bonds being redeemed (exclusive of interest accrued to the date of redemption) discounted to the redemption date on a semi annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus ___ basis points. Any different Make-Whole Redemption Price for any Additional Bonds shall be set forth in the related Supplemental Indenture.

"**Master Indenture**" means the Amended and Restated Master Trust Indenture dated as of September 1, 2011, as supplemented and amended to the date hereof and as it may from time to time be amended or supplemented in accordance with its terms, among the Obligated Group Members identified therein and the Master Trustee.

"**Master Trustee**" means U.S. Bank National Association, a national banking association organized and existing under the laws of the United States of America, or its successor, as trustee under the Master Indenture.

"**Member**" or "**Member of the Obligated Group**" means the Corporation and any Person who is designated as a Member of the Obligated Group pursuant to the terms of the Master Indenture.

"**Moody's**" means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, and its successors and assigns.

"**Nominee**" means the nominee of the Securities Depository (currently Cede & Co.), which may be the Securities Depository, or any nominee substituted by the Securities Depository pursuant to the Bond Indenture.

"**Obligation**" means the Direct Note Obligation, Taxable Series 2018 (U.S. Bank National Association, as trustee), dated the date hereof, issued under the Master Indenture and the Supplement, evidencing the Corporation's obligation to make payments sufficient to pay Required Bond Payments.

"**Opinion of Counsel**" means a written opinion of counsel (who may be counsel for the Corporation) selected by the Corporation or the Bond Trustee.

"**Outstanding**," when used as of any particular time with reference to Bonds, means (subject to the provisions of the Bond Indenture relating to disqualified Bonds) all Bonds theretofore, or thereupon being, authenticated and delivered by the Bond Trustee under the Bond Indenture except:

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

(b) Bonds with respect to which all liability of the Corporation shall have been discharged in accordance with the defeasance provisions of the Bond Indenture, including Bonds

(or portions of Bonds) referred to in the provisions of the Bond Indenture relating to money held for particular Bonds; and

(c) Bonds for the transfer or exchange of, or in lieu of or in substitution for which, other Bonds shall have been authenticated and delivered by the Bond Trustee pursuant to the Bond Indenture.

"**Parent**" means Advocate Aurora Health, Inc., a Delaware corporation, and its successors and assigns.

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

"**Principal Payment Date**" means each date on which principal of the Bonds is required to be paid (whether by reason of maturity, redemption or acceleration).

"**Rating Agency**" means Moody's, Fitch or Standard & Poor's and any other Person existing as of the date of, or created after the date of, the Bond Indenture meeting the criteria established by the Securities and Exchange Commission as a "rating agency."

"**Rating Category**" means one of the general rating categories of any Rating Agency, without regard to any refinement or gradation of such Rating Category by a numerical modifier or otherwise.

"**Record Date**" means, with respect to any Interest Payment Date, the first day of the calendar month immediately preceding such Interest Payment Date, whether or not such day is a Business Day.

"**Reference Treasury Dealer**" means one or more entities designated by the Corporation or their respective affiliates that are primary U.S. government securities dealers, and their respective successors; provided that if any of these firms or their respective affiliates shall cease to be a primary U.S. government securities dealer (a "Primary Treasury Dealer"), the Corporation shall substitute therefor another Primary Treasury Dealer.

"**Reference Treasury Dealer Quotations**" means, with respect to each Reference Treasury Dealer and any redemption date, for the Bonds of a particular maturity, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the third Business Day preceding such redemption date.

"**Required Bond Payments**" means all payments of: (a) principal or Make-Whole Redemption Price of the Bonds when and as the same become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by acceleration or otherwise and (b) each installment of interest on any Bond when and as the same become due and payable.

"**Responsible Officer**" means, when used with respect to the Bond Trustee, any officer within the corporate trust department of the Bond Trustee, including any vice president, assistant vice president, assistant secretary, assistant treasurer, trust officer or any other officer of the Bond Trustee who customarily performs functions similar to those performed by the persons who at the time shall be such officers, respectively, or to whom any corporate trust matter is referred because of such person's

knowledge of and familiarity with the particular subject and who shall have direct responsibility for the administration of the Bond Indenture.

"**Securities Depository**" means The Depository Trust Company, and its successors and assigns, or if the then-acting Securities Depository ceases to serve in such capacity, as described in the Bond Indenture, any other securities depository that agrees to follow the procedures required to be followed by a securities depository in connection with the Bonds that is selected by the Corporation.

"**Special Record Date**" means the date established by the Bond Trustee pursuant to the Bond Indenture as a record date for the payment of defaulted interest on Bonds.

"**Standard & Poor's**" means S&P Global Ratings, a Standard & Poor's Financial Services LLC business and its successors and assigns.

"**State**" means the State of Illinois.

"Supplement" means the Twelfth Supplemental Master Indenture dated as of August 1, 2018, by and between the Members of the Obligated Group and the Master Trustee, pursuant to which the Obligation is issued.

"**Supplemental Indenture**" means any indenture duly authorized and entered into between the Corporation and the Bond Trustee after the date of the Bond Indenture, authorizing the issuance of Additional Bonds or supplementing, modifying or amending the Bond Indenture in accordance therewith.

"**Treasury Rate**" means, with respect to any redemption date, for the Bonds of a particular maturity, the rate per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue with respect thereto, computed as of the second Business Day immediately preceding such redemption date, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price with respect thereto for such redemption date.

"Underwriter" means collectively J.P. Morgan Securities LLC, Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and Loop Capital Markets LLC as the original purchasers of the Bonds, and their respective successors and assigns.

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Terms of the Bonds. The Bonds may be issued only as fully registered Bonds without coupons in Authorized Denominations. Interest on the Bonds (calculated on a 360-day year with twelve 30-day months) shall be payable on each Interest Payment Date.

Transfer of Bonds. Any Bond may, in accordance with its terms, be transferred upon the registration books required to be kept pursuant to the provisions of the Bond Indenture, by the person in whose name it is registered, in person or by his attorney duly authorized in writing, upon surrender of such Bond for cancellation at the Corporate Trust Office, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Bond Trustee. The Bond Trustee shall require the Holder requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer. In no event shall any Bond selected by the Bond Trustee for redemption be transferred.

Exchange of Bonds. Bonds may be exchanged at the Corporate Trust Office for a like aggregate principal amount of Bonds of any Authorized Denomination(s) of the same maturity. The Bond Trustee

shall require the Holder requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange. In no event shall any Bond selected by the Bond Trustee for redemption be exchanged.

Bond Register. The Bond Trustee will keep or cause to be kept sufficient books for the registration, transfer and exchange of the Bonds, which shall be open to inspection by the Corporation upon reasonable advance notice and during normal business hours; and, upon presentation of any Bonds for such purpose, the Bond Trustee shall, under such reasonable procedures as it may prescribe, register, transfer or exchange, or cause to be registered, transferred or exchanged, such Bonds on such books as provided in the Bond Indenture. The Bond Trustee and the Corporation are permitted by the Bond Indenture to treat and consider the Person in whose name each Bond is registered in the registration books kept by the Bond Trustee as the absolute Holder of such Bond for all purposes, and the Corporation and the Bond Trustee shall not be affected by any notice to the contrary.

Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond shall become mutilated, the Corporation, at the expense of the Holder of such Bond, shall execute, and the Bond Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in exchange and substitution for the Bond so mutilated, but only upon surrender to the Bond Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Bond Trustee shall be canceled and disposed of by it in a manner deemed appropriate by it. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Bond Trustee and the Corporation and, if such evidence is satisfactory to each of them and indemnity satisfactory to the Corporation and the Bond Trustee shall be given to each of them, then, at the expense of the Holder, the Corporation shall execute and the Bond Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in lieu of and in substitution for the Bond so lost, destroyed or stolen; provided that if any such Bond shall have matured or shall be about to mature, instead of issuing a substitute Bond, the Bond Trustee may pay the same without surrender thereof. The Corporation may require payment by the Holder of a sum not exceeding the actual cost of preparing each new Bond issued and of the expenses (including fees of counsel) that may be incurred by the Corporation and the Bond Trustee. Any Bond issued in lieu of any Bond alleged to be lost, destroyed or stolen shall constitute an original contractual obligation on the part of the Corporation and shall be entitled to the benefits of the Bond Indenture with all other Bonds secured by the Bond Indenture.

Additional Bonds.

(a) Additional Bonds may be issued under the Bond Indenture if authorized by a Supplemental Indenture. Any Additional Bonds so authorized from time to time shall be in such amounts as directed by the Corporation, executed by the Corporation and authenticated by the Bond Trustee and delivered to or upon the order of the Corporation upon receipt of the consideration therefore. Each Supplemental Indenture authorizing the issuance of Additional Bonds shall specify the following:

(i) the authorized principal amount of Additional Bonds to be issued;

(ii) the purpose for which the Additional Bonds are to be issued;

iii) the first Interest Payment Date for the Additional Bonds;

(iv) directions for the application of the proceeds of the Additional Bonds; and

(v) such other provisions as the Corporation deems advisable.

(b) Pursuant to the Bond Indenture, in connection with the issuance of Additional Bonds, the Corporation covenants and agrees that:

(i) Additional Bonds that are consolidated with the Advocate Health and Hospitals Corporation Taxable Bonds, Series 2018 (Advocate Aurora Health Credit Group) constitute a part of the Bonds;

(ii) all such Additional Bonds shall mature on one or more of the maturity dates for the Bonds as set forth in the Bond Indenture, shall bear interest at the rate per annum for the Bonds corresponding to such maturity date and shall be subject to redemption at the same times and at the same Make-Whole Redemption Price as the Bonds of the same maturity;

(iii) each Additional Bond to be consolidated with the Advocate Health and Hospitals Corporation Taxable Bonds, Series 2018 (Advocate Aurora Health Credit Group) shall be issued in Authorized Denominations; and

(iv) as a condition to the issuance of such Additional Bonds, the Bond Indenture requires that there shall be delivered to the Bond Trustee a certificate of the Corporation, certifying that, after consultation with counsel experienced in federal securities and tax laws, the issuance and consolidation of such Additional Bonds will not cause the then-Outstanding Advocate Health and Hospitals Corporation Taxable Bonds, Series 2018 (Advocate Aurora Health Credit Group) to be required to be registered under the Securities Act of 1933, as amended or (iii) the Bond Indenture to be required to be qualified under the Trust Indenture Act of 1939, as amended.

Establishment and Application of Costs of Issuance Fund. Under the Bond Indenture, there is established a fund designated as the "Costs of Issuance Fund." Upon the earliest of (a) all amounts being paid out of the Costs of Issuance Fund, (b) receipt by the Bond Trustee of a Statement of the Corporation that all costs of issuing the Bonds have been paid and (c) the one year anniversary of the Date of Issue, any amounts remaining in the Costs of Issuance Fund are required by the Bond Indenture to be transferred to the Bond Fund, and the Costs of Issuance Fund shall thereafter be closed. The Bond Trustee shall release funds from the Costs of Issuance Fund upon receipt of a written direction of the Corporation directing the release of amounts to pay the costs of issuing the Bonds, substantially in the form attached as Exhibit B to the Bond Indenture. The Bond Trustee shall be fully protected in releasing any such requested amounts in accordance with such written directions.

Notwithstanding anything to the contrary above, if an Event of Default under the Bond Indenture has occurred and is continuing, the Bond Trustee shall not disburse moneys from the Costs of Issuance Fund but shall transfer to the Bond Fund such amounts as are necessary to provide for the payment of Required Bond Payments.

Establishment and Application of Bond Fund. Under the Bond Indenture, there is established a fund designated as the "Bond Fund." The money in the Bond Fund is required by the Bond Indenture to be held by the Bond Trustee in trust and applied pursuant to the Bond Indenture and, pending such application, the Bond Fund and the money therein shall be subject to a lien and charge in favor of the Bond Trustee for the benefit of the Holders and for the security of the Holders. All amounts in the Bond Fund are required by the Bond Indenture to be used and withdrawn by the Bond Trustee solely for the purpose of paying Required Bond Payments, as the same shall become due and payable, whether at maturity or upon acceleration or redemption prior to maturity.

At any time prior to selection of the Bonds for redemption, the Bond Trustee shall apply amounts on deposit in the Bond Fund for the optional redemption of Bonds to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges) as shall be directed by the Corporation; provided that the purchase price (exclusive of accrued interest) may not exceed the Make-Whole Redemption Price then applicable to such Bonds; and provided further that in the case of optional redemption, in lieu of redemption on the next succeeding date of redemption, or in combination therewith, amounts in the Bond Fund for optional redemption may be credited against Required Bond Payments, in order of their due dates, as set forth in the direction of the Corporation delivered to the Bond Trustee and the Corporation and used for the purposes for which such Required Bond Payments are required to be made.

Punctual Payment. As long as any of the Bonds remain Outstanding, the Corporation agrees in the Bond Indenture to duly and punctually pay to the Bond Trustee the amount required for deposit into the Bond Fund, at or before 11:00 a.m., New York, New York time, on or before (i) each Principal Payment Date (with respect to payments of principal) and (ii) each Interest Payment Date (with respect to payments of interest) in an amount equal to the amount necessary for the Bond Trustee to make Required Bond Payments. In addition, the Corporation agrees in the Bond Indenture to duly and punctually pay, or cause to be paid, all payments on the Obligation on the dates and at the places and in the manner mentioned therein. Notwithstanding any schedule of payments set forth in the Obligation or in the Bond Indenture, the Corporation also agrees to make payments under the Bond Indenture and under the Obligation, and be liable therefor, at the times and in the amounts to be paid as the Required Bond Payments and other amounts required to be paid under the Bond Indenture, as the same shall become due.

Pledge of Bond Fund. (a) Subject only to the provisions of the Bond Indenture permitting or requiring the application thereof for the purposes and on the terms and conditions set forth therein, the Bond Fund and all amounts held therein are pledged and transferred by the Corporation to the Bond Trustee for the benefit of the Bondholders to secure the full payment of the Required Bond Payments in accordance with the terms of the Bonds and the provisions of the Bond Indenture. The Corporation grants to the Bond Trustee a security interest in and acknowledges and agrees in the Bond Indenture that the Bond Fund and all amounts on deposit therein shall constitute collateral security to secure the full payment of the Required Bond Payments in accordance with the terms of the Bonds and the provisions of the Bond Indenture. For purposes of creating, perfecting and maintaining the security interest of the Bond Trustee on behalf of the Bondholders in and to the Bond Fund and all amounts on deposit therein, the Corporation and the Bond Trustee agree in the Bond Indenture as follows:

(1) the Bond Indenture shall constitute a "security agreement" for purposes of the Uniform Commercial Code;

(2) the Bond Trustee shall maintain on its books and records reflecting the interest, as set forth in the Bond Indenture, of the Bondholders in the Bond Fund and/or the amounts on deposit therein; and

(3) the Bond Fund and the amounts on deposit therein and any proceeds thereof shall be held by the Bond Trustee acting in its capacity as an agent of the Bondholders, and the holding of such items by the Bond Trustee (including the transfer of any items among the funds and accounts in the Bond Fund) is deemed possession of such items on behalf of the Bondholders.

(b) Nothing in the Bond Indenture or in the Bonds, expressed or implied, shall be construed to constitute a security interest under the Uniform Commercial Code or otherwise in the assets of the Corporation other than in any interest of the Corporation in the Bond Fund and/or the amounts on deposit therein and as provided in the Bond Indenture. No recourse for the Required Bond Payments, or for any

claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Corporation in the Bond Indenture or in any Supplemental Bond Indenture or in any Bond, or because of the creation of any indebtedness represented thereby, shall be had against any employee, agent, or officer, as such, past, present or future, of the Corporation or of any successor entity, either directly or through any successor entity, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise, it being expressly understood that all such liability is expressly waived and released as a condition of, and as a consideration for, the execution of the Bond Indenture and the issuance of the Bonds.

(c) No officer or agent of the Corporation, nor any Person executing the Bonds, shall in any event be subject to any personal liability or accountability by reason of the issuance of the Bonds.

Use of Proceeds. The Corporation is required by the Bond Indenture to use the proceeds of the Bonds for purposes related to the qualification of the Corporation as an organization described in Section 501(c)(3) of the Code.

Maintenance of Corporate Existence of the Corporation; Consolidation, Affiliation, Merger, Sale or Transfer Under Certain Conditions. The Corporation agrees in the Bond Indenture that it will maintain its existence as a nonprofit corporation, and will not consolidate with or merge into another corporation or permit one or more other corporations to consolidate with or merge into it unless:

(a) The Corporation complies with the provision of the Master Indenture summarized in ***APPENDIX D*** under the heading "Merger, Consolidation, Sale or Conveyance"; and

(b) The successor corporation:

(1) assumes in writing, if such corporation is not the Corporation, all of the obligations of the Corporation under the Bond Indenture; and

(2) is not, after such transaction, otherwise in default under any provisions of the Bond Indenture.

Permitted Assignments.

(a) Except as provided in (b) below, the Corporation shall not assign the Bond Indenture, as a whole or in part, without the prior written consent of the Bond Trustee or any Holder unless such assignment is pursuant to a merger, consolidation or transfer of the Corporation's property substantially as an entirety permitted under the Master Indenture.

(b) Notwithstanding (a) above, the Corporation may also assign the Bond Indenture to any Member of the Obligated Group (the "Member Assignee"), as a whole or in part, without the prior written consent of the Bond Trustee or any Holder, upon satisfaction of the following:

(i) the Member Assignee shall assume the obligations of the Corporation under the Bond Indenture to the extent of the interest assigned and, if the Bonds are held in a Securities Depository, the Member Assignee shall execute and deliver all such documents as are needed by such Securities Depository to reflect the status of the Member Assignee as the issuer of the Bonds;

(iii) the Bond Trustee shall have received an Opinion of Counsel, in form and substance not unsatisfactory to the Bond Trustee, to the effect that (A) the assignment to the Member Assignee will not cause the Bonds to become subject to the registration requirements pursuant to the

Securities Act of 1933, as amended or, if the Bonds are subject to such registration requirements, that the Bonds have been so registered; (B) the Bond Indenture constitutes a legal, valid and binding obligation of the Member Assignee, enforceable against the Member Assignee in accordance with its terms, except to the extent that the enforceability thereof may be limited by any applicable bankruptcy, insolvency, liquidation, rehabilitation or other similar laws or enactment affecting the enforcement of creditors' rights, and such other customary exceptions for similar transactions and (C) such assignment is permitted by and in compliance with the provisions of the Bond Indenture.

(iv) the Corporation shall give at least thirty days' prior written notice of such assignment to the Bond Trustee.

(v) within thirty days of any such assignment, the Corporation shall cause notice of the assignment to be provided to all Holders by posting the same on Electronic Municipal Market Access System maintained by the Municipal Securities Rulemaking Board (or any such successor system in existence on the effective date of the assignment and designated by the MSRB or the Securities and Exchange Commission as an information repository for municipal securities disclosure.

(c) All references in the Bond Indenture to "Corporation" shall, following any assignment to a Member Assignee, be deemed to mean and refer to that Member Assignee.

Expenses. The Corporation agrees in the Bond Indenture to pay and to indemnify the Bond Trustee against all costs and charges, including reasonable fees and expenses of attorneys, accountants, consultants and other experts, incurred by it in good faith and arising out of or in connection with the transactions contemplated by the Bond Indenture.

Securities Law Status. Pursuant to the Bond Indenture, the Corporation is not permitted to take any action or omit to take any action if such action or omission would result in it no longer being an organization organized and operated exclusively for charitable purposes and not for pecuniary profit; with no part of its net earning inuring to the benefit of any Person, private stockholder or individual, all within the meaning of the Securities Act of 1933, as amended.

Corporation Financial Statements. The Corporation has agreed to furnish to the Bond Trustee, concurrently with its delivery to the Master Trustee, the financial information and the certificate required to be delivered to the Master Trustee pursuant to the provisions of the Master Indenture summarized in ***APPENDIX D*** under the heading "FINANCIAL STATEMENTS". The Bond Trustee shall have no duty to review such financial statements or certificate.

Continuing Disclosure. The Corporation has agreed that it will provide to the Municipal Securities Rulemaking Board (the "MSRB") through the MSRB's Electronic Municipal Market Access system (""EMMA") the information required pursuant to continuing disclosure undertakings made in connection with tax-exempt revenue bonds issued from time to time for the benefit of the Obligated Group (collectively, the "Continuing Disclosure Undertakings"). The Corporation covenants in the Bond Indenture that, if no Continuing Disclosure Undertakings are in effect, the Corporation will provide the following information to the Holders through a nationally recognized disclosure site selected by the Obligated Group Agent or through the System's website:

(a) each year, certain financial information and operating data relating to the System (the "Annual Report") by not later than the date 150 days after the last day of the fiscal year of the System; 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;

(b) 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.

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 first paragraph under the heading "INFORMATION CONCERNING THE SYSTEM – Medical Staff" in ***APPENDIX A***, in the first sentence of each of the first two paragraphs under the heading "OTHER INFORMATION – Employees" in ***APPENDIX A*** and in the tables entitled "Pro Forma Debt Service Coverage" (historical information only), and "Pro Forma Days Cash on Hand" (historical information only) under the heading "FINANCIAL INFORMATION" in ***APPENDIX A*** and in the tables under the headings "INFORMATION CONCERNING THE SYSTEM "– Utilization Statistics" and "– Sources of Net Patient Service Revenue; Managed Care" in ***APPENDIX A*** to this Offering Memorandum.

Any or all of the items listed above may be included by specific reference to other documents that previously have been provided to the repository described above or filed with the SEC. If the document included by reference is a final official statement, it must be available from the MSRB. The Obligated Group Agent shall clearly identify each such other document as included by reference.

Failure to comply with this provision in the Bond Indenture is not an Event of Default thereunder and no monetary damages shall be available for failure to comply with this provision. As the sole and exclusive remedy for the Corporation's failure to comply with this provision in the Bond Indenture, the Bond Trustee may (and, at the request of the Holders of not less than a majority in aggregate principal amount of the Outstanding Bonds, shall) or any Bondholder or any owner of a beneficial interest in a Bond or Bonds may, at the expense of the Corporation take any actions to seek specific performance by court order to cause the Corporation to comply with its obligations under this provision of the Bond Indenture.

Investment of Moneys in Funds and Accounts. All moneys in any of the funds and accounts established pursuant to the Bond Indenture shall be invested by the Bond Trustee upon the direction of the Corporation, solely in Investment Securities. The Bond Trustee may conclusively rely upon the Corporation's written instructions as to both the suitability and legality of the directed investments and such written direction shall be deemed to be a certification that such directed investments constitute Investment Securities.

All interest, profits and income received from the investment of moneys in any fund or account shall be credited to such fund or account or, at the direction of the Corporation, deposited into the Bond Fund. Notwithstanding anything to the contrary contained in this paragraph, any amount of interest received with respect to any Investment Security equal to the amount of accrued interest, if any, paid as

part of the purchase price of such Investment Security shall be credited to the fund or account from which such accrued interest was paid.

For the purpose of determining the amount on deposit in any fund or account under the Bond Indenture, all Investment Securities credited to such fund or account shall be valued at par. Ratings of Investment Securities referred to herein shall be determined at the time of purchase of such Investment Securities and without regard to rating subcategories. The Bond Trustee shall have no responsibility to monitor the ratings of Investment Securities after the initial purchase of such Investment Securities, or the responsibility to validate the ratings of Investment Securities prior to the initial purchase.

The Bond Trustee may commingle any of the funds or accounts established pursuant to the Bond Indenture into a separate fund or funds for investment purposes only, provided that all funds or accounts held by the Bond Trustee under the Bond Indenture shall be accounted for separately as required by the Bond Indenture. The Bond Trustee may purchase from or sell to itself or any affiliate of it as principal or agent in the making or disposing of any investment. The Bond Trustee is required by the Bond Indenture to sell at a fair market price, or present for redemption, any Investment Securities so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Investment Security is credited, and, subject to the provisions of the Bond Indenture regarding the liability of the Bond Trustee, the Bond Trustee shall not be liable or responsible for any loss resulting from any such investment.

The Bond Trustee may elect, but shall not be obligated, to credit the funds and accounts held by it with moneys representing income or principal payments due on, or sales proceeds due in respect of, Investment Securities in such funds and accounts, or to credit to Investment Securities intended to be purchased with such moneys, in each case before actually receiving the requisite moneys from the payment source, or to otherwise advance funds for account transactions. The Corporation acknowledges that the legal obligation to pay the purchase price of any Investment Securities arises immediately at the time of the purchase. Notwithstanding anything else in the Bond Indenture, (i) any such crediting of funds or assets shall be provisional in nature, and the Bond Trustee shall be authorized to reverse any such transactions or advances of funds in the event that it does not receive good funds with respect thereto, and (ii) nothing in the Bond Indenture shall constitute a waiver of any of Bond Trustee's rights as a securities intermediary under Uniform Commercial Code §9-206.

Against Encumbrances. The Corporation agrees in the Bond Indenture that it shall not create, or permit parties within its control to create, any pledge, lien, charge or other encumbrance upon all or any part or the Bond Fund or any other amounts or assets pledged under the Bond Indenture while any of the Bonds are Outstanding, except for the pledge created by the Bond Indenture and any statutory liens or other liens arising by operation of law. In addition, if the Corporation receives notice from the Bond Trustee of the creation of any such pledge, lien, charge or other encumbrance, the Corporation shall take action to resist such creation of, and shall cause to be released, such pledge, lien, charge or other encumbrance upon the request of the Bond Trustee. Subject to this limitation, the Corporation expressly reserves the right to enter into one or more other indentures for any of its corporate purposes, and reserves the right to issue other obligations for such purposes.

Events of Default. The following events shall be Events of Default under the Bond Indenture:

(a) default in the due and punctual payment of any Required Bond Payment;

(b) if the Corporation shall fail to observe or perform certain covenants, conditions, agreements or provisions specified in the Bond Indenture on its part to be observed or performed, other than as referred to in subparagraph (a) above, for a period of 60 days after written notice,

specifying such failure or breach and requesting that it be remedied, has been given to the Corporation by the Bond Trustee, except that, if such failure or breach can be remedied, but not within such 60-day period and if the Corporation has taken all action reasonably possible to remedy such failure or breach within such 60-day period, such failure or breach shall not become an Event of Default for so long as the Corporation shall diligently proceed to remedy the same and the Corporation provides the Bond Trustee with a certification to such effect;

(c) an "Event of Default" under the Master Indenture shall occur and be continuing; or

(d) if any material representation or warranty made by the Corporation in the Bond Indenture or in any document, instrument or certificate furnished to the Bond Trustee in connection with the issuance of the Obligation or the Bonds shall at any time prove to have been incorrect in any material respect as of the time made.

The Bond Trustee is required by the Bond Indenture, as soon as is practicable, but in any event within five Business Days, to send notice to the Master Trustee and the Corporation of the occurrence of any Event of Default of which a Responsible Officer of the Bond Trustee has actual knowledge.

Acceleration of Maturities; Other Remedies.

(a) Upon the occurrence and during the continuation of any Event of Default, other than an Event of Default under paragraph (b) above, the Bond Trustee may, in its discretion, and shall, at the written direction of the Holders of at least 50.1% in aggregate principal amount of the Bonds at the time Outstanding, by written notice to the Corporation, declare the principal of the Bonds then-outstanding to be immediately due and payable, whereupon that portion of the principal of the Bonds thereby coming due and the interest thereon accrued to the date of payment shall, without further action, become and be immediately due and payable, anything in the Bond Indenture or in the Bonds to the contrary notwithstanding.

(b) Any such declaration, however, is subject to the condition that if, at any time after such declaration and before any final judgment or decree in any suit, action or other proceeding instituted for the payment of the moneys due shall have been obtained or entered, the Corporation shall deposit with the Bond Trustee a sum sufficient to pay all Required Bond Payments, the payment of which is overdue, with interest on the overdue principal portion of such Required Bond Payments at the rate borne by the respective Bonds, and the reasonable charges and expenses of the Bond Trustee, and any and all other defaults known to the Bond Trustee (other than in the payment of Required Bond Payments due and payable by reason of such declaration) shall have been made good or cured to the satisfaction of the Bond Trustee, or provision deemed by the Bond Trustee to be adequate shall have been made therefor, then, and in every such case, the Holders of at least 50.1% in aggregate principal amount of the Bonds then Outstanding, by written notice to the Corporation and the Bond Trustee, or the Bond Trustee may, on behalf of the Holders of all of the Bonds, by written notice to the Corporation, rescind and annul such declaration and its consequences and waive such default, but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

(c) Upon the occurrence and during the continuation of an Event of Default, upon being indemnified as provided in Section 8.03(d), the Bond Trustee may, and upon the written direction of the Holders of at least 50.1% in aggregate principal amount of the Bond then Outstanding shall take whatever action at law or in equity it deems necessary or desirable (1) to collect any amounts then due under the

Bond Indenture, the Bonds, or the Obligation, (2) to enforce performance of any obligation, agreement or covenant of the Corporation under the Bond Indenture, the Bonds, or the Obligation, or (3) to otherwise enforce any of its rights.

(d) In the event that the Master Trustee has accelerated the Obligation and is pursuing its available remedies under the Master Indenture, the Bond Trustee, without waiving any Event of Default under the Bond Indenture, agrees in the Bond Indenture that it shall not pursue its available remedies under the Bond Indenture in a manner that would hinder or frustrate the pursuit by the Master Trustee of its remedies under the Master Indenture; provided that the Bond Trustee is permitted under the Bond Indenture to take any action permitted to be taken by an Obligation holder under the Master Indenture.

(e) Notwithstanding the foregoing or any other provision of the Bond Indenture or the Master Indenture, the right of the Bond Trustee to receive payment of the Obligation on and after the respective due dates expressed in the Obligation, or to bring suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of the Master Trustee.

Application of Funds After Default. If an Event of Default shall occur and be continuing, all funds then held or thereafter received by the Bond Trustee under any of the provisions of the Bond Indenture (subject to requirements in the Bond Indenture relating to money held for particular Bonds) shall be applied by the Bond Trustee as follows and in the following order:

(a) To the payment of any expenses necessary in the opinion of the Bond Trustee to protect the interests of the Holders of the Bonds and payment of reasonable fees, charges and expenses of the Bond Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Bond Indenture and the creation of a reasonable reserve for anticipated fees, costs and expenses;

(b) To the payment of Required Bond Payments with respect to the Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the payment, if only partially paid, or surrender thereof, if fully paid), subject to the provisions of the Bond Indenture, as follows:

(i) Unless the principal of all the Bonds shall have become or have been declared due and payable:

First: To the payment to the Persons entitled thereto of all installments of interest then due and payable in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference, except as to any difference in the respective rates of interest specified in the Bonds;

Second: To the payment to the Persons entitled thereto of the unpaid principal or Make-Whole Redemption Price of any Bonds that shall have become due and payable, whether at maturity or by call for redemption, in the order of their due dates, with interest on the overdue principal at the rate borne by the respective Bonds from the respective dates upon which such Bonds became due and payable, and, if the amount available shall not be sufficient to pay in full all the principal or Make-Whole Redemption Price of the Bonds due on any date, together with such interest, then to the payment first of such interest, ratably,

according to the amount of interest due on such date, and then to the payment of such principal or Make-Whole Redemption Price, ratably, according to the amounts of principal or Make-Whole Redemption Price due on such date to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds; and

Third: To the payment of the interest on and the principal or Make-Whole Redemption Price of the Bonds, the purchase and retirement of the Bonds and to the redemption of the Bonds, all in accordance with the provisions of the Bond Indenture.

(ii) If the principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds, with interest on the overdue principal at the rate borne by the respective Bonds, and, if the amount available shall not be sufficient to pay in full the whole amount so due and unpaid, then to the payment thereof ratably, without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds.

Bond Trustee to Represent Holders. By the Bond Indenture, the Bond Trustee is irrevocably appointed (and the successive respective Holders of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Bond Trustee) as trustee and true and lawful attorney-in-fact of the Holders of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Holders under the provisions of the Bonds, the Bond Indenture, the Obligation and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Bond Trustee to represent the Holders, the Bond Trustee in its discretion may, and upon the written request of the Holders of at least 50.1% in aggregate principal amount of the Bonds then Outstanding under the Bond Indenture, and upon being indemnified pursuant to the Bond Indenture, shall, proceed to protect or enforce its rights or the rights of the Holders of the Bonds by such appropriate action, suit, mandamus or other proceedings as it or the Holders of at least 50.1% in aggregate principal amount of the Bonds Outstanding shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Bond Indenture, or in aid of the execution of any power granted in the Bond Indenture, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Bond Trustee or the Holders of the Bonds under the Bond Indenture, the Obligation, or any other law; and the Bond Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the moneys and other assets pledged under the Bond Indenture or the Bonds. If more than one such request is received by the Bond Trustee from Holders, the Bond Trustee is required by the Bond Indenture to follow the written request executed by the Holders of the greater percentage of Bonds then Outstanding in excess of 50%. All rights of action under the Bond Indenture or the Bonds or otherwise may be prosecuted and enforced by the Bond Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Bond Trustee shall be brought in the name of the Bond Trustee for the equal and ratable benefit and protection of all the Holders of such Bonds, subject to the provisions of the Bond Indenture. The Bond Trustee may file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claim of the Bond Trustee and the Owners of the Bonds allowed in any judicial proceeding relative to the Corporation or its creditors or property.

Holders' Direction of Proceedings. The Holders of at least 50.1% in aggregate principal amount of the Bonds then Outstanding shall be entitled (provided that the Bond Trustee shall have the right to decline to follow any such direction that in the opinion of the Bond Trustee would be unjustly prejudicial to Holders not parties to such direction), by an instrument or concurrent instruments in writing executed and delivered to the Bond Trustee, to control and direct the enforcement of all rights and remedies granted to such Holders or the Bond Trustee for the benefit of the Holders under the Bond Indenture, including, without limitation, (a) the right to accelerate the principal of the Bonds as described in the Bond Indenture and (b) the right to annul any declaration of acceleration.

Limitation on Holders' Right to Sue. No Holder of any Bond shall have the right to institute any suit, action or proceeding, at law or in equity, for the protection or enforcement of any right or remedy under the Bond Indenture, the Obligation or any other applicable law with respect to such Bond unless (1) such Holder previously shall have given to the Bond Trustee written notice of the occurrence of an Event of Default; (2) the Holders of at least 50.1% in aggregate principal amount of the Bonds then Outstanding shall have made a written request upon the Bond Trustee to exercise the powers granted in the Bond Indenture or to institute such suit, action or proceeding in its own name; (3) such Holders shall have tendered to the Bond Trustee indemnity in accordance with the Bond Indenture against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Bond Trustee shall have refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Bond Trustee.

Such notification, request, tender of indemnity and refusal or omission are declared by the Bond Indenture, in every case, to be conditions precedent to the exercise by any Holder of Bonds of any remedy under the Bond Indenture or under law, it being understood and intended that no one or more Holders of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Bond Indenture or the rights of any other Holders of Bonds, or to enforce any right under the Bond Indenture, the Obligation, or other applicable law with respect to the Bonds, except in the manner provided in the Bond Indenture, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner provided in the Bond Indenture and for the equal and ratable benefit and protection of all Holders of the Outstanding Bonds, subject to the provisions of the Bond Indenture.

Absolute Obligation of the Corporation. Nothing in the Bond Indenture or in the Bonds shall affect or impair the obligation of the Corporation, which is absolute and unconditional, to pay the Required Bond Payments to the respective Holders of the Bonds at their respective dates of maturity, or upon call for redemption, as provided in the Bond Indenture, or, subject to the provisions of the Bond Indenture described above under the heading "Limitation on Holders' Right to Sue," affect or impair the right of such Holders to enforce such payment by virtue of the contract embodied in the Bonds.

Termination of Proceedings. In case any proceedings taken by the Bond Trustee or any one or more Holders on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Bond Trustee or the Holders, then in every such case the Corporation, the Bond Trustee and the Holders, subject to any determination in such proceedings, shall be restored to their former positions and rights under the Bond Indenture, severally and respectively, and all rights, remedies, powers and duties of the Corporation, the Bond Trustee and the Holders shall continue as though no such proceedings had been taken.

Remedies Not Exclusive. No remedy conferred upon or reserved to the Bond Trustee or to the Holders of the Bonds is intended under the Bond Indenture to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in

addition to any other remedy given under the Bond Indenture or existing at law or in equity or otherwise as of or after the date of the Bond Indenture.

No Waiver of Default. No delay or omission by the Bond Trustee or by any Holder of the Bonds to exercise any right or power arising upon the occurrence of any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein, and every power and remedy given by the Bond Indenture to the Bond Trustee or to the Holders of the Bonds may be exercised from time to time and as often as may be deemed expedient.

Rights as a Secured Party. The Bond Trustee is permitted by the Bond Indenture to exercise all of the rights and remedies of a secured party under the Uniform Commercial Code with respect to the securities in the Bond Fund, including the right to sell or redeem such securities and the right to retain the securities in satisfaction of the obligation of the Corporation hereunder.

Waiver of Past Defaults. Pursuant to the Bond Indenture, the Bond Trustee may, and upon request of the Holders of not less than 50.1% in aggregate principal amount of the Outstanding Bonds shall, on behalf of the Holders of all the Bonds waive any past default under the Bond Indenture and its consequences, except a default: (a) in the payment of the principal or Make-Whole Redemption Price of or interest on any Bond; or (b) in respect of a covenant or other provision of the Bond Indenture which, pursuant to the Bond Indenture, cannot be modified or amended without the consent of the Holder of each Outstanding Bond affected.

Upon any such waiver, such default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of the Bond Indenture, but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

Undertaking for Costs. Subject to the provisions of the Bond Indenture requiring compensation to, and indemnification of, the Bond Trustee, the parties to the Bond Indenture agree therein, and each Holder of any Bond by such Person's acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under the Bond Indenture, or in any suit against the Bond Trustee for any action taken or omitted by it as Bond Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of the Bond Indenture summarized in this paragraph shall not apply to any suit instituted by the Bond Trustee or to any suit instituted by any Bondholder or group of Bondholders holding in the aggregate at least 50.1% in aggregate principal amount of the Outstanding Bonds.

Bond Trustee May File Proofs of Claim.

(a) In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Corporation or any other obligor upon the Bonds or the property of the Corporation or of such other obligor or their creditors, the Bond Trustee (irrespective of whether the principal of the Bonds shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Bond Trustee shall have made any demand on the Corporation for the payment of overdue principal or interest) shall be entitled and empowered, by intervention in such proceeding or otherwise:

(1) To file and prove a claim for the whole amount of Required Bond Payments and to file such other papers or documents as may be necessary or advisable in order to have the

claims of the Bond Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Bond Trustee, its agents and counsel including expenses and fees of outside counsel and allocated costs of internal legal counsel) and of the Bondholders allowed in such judicial proceeding; and

(2) To collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same; and any receiver, assignee, trustee, liquidator or sequestrator (or other similar official) in any such judicial proceeding is authorized by each Bondholder to make such payments to the Bond Trustee and, in the event that the Bond Trustee shall consent to the making of such payments directly to the Bondholders, to pay to the Bond Trustee any amount due to it for the reasonable compensation, expenses, disbursements and advances of the Bond Trustee, its agents and counsel including expenses and fees of outside counsel and allocated costs of internal legal counsel, and any other amounts due the Bond Trustee under the Bond Indenture.

(b) Nothing contained in the Bond Indenture shall be deemed to authorize the Bond Trustee to authorize or consent to or accept or adopt on behalf of any Bondholder any plan of reorganization, arrangement, adjustment or composition affecting the Bonds or the rights of any Holder thereof, or to authorize the Bond Trustee to vote in respect of the claim of any Bondholder in any such proceeding.

Amendments Permitted.

(a) The Bond Indenture and the rights and obligations of the Corporation, the Holders of the Bonds and the Bond Trustee may be modified or amended from time to time and at any time by a Supplemental Indenture which the Corporation and the Bond Trustee may enter into when there shall have been filed with the Bond Trustee the consent of the Holders of at least 50.1% in aggregate principal amount of the Bonds then Outstanding; provided that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any particular maturity remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of calculation of Bonds Outstanding for such purpose. No such modification or amendment shall (1) extend the maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment required by the Bond Indenture for the payment of any Bond, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or change the transferability provisions with respect to the Bonds, without the consent of the Holder of each Bond so affected, or (2) reduce the percentage of Bonds the consent of the Holders of which is required to effect any such modification or amendment, or (3) permit the creation of any lien on the assets pledged under the Bond Indenture prior to or on a parity with the lien created by the Bond Indenture, or deprive the Holders of the Bonds of the lien created by the Bond Indenture on such assets (except as expressly provided in the Bond Indenture), without the consent of the Holders of all of the Bonds then Outstanding.

It shall not be necessary for the consent of the Holders to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof.

If at any time the Corporation requests the Bond Trustee to enter into any supplement or amendment to the Bond Indenture for any of the above purposes, the Bond Trustee is required by the Bond Indenture, at the expense of the Corporation, to cause notice of the proposed execution of such supplement or amendment to be delivered by Electronic Notice, confirmed by first class mail, postage prepaid, to all Holders of record whose consent is required pursuant to the Bond Indenture for the effectiveness of the proposed supplement or amendment at their addresses appearing on the registration books maintained by the Bond Trustee. Such notice shall be prepared by the Corporation, shall briefly set

forth the nature of the proposed supplement or amendment and shall state that copies thereof are on file at the Corporate Trust Office of the Bond Trustee for inspection by all Holders.

Whenever, at any time within one year after the date of the delivery of such notice, the Corporation shall deliver to the Bond Trustee an instrument or instruments in writing purporting to be executed by the Holders whose consent is required pursuant to the provisions of the Bond Indenture described in (a) above for the effectiveness of the proposed supplement or amendment, which instrument or instruments shall refer to the proposed supplement or amendment described in such notice and shall specifically consent to and approve the execution thereof in substantially the form of the copy thereof referred to in such notice, thereupon, but not otherwise, the Bond Trustee may execute such supplement or amendment in substantially such form, without liability or responsibility to any Holder of any Bond, whether or not such Holder shall have consented thereto.

If the Holders whose consent is required pursuant to the provisions of the Bond Indenture described in (a) above for the effectiveness of the proposed supplement or amendment, at the time of execution of such Supplemental Indenture shall have consented to and approved the execution thereof in accordance with the provisions above, no Holder of any Bond shall have any right to object to the execution of such Supplemental Indenture, or 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 Corporation from executing the same or from taking any action pursuant to the provisions thereof.

Nothing contained in the provisions of the Bond Indenture summarized above shall, or shall be construed to, alter, limit or restrict in any manner or to any extent the rights of the Corporation and the Bond Trustee to enter into an indenture or indentures supplemental thereto pursuant to and in accordance with the provisions summarized in (b) below.

(b) Notwithstanding the provisions of the Bond Indenture summarized in (a) above, the Bond Indenture may be modified or amended from time to time and at any time by a Supplemental Indenture which the Corporation and the Bond Trustee may enter into without the consent of any Holders, but only for any one or more of the following purposes:

(i) to add to the covenants and agreements of the Corporation in the Bond Indenture other covenants and agreements thereafter to be observed by the Corporation that are not contrary to or inconsistent with the Bond Indenture as then in effect, or to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power therein reserved to or conferred upon the Corporation if the surrender of such right or power is not contrary to or inconsistent with the covenants and agreements of the Corporation contained in the Bond Indenture as then in effect, provided that in the Opinion of Counsel (addressed to the Bond Trustee), who may be counsel to the Corporation, or in reliance on a report of a Consultant, no such covenant, agreement, pledge, assignment or surrender shall materially adversely affect the interests of the Holders of the Bonds;

(ii) to make such provisions for the purposes of curing any ambiguity, inconsistency or omission in or from the Bond Indenture, or to cure or correct any defective provision contained in the Bond Indenture, or to add or modify provisions of the Bond Indenture in regard to matters or questions arising under the Bond Indenture, as the Corporation may deem necessary or desirable and that, in the Opinion of Counsel (addressed to the Bond Trustee), who may be counsel to the Corporation, or in reliance on a report of a Consultant, shall not materially adversely affect the interests of the Holders of the Bonds;

(iii) to modify, amend or supplement the Bond Indenture in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute in effect after the date of the Bond Indenture, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and that shall not materially adversely affect the interests of the Holders of the Bonds;

(iv) to authorize the issuance of Additional Bonds; or

(v) to make any other change that shall not materially adversely affect the interests of the Holders of the Bonds.

No Supplemental Indenture shall be entered into unless an Opinion of Counsel, who may be counsel to the Corporation, is delivered to the effect that the Supplemental Indenture is authorized and permitted by the Bond Indenture and enforceable against the Corporation, prior to entering into any Supplemental Indenture pursuant to the provisions of the Bond Indenture summarized in paragraph (b), and the opinion of such counsel shall be full and complete authorization and protection in respect of the execution and delivery by the Bond Trustee of any such Supplemental Indenture in good faith in accordance therewith.

The provisions of the Bond Indenture summarized under this heading shall not prevent any Holder from accepting any amendment as to the particular Bonds held by him, provided that due notation thereof is made on such Bonds.

Release and Substitution of Obligation Upon Delivery of Replacement Master Indenture.

Without the consent of or notice to the Holders, the Obligation shall be surrendered by the Bond Trustee and delivered to the Master Trustee for cancellation upon receipt by the Bond Trustee of the following:

(a) a Written Request of the Corporation requesting such surrender and delivery;

(b) an executed copy of a replacement master indenture (other than the Master Indenture) between the members of an obligated group described therein and a master trustee (the "**Replacement Master Indenture**");

(c) a properly executed obligation (the "**Replacement Obligation**") issued under the Replacement Master Indenture in favor of the Bond Trustee with the same tenor and effect as the Obligation (in a principal amount equal to the then Outstanding principal amount of the Bonds), duly authenticated by the master trustee under the Replacement Master Indenture and registered to the Bond Trustee;

(d) an Opinion of Counsel, addressed to the Bond Trustee, to the effect that: (i) the Replacement Obligation has been validly issued under the Replacement Master Indenture and constitutes a valid and binding obligation of the Corporation (or as applicable, the obligated group created pursuant to the Replacement Master Indenture and each other member of the obligated group (if any) that is jointly and severally liable under the Replacement Master Indenture), (ii) all requirements and conditions to the issuance of the Replacement Obligation set forth in the Replacement Master Indenture have been complied with and satisfied, and (iii) registration of the Replacement Obligation under the Securities Act of 1933, as amended, is not required or, if registration is required, the Replacement Obligation has been so registered, subject to such qualifications as are not unreasonably objected to by the Bond Trustee; and

(e) a copy of the Replacement Master Indenture, certified as a true and accurate copy by the master trustee under the Replacement Master Indenture;

provided, however, that nothing contained in the Bond Indenture shall permit, or be construed as permitting, (1) any extension of the maturity of any Bond, or reduction in the amount of principal thereof, or extension of the time of payment required by the Bond Indenture for the payment of any Bond, or reduction of the rate of interest thereon, or extension of the time of payment of interest thereon, or change the transferability provisions with respect to the Bonds, without the consent of the Holder of each Bond so affected, or (2) a reduction of the percentage of Bonds the consent of the Holders of which is required to effect any such modification or amendment, or (3) the creation of any lien on the assets pledged under the Bond Indenture prior to or on a parity basis with the lien created by the Bond Indenture, or depriving the Holders of the Bonds of the lien created by the Bond Indenture on such assets (except as expressly provided in the Bond Indenture), without the consent of the Holders of all Bonds at the time Outstanding that would be affected by the action to be taken, or (4) a modification of the rights, duties or immunities of the Bond Trustee without the written consent of the Bond Trustee.

Upon satisfaction of such conditions, all references in the Bond Indenture to the Obligation shall be deemed to be references to the Replacement Obligation, all references to the Master Indenture shall be deemed to be references to the Replacement Master Indenture, all references to the Master Trustee shall be deemed to be references to the master trustee under the Replacement Master Indenture, all references to the Obligated Group and the members of the Obligated Group shall be deemed to be references to the obligated group and the members of the obligated group under the Replacement Master Indenture and all references to the Supplement shall be deemed to be references to the supplemental master indenture pursuant to which the Replacement Master Note is issued.

Discharge of Bond Indenture. Bonds may be paid or caused to be paid by the Corporation in any of the following ways, provided that the Corporation also pays or causes to be paid any other sums payable under the Bond Indenture by the Corporation and related to the Bonds:

(a) by paying or causing to be paid all principal or Make-Whole Redemption Price of, and all unpaid interest to maturity, or to the redemption date, as the case may be, on Outstanding Bonds, as and when the same become due and payable;

(b) by depositing with the Bond Trustee, in trust, at or before maturity, money or Defeasance Securities in the amount necessary (as provided in the provisions of the Bond Indenture summarized under the heading "Deposit of Money or Securities with Bond Trustee"), in the opinion of an Accountant or other professional or firm experienced in the preparation of verification reports delivered to the Bond Trustee, to pay or redeem Outstanding Bonds (as more fully described in the Bond Indenture); or

(c) by delivering to the Bond Trustee, for cancellation by it, Outstanding Bonds.

If the Corporation shall pay or cause to be paid all Outstanding Bonds and shall also pay or cause to be paid all other sums payable by the Corporation under the Bond Indenture, and notwithstanding that any Bonds shall not have been surrendered for payment, the Bond Indenture and the pledge of assets made under the Bond Indenture, and all covenants, agreements and other obligations of the Corporation under the Bond Indenture, shall cease, terminate, become void and be completely discharged and satisfied, except with respect to the transfer or exchange of Bonds provided for therein, the payment of Required Bond Payments provided for under the Bond Indenture and the obligations of the Corporation therein relating to the compensation and indemnification of the Bond Trustee.

Effect of Defeasance. Upon the deposit with the Bond Trustee, in trust, at or before maturity, of money or securities in the amount necessary (as provided in the provisions of the Bond Indenture summarized under the heading "Deposit of Money or Securities with Bond Trustee") to pay the Required Bond Payments with respect to any Outstanding Bond (or any portion thereof), provided that, if such Bond is to be redeemed prior to maturity, notice of such redemption shall have been given as provided in the Bond Indenture or provision satisfactory to the Bond Trustee shall have been made for the giving of such notice, the Bond Indenture shall be released and discharged with respect to such Bond. Thereafter the Holder thereof shall be entitled only to the payment of such Bond out of such money or securities deposited with the Bond Trustee as aforesaid for its payment, and provided, further, that the provisions of the Bond Indenture regarding payment of Bonds after discharge thereof shall apply in any event.

Deposit of Money or Securities with Bond Trustee. Whenever in the Bond Indenture it is provided or permitted that there be deposited with or held in trust by the Bond Trustee money or securities in the amount necessary to pay principal or Make-Whole Redemption Price of, and all unpaid interest to maturity, or to the redemption date, as the case may be, with respect to any Outstanding Bonds, the money or securities to be so deposited or held may include money or securities held by the Bond Trustee in the funds and accounts established pursuant to the Bond Indenture and shall be:

(a) Lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds that are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as in provided in the Bond Indenture or provision satisfactory to the Bond Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the Make-Whole Redemption Price of such Bonds and all unpaid interest thereon to the redemption date; or

(b) Defeasance Securities not subject to call and redemption by the issuer thereof the principal of and interest on which when due will provide money sufficient to pay the principal or Make-Whole Redemption Price of, and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal or Make-Whole Redemption Price and interest become due, provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Bond Indenture or provision satisfactory to the Bond Trustee shall have been made for the giving of such notice;

provided, in each case, that the Bond Trustee shall have been irrevocably instructed (by the terms of the Bond Indenture or by the direction of the Corporation) to apply such money to the payment of such Required Bond Payments with respect to such Bonds

Payment of Bonds After Discharge of Bond Indenture. Notwithstanding any provisions of the Bond Indenture, any moneys held by the Bond Trustee in trust for Required Bond Payments and remaining unclaimed at the end of the Escheat Period shall be subject to the applicable escheatment laws and, upon the direction of the Corporation, be repaid to the Corporation free from the trusts created by the Bond Indenture, and all liability of the Bond Trustee with respect to such moneys shall thereupon cease. Thereafter, the Holders of the Bonds so payable shall be entitled to look only to the Corporation for payment thereof.

Evidence of Rights of Holders. Any request, direction, consent or other instrument in writing required or permitted by the Bond Indenture to be signed or executed by Holders may be signed or executed in any number of concurrent instruments of similar tenor and may be signed or executed by such Holders in person or their attorneys or legal representatives. Proof of the execution of any such

instrument and of the ownership of Bonds shall be sufficient for any purpose of the Bond Indenture and shall be conclusive in favor of the Bond Trustee with regard to any action taken by either under such instrument if made in the manner provided in the Bond Indenture.

Any request, consent or other instrument or writing of the Holder of any Bond shall bind every future Holder of the same Bond, and the Holder of every Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Bond Trustee or the Corporation in accordance therewith or reliance thereon.

Disqualified Bonds. In determining whether the Holders of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under the Bond Indenture, Bonds that are owned or held by or for the account of the Corporation, or by any other obligor on the Bonds or on the Obligation, or by any other member of the Credit Group, or by any person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Corporation, or any other obligor on the Bonds or on the Obligation, or any other member of the Credit Group, shall be disregarded and deemed not to be Outstanding for the purpose of any such determination. Bonds so owned that have been pledged in good faith may be regarded as Outstanding for the purposes of the section of the Bond Indenture summarized in this paragraph if the pledgee shall certify to the Bond Trustee the pledgee's right to vote such Bonds and that the pledgee is not a person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Corporation, or any other obligor on the Bonds or on the Obligation, or any other member of the Credit Group. The Bond Trustee may conclusively rely upon the certifications made by such pledge.

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